SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2013-03-26** | Period of Report: **2012-12-31**
SEC Accession No. 0001104659-13-024368

(HTML Version on secdatabase.com)

FILER

GUITAR CENTER, INC.

CIK:**1021113**| IRS No.: **954600862** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-22207** | Film No.: **13716047**
SIC: **5731** Radio, tv & consumer electronics stores

Mailing Address
5795 LINDERO CANYON RD
WESTLAKE VILLAGE CA
91362

Business Address
5795 LINDERO CANYON RD
WESTLAKE VILLAGE CA
91362
8187358800

GUITAR CENTER HOLDINGS, INC.

CIK:**1427553**| IRS No.: **000000000** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **333-175270-07** | Film No.: **13716046**
SIC: **5731** Radio, tv & consumer electronics stores

Mailing Address
5795 LINDERO CANYON
ROAD
WESTLAKE VILLAGE CA
91362

Business Address
5795 LINDERO CANYON
ROAD
WESTLAKE VILLAGE CA
91362
818-735-8888

Copyright © 2014 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

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 December 31, 2012

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 333-175270-07

GUITAR CENTER HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0843262**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5795 Lindero Canyon Road Westlake Village, California 91362	**(818) 735-8800**
(Address of Principal Executive Offices, including Zip Code)	(Registrant' s Telephone Number, Including Area Code)

Commission File Number 000-22207

GUITAR CENTER, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-4600862**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5795 Lindero Canyon Road Westlake Village, California 91362	**(818) 735-8800**
(Address of Principal Executive Offices, including Zip Code)	(Registrant' s Telephone Number, Including Area Code)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Securities registered pursuant to Section 12(b) of the Act:

Guitar Center Holdings, Inc. (“Holdings”)	None
Guitar Center, Inc. (“Guitar Center”)	None

Securities registered pursuant to Section 12(g) of the Act:

Holdings	None
Guitar Center	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Holdings	YES ☐ NO ☒
Guitar Center	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.

Holdings	YES ☒ NO ☐
Guitar Center	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.

Holdings*	YES ☐ NO ☐
Guitar Center*	YES ☐ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Holdings	YES ☒ NO ☐
Guitar Center	YES ☒ 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 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.

Holdings	☒
Guitar Center	☒

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:

Holdings

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Guitar Center

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

Holdings	YES ☐ NO ☒
Guitar Center	YES ☐ NO ☒

As of June 30, 2012, there was no established public trading market for any of the common stock of Holdings or Guitar Center.

As of March 15, 2013, there were 9,740,160 shares of common stock, $0.01 par value per share, of Holdings outstanding.

As of March 15, 2013, there were 100 shares of common stock, $0.01 par value per share, of Guitar Center outstanding, all of which are owned by Holdings.

*The registrants have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but are not required to file such reports under such sections.

Documents Incorporated by Reference: None

Table of Contents

TABLE OF CONTENTS

	Part I	3
Item 1.	Business	3
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	23
Item 2.	Properties	23
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	26
	Part II	26
Item 5.	Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	26
Item 7.	Management' s Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	51
Item 9B.	Other Information	51
	Part III	52

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Item 10.	Directors, Executive Officers and Corporate Governance	52
Item 11.	Executive Compensation	55
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	71
Item 13.	Certain Relationships and Related Transactions, and Director Independence	72
Item 14.	Principal Accounting Fees and Services	74
	Part IV	75
Item 15.	Exhibits and Financial Statement Schedules	75
	Signatures	

Explanatory Note

This Annual Report on Form 10-K is a combined annual report being filed by Guitar Center, Inc. ("Guitar Center") and Guitar Center Holdings, Inc. ("Holdings"). Guitar Center is a direct, wholly-owned subsidiary of Holdings. Each of Guitar Center and Holdings is filing on its own behalf all of the information contained in this annual report that relates to such company. Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in this annual report. Where information or an explanation is not substantially the same for each company, separate information and explanation has been provided. In addition, separate consolidated financial statements for each company are included in this annual report.

Part I

Item 1. Business

The following discussion, as well as other portions of this annual report, contains forward-looking statements that reflect our plans, estimates and beliefs. Any statements (including, but not limited to, statements to the effect that we or our management "anticipate," "plan," "estimate," "expect," "believe," "intend," and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, capital expenditures, working capital requirements and forecasts of effective tax rates. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this annual report, and particularly in "Risk Factors."

Unless otherwise indicated or the context otherwise requires, the terms "we," "us," "the Company," "Guitar Center," "our" and other similar terms refer to the business of Guitar Center, Inc. and its consolidated subsidiaries, and the term "Holdings" refers to Guitar Center Holdings, Inc. and its subsidiaries. With respect to information regarding the terms of our 11.50% senior notes due 2017 (the "senior notes"), the term "Guitar Center" refers only to Guitar Center, Inc. and not to any of its subsidiaries. With respect to information regarding the terms of our 14.09% senior PIK notes due 2018 (the "senior PIK notes" and, together with the senior notes, the "notes"), "Holdings" refers only to Guitar Center Holdings, Inc. and not to any of its subsidiaries.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Overview

Introduction

We are the leading retailer of music products in the United States. We operate three business units under our Guitar Center, direct response and Music & Arts brands. Our Guitar Center brand offers guitars, amplifiers, percussion instruments, keyboards and pro audio and recording equipment through our retail stores and online, along with repair services and a limited number of rehearsal and lesson services. Our direct response brands offer catalog and online sales of a broad selection of music products under various brand names, including Musician' s Friend, Music123 and Woodwind & Brasswind. Our Music & Arts brand offers band and orchestra instruments for rental and sale, music lessons and a limited selection of products of the type offered by our Guitar Center stores.

Our Guitar Center and Music & Arts brands are operated primarily out of Guitar Center Stores, Inc., our retail store subsidiary. Our direct response segment is comprised primarily of the online operations of our Musician' s Friend, Inc., Music123, Inc. and Woodwind & Brasswind, Inc. subsidiaries. Beginning in 2012, our GTRC Services, Inc. subsidiary began providing shared support services for all our brands, including distribution and fulfillment centers, contact centers and technology services. Our non-operating corporate segment consists primarily of the operations of Guitar Center, Inc., the parent company of our operating subsidiaries.

Guitar Center Holdings, Inc. is Guitar Center' s parent company and has no material assets or operations other than its ownership of Guitar Center, Inc. and related debt and equity financing activities.

On October 9, 2007, Holdings, a company controlled by an affiliate of Bain Capital Partners, LLC ("Bain Capital"), acquired Guitar Center in a transaction having an aggregate value of approximately $2.1 billion, excluding fees and expenses. The acquisition was effected through the merger of VH MergerSub, Inc. ("Merger Sub"), a wholly owned subsidiary of Holdings, with and into Guitar Center, which was the surviving corporation. Immediately following the merger, Guitar Center became a wholly owned direct subsidiary of Holdings.

Holdings is owned by investment funds associated with Bain Capital, a co-investor and certain members of our senior management (the "management investors"), to whom we refer collectively as the "equity investors."

The acquisition resulted in the occurrence of the following events, which we refer to collectively as the "Transactions":

- the purchase by the equity investors of equity interests of Holdings for approximately $625.0 million in cash and/or, with respect to the management investors, through a roll-over of existing Guitar Center equity;
- the entering into by Merger Sub of the senior secured credit facilities, consisting of a $650.0 million term loan and a $375.0 million asset-based senior secured revolving credit facility, of which approximately $148.2 million was drawn at closing;
- the entering into by Merger Sub of a senior unsecured initial loan consisting of a $375.0 million term loan;
- the entering into by Holdings of a senior unsecured initial loan consisting of a $375.0 million term loan;
- the refinancing of our historical debt, including accrued and unpaid interest, of approximately $161.3 million;

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- the merger of Merger Sub with and into Guitar Center, with Guitar Center as the surviving corporation, and the payment of the related merger consideration; and

- the payment of approximately $66.4 million of fees and expenses related to the Transactions.

As a result of the merger, all obligations of Merger Sub under the senior secured credit facilities and the senior unsecured initial loan became obligations of Guitar Center.

Guitar Center

Our Guitar Center stores offer an interactive, hands-on shopping experience with an emphasis on customer service and a broad selection of brand-name, high quality products at competitive prices. We believe we create an entertaining and exciting atmosphere in our stores with bold and dramatic merchandise presentations arranged by product category to create a "shop within a shop" customer experience. Customers can obtain technical information and relevant insight from sales personnel and are encouraged to try products on display. We believe that a significant portion of our Guitar Center store sales are to professional and aspiring-professional musicians who generally view the purchase of music products as a career necessity. These sophisticated customers rely on our knowledgeable salespeople to answer technical questions, provide advice and assist in product demonstrations.

As of March 15, 2013, we operated 244 Guitar Center stores in 44 states, consisting of 151 primary format stores, 80 secondary format stores and 13 tertiary format stores. The store format is determined primarily by the size of the market in which it is located. Our primary format stores serve major metropolitan population centers and generally range in size from 13,000 to 30,000 square feet. Our secondary format stores serve metropolitan areas not served by our primary format stores and generally range in size from 8,000 to 15,000 square feet. Tertiary market stores serve smaller population centers and generally range in size from 5,000 to 8,000 square feet. We also operate one lesson and rehearsal facility in Southern California under the GC Studios name. Rehearsal and lesson space is included in some of our newer and newly remodeled stores.

Guitar Center also offers online sales and research through its website. This online channel creates a multi-channel Guitar Center business that allows customers to interact between the brick-and-mortar and online operations.

Our Guitar Center stores are supported by a distribution facility located near Indianapolis, Indiana.

Table of Contents

Direct response

Our direct response business operates a direct response e-commerce and catalog business, offering a shopping experience that includes technical product information, quick and efficient sales and service and a musician-based staff for pre- and post-sale support. Our direct response business includes catalogs and websites under various brands, including Musician' s Friend, Music123 and Woodwind & Brasswind.

Our direct response business is supported by customer contact centers located in Salt Lake City, Utah, and Indianapolis, Indiana, and an order fulfillment facility located in Kansas City, Missouri.

Music & Arts

Our Music & Arts business operates stores specializing in band and orchestra instruments for sale and rental to students, teachers, band directors and college professors. Most of our Music & Arts stores also sell a limited assortment of guitars, amplifiers, percussion

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

instruments and keyboards, as well as provide in-store music lessons. Music & Arts instrument rentals are conducted on-site at schools through our outbound education representatives, over-the-counter at our retail locations and through affiliated stores operated by third parties.

Our Music & Arts business is a leading retailer of musical products to students and beginner musicians with 110 stores in 22 states as of March 15, 2013. Music & Arts also has approximately 126 education representatives who are employees and 345 active affiliate locations, who together with in-store rentals generated approximately 278,000 new rental contracts in 2012. Our Music & Arts stores generally range in size from 800 to 6,800 square feet, with an average store size of approximately 3,100 square feet. Music & Arts also operates online through its website.

Our Music & Arts business is headquartered in Frederick, Maryland and is supported there by a distribution facility.

Industry

The marketplace has changed significantly since we opened in 1964. Musical instruments and accessories historically have been sold through small, local, "mom and pop" stores. Today' s marketplace is much more sophisticated. Our stores and websites compete against other large and small musical instrument retailers, online music retailers, online auctions, direct-to-consumer alternatives and a number of large mass merchants.

The consumer landscape for musical products is more diverse, with each category of musician having different expectations, price sensitivities, purchasing habits and approaches to music. Customers are not satisfied with "one-size fits all" offerings. Further, musical instruments comprise a broad range of products each with their own underlying trends, including not only traditional products like guitars and drums, but also newer technology-intensive products like home recording equipment.

Over the past decade, technological advances in the music industry have resulted in dramatic changes in the nature of many music-related products. Manufacturers have combined computers and microprocessor technologies with musical equipment to create a new generation of products capable of high-grade sound processing and reproduction. Products featuring those technologies are available in a variety of forms and have broad application across most music product categories.

Technological innovation and the internet continue to increase the accessibility of producing, distributing and consuming music. Today, many musicians can affordably create a home recording studio that interacts with a personal computer and is capable of producing high-quality digital recordings. Historically, this type of powerful sound processing capability was prohibitively expensive and was purchased primarily by professional sound recording studios. In addition, musicians have evolving new distribution channels for their music, such as online music stores and social media websites. These new distribution channels have dramatically altered the music distribution business by providing musicians with more direct and low cost channels to reach potential listeners, compared to the traditional record company distribution business model.

Table of Contents

Our strategy

Continue to grow our Guitar Center brand. We are focused on improving the productivity of our Guitar Center brand through opening new stores, enhancing our multi-channel capabilities and offering additional services to musicians such as repairs, lessons and rehearsal space. We intend to devote significant resources to enhancing the multi-channel coordination between our in-store and online sales strategies. We will also continue to implement our logistics, systems and inventory management initiatives.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Enhance our sales and merchandise margins and productivity. We intend to expand our offering of proprietary products, which typically have higher profit margins when compared to branded products in corresponding categories. Our proprietary product offering historically has been focused on "commodity" merchandise, such as cables, bags and accessories. However, we also intend to continue to expand our proprietary product offering in less "commoditized" product lines.

Enhance our direct response brands. We are focused on maintaining our revenue position within our direct response brands. Our core strategies include personalization and one-to-one marketing that delivers products and services customized to the specific needs of musicians. We believe our continued focus on technology and infrastructure will enhance our direct response website user experience, improve our market responsiveness, increase our "speed to market" and further differentiate us from our competition. We also intend to focus the marketing and development of our direct response brands to more closely target each brand' s core customers and strengths.

Continue to build our Music & Arts brand. Our Music & Arts strategy includes opening additional stores and acquiring businesses, affiliates and educational representatives within this fragmented market. In addition, we intend to continue to grow the music instrument rental business, which we believe will provide us with additional opportunities to attract young musicians as customers. We believe that attracting musicians at a young age will develop brand loyalty and enhance their lifetime value to us.

Merchandising

Guitar Center stores

Our primary format Guitar Center stores carry an average of 7,200 core stock keeping units, or SKUs, our secondary format Guitar Center stores carry an average of 5,700 core SKUs and our tertiary format Guitar Center stores carry an average of 4,200 core SKUs. Our core SKUs represent our consistent and established product lines which are considered staple products for our customers. In addition, our Guitar Center online channel offers a more expansive selection of SKUs.

Our stores are organized by product areas, with each area focused on specific products categories such as guitars, basses, amplifiers, drums and percussion, keyboards, pro audio and recording, DJ, lighting and live sound, as well as accessories, used and vintage equipment. These departments address our customer' s specific product needs and are staffed by specialized salespeople, many of whom also are practicing musicians. We also offer a trade-in policy that provides musicians with an alternative form of payment and the convenience of selling a used instrument and purchasing a new one at a single location. Used and vintage products are purchased and priced to sell by store managers, who are specially trained in the used musical instrument market.

Below is an overview of our principal departments:

Guitars and amplifiers. Our guitar and amplifiers department carries a wide variety of new, used and vintage electric, acoustic, classical, bluegrass and bass guitars. Major manufacturers including Fender, Gibson, Ibanez, Martin, Music Man, Ovation, PRS and Taylor are represented. A number of our stores also carry other stringed instruments such as banjos, mandolins and ukuleles. We also offer an extensive selection of guitar sound processing units and products that allow guitars to interface with a personal computer. These products serve crossover demand from the traditional guitarist into new computer-related sound products. We offer an extensive selection of electric, acoustic and bass guitar amplifiers, including a variety of boutique and vintage amplifiers. We carry amplifiers from most major manufacturers, including Ampeg, Crate, Fender, Line 6, Marshall, Mesa Boogie, Peavey and Vox.

Table of Contents

Drums. Our drum department carries a range of percussion instruments, from drum kits to congas, bongos and other rhythmic and electronic percussion products. We also carry a selection of vintage and used percussion instruments. We carry name brands such as Drum Workshop, Gretsch, Pearl, Sabian, Tama, Yamaha and Zildjian.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Keyboards. We carry a wide selection of keyboard products and computer peripheral and software packages. Our keyboard offerings span a wide range of categories including portable and professional electronic pianos, controllers, synthesizers and workstations. Manufacturers represented include Akai, Alesis, Avid, Behringer, Casio, Korg, Native Instruments, Roland and Yamaha.

Pro audio and recording. Our pro audio and recording department carries live-sound, DJ, lighting and recording equipment for musicians at every level, from the casual hobbyist to the professional recording engineer. We maintain a broad selection of computer-related recording products, including sound cards, sound libraries and composition and recording software. Our products range from recording accessories to state-of-the-art digital recording systems. We also carry a large assortment of professional stage audio, DJ and lighting equipment for small traveling bands, mobile DJs, private clubs and large touring professional bands. Our pro audio brand name manufacturers include Apple, Avid, JBL, KRK, M-Audio, Mackie, PreSonus, Roland, Shure, Sony, Tascam and Yamaha.

Direct response

Our direct response business offers merchandise through its catalogs and online through its websites. Our direct response business offers a product mix that includes the same categories as those offered by our Guitar Center stores, including guitars and amplifiers, drums, keyboard, pro audio and accessories. In addition, our direct response business offers a range of band and orchestra instruments and accessories that primarily are targeted at intermediate and professional musicians. Our direct response catalogs generally offer an average of approximately 8,000 SKUs, while approximately 51,000 SKUs are offered on our websites.

Music & Arts

Our Music & Arts business focuses on the student and family music market, particularly band and orchestra instruments. These stores offer band and orchestral instruments and related accessories for sale and rental, musical instrument lessons and a limited assortment of guitars, amplifiers, percussion instruments, and keyboards. Our Music & Arts stores offer a full range of brass, woodwind, stringed orchestra instruments and related music accessories. These stores also carry a wide range of sheet music. Name brand manufacturers carried at Music & Arts stores include Bach, Buffet, Conn, Eastman, Gemeinhardt, Jupiter, Leblanc, Ludwig, Selmer and Yamaha.

Management of brands

Guitar Center

Our Guitar Center brands are managed by an Executive Vice President and a brand manager. These operations include the multi-channel retail and online operations of the brand.

Direct response

Our direct response operations are managed by an Executive Vice President and a brand manager for each brand. Operations of the brands also include teams that focus on systems, websites functionality and user experience.

Music & Arts

Our Music & Arts business is managed by a divisional Chief Executive Officer, a divisional President, an Executive Vice President of Operations and an Executive Vice President of Sales.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Marketing and promotion

Our proprietary databases are a central element of our marketing and promotion programs. We maintain three proprietary databases that we have developed for Guitar Center, direct response and Music & Arts. Included in these databases is information on millions of our customers. We believe that these databases assist us in identifying customer prospects, generating repeat business by targeting customers based on their purchasing history and establishing and maintaining personal relationships with our customers.

Guitar Center stores

Our advertising and promotion strategy for our Guitar Center stores is designed to enhance the Guitar Center name and increase customer awareness and loyalty. Our advertising and promotional campaigns generally are developed around "events" designed to attract significant store traffic and exposure. We regularly plan large promotional events including the Green Tag Sale, the Anniversary Sale and the Guitar-a-thon. These events often are coordinated with product demonstrations, interactive displays, clinics and in-store artist appearances. We use television advertising to supplement or promote these events and to create general brand awareness. In addition, our online channel conducts marketing and promotion through many of the same methods as our direct response business.

As we enter new markets, we initiate an advertising program, including mail and radio promotions, internet campaigns and other special grand opening activities. Each element of this advertising program is designed to accelerate sales volume for each new store.

We also maintain a variety of promotional financing alternatives for our customers. Generally, all credit made available to retail customers and all extended payment arrangements are provided by third party consumer credit companies which are non-recourse to us, such that the risk of non-payment is borne by the third party provider so long as we comply with its administrative and approval policies. These arrangements also give us the flexibility to offer attractive payment options to our customers on a promotional basis, such as interest-free periods or reduced interest rates. Promotional interest-free periods are generally offered for six to 18 months. These programs are also non-recourse to us, but we pay the credit provider a fee reflecting the below-market, promotional benefit of the particular program.

Direct response

Our direct response business maintains regular customer communication through electronic and print media. We perform an extensive analysis of customer behavior and transactions, and the industry expertise of our merchandising staff provides our marketing staff with offers that are targeted for optimal customer response. Our merchandising and marketing departments use our customer research tools to design personalized product and promotional offerings for prospective customers. We are also making significant investments in enhanced web-based analytical search engine tools and web-based direct marketing initiatives.

Our direct response strategy includes the development of catalogs targeted towards particular segments of the musician market.

Music & Arts

Our advertising efforts for the Music & Arts stores are focused primarily on the school band and orchestra market and community. For instrument rentals, advertising and promotional campaigns are developed around "rental nights" designed to display our orchestral and band instruments at elementary and middle schools. These events attract band directors, music educators, parents and students. Our key promotional events are held primarily from August through October. In addition to rental nights, we have outside sales education representatives to promote and educate band directors on our instruments and our sales and rental programs. We also strive to maintain long-term relationships with educators in order to provide visibility to our products and obtain access to student musicians.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Customer service

Guitar Center stores

Exceptional customer service is fundamental to our operating strategy. With the rapid changes in technology and continuous new product introductions, we believe that customers depend on our salespeople to offer expert advice and to assist with product demonstrations. Our employees often are musicians trained to understand the needs of our customers. Guitar Center store salespeople specialize in one of our product categories and typically begin training on their first day of employment. Guitar Center store sales and management training programs are implemented on an ongoing basis to maintain and improve the level of customer service and sales support in the stores. Support for our online customers is handled through experienced contact center staff. As a commitment to our customers, we have invested in software at our stores enabling our sales staff to keep regular contact with customers to enhance and personalize their shopping experience. We have also invested in a workforce management system to help us optimally staff our stores for peak customer traffic periods.

Direct response

Our direct response customer contact staff receives product and customer service training in our Salt Lake City, Utah and Indianapolis, Indiana contact center facilities. Extensive product information, including technical information, product features and benefits and real-time stocking information is available to the staff on their desktop systems via intranet and back-end information systems. Many of the staff are musicians who are given extensive and ongoing product training. We have full-time and part-time customer service employees staffing the contact centers 24 hours a day, seven days a week.

For customers that have registered e-mail addresses with us, we offer automated order and shipment verification. This service provides customers with UPS or FedEx order tracking information as soon as their shipment has been processed. To provide customers with a high degree of satisfaction, customers may return items for a full refund within 45 days of purchase. Additionally, if customers find a lower advertised price within 45 days of purchase, we will match the competitor' s advertised price.

Music & Arts

Sales at our Music & Arts business are made primarily through our education sales representatives and over the counter at our retail stores. The majority of our education representative sales force is comprised of music teachers who are experienced band and orchestra instructors. The customer service functions relating to sales made by our education representatives generally are conducted by our centralized contact center. The customer service functions relating to sales made over the counter at our retail stores generally are conducted by our retail staff, who provide a full service retail experience for our customers.

Purchasing

We believe that we have excellent relationships with our vendors and, in many instances, we are our vendors' largest customer. Given our high volume, we are generally able to receive prompt order fulfillment and access to premium products and promotions.

Our shared services organization manages purchasing, inventory management and vendor relations functions for our Guitar Center and direct response brands. This group also provides pricing analysis at the request of the brands and makes recommendations based on the research of its planning team. Music & Arts maintains its own merchandising and buying groups.

Each of our brands maintains its own merchandise selection and brand pricing functions.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Our business and expansion plans are dependent to a significant degree upon our vendors. As we believe is customary in the industry, we do not have any long-term supply contracts with our vendors. See "Risk Factors−Risks Related to Our Business−We depend on a relatively small number of manufacturers, suppliers and common carriers, and their inability to supply our requirements could adversely impact our business."

Distribution and inventory control

Guitar Center stores

Our distribution center in the Indianapolis, Indiana area supports our Guitar Center retail store operations. Nearly all product flows through the distribution facility, with the exception of special orders, which generally are drop shipments to our stores. We also maintain a smaller distribution facility in Southern California to more efficiently address the movement of products on the West Coast, where appropriate.

We have invested significant time and resources in our inventory control system at the Guitar Center stores. We perform frequent inventory cycle counts, both to measure shrinkage and to update the perpetual inventory on a store-by-store basis. As appropriate, we also stock balance inventory among stores to assure proper distribution of product and to control overall inventory levels.

Direct response

Direct response and other brand online and catalog orders are fulfilled out of our Kansas City, Missouri fulfillment center. Orders, whether taken electronically or by an associate in our customer contact center, are processed by our automated transaction system. We have implemented sophisticated inventory planning systems to increase the level of in-stock products with the goal of maintaining a high initial line item fill rate. The initial line item fill rate reflects the percentage of items ordered by a customer that we are able to supply in the initial shipment to that customer. Split shipments of a single order impose additional shipping, handling and materials costs on us when compared to being able to fulfill an entire order in a single shipment. The technology on our website also permits our customers to monitor their orders online by accessing the UPS and FedEx tracking services.

Music & Arts

Products for our Music & Arts stores generally are processed through a central distribution facility located in Frederick, Maryland. We have a number of local hubs and support centers to enhance product availability during our peak back to school season.

Retail store site selection

We have developed a set of selection criteria to identify prospective store sites for our Guitar Center and Music & Arts stores. In evaluating the suitability of a particular location, we concentrate on the demographics of our target customer as well as traffic patterns and specific site characteristics such as visibility, accessibility, traffic volume, shopping patterns and availability of adequate parking. Our Guitar Center stores generally are located in free-standing locations and high visibility "power center" shopping centers to maximize their outside exposure and signage, while our Music & Arts stores generally are located in specialized shopping centers to maximize traffic from targeted customers such as students and their parents.

The initial lease terms for our Guitar Center stores are typically 10 years and allow us to renew for three or more additional five-year terms. The initial lease terms for our Music & Arts stores are typically 5 or 10 years and allow us to renew for one additional five-year term. Most of the leases require us to pay property tax, utilities, normal repairs, common area maintenance and insurance expenses.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

See “Item 6. Selected Financial Data” for a summary of Guitar Center and Music & Arts stores opened and closed in the past five years.

Table of Contents

Information technology

Retail stores

We have invested significant resources in information technology systems that provide real-time information for our Guitar Center stores. These systems have been designed to integrate all major aspects of our business, including sales, gross margins, inventory levels, purchase order management, automated replenishment and merchandise planning. Our system capabilities include inter-store transactions, vendor analysis, serial number tracking, inventory analysis and commission sales reporting.

Online sales

We maintain an extensive multi-channel retail transaction processing system, as well as systems supporting e-commerce operations, catalog operations, marketing analysis and internal support information. These systems provide us with marketing, merchandising and operational information and provide contact center and customer service staff with current inventory and customer account information.

Music & Arts

We continue to invest significant resources in the development and implementation of information systems at our Music & Arts stores. These systems are being designed to operate and control significant business processes, including sales, rentals, store operations, inventory levels, purchase order management, special orders and other financial transactions. This business is not susceptible to using “off-the-shelf” retail solutions because of our large rental business and the presence of off-site sales through affiliates and sales at schools.

Competition

The retail musical instrument industry is highly competitive and fragmented. Our stores compete against other large and small musical instrument retailers, online music retailers, online auctions, direct-to-consumer alternatives and a number of large mass merchants.

Large online companies such as Amazon and eBay increasingly have expanded their offerings of musical instruments and related products. In addition, our retail stores and online operations compete with other direct response musical instrument companies such as American Musical Supply, Sweetwater Sound and Full Compass.

A number of large mass merchants, including Wal-Mart, Best Buy, Target and Costco, sell music products in categories in which we compete.

We are in direct competition with numerous small local and regional musical instrument retailers as well as large national retailers such as Sam Ash Music based in New York, New York. Sam Ash has continued to open and maintain stores in markets in which we are located.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Competition within the musical instrument industry remains dynamic and we cannot predict the scope and extent of national and local competition our retail store and direct response operations will face in the future. In particular, competition within the online portion of our businesses has been increasing and is intense, and we expect that this competition will continue in the future.

We believe that the ability to compete successfully in our markets is determined by several factors, including breadth and quality of product selection, pricing, effective merchandise presentation, customer service, store location and proprietary database marketing programs. See "Risks Related to Our Business - Significant existing and new competition in our industry could adversely affect us."

Employees

As of December 31, 2012, we employed 10,188 people, of whom 7,738 were full time employees and 2,450 were part time employees. None of our employees are covered by a collective bargaining agreement. We believe that we enjoy good employee relations.

Brand names and service marks

We own intellectual property including trademarks, service marks and tradenames, some of which are of material importance to our business. These marks and names include "Guitar Center," "Musician' s Friend" and "Music & Arts." We rely on the trademark, copyright and trade secret laws of the United States and other countries to protect our proprietary rights. Some of our intellectual property is the subject of numerous United States and foreign trademark and service mark registrations. We believe our intellectual property has significant value and is an important factor in our marketing, our stores and our websites.

Seasonality

Our business follows a seasonal pattern, peaking during the holiday selling season in November and December. Sales in the fourth quarter are typically significantly higher in our Guitar Center stores on a per store basis and through the direct response segment than in any other quarter. In addition, band rental season for our Music & Arts stores starts in August and carries through mid-October, but that seasonality does not have a significant impact on our consolidated results.

Item 1A. Risk Factors

Our financial performance is subject to various risks and uncertainties. The risks described below are those which we believe are the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, sales, revenues, gross profit, cash flows, financial condition, and results of operations.

Risks Related to Our Indebtedness

Our level of indebtedness 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 debt agreements.

We are highly leveraged. As of December 31, 2012, Holdings' total consolidated indebtedness was $1.581 billion, which includes Guitar Center' s debt of $1.017 billion. This level of indebtedness could have important consequences to our business, including the following:

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- it will limit our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions and debt service requirements and other financing needs;
- our interest expense would increase if interest rates in general increase because a substantial portion of our indebtedness, including all of our indebtedness under our senior secured credit facilities, bears interest at floating rates;
- it may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities;
- we are more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- it may make us more vulnerable to a downturn in our business, our industry or the economy in general;
- a substantial portion of our cash flow from operations will be dedicated to the repayment of our and Holdings' indebtedness, including indebtedness we may incur in the future, and will not be available for other purposes; and
- there would be a material adverse effect on our business and financial condition if we were unable to service our (or Holdings') indebtedness or obtain additional financing as needed.

Despite our substantial indebtedness, we may still incur significantly more debt, which could further exacerbate the risks described above.

We may be able to incur substantial additional indebtedness in the future. The terms of the agreements governing our senior secured credit facilities and the indentures governing the notes will not fully prohibit us from doing so. Under the indentures governing the notes, in addition to specified permitted indebtedness, we will be able to incur additional indebtedness so long as on a pro forma basis the fixed charge coverage ratio of Guitar Center, Inc. (as defined in the indentures) is at least 2.0 to 1.0. In addition, if we incur any additional indebtedness that ranks equally with the notes, the holders of that debt will be entitled to share ratably in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of us. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our (or Holdings') ability to make scheduled payments or to refinance our (or Holdings') debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot provide any assurance that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our and Holdings' indebtedness. See "Management' s discussion and analysis of financial condition and results of operations−Liquidity and capital resources."

If our cash flows and capital resources are insufficient to fund our and Holdings' debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our and Holdings' indebtedness. We cannot provide any assurance that we would be able to take any of these actions, that these actions would be successful and permit us to meet our and Holdings' scheduled debt service obligations or that these actions would be permitted under the terms of our and Holdings' existing or future debt agreements. 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 and Holdings' debt service and other obligations. Our senior secured credit facilities and the indentures that govern the notes will restrict our ability to dispose of

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

assets and use the proceeds from the disposition. 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.

If we cannot make scheduled payments on our and Holdings' debt, we will be in default and, as a result:

- our and Holdings' debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and
- we could be forced into bankruptcy or liquidation.

Restrictive covenants in our credit agreements and the indentures governing the notes will restrict our ability to operate our business and to pursue our business strategies.

The credit agreements governing our senior secured credit facilities and the indentures governing the notes contain, and any future indebtedness we incur may contain, various covenants that limit our ability to, among other things:

- incur or guarantee additional debt;
- incur debt that is junior to senior indebtedness and senior to the senior PIK notes;
- pay dividends or make distributions to our stockholders;
- repurchase or redeem capital stock or subordinated indebtedness;
- make loans, capital expenditures or investments or acquisitions;
- incur restrictions on the ability of certain of our subsidiaries to pay dividends or to make other payments to us;
- enter into transactions with affiliates;

- create liens;
- merge or consolidate with other companies or transfer all or substantially all of our assets;
- transfer or sell assets, including capital stock of subsidiaries; and
- prepay, redeem or repurchase debt that is junior in right of payment to the notes.

As a result of these covenants, we are limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. Our senior secured credit facilities also require Holdings to comply with financial covenants, including covenants with respect to, in the case of our term loan facility, a maximum consolidated senior secured net leverage ratio and, in the case of our asset-based revolving credit facility, so long as the excess availability thereunder falls below certain thresholds, a minimum consolidated fixed charge coverage ratio. A breach of any of these covenants could result in a

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

default under our senior secured credit facilities. Upon the occurrence of an event of default under our senior secured credit facilities, the lenders:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable, which would result in an event of default under the notes;
- could require us to apply all of our available cash to repay these borrowings; or
- could prevent us from making payments on the senior PIK notes, which could result in an event of default under the notes.

If we were unable to repay those amounts, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. We, the co-borrowers and the guarantors in respect of such facilities pledged a significant portion of our respective assets as collateral under our senior secured credit facilities. If the lenders under our senior secured credit facilities accelerate the repayment of borrowings, we cannot assure you that Holdings or we will have sufficient assets to repay our senior secured credit facilities and our other indebtedness, including the notes, or borrow sufficient funds to refinance such indebtedness. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our senior secured credit facilities are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. As of December 31, 2012, we had approximately $621.8 million of variable rate debt (not including approximately $286.8 million of additional undrawn availability under our senior secured asset-based revolving credit facility, after giving effect to $8.6 million of outstanding letters of credit). A 1.0% increase in the interest rate on our floating rate debt would have increased annual interest expense under our senior secured credit facilities by approximately $6.2 million. We do not hedge our interest rate risk by use of derivative instruments and we may in the future be unable to do so.

Our failure to comply with the covenants contained in the credit agreements governing our senior secured credit facilities or our other debt agreements, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

Our credit agreements require Holdings to maintain specified financial ratios, including, in the case of the term loan facility, a maximum ratio of consolidated senior secured net indebtedness to EBITDA and, in the case of the asset-based revolving credit facility, so long as the excess availability thereunder falls below certain thresholds, a minimum consolidated fixed charge coverage ratio. In addition, our credit agreement and the indentures governing the notes require us to comply with various operational and other covenants. If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn would result in cross defaults under our other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated upon an event of default.

If, when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our credit agreements, or if a default otherwise occurs, the lenders under our senior secured credit facilities could elect to terminate their

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

commitments thereunder, cease making further loans, declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable, institute foreclosure proceedings against those assets that secure the borrowings under our senior secured credit facilities and prevent us from making payments on the notes. Any such actions could force us into bankruptcy or liquidation, and we cannot provide any assurance that we could repay our obligations under the notes in such an event.

We may not be able to purchase the notes upon a change of control, which would result in a default under the indentures governing the notes and would adversely affect our business and financial condition.

Upon the incurrence of specific kinds of change of control events, we must offer to purchase the notes. We may not have sufficient funds available to make any required repurchases of the notes, and restrictions under our credit agreement may not allow that repurchase. If we fail to repurchase notes in that circumstance, we will be in default under the indentures governing the notes and, in turn, under our credit agreement. In addition, certain change of control events will constitute an event of default under our credit agreements. A default under our credit agreements would result in an event of default under the indentures governing the notes if the administrative agent or the lenders accelerate our debt under our senior secured credit facilities. Upon the occurrence of a change of control, we could seek to refinance the indebtedness under our senior secured credit facilities and the notes or obtain a waiver from the lenders or the noteholders. We cannot provide any assurance, however, that we would be able to obtain a waiver or refinance our indebtedness on commercially reasonable terms, if at all. Any future debt that we incur may also contain restrictions on repayment of the notes upon a change of control.

Risks Related to Our Business

Economic conditions or changing consumer preferences could adversely impact us.

Our business is sensitive to consumer spending patterns, which can be affected by prevailing economic conditions. The United States economy generally, and the music products industry in particular, continues to experience an economic slowdown. We cannot predict with accuracy the duration or extent of the slowdown. This downturn in general economic conditions has had an adverse effect on our results of operations over the last several years. We believe that the sensitivity of our operations to general economic conditions and consumer spending patterns has increased as new types of competitors have entered the market and we have expanded our customer base to a greater number of hobbyists and semi-professional musicians and have expanded our footprint to smaller markets. Although we attempt to stay informed of consumer preferences for musical products and accessories typically offered for sale in our stores, any sustained failure on our part to identify and respond to trends would have a material adverse effect on our results of operations, financial condition, business and prospects.

Significant existing and new competition in our industry could adversely affect us.

The retail musical instrument industry is highly competitive and fragmented. Our stores compete against other large and small musical instrument retailers, online music retailers, online auctions, direct-to-consumer alternatives and a number of large mass merchants. These competitors sell many or most of the items we sell and may have greater financial or operational resources than us.

Large online companies such as Amazon and eBay increasingly have expanded their offerings of musical instruments and related products. These companies have significant brand recognition and financial and operational resources dedicated to online direct and marketplace operations. In addition, our retail stores and online operations compete with other direct response musical instrument companies such as American Musical Supply, Sweetwater Sound and Full Compass.

In addition, our online and other direct response operations may require greater efficiency, lower prices, expanded advertising requirements through search engines and other parties and other competitive factors such as free shipping or extended warranties or return periods in order to compete successfully. Each of these factors could have an adverse effect on selling prices and margins in our business and generally constrain our profitability.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

A number of large mass merchants, including Wal-Mart, Best Buy, Target and Costco, sell music products in categories in which we compete. These retailers represent a significant source of competition for our retail and direct response operations.

We are in direct competition with numerous small local and regional musical instrument retailers as well as large national retailers such as Sam Ash Music based in New York, New York. Sam Ash has continued to open and maintain stores in markets in which we are located. If we are not able to compete effectively with these competitors, we may fail to achieve market position gains or may lose market share.

As summarized above, competition within the musical instrument industry remains dynamic, and we cannot predict the scope and extent of national and local competition our retail store and direct response operations will face in the future. In particular, competition within the online portion of our businesses has been increasing and is intense, and we expect that this competition will continue in the future. If we are unable to respond effectively to existing and new competition in our industry, our results of operations, financial condition, business and prospects could suffer.

Our failure to develop and implement critical new technology systems for our business could adversely impact our business.

We have developed and implemented new technology systems, including a new e-commerce platform, a multi-channel retail system and a new human resources information system. We also plan to continue investing in technology improvements to our e-commerce platforms and retail systems. If these systems fail to perform as planned, it could lead to the distraction of our management and the need to expend significant additional capital resources. Such a failure could reduce the shopping experience of customers compared to our competitors and impact the data available to our management necessary to run our business efficiently, and as a result could adversely impact our business, results of operations, financial condition and prospects.

We may not be able to grow sales in our existing Guitar Center stores.

Our quarterly comparable stores sales results have fluctuated significantly in the past, and in particular during the current economic slowdown. We do not know whether our new stores or recently opened stores will achieve sales or profitability levels similar to our mature stores.

In addition, a variety of factors affect our comparable store sales results, including:

- competition;
- economic conditions, including in particular discretionary consumer spending;
- consumer and music trends;
- changes in our merchandise mix;
- product distribution; and
- timing and effectiveness of our promotional events.

A shortfall in comparative store sales growth could adversely affect our results of operations and liquidity.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We may be unable to meet our retail store growth strategy, which could adversely affect our results of operations.

Our retail store growth strategy includes increasing sales at existing Guitar Center and Music & Arts locations and opening new locations. The success of any new Guitar Center or Music & Arts stores will depend on many factors, including:

- identification of suitable retail sites and appropriate acquisition candidates;
- negotiation of acceptable lease terms;
- hiring, training and retention of skilled personnel;
- availability of adequate capital;

- sufficient management and financial resources to support the new locations;
- vendor support; and
- successful integration of newly-acquired businesses.

A number of these factors are to a significant extent beyond our control. If we are unable to successfully implement our retail growth strategy, or if new stores do not perform to our level of expectations, our results of operations would be adversely affected.

Our business could be adversely affected if we are unable to address unique competitive and merchandising challenges in connection with our plans to open additional Guitar Center and Music & Arts retail stores in new markets.

Part of our retail growth strategy includes plans to open and/or acquire additional Guitar Center and Music & Arts stores in new markets. This expansion into new markets will present unique competitive and merchandising challenges, including:

- significant start-up costs, including promotion and advertising;
- the increasing difficulty in identifying large untapped markets and the consequent expansion into smaller markets that may have different competitive landscapes and customer profiles;
- higher advertising and other administrative costs as a percentage of sales than is experienced in mature markets that are served by multiple stores, particularly in large urban markets where radio and other media costs are high;
- the availability of desirable product lines;
- the potential acquisitions of business lines or geographies in which we have limited or no experience; and
- the management of stores in distant locations or possibly foreign countries.

Any of these factors may lead to a shortfall in revenues or an increase in costs with respect to the operation of these stores. If we are not able to operate these stores profitably, or to our expected level of performance, our results of operations could be adversely affected.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We depend on a relatively small number of manufacturers, suppliers and common carriers, and their inability or unwillingness to adequately supply our requirements could adversely impact our business.

Brand recognition is of particular importance in the retail music products business. There are a relatively small number of high quality, recognized brand names in the music products business. We depend on this relatively small number of manufacturers and suppliers for both our existing retail stores and our direct response business. We do not have any long-term contracts with our suppliers and any failure to maintain our relationships with our key brand name vendors would have a material adverse effect on our business.

A number of the manufacturers of the products we sell are limited in size and manufacturing capacity and have significant capital or other constraints. These manufacturers may not be able or willing to meet our increasing requirements for inventory, and there may not be sufficient quantities or the appropriate mix of products available in the future to supply our existing and future stores. These capacity constraints could lead to extended lead times and shortages of desirable products. The risk is especially prevalent in new markets where our vendors have existing agreements with other dealers and may be unwilling or unable for contractual or other reasons to meet our requirements.

The efficient operation of our distribution center for Guitar Center stores is also highly dependent upon compliance by our vendors with precise requirements as to the timing, format and composition of shipments. Additionally, many of our vendors receive products from overseas and depend on an extensive supply chain including common carriers and port access to transport merchandise into the country. Foreign manufacturing is subject to a number of risks, including political and economic disruptions, the imposition of tariffs, quotas and other import or export controls and changes in governmental policies.

Table of Contents

We rely on common carriers, including rail and trucking, to transport products from our vendors to our central distribution centers and from these centers to either our stores or customers. A disruption in the services of common carriers due to weather, employee strikes or other unforeseen events could impact our ability to maintain sufficient quantities of inventory in our retail locations or to fulfill orders by direct response customers.

Our hardware and software systems are vital to the efficient operation of our retail stores and direct response business, and damage to these systems could harm our business.

We rely on our computer hardware and software systems for the efficient operation of our retail stores and our direct response business. Our e-commerce systems are responsible for online product sales, customer service and product marketing to our customers and prospective customers. In addition, our information systems provide our management with inventory, sales and cost information that is essential to the operation of our business. Due to our number of stores, geographic diversity and other factors, we would be unable to generate this information in a timely and accurate manner in the event our hardware or software systems were unavailable. These systems are vulnerable to damage or interruption from a number of factors, including earthquake, fire, flood and other natural disasters and power loss, computer systems failure, or security breaches, internet and telecommunications or data network failure.

In addition, a significant information systems failure could reduce the quality or quantity of operating data available to our management. If this information were unavailable for any extended period of time, our management would be unable to efficiently run our business, which would result in a reduction in our net sales and operating results.

We may be adversely impacted if our security measures fail.

Our relationships with our customers may be adversely affected if the security measures that we use to protect their personal information, such as credit card numbers, are ineffective or perceived by consumers to be inadequate. We primarily rely on security and

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

authentication technology that we license from other parties. With this technology, we perform real-time credit card authorization and verification with our banks and we are subject to the customer privacy standards of credit card companies and various consumer protection laws. We cannot predict whether there will be a compromise or breach of the technology we use to protect our customers' personal information. If there is a compromise or breach of this nature, there is the potential that parties could seek damages from us, we could lose the confidence of customers or be subject to significant fines from credit card companies or regulatory agencies.

Furthermore, our servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. We may need to expend significant additional capital and other resources to protect against a security breach or to alleviate problems caused by any breaches.

We need to comply with credit and debit card security regulations.

As a merchant who processes credit and debit card payments from customers, we are required to comply with the Payment Card Industry data security requirements imposed on us for the protection and security of our customers' credit and debit card information. If we are unable to remain compliant with these requirements, our business could be harmed because we could incur significant fines from payment card companies or we could be prevented in the future from accepting customer payments by means of a credit or debit card. We also may need to expend significant management and financial resources to become or remain compliant with these requirements, which could divert these resources from other initiatives and adversely impact our financial results.

Our reliance on foreign manufacturers and suppliers increases our risk of obtaining adequate, timely and cost-effective product supplies.

We rely to a significant extent on foreign manufacturers of various products that we sell, particularly manufacturers located in China. In addition, many of our domestic suppliers purchase a significant portion of their products from foreign sources. This reliance increases the risk that we will not have adequate and timely supplies of various products due to local political, economic, social or environmental conditions (including acts of terrorism, the outbreak of war, or the occurrence of natural disaster), transportation delays (including dock strikes and other work stoppages), restrictive actions by foreign governments, or changes in United States laws and regulations affecting imports or domestic distribution. Reliance on foreign manufacturers also increases our exposure to fluctuations in exchange rates and trade infringement claims and reduces our ability to return product for various reasons.

Additionally, the cost of labor and wage taxes have increased in China, which means we are at risk of higher costs associated with goods manufactured in China. Significant increases in wages or wage taxes paid by contract facilities may increase the cost of goods manufactured in China, which could have a material adverse effect on our profit margins and profitability.

All of our products manufactured overseas and imported into the United States are subject to duties collected by the United States Customs Service. We may be subjected to additional duties, significant monetary penalties, the seizure and forfeiture of the products we are attempting to import or the loss of import privileges if we or our suppliers are found to be in violation of United States laws and regulations applicable to the importation of our products.

Product recalls and/or product liability, as well as changes in product safety and other consumer protection laws, may adversely impact our operations, product offerings, reputation, results of operations, cash flow and financial condition.

Products that we develop or sell may expose us to liability from claims by users of those products for damages, including bodily injury or property damage. This risk is expected to increase as we increase the number and complexity of the proprietary products that we offer. Many of these products are manufactured by small companies located overseas. We currently maintain product liability

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

insurance coverage in amounts that we believe are adequate. However, we may not carry or be able to maintain adequate coverage or obtain additional coverage on acceptable terms in the future. Liability from claims of users of our products could result in damage to our reputation and sales, and our failure to maintain adequate products liability insurance could adversely impact our financial condition.

In addition, we are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. We purchase products from hundreds of vendors. Since a majority of our merchandise is manufactured in foreign countries, one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. Any issues of product safety, including those manufactured in foreign countries, could cause us to recall some of those products. If the recall affects our proprietary products, or if our vendors are unable or unwilling to recall products failing to meet our quality standards, we may be required to recall those products at a substantial cost to us. These recalls may adversely impact our reputation and brands, potentially leading to increases in customer litigation against us. Further, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if the unavailability occurs near or during a seasonal period.

Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for merchandise, or additional labor costs associated with readying merchandise for sale. Long lead times on merchandise ordering cycles increase the difficulty for us to plan and prepare for potential changes to applicable laws. The Consumer Product Safety Improvement Act of 2008 imposes significant requirements on manufacturing, importing, testing and labeling requirements for our products. In addition, various federal and state regulations directly impact our products, such as the Lacey Act, the Formaldehyde Air Toxic Control Measure issued by the California Air Resources Board and the California Transparency in Supply Chains Act. In the event that we are unable to timely comply with regulatory changes, significant fines or penalties could result, and could adversely affect our reputation, results of operations, cash flow and financial condition.

Table of Contents

We have outsourced some of our information technology functions, which makes us more dependent upon third parties.

We place significant reliance on a third party provider for the outsourcing of a variety of our information technology functions. These functions are generally performed at an offshore location, with our oversight. As a result, we are relying on third parties to ensure that these functional needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over these processes, changes in pricing that may affect our operating results and potentially the termination of provision of these services by our supplier. If our service providers fail to perform, we may have difficulty arranging for an alternate supplier or rebuilding our own internal resources, and we could incur significant costs, all of which may have a significant adverse effect on our business.

We may outsource other administrative functions in the future, which would further increase our reliance on third parties. Further, the use of offshore service providers may expose us to risks related to local political, economic, social or environmental conditions (including acts of terrorism, the outbreak of war, or the occurrence of natural disaster), restrictive actions by foreign governments or changes in United States laws and regulations.

Changes in regulations or enforcement may adversely impact our business

We are subject to federal, state and local regulations with respect to our operations in the United States. The enactment or enforcement of legislative and regulatory initiatives such as wage or workforce issues, collective bargaining matters, environmental regulation, price and promotion regulation, trade regulations and others could adversely impact our business.

Any changes in the way that online business is regulated or taxed could impose additional costs on us and adversely affects our financial results.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The adoption or modification of laws or regulations, or revised interpretations of existing laws, relating to the online commerce industry could adversely affect the manner in which we currently conduct our online and catalog business and the results of operations of those businesses. For example, laws and enforcement practices related to the taxation of catalog, telephone and online commercial activity, including the collection of sales tax on direct response sales, remain in flux. In recent years, states increasingly have focused on the taxation of out of state retailers, such as Amazon, in an effort to reduce their budget shortfalls. As the result of aggressive taxation positions, we have had to terminate our direct response advertisers that are located in states where new laws have passed. In addition, we at times are subject to information requests and claims by states relating to state sales and use tax matters.

In addition, the growth and development of the market for online commerce may lead to more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on us. Laws and regulations directly applicable to communications or commerce over the internet are becoming more prevalent. The law of the internet, however, remains largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, consumer privacy, sales-based and other taxation of e-commerce transactions and the like are interpreted and enforced.

Further, our direct response business established physical presence in California in 2011, and as a result is required to collect and remit sales tax on behalf of California customers. This change resulted in decreased sales in California, as we are at a competitive disadvantage against e-commerce retailers who do not collect sales tax from California customers. We cannot provide any assurance that our sales and marketing strategies will result in regaining market share in California.

Any adverse change in any of these laws or in the enforcement, interpretation or scope of existing laws could have a material adverse effect on our results of operations, financial condition or prospects.

Table of Contents

Changes in health care regulations and costs may adversely impact our business.

Our operations are subject to health care regulations. There are a number of existing and proposed legislative and regulatory initiatives relating to health care that could adversely impact our business. In particular, we expect that the Patient Protection and Affordable Care Act will increase our annual health care costs, with the most significant increases coming in 2014.

In addition, we self-insure our workers' compensation claims up to $500,000 per claim and medical insurance claims of up to $400,000 per claim. Excess amounts are covered by stop-loss insurance coverage, subject to an aggregate annual deductible of $100,000 for medical insurance claims. As a result, increases in health care claims or coverage costs may adversely impact our financial condition.

We face risks created by litigation and governmental proceedings.

Historically, we have been involved in a variety of lawsuits. Current and future litigation that we may face may result in substantial costs and expenses and significantly divert the attention of our management regardless of the outcome, and an unfavorable resolution could have a material adverse effect on our business, financial condition and results of operations.

From time to time, the litigation we have faced has included purported class action lawsuits based on our credit card practices, payroll practices and other matters, and we may face other purported class action lawsuits in the future. The costs of these lawsuits could be significant, particularly if a plaintiff were to succeed in obtaining certification of a class nationwide or in a large region in which we operate.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We are the largest musical instrument retailer in the United States based on revenue. Our significant size within our industry may increase the scrutiny that we receive regarding antitrust or other matters. In the past, we have been subject to an investigation by the Federal Trade Commission regarding our pricing practices. While this investigation was resolved without any action by the Federal Trade Commission, private litigants used some of the information from a related investigation of a major trade association to bring class action claims presently pending against us. See "Item 3. Legal Proceedings" for more detail on these claims. These actions, as well as other current and future litigation or governmental proceedings, could lead to increased costs or interruptions of our normal business operations and may adversely affect our financial condition and results of operations.

Our Music & Arts business is dependent on state and local funding of music programs in primary and secondary schools, and decreases in funding would adversely affect our Music & Arts business.

Our Music & Arts business derives the majority of its revenue from sales or services to music students enrolled in primary and secondary schools. Any decrease in the state and local funding of such music programs could have a material adverse effect on our Music & Arts business and its results of operations.

Our inability to address the special risks associated with acquisitions could adversely impact our business.

We believe that our expansion may be accelerated by the acquisition of existing music product retailers, including in foreign markets. We regularly investigate acquisition opportunities complementary to our Guitar Center, direct response and Music & Arts businesses. Accordingly, in the ordinary course of business, we consider, evaluate and enter into negotiations related to potential acquisition opportunities. We may pay for these acquisitions in cash or securities or a combination of both. Attractive acquisition targets may not be available at reasonable prices or we may not be successful in any such transaction. Acquisitions involve a number of special risks, including:

- diversion of our management's attention;
- integration of acquired businesses with our business; and
- unanticipated legal liabilities and other circumstances or events.

Our failure to identify complementary acquisitions, our failure to obtain favorable pricing on those acquisitions or the occurrence of any special risks involved in acquisitions could have a material adverse effect on our ability to achieve our growth strategy, and our results of operations could be materially affected as a result.

Significant increases in fuel prices could adversely impact us.

Increased fuel costs have increased both the cost of the products that we purchase as well as the transportation of these products between our distribution or fulfillment centers and our stores or consumers. In addition, fluctuations in gas prices have disrupted consumer spending by leaving consumers with comparatively less money to spend for retail and entertainment. This disruption may lead to reduced sales. Either of these trends could have a material adverse effect on our results of operations, financial condition, business and prospects.

Claims of infringement of intellectual property rights of third parties or inadequately acquiring or protecting our intellectual property could harm our ability to compete or grow.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Parties have filed, and in the future may file, claims against us alleging that we have infringed third party intellectual property rights. If we are held liable for infringement, we could be required to pay damages or obtain licenses or to cease making or selling certain products. Licenses may not be available at all, or may not be available on commercially reasonable terms, and the cost to defend these claims, whether or not meritorious, could be significant and could divert the attention of management.

We could also have our intellectual property infringed. We rely on the trademark, copyright and trade secret laws of the United States and other countries to protect our proprietary rights, but there can be no guarantee that these will adequately protect all of our rights, or that any of our intellectual property rights will not be challenged or held invalid or unenforceable in a dispute with third parties. If we are unable to enforce our intellectual property rights against third parties, our business, financial condition and results of operations may be adversely affected.

We depend on key personnel, including our senior management, who are important to the success of our business.

Our success depends to a significant extent on the services of members of our senior management. The loss of the services of one or more of these individuals or other key personnel and changes in the composition of our senior management team could have a material adverse effect on our business, results of operations, liquidity and financial position.

Our Chief Executive Officer resigned in November 2012 and in January 2013 we appointed an interim Chief Executive Officer who is experienced in the specialty retail industry. If we are unable to successfully integrate a new Chief Executive Officer, we could lose the services of other key personnel, which could adversely impact our business, results of operations, liquidity and financial position.

Our actual operating results may differ significantly from our projections.

From time to time, we release projections and similar guidance regarding our future performance that represent management' s estimates as of the date of release. These projections, which are forward-looking statements, are prepared by our management and are qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions of the projections furnished by us will not materialize or will vary significantly from actual results. Accordingly, our projections are only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the projections and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is projected.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this annual report could result in the actual operating results being different from the projections, and such differences may be adverse and material.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following summarizes the general location, use and approximate size of our principal properties as of March 15, 2013:

Facility	Location	Approximate Size	Owned/Leased	Lease Expiration
245 Guitar Center retail stores (a)	Various U.S. locations	54,000 sq. ft.	Owned	
		3,568,000 sq. ft.	Leased	Various dates through 2023 (b)
110 Music & Arts retail stores	Various U.S. locations	345,000 sq. ft.	Leased	Various dates through 2022 (c)
Corporate office, Guitar Center brand and direct response brand support center (d)	Westlake Village, California	96,000 sq. ft.	Owned	
		112,000 sq. ft.	Leased	April 2017
Music & Arts headquarters operations	Frederick, Maryland	30,500 sq. ft.	Leased	September 2015
Guitar Center distribution center	Brownsburg, Indiana	773,000 sq. ft.	Leased	December 2018
Direct response fulfillment center (e)	Kansas City, Missouri	702,000 sq. ft.	Leased	February 2017
Music & Arts distribution center	Frederick, Maryland	111,800 sq. ft.	Leased	January 2023
Music & Arts warehouses and hubs	Various U.S. locations	143,000 sq. ft.	Leased	Various dates through 2019
Direct response customer contact centers	Salt Lake City, Utah	25,500 sq. ft.	Leased	December 2016
	Indianapolis, Indiana	31,000 sq. ft.	Leased	September 2022

(a) Includes one GC Studios location.

(b) The initial lease terms for our Guitar Center stores are typically 10 years and allow us to renew for three or more additional five-year terms.

(c) The initial lease terms for our Music & Arts stores are typically 5 or 10 years and allow us to renew for one additional five-year term.

(d) Our corporate headquarters and Guitar Center brand and direct response brand support center facilities consist of 208,000 aggregate square feet of both leased and owned office and warehouse space.

(e) The Kansas City fulfillment center ships customer orders from catalogs and online orders for our Guitar Center, direct response and Music & Arts brands.

We believe that our existing facilities are adequate for our current needs.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

The following table summarizes our retail store locations as of March 15, 2013:

	Number of Stores		
State	Guitar Center	Music & Arts	Total
AL	4	–	4
AR	2	–	2
AZ	5	4	9
CA	34	2	36
CO	6	3	9
CT	4	6	10
DE	1	1	2
FL	15	3	18
GA	4	8	12
IA	3	–	3
ID	1	–	1
IL	12	2	14
IN	7	–	7
KS	2	–	2
KY	3	–	3
LA	3	–	3
MA	7	3	10
MD	3	13	16
ME	1	1	2
MI	9	–	9
MN	4	–	4
MO	4	1	5
MS	1	–	1
NC	6	8	14
NE	2	–	2
NH	2	1	3
NJ	8	4	12
NM	1	–	1
NV	3	–	3
NY	12	5	17
OH	8	4	12
OK	2	–	2
OR	6	–	6
PA	8	5	13
RI	1	–	1
SC	2	3	5
SD	1	–	1
TN	4	3	7
TX	26	15	41
UT	2	–	2
VA	6	15	21
VT	1	–	1

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

WA	6	–	6
WI	3	–	3
Total	245	110	355

Table of Contents

Item 3. Legal Proceedings

On September 11, 2009, a putative class action was filed by an individual consumer named David Giambusso in the United States District Court for the Southern District of California. The complaint alleged that Guitar Center and other defendants, including a trade association and a large musical instrument manufacturer, exchanged sensitive information and strategies for implementing minimum advertised pricing, attempted to restrict retail price competition and monopolize at trade association-organized meetings, all in violation of Sections 1 and 2 of the Sherman Antitrust Act and California' s Unfair Competition Law. Subsequently, numerous additional lawsuits were filed in several federal courts (and one state court) attempting to represent comparable classes of plaintiffs with parallel allegations. Some of these lawsuits have expanded the group of defendants to include other manufacturers and others have alleged additional legal theories under state laws.

In December 2009 and January 2010, the Judicial Panel on Multidistrict Litigation issued several orders which had the effect of consolidating all pending actions in federal court under the caption In Re Musical Instruments and Equipment Antitrust Litigation, Case No. MDL-2121 ("MDL 2121"), except one filed in Tennessee. A consolidated amended complaint in MDL 2121 was filed on July 16, 2010, in the United States District Court for the Southern District of California. On August 20, 2010, defendants filed a motion to dismiss the consolidated amended complaint. The hearing was held on November 1, 2010. The court rendered its opinion on August 19, 2011, granting the motion to dismiss with leave to amend. Plaintiffs filed a first amended consolidated class action complaint on September 22, 2011. On December 28, 2011, the Magistrate Judge issued an order limiting the scope of discovery to non-public meetings at NAMM conventions. This ruling was affirmed by the District Court on February 7, 2012. On February 24, 2012, plaintiffs filed a second amended complaint. On March 26, 2012, defendants filed a motion to dismiss the second amended complaint. The motion was heard by the court on May 21, 2012. On August 20, 2012, the court dismissed, with prejudice, plaintiffs' Sherman Act claim for failure to plead an antitrust conspiracy. On September 9, 2012, defendants filed a motion to alter or amend the judgment, requesting that the court amend the judgment to include the dismissal of plaintiffs' state-law claims. This motion was denied on jurisdictional grounds. Plaintiffs filed an appeal before the Ninth Circuit Court of Appeals which is currently pending. With regard to the Tennessee action, we had previously filed a motion to dismiss on September 3, 2010. On February 22, 2011, the plaintiff filed an amended complaint, for which we filed an additional motion to dismiss on March 24, 2011. The parties in the Tennessee action have agreed to cooperate with regard to a scheduling order, accordingly there is no hearing date set for the motion to dismiss. The plaintiffs in the consolidated actions are seeking an injunction against further behavior that has been alleged, as well as monetary damages, restitution and treble damages in unspecified amounts. The plaintiffs in the Tennessee action are seeking no more than $5.0 million in compensatory damages. We are not currently able to estimate a probable outcome or range of loss in this matter.

On August 31, 2011, a putative class action was filed by a former employee in San Francisco Superior Court in an action entitled Carson Pellanda vs. Guitar Center, Inc. The complaint alleges that Guitar Center allegedly violated California wage and hour laws, including failure to provide required meal periods, rest breaks, unpaid work time, and failure to provide accurate itemized wage statements. On October 4, 2011, a first amended complaint was filed, adding new allegations, including wrongful termination. Guitar Center has retained defense counsel. The first amended complaint seeks injunctive relief as well as monetary damages in unspecified amounts. Mediation was held on May 17, 2012. The matter did not settle. On September 6, 2012, a Second Amended Complaint was filed, incorporating the allegations of a parallel wage and hour matter, Gomez vs. Guitar Center Stores, Inc., which was subsequently dismissed. Discovery continues. We are not currently able to estimate a probable outcome or range of loss in this matter.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

On May 24, 2011, a putative class action was filed in Los Angeles Superior Court in an action entitled Jason George vs. Guitar Center, Inc. and Guitar Center Stores, Inc. The complaint alleges that Guitar Center violated the California Song-Beverly Credit Card Act by requesting that its customers provide personal identification information in connection with the use of their credit cards. The complaint seeks monetary damages including statutory civil penalties in amounts of up to $1,000 per violation. This matter was subsequently consolidated with Justin Hupalo vs. Guitar Center, a putative class action alleging violations of the Song-Beverly Credit Card Act, filed on October 27, 2011. Discovery continues. In December 2012, a motion for summary judgment was filed on behalf of Guitar Center. This motion is currently pending. We are not currently able to estimate a probable outcome or range of loss in this matter.

In addition to the matters described above, we are involved in various claims and legal actions in the normal course of business. We expect to defend all unresolved actions vigorously. We cannot assure you that we will be able to achieve a favorable settlement of these lawsuits or obtain a favorable resolution if they are not settled. However, it is management' s opinion that, after consultation with counsel and a review of the facts, a material loss with respect to our financial position, results of operations and cash flows is not probable from such currently pending normal course of business litigation matters.

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

Market Information

Holdings' common stock is privately held and there is no established public trading market for its stock. Guitar Center' s common stock is owned by Holdings and there is no established trading market for such stock.

During the year ended December 31, 2012, Holdings did not issue any shares of common stock.

Holders

As of December 31, 2012, there were 19 holders of Holdings common stock. Holdings owns all of the common stock of Guitar Center.

Dividends

Holdings did not declare or pay any cash dividends on its common stock in 2012 or 2011and does not anticipate paying any cash dividends in the near future. Our senior secured credit facilities and the indentures governing the notes impose restrictions on our and Holdings' ability to pay dividends or make distributions to our and its stockholders.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. We derived the selected historical financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 from our audited historical consolidated financial statements included in this annual report. We derived the selected historical

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

financial data as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008 from our audited historical consolidated financial statements not included in this annual report. Our historical results included below and elsewhere in this annual report are not necessarily indicative of our future performance.

The following selected 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 accompanying notes thereto included elsewhere in this annual report. Amounts in tables may not add due to rounding.

Our calculation of comparable retail store sales includes sales from Guitar Center stores that have been open for 14 months and does not include sales originated on our Guitar Center website. We do not exclude relocated, remodeled or retrofitted stores from the calculation of comparable store sales. All references in this annual report to comparable store sales results are based on this calculation methodology.

Table of Contents

Financial data of Holdings, except where otherwise indicated

	Year ended December 31,				
(Dollars in millions)	2012	2011	2010	2009	2008
Income statement data:					
Net sales	$ 2,139.2	$ 2,082.6	$ 2,010.9	$ 2,004.2	$ 2,228.6
Gross profit	643.4	635.1	605.9	589.4	631.0
Operating income (loss)					
Guitar Center	95.7	(96.8)	59.7	(87.9)	(202.2)
Holdings	95.7	(97.1)	59.7	(87.9)	(202.2)
Net income (loss)					
Guitar Center	3.4	(153.7)	(8.9)	(147.6)	(185.3)
Holdings	(72.2)	(236.9)	(56.4)	(189.9)	(219.5)
Balance sheet data (at end of period):					
Total assets					
Guitar Center	1,845.8	1,883.7	2,115.6	2,109.7	2,308.7
Holdings	1,816.6	1,859.1	2,120.7	2,140.1	2,318.1
Long-term debt					
Guitar Center	1,010.8	996.8	997.5	998.1	1,020.3
Holdings	1,445.7	1,561.5	1,562.1	1,490.9	1,450.4
Other financial data:					
Depreciation and amortization	90.9	106.2	104.9	113.8	137.0
Capital expenditures (1)	67.5	57.3	47.9	45.2	39.4
Adjusted EBITDA (2)	200.0	196.9	184.3	179.3	191.7
Total Debt					
Guitar Center	1,016.7	997.5	998.1	1,018.9	1,028.9
Holdings	1,581.4	1,562.1	1,562.8	1,511.6	1,458.9

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Other operating data:

Increase (decrease) in Guitar Center comparable store sales (3)	0.9%	3.7%	-0.1%	-11.9%	-5.3%
Guitar Center stores at beginning of period	224	214	214	214	214
Opened Guitar Center stores	16	10	–	–	–
Closed Guitar Center stores	–	–	–	–	–
Guitar Center stores at end of period	240	224	214	214	214
Music & Arts stores at beginning of period	102	101	97	97	101
Opened Music & Arts stores	7	3	4	2	2
Closed Music & Arts stores	–	2	–	2	6
Music & Arts stores at end of period	109	102	101	97	97

(1) Capital expenditures include additions to our property, plant, and equipment and do not include any expenditures to add to our rental instruments inventory.

(2) The following table discloses Holdings' EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA (EBITDA adjusted for other items described below), which are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company' s performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. EBITDA and Adjusted EBITDA do not represent and should not be considered as alternatives to net income or cash flow from operations, as determined under GAAP.

Table of Contents

We present Adjusted EBITDA because it is the primary measure used by our chief operating decision makers to evaluate our consolidated performance, as well as the performance of each of our segments. Adjusted EBITDA is also a measure which is used in calculating financial ratios in several material debt covenants in our asset-based credit facility and our term loan. Adjusted EBITDA is defined as EBITDA adjusted to exclude non-cash items and certain other adjustments to consolidated net income permitted under our debt agreements. We believe the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information about certain non-cash items, items that we do not expect to continue at the same level and other items.

The material covenants in our debt agreements are discussed in "Management' s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them either in isolation or as substitutes for analyzing our results as reported under GAAP. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- EBITDA and Adjusted EBITDA do not reflect our tax expense or the cash requirements to pay our taxes;
- EBITDA and Adjusted EBITDA do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

Table of Contents

The following table summarizes the calculation of Holdings' historical EBITDA and Adjusted EBITDA and provides a reconciliation to net loss for the periods indicated:

	Year ended December 31,				
(Dollars in millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Net loss	$ (72.2)	$ (236.9)	$ (56.4)	$ (189.9)	$ (219.5)
Interest expense, net of interest income	165.4	161.0	145.2	137.0	148.1
Income tax expense (benefit)	2.5	(21.2)	(29.1)	(35.1)	(130.6)
Depreciation and amortization	90.9	106.2	104.9	113.8	137.0
EBITDA	186.6	9.1	164.6	25.9	(65.1)
Adjustments to EBITDA					
Non-cash charges (a)	2.3	3.4	5.1	4.6	5.3
Impairment charges	0.5	154.3	0.9	135.7	234.6
Non-recurring charges (b)	–	5.2	–	–	5.2
Other adjustments (c)	10.6	24.9	13.7	13.1	11.7
Adjusted EBITDA	$ 200.0	$ 196.9	$ 184.3	$ 179.3	$ 191.7

Adjustments in the calculation of Adjusted EBITDA include the following:

(a) Non-cash charges include stock-based compensation expense and the non-cash portion of rent expense.

Stock-based compensation consists of compensation expense recognized on stock option awards.

Non-cash rent expense represents the difference between cash rent paid and GAAP rent expense. Under GAAP, the aggregate of minimum rental payments is recorded as rent expense on a straight-line basis over the lease term. Cash and other allowances received for tenant improvements are amortized over the lease term and reduce GAAP rent expense. Our adjustment eliminates the portion of rent expense resulting from the difference between straight-line rent expense and cash rent paid, and the amortization of tenant improvement allowances.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(b) Non-recurring charges in 2011 consist of the loss recognized on the sale of our corporate aircraft.

Non-recurring charges in 2008 consist of consulting and other expenses related to organizational changes after our acquisition by affiliates of Bain Capital.

(c) Other adjustments include severance payments, accrued bonuses under our long term management incentive plan, gains and losses on disposal of assets, management fees paid to Bain Capital, cash received for tenant improvement allowances and certain other items permitted under our debt agreements.

Other adjustments in 2012 include restructuring costs of $2.1 million related to the re-alignment of management and support functions and the relocation of our direct response operations.

Other adjustments in 2011 include restructuring costs of $13.0 million related to the re-alignment of management and support functions and the relocation of our direct response operations.

Other adjustments in 2009 include a $3.9 million tax audit settlement and $1.3 million of consulting and other transition expenses related to outsourcing certain information technology functions.

Severance payments totaled $1.0 million in 2012, $1.3 million in 2011, $4.7 million in 2010, $0.8 million in 2009 and $3.4 million in 2008.

(3) Comparable store sales are presented for Guitar Center retail stores only and does not include Guitar Center online sales or Music & Arts sales.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this annual report.

The following discussion, as well as other portions of this annual report, contains forward-looking statements that reflect our plans, estimates and beliefs. Any statements (including, but not limited to, statements to the effect that we or our management "anticipate," "plan," "estimate," "expect," "believe," "intend," and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, capital expenditures, working capital requirements and forecasts of effective tax rates. All forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this annual report, and particularly in "Risk Factors."

Amounts shown in the tables below are generally rounded. Therefore, discrepancies in the tables between totals and the sum of the amounts listed may occur.

Overview

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We are the leading retailer of music products in the United States based on revenue. We operate three reportable business segments: Guitar Center, direct response and Music & Arts. Our Guitar Center segment offers guitars, amplifiers, percussion instruments, keyboards and pro audio and recording equipment through our retail stores and online, along with repair services and rehearsal and/or lesson space in a limited number of stores. Our direct response segment brands offer catalog and online sales of a broad selection of music products under several brand names, including Musician' s Friend, Music123 and Woodwind & Brasswind. Our Music & Arts segment offers band and orchestra instruments for rental and sale, music lessons and a limited selection of products of the type offered by our Guitar Center segment.

Our Guitar Center and Music & Arts segments are operated primarily out of Guitar Center Stores, Inc., our retail store subsidiary. Our direct response segment is comprised primarily of the online operations of our Musician' s Friend, Inc., Music123, Inc. and Woodwind & Brasswind, Inc. subsidiaries. Our non-operating corporate segment consists primarily of the operations of Guitar Center, Inc., the parent company of our operating subsidiaries.

Since 2012, our GTRC Services, Inc. subsidiary has operated shared support services for all our brands, including distribution and fulfillment centers, contact centers and technology services. These operations were previously managed separately by our retail store and direct response subsidiaries. We believe that centralizing the management of these shared operations will improve our flexibility to manage these resources efficiently and execute strategic initiatives. Substantially all of the costs of these shared service operations are allocated among our segments based on estimated usage, as determined primarily based on sales, cost of goods sold or call volume at each business.

Certain costs related to corporate office facilities were previously incurred directly by our Guitar Center and direct response segments. Upon implementing GTRC Services, Inc., our corporate office facility is shared and the related costs are not allocated to our business segments. Segment results for 2011 and 2010 in this management discussion and analysis have been adjusted to reflect this change.

History

Guitar Center was founded in 1964 in Hollywood, California.

In May 1999, we acquired Musician' s Friend, Inc., an Oregon-based direct response musical instrument retailer. Musician' s Friend is a leading direct response retailer of music products in the United States, through both its catalogs and e-commerce websites.

In April 2001, we acquired American Music Group, Ltd. and its related companies, a musical instrument retailer specializing in the rental and sale of band instruments and accessories serving the student and family market. In April 2005, we acquired Music & Arts Center, Inc., a Maryland-based music products retailer which primarily serves the beginning musician and emphasizes rentals, music lessons and band and orchestra instrument sales. Subsequent to the Music & Arts acquisition, our American Music and Music & Arts segments were combined into a new division of our retail store subsidiary that operates under the Music & Arts name.

In February 2007, we acquired substantially all of the assets of Dennis Bamber, Inc., d/b/a The Woodwind & The Brasswind and Music123, an Indiana-based direct response retailer of music products. We refer to these businesses as "Woodwind & Brasswind" and "Music123."

Acquisition by Bain Capital, LLC

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

On October 9, 2007, Guitar Center merged with an entity substantially owned by affiliates of Bain Capital. In connection with the merger, Holdings acquired all of the outstanding capital stock of Guitar Center for aggregate cash consideration of approximately $1.9 billion. Holdings, which is substantially owned by affiliates of Bain Capital, owns 100% of the stock of Guitar Center.

Increased leverage

We are highly leveraged and interest expense significantly affects our net income. Holdings assumed $1.548 billion of indebtedness in connection with the acquisition. As of December 31, 2012, Holdings' consolidated aggregate indebtedness was $1.581 billion. Guitar Center's consolidated aggregate indebtedness was $1.017 billion.

Our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities since a substantial portion of our cash flow from operations will be dedicated to the repayment of debt, and this may place us at a competitive disadvantage to some of our competitors that may be less leveraged. Our leverage may make us more vulnerable to a downturn in our business, industry or the economy in general. See "Risk Factors−Our level of indebtedness could adversely affect our ability to raise capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from fulfilling our obligations under our debt agreements."

Important factors affecting our operating results and financial condition

We believe that a number of key revenue and cost factors are significant to understanding the operation of our business. Our business also is influenced by general economic and retail industry conditions, as well as trends in the music products industry.

Revenue and cost factors

Guitar Center store growth. A significant factor affecting the operating results of our Guitar Center business is our rate of store growth. We grew quickly during the period between January 2005 and December 2007, with 78 of our Guitar Center stores being opened or acquired during that period. During the period from January 2008 to December 2010, we did not open any new stores in order to focus on development of our store management and sales force and to allow existing new stores to reach mature sales levels. Having largely achieved these objectives, we opened 10 new stores in 2011 and 16 new stores in 2012. We plan to open 15 new stores in 2013 and between 15 and 20 new stores per year in the upcoming years. The high level of capital expenditures and related working capital requirements associated with opening new stores, coupled with the lower sales at less mature stores may have a negative impact on our short-term operating results.

Store maturity. New stores generally take a number of years to reach what we consider mature sales levels. We generally expect our primary format and secondary format stores to reach mature sales levels in approximately four years and three years, respectively.

New store costs. The average cost of initial capital improvements for new stores opened in 2011 and 2012 was approximately $1.6 million for a primary market store, $1.3 million for a secondary market store and $1.0 million for a tertiary market store. We often receive tenant improvement allowances from our landlords to help defray these costs. We expect to incur similar costs for stores opening in 2013. In addition, initial gross inventory requirements for new stores are generally between $1.1 million and $1.6 million for a primary market store, between $0.8 million to $1.1 million for a secondary market store and $0.6 million for a tertiary market store. We also incur costs to hire and train store personnel and to link our new stores to our distribution and support systems. Outside of opening new stores, capital expenditure requirements to maintain our Guitar Center store business historically have been relatively low.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Proprietary products. Our Guitar Center stores' operating profit is affected by the mix of products we sell. In particular, our average gross selling margin for our proprietary products is significantly higher than for branded products in corresponding categories. Part of our business strategy is to further develop our proprietary products to take advantage of this greater profitability. We also arrange with certain vendors to obtain exclusive products not available to other retailers in order to offer our customers a unique product selection on which we can earn a higher selling margin. Our proprietary products sales have grown from approximately 7% of our net sales in 2006 to approximately 12% of our net sales in 2012. We endeavor to strike a balance between expanding our proprietary products and maintaining good relationships with our vendors who offer competing brand name products.

Online marketing. Our direct response business is primarily focused on online sales of our products, although our catalogs remain an important marketing tool. In addition, our online channels for Guitar Center and Music & Arts are becoming increasingly important sales channels. We must act quickly to respond to online marketing trends, and we incur significant costs to upgrade our infrastructure to respond to these trends. During 2009 and 2010, we invested significant capital in developing a sophisticated internal search and comparison shopping engine to improve user functionality and search capability. During 2010 and 2011, we developed enhanced capabilities for our Guitar Center online channel to allow our customers more flexibility to purchase products that can be picked up in-store, delivered from retail store locations or shipped directly to the customer. We continue to invest in upgrades and enhancements to our e-commerce websites.

Music & Arts efficiencies. In recent years, we have focused on improving the operational efficiencies of and reducing working capital requirements of our Music & Arts business. Among other things, we have reduced selling, general and administrative expenses for this business and made operational changes to achieve better returns on our rental inventory. We plan to grow this business through opening new stores and acquiring businesses within this fragmented market and integrating them with our Music & Arts business.

Economic and demographic factors

Discretionary spending. We believe that our Guitar Center customers comprise a mix of professional and aspiring professional musicians, novice musicians and hobbyists. We believe that professional and aspiring professional musicians view their purchases as a career necessity and these sales are less sensitive to general retail economic trends. However, a significant portion of sales to other customer groups in our Guitar Center and other businesses depends on discretionary spending by consumers. We expect that overall consumer confidence and discretionary spending will continue to have a significant impact on our sales.

Market saturation. From 1997 to 2006, our revenue grew significantly through the addition of new Guitar Center stores and through acquisitions. As a result, there are fewer remaining unsaturated large population centers in the United States where we could open new primary format stores. We believe new store growth is likely to include a greater proportion of secondary and tertiary format stores, which typically deliver lower operating margins than our primary format stores.

Restructuring and exit activities

We initiated a restructuring plan in 2011 to re-align certain management and support functions across the organization. As part of the restructuring plan, we relocated the management operations of our direct response business from Medford, Oregon to Southern California in the fourth quarter of 2011. We believe that having the operations of our Guitar Center and direct response businesses at a single location will improve our ability to execute strategic initiatives.

Costs related to this restructuring activity totaled $2.1 million in 2012 and $13.0 million in 2011. Cumulative costs for the restructuring activities totaled $15.1 million and the restructuring activities were substantially complete in the first half of 2012.

Costs incurred in connection with this restructuring activity included employee termination costs, which consisted of severance payments and retention bonuses for personnel in Medford and at our corporate office, employee relocation assistance, incremental travel expenses, information technology integration and other similar costs.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

See Note 3 in the combined notes to consolidated financial statements included in this annual report for a summary of restructuring costs by type and a summary of accruals, payments and adjustments of accrued employee termination costs.

Results of Operations

The following tables present our consolidated net income or loss, as a percentage of sales, for the periods indicated:

Holdings

	Year ended December 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Gross profit	30.1	30.5	30.1
Selling, general and administrative expenses	25.6	27.8	27.2
Impairment of goodwill and other intangible assets	–	7.3	–
Operating income (loss)	4.5	-4.7	3.0
Interest expense, net	7.7	7.7	7.2
Loss before income taxes	-3.3	-12.4	-4.3
Income tax expense (benefit)	0.1	-1.0	-1.4
Net loss	-3.4%	-11.4%	-2.8%

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Gross profit	30.1	30.5	30.1
Selling, general and administrative expenses	25.6	27.8	27.2
Impairment of goodwill and other intangible assets	–	7.3	–
Operating income (loss)	4.5	-4.6	3.0
Interest expense, net	4.0	3.9	3.5
Income (loss) before income taxes	0.5	-8.5	-0.6
Income tax expense (benefit)	0.3	-1.2	-0.1
Net income (loss)	0.2%	-7.4%	-0.4%

Table of Contents

2012 compared to 2011

Net sales

Consolidated net sales increased 2.7% to $2.139 billion in 2012 from $2.083 billion in 2011.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Net sales from our Guitar Center segment increased 4.3% to $1.596 billion in 2012 from $1.530 billion in 2011. Non-comparable retail stores open for less than 14 months added $50.8 million in incremental revenue. Comparable retail store sales increased 0.9%, or $12.6 million, and sales from our Guitar Center website decreased 1.2%, or $1.1 million. The increase in comparable store sales was primarily due to higher sales conversion rates, which is our measure of the number of sales transactions relative to the number of customers visiting our stores. We improved conversion rates at our stores by reducing checkout times and by implementing workforce planning tools that increased the customer service experience due to the availability of staff. We believe the decrease in online sales was primarily due to fewer promotional discounting tactics, which resulted in lower online sales volume with improved gross profit margin during 2012.

Net sales from our direct response segment decreased 5.5% to $353.3 million from $374.0 million in 2011. The decrease was primarily due to a 4.6% decrease in order count and a 0.6% decrease in average order value. Our direct response segment continues to be affected by e-commerce competition, with fewer new customers in 2012 and a lower rate of converting website visits into sales transactions. We believe that these factors, along with reduced spending on marketing and advertising, drove the decrease in order count in 2012. The decrease in average order value was primarily due to fewer items sold per order. We expect competition to continue to affect this segment' s net sales and gross profit for the foreseeable future.

Net sales from our Music & Arts segment increased 6.3% to $189.8 million from $178.4 million in 2011. The sales increase was primarily due to a 3.1% increase in sales to school districts from our successful efforts to win more high-volume bid contracts and a 2.2% increase in retail store sales.

Gross profit

Consolidated gross profit increased 1.3% to $643.4 million in 2012 from $635.1 million in 2011. Gross profit margin decreased to 30.1% from 30.5% in 2011.

Gross profit margin for our Guitar Center segment was 28.8% in 2012 compared to 29.3% in 2011. The decrease was primarily due to lower selling margin of 0.3% resulting from competitive pressure on pricing. We adjusted selling prices, particularly in the fourth quarter, in the form of merchandise markdowns, promotional discounts and in-store discounts to ensure our "Lowest Price Guarantee" policy.

Gross profit margin for our direct response segment was 27.6% in 2012 and 2011. A decrease of 0.3% in selling margin was partially offset by a decrease of 0.2% in shrink expense. The decrease in selling margin was primarily due to price discounting in response to competitive pressures. The decrease in shrink expense was due to changes to internal procedures that have improved merchandise recovery rates on customer returns.

Gross profit margin for our Music & Arts segment was 45.3% in 2012 compared to 46.7% in 2011. The decrease was primarily due to lower selling margin of 1.6% resulting from a shift in sales channel mix with increased sales to school districts at lower margins than rental and retail sales.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses of Holdings decreased 5.4% to $547.7 million from $579.2 million in 2011. As a percentage of net sales, consolidated selling, general and administrative expenses of Holdings were 25.6% in 2012 compared to 27.8% in 2011. In addition to changes in selling, general and administrative expenses at our business segments, which are discussed below, the consolidated decrease includes a $5.3 million loss on the sale of our corporate aircraft in 2011 that did not re-occur in 2012 and a $2.1 million decrease in corporate restructuring costs.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Consolidated selling, general and administrative expenses of Guitar Center for 2011 do not include expenses totaling $0.3 million related to the amendments and extension of Holdings' long-term debt that were not allocated to Guitar Center.

Selling, general and administrative expenses for our Guitar Center segment were 22.4% of segment net sales in 2012 compared to 23.3% in 2011. The decrease was primarily due to lower depreciation and amortization expense of 0.6%, lower compensation expense of 0.3% and lower group medical insurance expense of 0.2%. Depreciation and amortization expense decreased primarily due to lower amortization expense on the segment's customer relationship intangible asset, which uses an accelerated method based on expected customer attrition rates. Compensation expense decreased primarily due to lower bonus expense in 2012. Group medical expense decreased due to lower claims costs and modifications to our self-insured plan that became effective at the beginning of the third quarter of 2012.

Selling, general and administrative expenses for our direct response segment were 26.9% of segment net sales in 2012 compared to 31.2% in 2011. The decrease was primarily due to lower depreciation and amortization expense of 2.0%, lower restructuring costs of 1.9% and lower group medical insurance expense of 0.5%. Depreciation and amortization expense decreased due to impairment of the segment's customer relationship intangible assets in the fourth quarter of 2011. Restructuring costs decreased as a result of our reorganization plan being substantially completed during the first half of 2012. Group medical expense decreased due to lower claims costs and modifications to our self-insured plan that became effective at the beginning of the third quarter of 2012.

Selling, general and administrative expenses for Music & Arts were 36.8% of segment net sales in 2012 compared to 38.3% in 2011. The decrease was primarily due to lower compensation expense of 1.0% resulting from leveraging on higher net sales.

Operating income (loss)–Holdings

Consolidated operating income (loss) for Holdings increased to $95.7 million operating income in 2012 from $97.1 million operating loss in 2011. Consolidated operating income as a percentage of net sales was 4.5% in 2012, compared to an operating loss of 4.7% in 2011.

In addition to the changes in gross margin and selling, general and administrative expenses, Holdings' operating income or loss was affected by impairment charges totaling $153 million in 2011 at our direct response segment. The impairment charges in 2011 consisted of $107.0 million related to goodwill, $32.5 million related to trade name intangible assets and $13.5 million related to customer relationship intangible assets. These impairment charges resulted from increased competition and declining sales at our direct response segment in 2011.

The future growth of the direct response business is dependent upon the success of our initiatives to optimize the new Musician's Friend web platform, the success of our marketing and customer acquisition strategies and the effective emergence from the restructuring activities of 2011 and the first half of 2012. The operating results of direct response in 2012 and 2011 indicated to us that it may take longer than we expected to realize the benefits of these initiatives and neutralize the increased competitive pressures in the e-commerce sector. If these efforts are not successful, we may incur additional impairment charges in the future.

The following table presents the carrying amount of our direct response intangible assets, including goodwill, as of December 31, 2012 and 2011 after recognizing impairment charges (in thousands):

Goodwill, net of accumulated impairment losses	$	–
Trademarks and trade names		11,500
Customer relationships		6,800
Total	$	18,300

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

Operating income (loss)–Guitar Center

Consolidated operating income (loss) for Guitar Center increased to $95.7 million operating income in 2012 from $96.8 million operating loss in 2011. Consolidated operating income as a percentage of net sales was 4.5% in 2012, compared to an operating loss of 4.6% in 2011.

In addition to the changes in gross profit and selling, general and administrative expenses, Guitar Center' s operating loss was affected by impairment charges totaling $153 million in 2011 at our direct response segment. The impairment charges resulted from reduced projections about the segment' s future financial performance, as described in the preceding discussion of Holdings' operating income and loss.

Interest expense- Holdings and Guitar Center

Net interest expense for Holdings increased 2.7% to $165.3 million from $161.0 million in 2011.

Net interest expense for Guitar Center increased 5.3% to $85.4 million from $81.1 million in 2011.

The increase in interest expense at Holdings and Guitar Center was primarily due to increases of $3.0 million related to the term loan, $0.5 million related to the Guitar Center senior notes and $0.3 million related to the asset-based revolving credit facility.

Interest expense on our floating-rate term loan increased in part due to an increase in the pricing margin over LIBOR resulting from the amendment and extension of the term loan facility in March 2011 and in part due to an increase in the LIBOR index rate. Interest expense on the senior notes increased due to the issuance of $19.9 million of new senior notes in October 2012, bearing interest at a rate of 11.5% per annum and maturing in 2017. The issuance of new senior notes was the result of our election to require the holders of the senior PIK notes to reinvest one-half of the interest payment due in October 2012 in the senior notes. Interest expense on our asset-based revolving credit facility increased $0.3 million due to greater use of the facility in 2012 to meet working capital needs.

Income tax expense (benefit)–Holdings

Income tax expense for Holdings was $2.5 million in 2012, compared to $21.2 million income tax benefit in 2011. The effective tax rate for 2012 was -3.6%, compared to 8.2% in 2011.

Income tax expense recognized in 2012 was primarily related to state income taxes currently payable. The negative effective tax rate in 2012 was due to state income tax expense and a valuation allowance applied to deferred tax assets that we do not expect to realize in the foreseeable future. We determined that the available objective evidence indicated that it is more likely than not that the tax benefits of our operating losses will not be fully realized. Accordingly, we began applying a valuation allowance to deferred tax assets in the fourth quarter of 2011 and we did not recognize income tax benefits for our consolidated loss before income taxes.

Income tax benefits recognized in 2011 were primarily related to deferred income taxes from amortization and impairment charges on our intangible assets other than goodwill. The effective rate in 2011 was lower than the expected amount based on statutory income tax rates primarily due to goodwill impairment charges of $107 million that are not recognized for income tax purposes and a valuation allowance of $32.2 million applied to deferred tax assets.

Income tax expense (benefit)–Guitar Center

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income tax expense for Guitar Center was $6.9 million in 2012, compared to $24.2 million income tax benefit in 2011. The effective tax rate in 2012 was 67.0% compared to 13.6% in 2011.

The increase in income tax expense was primarily the result of higher pretax net income.

The effective tax rate in 2012 was higher than the expected amount based on statutory income tax rates primarily due to adjustments to effective state rates applied to deferred tax assets and liabilities.

The effective rate in 2011 was lower than the expected amount based on statutory income tax rates primarily due to goodwill impairment charges of $107 million that are not recognized for income tax purposes.

2011 compared to 2010

Net sales

Consolidated net sales increased 3.6% to $2.083 billion in 2011 from $2.011 billion in 2010.

Net sales from our Guitar Center segment increased 5.9% to $1.530 billion in 2011 from $1.445 billion in 2010. We opened ten new stores during 2011 which contributed $22.3 million in sales. Comparable retail store sales increased 3.7%, or $50.4 million, and sales from our Guitar Center website increased 15.5%, or $12.3 million, compared to 2010. The increase in comparable store sales and online sales were primarily due to a 2.8% increase in the number of transactions and a 1.8% increase in average order size. We believe the increase in transaction count can be attributed to successful television advertising and improvements in our multi-channel selling capabilities. The increase in average order size is primarily the result of tiered coupon promotions encouraging customers to make larger purchases.

Net sales from our direct response segment decreased 4.2% to $374.0 million in 2011 from $390.4 million in 2010. The decrease was primarily experienced in the fourth quarter, with lower sales during the holiday selling season. We believe the reduced sales were partially due to challenges encountered in rolling out a new web platform for our Musician' s Friend website and the business interruption that occurred due to the relocation of our e-commerce corporate headquarters to Southern California. Our direct response segment also faced increasing competition as established online retailers add musical instruments to their product offerings. We expect this competition to affect this segment' s net sales and gross profit for the foreseeable future.

Net sales from our Music & Arts segment increased 1.6% to $178.4 million in 2011 from $175.7 million in 2010.

Gross profit

Consolidated gross profit increased 4.8% to $635.1 million in 2011 from $605.9 million in 2010. Gross profit margin increased to 30.5% in 2011 from 30.1% in 2010.

Gross profit margin for our Guitar Center segment was 29.3% in 2011 compared to 28.8% in 2010. The increase was primarily due to lower occupancy costs of 0.5%. The decrease in occupancy costs was primarily due to lower depreciation and amortization expense, reflecting the slower pace of capital expenditures for refurbishments and relocations of our existing stores.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Gross profit margin for our direct response segment was 27.6% in 2011 compared to 28.1% in 2010. The decrease was primarily due to higher freight costs of 0.3% and lower selling margin of 0.2%. Freight expense increased primarily due to higher fuel surcharges and increased outbound shipments to customers due to the segment' s shipping policy initiative, which offers free shipping on more price points.

Gross profit margin for our Music & Arts segment was 46.7% in 2011 compared to 45.6% in 2010. The increase was primarily due to higher selling margin of 0.7% and lower shrinkage expense of 0.2%. The improvement in selling margin was driven by product mix and pricing.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses of Holdings increased 6.1% to $579.2 million in 2011 from $546.1 million in 2010. The consolidated increase in selling, general and administrative expenses includes restructuring charges of $13.0 million and a loss of $5.2 million on the sale of our corporate aircraft that were not incurred in the prior year. Corporate restructuring charges of $3.6 million, the loss on sale of our corporate aircraft of $5.2 million and fees related to the amendments of our debt facilities and related SEC registration expenses totaling $2.0 million were not allocated to our business segments. Consolidated selling, general and administrative expenses were 27.8% of net sales in 2011 compared to 27.2% in 2010.

Table of Contents

Consolidated selling, general and administrative expenses of Guitar Center in 2011 do not include expenses totaling $0.3 million related to the amendments and extension of Holdings' long-term debt that were not allocated to Guitar Center.

Selling, general and administrative expenses for our Guitar Center segment were 23.3% of segment net sales in 2011 compared to 23.8% in 2010. The decrease was primarily due to lower compensation costs of 0.4% and lower depreciation and amortization expense of 0.3%, partially offset by higher group medical costs of 0.2%. Compensation expense decreased due to leveraging on higher net sales and a reduction of our long-term incentive plan bonus accruals based on 2011 consolidated operating results. Depreciation and amortization expense decreased primarily due to lower amortization expense on our customer relationship intangible asset, which uses an accelerated method based on expected customer attrition rates. Group medical expense was higher due to increased claims costs on our self-insured medical plan.

Selling, general and administrative expenses for our direct response segment were 31.2% of segment net sales in 2011 compared to 27.1% in 2010. The increase was primarily due to restructuring costs of 2.1% and higher depreciation and amortization expense of 1.9%. Restructuring charges were not incurred in 2010 and were primarily comprised of employee termination benefits, consulting and other costs related to the relocation of our direct response headquarters operations. Depreciation expense increased due to upgrades to our e-commerce platforms and accelerated depreciation on our Medford office facility that was classified as held for sale as of December 31, 2011.

Selling, general and administrative expenses for Music & Arts were 38.3% of segment net sales in 2011 compared to 39.1% in 2010. The decrease was primarily due to lower compensation costs of 0.4% and lower advertising costs of 0.3%. Compensation expense decreased due to lower bonus expense. Advertising expense decreased due to the reduced use of advertising tactics that do not meet our required return on investment.

Operating income (loss)–Holdings

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Consolidated operating income (loss) for Holdings decreased to $97.1 million operating loss in 2011 from $59.7 million operating income in 2010. Consolidated operating loss as a percentage of net sales was 4.7% in 2011, compared to operating income of 3.0% in 2010.

In addition to the changes in gross margin and selling, general and administrative expenses, Holdings' operating loss was affected by impairment charges totaling $153 million in 2011 at our direct response segment. The impairment charges in 2011 consisted of $107.0 million related to goodwill, $32.5 million related to trade name intangible assets and $13.5 million related to customer relationship intangible assets. These impairment charges were the result of increased competition and declining sales at our direct response segment in 2011.

Given the uncertainty as to whether or when our direct response business would regain customers that it had lost or failed to attract during the final implementation of a new web platform in 2011, the impact of commencing sales tax collection in California, and the disruption caused by the relocation of our direct response headquarters operations in 2011, we reduced our revenue and cash flow projections for the direct response business at the end of 2011. As a result of reduced revenue and cash flow projections for the direct response business in 2011, the estimated fair values of the segment's intangible assets were lower than their carrying amounts. Similarly, the estimated fair value of the direct response reporting unit in 2011 was lower than its carrying amount. We recorded impairment charges for the amount by which the carrying amounts of our trade name and customer relationship intangible assets exceeded their estimated fair values. We recorded an impairment charge for the entire carrying amount of goodwill at the direct response reporting unit.

Operating income (loss)−Guitar Center

Consolidated operating income (loss) for Guitar Center decreased to $96.8 million operating loss in 2011 from $59.7 million operating income in 2010. Consolidated operating loss as a percentage of net sales was 4.6% in 2011, compared to operating income of 3.0% in 2010.

In addition to the changes in gross margin and selling, general and administrative expenses, Guitar Center's operating loss was affected by impairment charges totaling $153 million in 2011 at our direct response segment resulting from reduced projections about the segment's future financial performance, as described in the preceding discussion of Holdings' operating income and loss.

Table of Contents

Interest expense−Holdings

Net interest expense for Holdings increased 10.9% to $161.0 million from $145.2 million in 2010. The increase was primarily due to higher interest expense of $9.4 million on our term loan and $5.6 million on our senior PIK notes. Interest expense on the term loan increased due to the amendment and extension of the term loan facility completed during the first quarter of 2011, which increased the pricing margin over LIBOR from 350 basis points to 525 basis points on the extended principal balance. Interest expense on the senior PIK notes increased due to the addition of accrued interest to the outstanding principal, as permitted under the debt agreement.

Interest expense−Guitar Center

Net interest expense for Guitar Center increased 14.5% to $81.1 million from $70.8 million in 2010. The increase was primarily due to higher interest expense of $9.4 million on our term loan. Interest expense on the term loan increased due to the amendment and extension of the term loan facility completed during the first quarter of 2011, which increased the pricing margin over LIBOR from 350 basis points to 525 basis points on the extended principal balance.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income tax benefit–Holdings

Income tax benefit for Holdings was $21.2 million in 2011, compared to $29.1 million in 2010. The effective tax rate for 2011 was 8.2%, compared to 34.1% in 2010.

The effective rate was lower in 2011 primarily due to goodwill impairment charges of $107 million that are not recognized for income tax purposes and a valuation allowance of $32.2 million applied to deferred tax assets that we do not expect to realize in the foreseeable future. Based on our recent history of reporting net losses for financial reporting and income tax purposes in recent years, we determined that the available objective evidence indicated that it is more likely than not that the tax benefits of these operating losses will not be realized.

Income tax benefit–Guitar Center

Income tax benefit for Guitar Center was $24.2 million in 2011, compared to $2.3 million in 2010. The effective tax rate 2011 was 13.6% compared to 20.3% in 2010.

The effective rate was lower in 2011 primarily due to goodwill impairment charges of $107 million that are not recognized for income tax purposes.

Liquidity and capital resources

Our principal sources of cash are cash generated from our retail and e-commerce businesses and available borrowing capacity under our asset-based revolving credit facility. Our principal uses of cash typically include capital expenditures, the financing of working capital and payments on our indebtedness.

We expect to make a principal payment of $129.8 million in April 2013 related to paid-in-kind interest on Holdings' senior PIK notes. See *"Debt – Notes"* for more information about this payment and significant terms of Holdings' senior PIK notes. We expect to fund this payment with cash available from operations and, to the extent necessary, by drawing on the asset-based revolving credit facility.

In 2012, cash provided by operating activities totaled $34.9 million for Holdings and $94.6 million for Guitar Center.

Our asset-based revolving credit facility provides senior secured financing of up to $373 million, subject to a borrowing base. As of December 31, 2012, the borrowing base was $295.4 million, which supported $8.6 million of outstanding letters of credit and $286.8 million of undrawn availability.

Our business follows a seasonal pattern, peaking during the holiday selling season in November and December. Cash generated from our Guitar Center stores and through our e-commerce businesses are typically significantly higher in the fourth quarter than in any other quarter. Cash requirements to finance working capital are typically highest during the third quarter as we build inventory for fourth quarter holiday season sales for our Guitar Center and direct response brands. Seasonality for our Music & Arts business centers on band rental season, which starts in August and carries through mid-October, but that seasonality does not have a significant impact on our liquidity.

Holdings' business activities consist solely of debt and equity financing related to its ownership of Guitar Center, and consequently Holdings does not generate cash flows other than amounts distributed to it by Guitar Center. Holdings is dependent on distributions

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

received from Guitar Center to meet its debt service obligations on the senior PIK notes. The senior PIK notes are not guaranteed by any of Holdings' subsidiaries.

We believe that the asset-based revolving credit facility, our cash on hand and funds generated from operations will be adequate to fund debt service requirements, capital expenditures and working capital requirements for the next 12 months. Over the longer term, we expect that operating cash flows from our existing businesses will continue to be adequate to fund capital expenditures and working capital requirements. We plan to expand our retail store presence and increase our investments in e-commerce, with the goal of increasing the operating cash flows from our existing businesses to fund debt service requirements. Our ability to continue to fund these items and continue to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors and the cost of litigation claims, among other factors.

Given that our primary source of liquidity is cash flows generated from operating activities, our liquidity has been and will continue to be affected by general economic conditions in the United States, particularly with respect to discretionary consumer spending in the retail sector and our ability to generate sales revenue. If we do not have sufficient cash flows from operating activities, we may be required to limit our retail store growth strategy. Additionally, we may be unable to meet our debt service requirements, which would have a material adverse impact on our business and operations. We cannot be assured that any replacement borrowing or equity financing could be successfully completed on terms similar to our current financing agreements, or at all.

Cash flows

Operating activities

Holdings' net cash provided by operating activities was $34.9 million in 2012. Cash provided by operating income was partially offset by an increase in working capital. Significant uses of cash during 2012 included a net increase of $17.0 million in merchandise inventories, primarily for new Guitar Center stores opened during the year. Cash paid for interest in 2012 was $141.3 million.

Holdings' net cash used in operating activities was $24.9 million in 2011. Cash provided by operating income was exceeded by an increase in working capital. Significant uses of cash for working capital and other activities included a $46.1 million net increase in merchandise inventories to support new store growth, expand product assortments and increase proprietary inventory levels. Cash payments for interest in 2011 were $157.5 million, which included interest payments of $79.6 million on the senior PIK notes that were not required in 2010.

Holdings' and Guitar Center's net cash provided by operating activities was $143.4 million in 2010. Significant sources of cash from changes in working capital in 2010 included a decrease in prepaid expenses and other current assets of $16.2 million, primarily from refunds received on amended 2007 income tax returns, an increase in accrued expenses and other current liabilities of $16.8 million related to accrued interest on the senior PIK note and a net decrease in inventory of $11.4 million. Cash payments for interest totaled $69.0 million in 2010.

Guitar Center's net cash provided by operating activities was $94.6 million in 2012 and $55.0 million in 2011. The difference between Holdings and Guitar Center operating cash flow in 2012 and 2011 represents payment of interest on Holdings' long-term debt.

Investing activities

Holdings' and Guitar Center's cash used in investing activities primarily relates to capital expenditures.

Holdings' and Guitar Center's net cash used in investing activities was $64.6 million in 2012, compared to $53.5 million in 2011.

Capital expenditures in 2012 included $20.0 million related to new Guitar Center stores and $10.5 million related to the relocation and remodeling of existing Guitar Center and Music & Arts stores. In addition, capital expenditures included $11.5 million related to

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

information technology development and new purchases and $13.3 million related to the maintenance and update of existing information technology. Net proceeds from sales of property and equipment during 2012 included $2.8 million received on the sale of our Medford office building.

Capital expenditures in 2011 included approximately $27.6 million in information technology development and purchases, $16.0 million related to new Guitar Center stores and $4.3 million to remodel or refurbish existing Guitar Center and Music & Arts stores. Proceeds from the disposal of property and equipment totaled $4.0 million in 2011 and included net proceeds of $3.2 million on the sale of our corporate aircraft.

Capital expenditures in 2010 included approximately $33.3 million in information technology development and purchases and $5.1 million to remodel or refurbish existing Guitar Center stores.

Financing activities

Holdings' cash used in financing activities was $1.5 million in 2012 and $9.3 million in 2011. Cash used in financing activities in 2012 was primarily related to fees paid to our lenders in connection with obtaining additional extended commitments under our asset-based revolving credit facility. Cash used in financing activities in 2011 was primarily related to the payment of fees to our lenders in connection with an amendment of the terms and extension of maturity dates for our long-term debt, including the asset-based revolving credit facility. In 2010, we made a prepayment of principal of $20.1 million on our term loan facility relating to excess 2009 cash flow. Similar prepayments were not required in 2012 or 2011 for excess cash flow.

Guitar Center's cash used in financing activities was $61.1 million in 2012, compared to $89.2 million in 2011. In 2012, Guitar Center funded interest payments of $79.6 million on Holdings' senior PIK notes and received $19.9 million in new funding from the issuance of senior notes. Under an election available under the senior PIK notes, we elected to require the holders of the senior PIK notes to reinvest one-half of the interest payment due in October 2012 in new Guitar Center senior notes. In 2011, Guitar Center made distributions of $81.0 million to Holdings, primarily to fund interest payments on the senior PIK notes. Cash paid for financing fees in 2012 and 2011 was related to an amendment of terms and extension of maturity dates for Guitar Center's long-term debt. In 2010, Guitar Center made a prepayment of principal of $20.1 million on the term loan facility relating to excess 2009 cash flow. Similar prepayments were not required in 2012 or 2011 for excess cash flow.

Capital Expenditure Requirements

Our capital expenditures generally consist of information technology development, new store opening costs and costs to remodel, relocate and refurbish existing stores.

We opened 16 new Guitar Center stores during 2012, comprised of five primary format locations, four secondary format locations and seven tertiary format locations, and we plan to open 15 new Guitar Center stores in 2013. We also plan to continue opening new stores at a rate of 15 to 20 stores per year in the upcoming years, in a combination of store formats. New stores generally take a number of years to reach what we consider mature sales levels, generally four years for our primary format stores and three years for our secondary format stores.

Our average cost of capital improvements for new Guitar Center stores opened in 2011 and 2012 was approximately $1.6 million for primary market store, $1.3 million for a secondary market store and $1.0 million for a tertiary market store. These costs generally consist of leasehold improvements, fixtures and equipment and do not include tenant improvement allowances that we may receive from our landlords to help defray these costs. We do not expect our costs for capital improvements to increase significantly for stores opened

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

in 2013. Additionally, our new primary stores generally require between $1.1 million and $1.6 million of gross inventory, secondary stores require between $0.8 million to $1.1 million of gross inventory and tertiary market stores require approximately $0.6 million of gross inventory upon store opening.

For 2013, we expect our total capital expenditures will be between $65 million and $70 million. We expect this amount will include $20 to $25 million of information technology expenditures, approximately $20 million of new store expenditures and approximately $15 million to remodel, relocate and refurbish existing stores. Planned remodeling and refurbishing expenditures include costs for adding GC Studios lesson and rehearsal space to existing stores.

Debt

Our outstanding long-term debt as of December 31, 2012 consisted of a senior secured term loan, senior notes of Guitar Center and senior PIK notes of Holdings. The aggregate outstanding principal balance on this debt as of December 31, 2012 was $1.581 billion.

We expect interest payments on the term loan, senior notes and senior PIK notes will be between $140 million and $150 million per year in the years 2013 through 2016 and approximately $130 million in total for the years 2017 and 2018.

We also have an asset-based revolving credit facility with a maximum borrowing amount of $373 million, subject to a borrowing base which is calculated monthly based on specified percentages of eligible inventory, credit card receivables and trade receivables. As of December 31, 2012, the borrowing base was $295.4 million, which supported $8.6 million of outstanding letters of credit and $286.8 million of undrawn availability. Our daily average borrowings on the asset-based revolving credit facility during 2012 were $9.7 million.

We expect our borrowings on the asset-based revolving credit facility to increase in 2013 and for the next several years, primarily due to the principal prepayment of $129.8 million Holdings' senior PIK notes that we expect to make in April 2013. This principal payment will require a significant portion of our operating cash. As a result, we expect our usage and interest payments on the asset-based facility to increase accordingly.

The majority of scheduled maturities of our long-term debt occur in 2017 and 2018, with total maturities of $1.418 billion in those years. Scheduled maturities and principal payments for the years 2013 through 2016 total $163.2 million, which includes the $129.8 million principal payment on Holdings' senior PIK notes that we expect to make in April 2013. Our long-term debt agreements include restrictive covenants that could require early payment in the event of default.

As of December 31, 2012, we were in compliance with our debt covenants. Under the term loan credit agreement, we were required to have a consolidated secured net leverage ratio as of December 31, 2012 that does not exceed 3.5x. As of December 31, 2012, our consolidated secured net leverage ratio was 2.8x.

A summary of the material terms of our term loan credit facility, asset-based revolving credit facility, senior notes and senior PIK notes are described below.

Senior Secured Term Loan Credit Facility

On October 9, 2007, we entered into a senior secured term loan credit facility. The term loan facility was amended as of March 2, 2011.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The term loan facility matures on April 9, 2017 for term loans that were extended pursuant to the amendment in March 2011, and October 9, 2014 for term loans that were not extended at that time. As of December 31, 2012, the term loan facility consisted of $613.8 million of extended term loans and $7.9 million of non-extended term loans.

The borrower under the term loan facility is Guitar Center. All obligations under the term loan facility are unconditionally guaranteed by our primary subsidiaries. The collateral for borrowings under the term loan facility consists of a first-priority security interest in all of the capital stock in subsidiaries held by Holdings, Guitar Center and the guarantors, substantially all plant, material owned real property and equipment of Guitar Center and the guarantors and substantially all other personal property of Guitar Center and the guarantors other than the asset-based facility collateral, including patents, copyrights, trademarks, other general intangibles and related proceeds. The collateral also consists of a second-priority security interest in our asset-based facility collateral, which includes all accounts receivable arising from the sale of inventory and other goods and services, inventory, cash, deposit accounts and related proceeds.

At our option, loans under the term loan facility may be maintained from time to time as "prime rate" loans or "LIBO rate" loans. Prime rate loans bear interest at the applicable margin (as defined below) in excess of (1) the highest of the variable annual rate of interest determined by JPMorgan Chase Bank, N.A. as its "prime rate," (2) 1/2 of 1.00% per annum in excess of the federal funds rate or (3) a LIBO Rate applicable to an interest period of one month (or, if higher, and only in the case of extended term loans, three months) on such day plus 1.00% per annum. LIBO rate loans bear interest at the applicable margin in excess of a LIBO Rate. The "applicable margin" means a percentage per annum equal to, in the case of any (1) non-extended term loan that is a prime rate loan, 2.50%, (2) non-extended term loan that is a LIBO rate loan, 3.50%, (3) extended term loan that is a prime rate loan, 4.25% and (4) extended term loan that is a LIBO rate loan, 5.25%.

Once repaid, no amounts under the term loans may be re-borrowed.

The term loan facility provides for incremental term loan facilities in an aggregate principal amount of $50.0 million plus the amount available such that the consolidated secured net leverage ratio is less than or equal to 2.75:1.00 on a pro forma basis after giving effect to the incremental indebtedness, provided that each incremental term loan facility shall be no less than $10.0 million (unless such lesser amount represents all remaining availability under the incremental term loan facilities) and no default or event of default shall exist or arise from the incremental facility.

The term loan facility requires us to comply with customary affirmative and negative covenants. It also requires us to comply with financial covenants, including covenants with respect to our consolidated secured net leverage ratio. The consolidated secured net leverage ratio covenant becomes more restrictive over time.

Asset-Based Revolving Credit Facility

On October 9, 2007, Guitar Center, as lead borrower, entered into a senior secured asset-based loan facility. The asset-based facility was amended on March 2, 2011.

The asset-based facility matures on February 9, 2016 for the portion that was extended pursuant to the amendment in March 2011, and October 9, 2013 for the portion that was not extended. We obtained additional commitments on our asset-based revolving credit facility of $15 million in September 2011 and $55 million in March 2012 to substitute the commitments of other participating lenders that did not extend their commitments in March 2011.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The terms of the new commitments, other than the extended maturity date, are the same as existing terms under the facility. As of December 31, 2012, the asset-based facility consisted of a $323 million extended revolving credit facility and a $50 million non-extended revolving credit facility, including a $25.0 million swing line sub-facility and a $100.0 million letter of credit sub-facility. We had no borrowings outstanding on the asset-based facility as of December 31, 2012.

Borrowers under the asset-based facility include Guitar Center, Guitar Center Stores, Inc. and Musician' s Friend, Inc. All obligations under the asset-based facility are unconditionally guaranteed by our primary subsidiaries. The collateral for borrowings under the asset-based facility consists of a first-priority security interest in the asset-based collateral and a second-priority security interest in the term loan collateral, as discussed above in "Senior Secured Term Loan Credit Facility."

At our option, loans under the asset-based facility may be maintained from time to time as prime rate loans or LIBO rate loans. Prime rate loans bear interest at the applicable margin (as defined below) in excess of the highest of (1) the variable annual rate of interest determined by JPMorgan Chase Bank, N.A. as its "prime rate," (2) 1/2 of 1.00% per annum in excess of the federal funds rate and (3) a LIBO Rate applicable to an interest period of one month on such day plus 1.00% per annum. LIBO rate loans bear interest at the applicable margin in excess of a LIBO Rate which is adjusted for maximum reserves. The "applicable margin" is defined to mean a percentage per annum based on our average daily excess availability. If our average daily excess availability is greater than $250.0 million, the applicable margin is equal to, in the case of any (1) non-extended asset-based loan that is a prime rate loan, 0.00%, (2) non-extended asset-based loan that is a LIBO rate loan, 1.25%, (3) extended asset-based loan that is a prime rate loan, 1.75% and (4) extended asset-based loan that is a LIBO rate loan, 2.75%. If our average daily excess availability is greater than $125.0 million but less than or equal to $250.0 million, the applicable margin is equal to, in the case of any (1) non-extended asset-based loan that is a prime rate loan, 0.25%, (2) non-extended asset-based loan that is a LIBO rate loan, 1.50%, (3) extended asset-based loan that is a prime rate loan, 2.00% and (4) extended asset-based loan that is a LIBO rate loan, 3.00%. If our average daily excess availability is less than or equal to $125.0 million, the applicable margin is equal to, in the case of any (1) non-extended asset-based loan that is a prime rate loan, 0.50%, (2) non-extended asset-based loan that is a LIBO rate loan, 1.75%, (3) extended asset-based loan that is a prime rate loan, 2.25% and (4) extended asset-based loan that is a LIBO rate loan, 3.25%.

The borrowers pay the administrative agent, for the account of the non-extended asset-based facility lenders, an aggregate fee at a rate per annum equal to 0.25% per annum of the average daily balance of the unused commitments under the non-extended portion of the facility quarterly in arrears. This fee is 0.50% per annum of the average daily balance of the unused commitments under the extended portion of the facility for the extended asset-based facility lenders.

Revolving loans may be borrowed, repaid and re-borrowed at any time to fund our working capital needs and for other general corporate purposes. The asset-based facility provides for incremental revolving credit facilities to increase the aggregate of the then outstanding extended commitments in an aggregate principal amount of $75.0 million, plus an amount equal to the aggregate amount of the terminated non-extended commitments.

The asset-based facility requires us to comply with customary affirmative and negative and financial covenants. It also requires us to comply with financial covenants which require us to maintain our consolidated fixed charge coverage ratio as of the last day of each quarter of at least 1.00 to 1.00.

Notes

On August 7, 2008, Guitar Center issued $375 million of the senior notes and Holdings issued $401.8 million of the senior PIK notes. The terms of the senior notes and senior PIK notes, including the maturity dates, were amended on March 2, 2011. As of

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

December 31, 2012, we and Holdings, respectively, had outstanding $394.9 million in aggregate principal amount of senior notes and $564.7 million in aggregate principal amount of senior PIK notes.

The senior notes mature on October 15, 2017 and the senior PIK notes mature on April 15, 2018. Interest on the senior notes accrues at a rate of 11.50% per annum, payable semi-annually in cash in arrears on April 15 and October 15 of each year. Interest on the senior PIK notes accrues at a rate of 14.09% per annum, payable semi-annually in arrears on April 15 and October 15 of each year. Until and through October 15, 2010, Holdings paid interest on the senior PIK notes by increasing the principal amount of such notes for the entire amount of the interest payment.

Under the amended terms of the senior PIK notes, we were permitted to require the holders of the senior PIK notes to reinvest 50% of the four semi-annual interest payments due between April 2011 and October 2012 in newly issued senior notes, provided a secured net leverage ratio of 8.5x is maintained. We made such an election only for the interest payment due in October 2012, resulting in the issuance of $19.9 million in additional Guitar Center senior notes. We did not make the reinvestment election for interest payments due in 2011 or in April 2012.

The senior notes are guaranteed on an unsecured senior basis by each of our subsidiaries that is a guarantor under our senior secured credit facilities described above. The senior PIK notes are not guaranteed by Guitar Center or any of its subsidiaries.

The indentures governing the notes contain covenants limiting, among other things, our ability and the ability of restricted subsidiaries to: (1) incur or guarantee additional indebtedness, or issue disqualified stock or preferred stock; (2) pay dividends or make distributions to our stockholders; (3) repurchase or redeem capital stock or subordinated indebtedness; (4) make investments or acquisitions; (5) incur restrictions on the ability of certain of our subsidiaries to pay dividends or to make other payments to us; (6) enter into transactions with affiliates; (7) create liens; (8) merge or consolidate with other companies or transfer all or substantially all of our assets; (9) transfer or sell assets, including capital stock of subsidiaries; and (10) prepay, redeem or repurchase debt that is junior in right of payment to the notes.

Guitar Center may redeem some or all of the senior notes at any time on or after October 15, 2013 at 100% of the principal amount of senior notes to be redeemed, together with accrued and unpaid interest, if any, to the date of redemption.

Holdings may redeem some or all of the senior PIK notes at any time on or after October 15, 2013 at the redemption prices (expressed as percentages of principal amount of senior PIK notes to be redeemed) set forth below, together with accrued and unpaid interest, if any, to the date of redemption:

Period	**Percentage**
October 15, 2013 - October 14, 2014	101.7613%
October 15, 2014 and thereafter	100.000%

Guitar Center and Holdings, respectively, also may redeem some or all of the respective notes at any time prior to October 15, 2013, in each case, at a price equal to 100% of the principal amount of the notes to be redeemed plus a “make whole” premium and accrued and unpaid interest, if any, to the date of redemption.

If Guitar Center or Holdings, as applicable, experiences a change of control, we or Holdings, as applicable, will be required to make an offer to purchase the senior notes or senior PIK notes, as applicable, at a price equal to 101% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase. In addition, certain asset dispositions are triggering events which may

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

require us or Holdings to use the proceeds from those asset dispositions to make an offer to purchase the senior notes or senior PIK notes, as applicable, at 100% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase.

If the senior PIK notes would otherwise constitute "applicable high yield discount obligations" within the meaning of Section 163 (i)(1) of the Internal Revenue Code at the end of the first accrual period ending after the fifth anniversary of November 28, 2007, Holdings will be required to redeem for cash a portion of each senior PIK note then outstanding equal to the "mandatory principal redemption amount." The redemption price for the portion of each senior PIK note redeemed will be 100% of the principal amount of such portion plus any accrued interest thereon on the date of redemption. The "mandatory principal redemption amount" means the portion of a senior PIK note required to be redeemed to prevent such note from being treated as an "applicable high yield discount obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code. We expect to make a principal payment in April 2013 equal to the mandatory principal redemption amount of $129.8 million. We expect to have sufficient liquidity to fund the April 2013 principal payment on the senior PIK notes.

The indentures governing the notes contain customary events of default, including, but not limited to, cross-defaults among other debt agreements. An event of default, if not cured, could cause cross-default causing substantially all of our indebtedness to become due.

Certain dividend restrictions

The guarantors under the term loan facility, the asset-based facility and the senior notes are generally not restricted in their ability to dividend or otherwise distribute funds to Guitar Center except for restrictions imposed under applicable state corporate law. However, Guitar Center is limited in its ability to pay dividends or otherwise make distributions to Holdings under the term loan facility, the asset-based facility and the indenture governing the senior notes. Specifically, the term loan facility and the asset-based facility each prohibits Guitar Center from making any distributions to Holdings except for limited purposes, including, but not limited to: (i) the payment of interest on the senior PIK notes by Holdings so long as no payment or bankruptcy event of default exists; (ii) general corporate, overhead and similar expenses of Holdings incurred in the ordinary course of business, (iii) the payment of taxes by Holdings as the parent of a consolidated group that includes Holdings, Guitar Center and the guarantors, (iv) the partial redemption or prepayment of the senior PIK notes by Holdings to the extent necessary to make an "applicable high yield discount obligation" (AHYDO) "catch-up" payment thereon and (v) advisory fees of Holdings not to exceed the amounts payable in respect thereof under the advisory agreement with Bain Capital as in effect on October 9, 2007 so long as certain events of default do not exist. Notwithstanding the foregoing, so long as no event of default existed or exists, Guitar Center may make distributions to Holdings in an aggregate amount not to exceed $25 million after March 2, 2011.

The senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings in an amount not to exceed (a) 50% of Guitar Center' s consolidated net income for the period beginning March 2, 2011 and ending as of the end of the last quarter before the proposed payment, plus (b) 100% of the net cash proceeds received by Guitar Center from the issuance and sale of capital stock, plus (c) 100% of cash contributions to Guitar Center' s capital, plus (d) to the extent not included in consolidated net income, 100% of the amount received in cash from the sale or other disposition of certain investments, provided that certain conditions are satisfied, including that Guitar Center would, at the time of the proposed payment and after giving pro forma effect thereto, have been permitted to incur at least $1.00 of additional indebtedness pursuant to the fixed charge coverage ratio test set forth in the indenture. Similar provisions regarding dividends and other distributions payable by Holdings are included in the senior PIK notes indenture.

Notwithstanding the foregoing, the senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings to, among other things, fund (A) interest payments on the senior PIK notes, (B) any mandatory redemption of a portion of the senior PIK notes pursuant to the senior PIK notes indenture, (C) an offer to purchase upon a change of control or asset sale to the extent required by the terms of the senior PIK notes indenture, (D) tax payments, (E) general corporate overhead and operating expenses and (F) fees of Holdings under the advisory agreement with Bain Capital.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

Contractual obligations and commercial commitments

The following table reflects our significant contractual cash obligations as of December 31, 2012. Some of the figures included in this table are based on management' s estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we will actually pay in future periods may vary from those reflected in the table.

	Payments due by period (dollars in millions)				
	Total	2013	2014 – 2015	2016 – 2017	2018 and thereafter
Guitar Center:					
Long-term debt obligations(1)	$ 1,016.7	$ 5.9	$ 20.8	$ 990.0	$ –
Interest on long-term debt(2)	366.4	80.1	158.8	127.5	–
Operating lease obligations(3)	356.4	76.8	130.9	80.5	68.2
Management advisory agreement (4)	19.0	4.0	8.0	7.0	–
Total	1,758.5	166.8	318.5	1,205.0	68.2
Holdings:					
Long-term debt obligations (5)	564.7	129.8	–	–	434.9
Interest on long-term debt (6)	332.9	67.4	122.5	122.6	20.4
Total	897.6	197.2	122.5	122.6	455.3

(1) Includes payment of the term loan and senior notes. Does not include interest payments for estimated future borrowings on the asset-based revolving credit facility.

(2) Includes interest on the outstanding long-term debt of Guitar Center. Future interest on the floating-rate term loan assumes the rate in effect as of December 31, 2012 will remain constant in future periods. Does not include amounts for interest on estimated future borrowing on the asset-based revolving credit facility.

(3) Represents minimum rent payments for operating leases under current terms. Excluded from our operating lease commitments are amounts related to insurance, taxes and common area maintenance associated with leased property and equipment. These amounts have ranged between approximately 34% and 38% of the total lease expense over the previous three years.

(4) Represents minimum fees payable under an advisory agreement with Bain Capital, in effect until October 2017.

(5) Represents principal payments on the senior PIK notes. Includes the principal payment of $129.8 million that we expect to make in April 2013 related to paid-in-kind interest on the senior PIK notes.

(6) Consists of interest on the senior PIK notes.

Table of Contents

Inflation and changing prices

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We believe that the relatively moderate rates of inflation experienced in recent years have not had a significant impact on our net sales or profitability. However, we have experienced increases in freight and we have also been experiencing increased product costs as the commodity and labor prices in Asia, particularly in China, have been rising.

Off-balance sheet arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K that have or are reasonably likely to have a material current or future on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical accounting estimates

We have prepared our consolidated financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles require us to make a number of estimates and assumptions that affect some of the reported amounts. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results and require management' s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Additionally, the policy described below regarding credits and other vendor allowances is unique to our industry and deserves the attention of a reader of our financial statements.

Valuation of inventory

We generally value our merchandise inventory at the lower of weighted average cost method or market value. We value rental inventories and used and vintage guitars at the lower of cost or market using the specific identification method. We depreciate rental inventories on a straight-line basis while out under a rental agreement for rent-to-own sales. We record adjustments to the value of inventory based upon obsolescence and changes in market value. Applicable costs associated with bringing inventory through our Guitar Center retail distribution center are capitalized to inventory. The amounts are expensed to cost of goods sold as the associated inventory is sold. Management has evaluated the current level of inventories considering future customer demand for our products, taking into account general economic conditions, growth prospects within the marketplace, competition, market acceptance of current and upcoming products and management initiatives. Based on this evaluation, we have recorded adjustments to inventory with a corresponding charge to cost of goods sold for estimated decreases in net realizable value. These judgments are made in the context of our customers' shifting needs, product and technological trends, and changes in the demographic mix of our customers. A misunderstanding of these conditions could result in inventory valuation changes as of any given balance sheet date.

Valuation of long-lived assets

We evaluate long-lived assets, such as property and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We consider the following factors, among other things, to be important indicators of impairment:

- significant underperformance relative to historical or projected operating results;
- significant changes in the manner of our use of the acquired assets or the strategy of our overall business as well as the individual segments of the business;
- significant negative industry or economic trends; and
- significant decline in the estimated fair value of our reporting units or projected cash flows from our stores.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

For long-lived assets, such as property and equipment and intangible assets with finite lives, we evaluate for impairment by comparing the carrying value of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If a potential impairment is identified, we recognize an impairment loss for the amount by which the carrying amount exceeds the fair value of the asset. Fair value may be determined based, in part, on appraisal values assessed by third parties, if deemed necessary, or a discounted future cash flows analysis.

Table of Contents

Goodwill and other intangible assets

We evaluate goodwill and intangible assets with indefinite lives for impairment annually and we evaluate all intangible assets for impairment whenever events or changes in circumstances indicate that the assets may be impaired.

We perform a qualitative assessment annually of each reporting unit that has goodwill to determine if facts and circumstances indicate that goodwill is more likely than not impaired. If the qualitative assessment indicates that goodwill is more likely than not impaired, we perform the quantitative two step goodwill impairment test. If the qualitative assessment indicates that goodwill of a reporting unit does not meet the more-likely-than-not threshold for impairment, we do not perform a quantitative impairment test for the reporting unit.

The quantitative goodwill impairment test is a two-step test. In the first step of the test, we evaluate goodwill for impairment by comparing the estimated fair value of each reporting unit that has goodwill to its carrying value. We estimate the fair value of each reporting unit using a combination of market multiple and discounted cash flow analyses, and comparable transactions whenever possible. If the step one analysis indicates goodwill may be impaired, we perform the second step of the test by allocating the reporting units' fair values to its assets and liabilities as if it had been acquired in a business combination. We recognize an impairment loss for the amount by which the carrying amount of goodwill at the reporting unit exceeds the implied fair value of goodwill from the step two analysis.

We perform a qualitative assessment annually of our indefinite-lived intangible asset to determine if facts and circumstances indicate that an asset is more likely than not impaired. If the qualitative assessment indicates that an indefinite-lived intangible asset is more likely than not impaired, we compare the fair value of the intangible asset to its carrying amount. We recognize an impairment loss for the amount by which the carrying amount of the intangible asset exceeds its estimated fair value. The estimated fair values of trademarks with indefinite lives are also determined using a discounted cash flow analysis.

For the undiscounted and discounted cash flow analyses used in our impairment tests, we use estimates and assumptions that we consider reasonable in relation to the plans and estimates used to manage our business. We also consider assumptions that we believe market participants would use in pricing the assets and liabilities. Significant judgment is required in selecting those assumptions, such as discount rates, growth rates, terminal capitalization rates and market multiples. We consider current and future expected sales volumes and related operating costs and any anticipated increases or decreases based on expected market conditions and local business environment factors. Significant management judgment is required in the forecasts of future operating results that are used in both undiscounted and discounted impairment tests. It is possible that our plans may change and estimates may prove to be inaccurate. If actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

See the notes to the consolidated financial statements included elsewhere in this annual report for further discussion of impairment of goodwill and other intangible assets.

Self-Insurance reserves

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We maintain a self-insurance program for workers' compensation of up to $500,000 per claim and medical insurance of up to $400,000 per claim. Excess amounts are covered by stop-loss insurance coverage, subject to an aggregate annual deductible of $100,000 for medical insurance claims. We recognize a liability for the undiscounted estimated ultimate cost of claims that are known, claims that are incurred but not reported and defense costs. Our self-insurance reserves are based on an actuarial analysis of historical experience and trends in paid and incurred claims.

Sales returns

As part of our "satisfaction guaranteed" policy, we allow Guitar Center customers to return product generally within 30 days after the date of purchase, and we allow our direct response segment customers to return products within 45 days. Music & Arts customers have 30 days from the date of purchase to return products. We may also extend these return periods on an exception basis to accommodate customer returns for holiday season sales. We regularly review and revise, when deemed necessary, our estimates of sales returns based upon historical trends. While our estimates during the past few years have approximated actual results, actual returns may differ significantly from our estimates, either favorably or unfavorably, if factors such as economic conditions or the competitive environment differ from our expectations.

Credits and other vendor allowances

We receive cooperative advertising allowances (allowances from the manufacturer to subsidize qualifying advertising and similar promotional expenditures we make relating to the vendor' s products), price protection credits (credits from vendors with respect to in-stock inventory if the vendor subsequently lowers its wholesale price for such products) and vendor rebates (credits or rebates provided by vendors based on the purchase of specified products and paid at a later date).

We recognize cooperative advertising allowances as a reduction to selling, general, and administrative expense when we incur the advertising expense eligible for the credit.

We account for price protection credits and vendor rebates as a reduction of the cost of merchandise inventory. We record these credits and rebates at the time the credit or rebate is earned. We recognize the effect of price protection credits and vendor rebates as a reduction of cost of goods sold at the time the related inventory is sold. We reserve for the portion of vendor rebates we estimate will be uncollectible. We estimate the portion of vendor rebates that will be uncollectible through an aging review, specific identification and an analysis of vendor relationships. None of these credits are recorded as revenue.

Gift cards

We sell gift cards to our customers through our two gift card subsidiaries. Revenue from gift card sales is recognized upon redemption of the gift card. Other than a limited number of promotional gift cards, our gift cards do not have expiration dates. Based on historical redemption rates, a certain percentage of gift cards will never be redeemed, which we refer to as "breakage." Estimated breakage income is recognized as the remaining gift card values are redeemed and is recorded as a reduction of cost of goods sold.

Recently issued accounting pronouncements

See Note 1 in the combined notes to consolidated financial statements included in this annual report for a description of recently issued and adopted accounting pronouncements, including the dates of adoption and impacts on our results of operations, financial position and cash flows.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our financial position, results of operations or cash flows.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We have market risk exposure arising from changes in interest rates on our term loan credit facility. The interest rates on our term loan facility reprice periodically, which will impact our earnings and cash flow.

A 1% increase in the floating interest rate on our term loan would result in approximately $6 million additional interest expense per year.

We are also exposed to interest rate risk on our variable rate asset-based revolving credit facility. Historically, we have not had material interest rate exposure on this credit facility as our borrowings have been in small amounts or for short time periods. We expect our usage of this credit facility to increase in 2013 and future years and our interest rate risk exposure will increase accordingly.

We do not anticipate hedging our interest rate risk on the term loan or the asset-based revolving credit facility in the near term. For the period from January 2008 to January 2013, we had hedged a portion of our interest rate risk on the term loan using interest rate cap agreements; these derivative instruments matured in December 2012 and January 2013.

The interest rates on our senior notes and senior PIK notes are fixed.

Item 8. Consolidated Financial Statements and Supplementary Data

The Consolidated Financial Statements and Supplementary Data are included as an annex to this annual report and incorporated herein by reference. See the Index to Consolidated Financial Statements and Supplementary Data on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Table of Contents

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures (for each of Holdings and Guitar Center)

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities Act of 1934, as amended, or the "Exchange Act," that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports 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 principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation prior to filing this report of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2012.

Management' s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 3a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. 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 policies or procedures may deteriorate.

Management assessed the effectiveness of the Company' s internal control over financial reporting as of December 31, 2012. Management based this assessment on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control − Integrated Framework."

Based on its assessment, management concluded that, as of December 31, 2012, the Company' s internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting (for each of Holdings and Guitar Center)

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

There was no information required to be disclosed in a Current Report on Form 8-K during the fourth quarter of the year covered by this Annual Report on Form 10-K that was not reported.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

Executive officers and directors of Guitar Center are set forth below. Information regarding the management of Holdings is listed in the executive background descriptions below.

Name	Age	Position

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Martin Hanaka	63	Interim Chief Executive Officer and Director
John Bagan	48	Executive Vice President, Merchandising
Dennis Haffeman	60	Executive Vice President, Human Resources
Frank Hamlin	44	Executive Vice President, E-Commerce and Marketing
Eugene Joly	59	Executive Vice President, Stores
Tim Martin	44	Executive Vice President, Chief Financial Officer
Erick Mason (a)	48	Executive Vice President, Chief Strategic Officer
Kenny O' Brien	57	Chief Executive Officer, Music & Arts
Stephen Zapf	47	President, Music & Arts
Marty Albertson	59	Non-Executive Chairman and Director
Jordan Hitch	46	Director
Matthew Levin	46	Director
Lew Klessel	45	Director
Tom Stemberg	64	Director

(a) In March 2013, we announced that Mr. Mason had notified us of his intention to resign from his positions with Guitar Center and Holdings effective at the beginning of April.

With respect to our current directors, Messrs. Hitch, Levin, Klessel and Stemberg are affiliates of Bain Capital or its co-investors and Mr. Albertson is our former Chief Executive Officer. Mr. Hanaka was appointed in January 2013 to serve as a member of the Board of Directors and as interim Chief Executive Officer, filling a vacancy in the Board of Directors created by the departure of Gregory Trojan in October 2012. Directors are chosen by Bain Capital based on their general business experience and their experience working with other private equity owned companies or other retailers (as further detailed in the biographies below). Our board has not determined any of our directors to be independent under the standards adopted by the New York Stock Exchange or the NASDAQ Stock Market, which do not apply to us as a privately held corporation.

The principal occupations and positions for at least the past five years of the executive officers and directors named above are as follows:

Martin Hanaka. Mr. Hanaka joined Guitar Center in January 2013 as our Interim Chief Executive Officer. Mr. Hanaka was Advisor of Golfsmith International Holdings, Inc. in November and December 2012 and previously served as a director and Chairman of the Board of Directors of Golfsmith International Holdings, Inc. from April 2007 to November 2012, Chief Executive Officer from June 2008 to November 2012 and President from June 2008 to February 2012. As a result of these and other professional experiences, Mr. Hanaka brings to our board deep knowledge of and expertise in finance, corporate strategy development and leading complex organizations, which strengthen the collective qualifications, skills and experience of our Board of Directors.

John Bagan. Mr. Bagan joined Guitar Center in June 2008 as Executive Vice President, General Merchandising Manager. In January 2011, Mr. Bagan became Executive Vice President, Chief Merchandising Officer. From 2002 to September 2006, Mr. Bagan served in a variety of roles at Albertson' s, a national supermarket and drug store chain, the last of which was Vice President HBC/GM Merchandising with responsibility across their grocery and drug channels. Mr. Bagan was not employed from October 2006 to May 2008. Prior to Albertson' s, Mr. Bagan held a variety of positions with increasing levels of responsibility at Morgan Stanley, American Stores and Target.

Table of Contents

Dennis Haffeman. Mr. Haffeman joined Guitar Center in 2004 and currently serves as Executive Vice President, Human Resources. Mr. Haffeman has held a number of positions in Guitar Center' s retail and corporate operations during his tenure at the

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

company. Mr. Haffeman was on the Transitional Leadership Team at Best Buy from 2001 to 2004. Prior to that time, Mr. Haffeman served as the Chief Merchant and then Vice President of Stores and Operations for Mars Music and held senior leadership positions at Office Depot and Best Products.

Frank Hamlin. Mr. Hamlin joined Guitar Center in June 2010 as Executive Vice President, GM, E-Commerce and Marketing. In January 2011, Mr. Hamlin became Executive Vice President, Guitar Center Brands and beginning in July 2012, Mr. Hamlin also assumed responsibility for managing our direct response brands. From 2007 to May 2010, Mr. Hamlin was Executive Vice President Chief Operating Officer of E-Miles, LLC, an interactive marketing company. From 2004 to 2007, he was Director of Marketing, Central Market Division for H.E. Butt Grocery, a fresh, specialty and prepared foods retailer. Prior to that time, Mr. Hamlin held various positions with Brierly & Partners, E-Rewards, Arista Records and The Walt Disney Company.

Eugene Joly. Mr. Joly joined Guitar Center in October 2002 as Vice President of High Tech Merchandising and was promoted to Senior Vice President in 2004, to Executive Vice President of Merchandising of the Musician' s Friend division in September 2007 and to Executive Vice President of Stores in September 2008. Mr. Joly served as Vice President and General Manager of the TASCAM division of TEAC America from 1998 to 2002 and prior to that held senior leadership positions at several musical instrument retailers.

Tim Martin. Mr. Martin joined Guitar Center in October 2012 as our Executive Vice President and Chief Financial Officer. From December 2009 to July 2012, Mr. Martin was the Chief Financial Officer of Lands' End, a division of Sears Holdings Corporation and a leading direct merchant of family apparel and accessories and home products. Mr. Martin was previously employed at Coldwater Creek, Inc., a multi-channel specialty retailer of women' s apparel, gifts, jewelry and accessories, serving as Vice President of Finance and Chief Accounting Officer from August 2006 to August 2007 and as Chief Financial Officer from September 2007 to November 2009. Prior to that, Mr. Martin served as Chief Accounting Officer and as Vice President of Finance/Global Commercial Operations for Amgen Inc., a pharmaceutical company, from August 2003 to May 2006. Mr. Martin also serves as Vice President and Assistant Secretary of Holdings.

Erick Mason. Mr. Mason joined Guitar Center in 1996 as our corporate controller. In January 1999, Mr. Mason was promoted to Senior Vice President, Finance, and in May 2001, Mr. Mason became our Senior Vice President of Operations and Finance. In March 2003, Mr. Mason was promoted to Executive Vice President and Chief Administrative Officer. In April 2006, Mr. Mason became our Chief Financial Officer. In October 2012, Mr. Mason became our Chief Strategic Officer, with responsibility to oversee strategic planning, supply chain, real estate, legal and information technology operations. From 1986 to 1996, Mr. Mason was employed by KPMG LLP, most recently as senior manager. Mr. Mason also serves as Vice President and Assistant Secretary of Holdings. In February 2013, Mr. Mason notified us of his intention to resign from his positions with Guitar Center and Holdings effective at the beginning of April.

Kenny O' Brien. Mr. O' Brien has been the Chief Executive Officer of Music & Arts since 1988, including the time since 2005 when Music & Arts was acquired by us.

Stephen Zapf. Mr. Zapf joined Musician' s Friend in 2006 as Executive Vice President, Marketing. In January 2010, Mr. Zapf became Executive Vice President, Multichannel and after briefly leaving Guitar Center from July to October 2012, Mr. Zapf was appointed President of Music & Arts in November 2012. Prior to Musician' s Friend, Mr. Zapf was the Chief Operating Officer of DBI, Inc. after its merger in 2002 with Music123.com, where Mr. Zapf was founder and served as Chief Executive Officer & President. Mr. Zapf began his career with McKinsey and Company.

Marty Albertson. Mr. Albertson joined Guitar Center in 1979. Mr. Albertson joined Guitar Center as a salesperson and has held various positions of increasing responsibility with Guitar Center since that time. From 1990 to 1999, Mr. Albertson served as our Executive Vice President and Chief Operating Officer. In 1999, Mr. Albertson became our President and Co-Chief Executive Officer. In 2004, Mr. Albertson became our Chairman of the Board and Chief Executive Officer. Mr. Albertson retired as our Chairman of Board of Directors and Chief Executive Officer in November 2010, at which time he became Non-Executive Chairman of the Board of Directors. Mr. Albertson was elected a director in 1996. Mr. Albertson also serves as a director and Non-Executive Chairman of the Board of

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Directors of Holdings. As a result of these and other professional experiences, Mr. Albertson possesses particular knowledge of our business, including our customers, suppliers, employees and other stakeholders, which strengthens the collective qualifications, skills and experience of our Board of Directors.

Table of Contents

Jordan Hitch. Mr. Hitch is a Managing Director at Bain Capital, a position he has held since January 2005. Mr. Hitch joined Bain Capital in 1997 as an Associate and became a Principal in January 2006. Prior to joining Bain Capital, Mr. Hitch was with Bain & Company from 1995 to August 1997, Mr. Hitch serves on the board of directors of Bombardier Recreational Products, Gymboree Corp., Bright Horizons Family Solutions and Burlington Coat Factory. Prior to joining the firm, Mr. Hitch was a consultant at Bain & Company where he worked in the financial services, healthcare and utility industries. Mr. Hitch also serves as a director and Vice President of Holdings. As a result of these and other professional experiences, Mr. Hitch brings to our board significant experience in and knowledge of corporate finance and strategy development, which strengthen the collective qualifications, skills and experience of our Board of Directors.

Matthew Levin. Mr. Levin is a Managing Director at Bain Capital, a position he has held since 2000. Mr. Levin joined Bain Capital in 1992. Mr. Levin serves on the board of directors of Bombardier Recreational Products, Dollarama, Michaels Stores, Toys R Us, Edcon Holdings (Pty) Ltd., Lilliput, Inc. and Unisource. Prior to joining the firm, Mr. Levin was a consultant at Bain & Company where he consulted in the consumer products and manufacturing industries. Mr. Levin also serves as a director and Vice President of Holdings. As a result of these and other professional experiences, Mr. Levin brings to our board significant experience in and knowledge of corporate finance and managing companies in industries similar to ours, which strengthen the collective qualifications, skills and experience of our Board of Directors.

Lew Klessel. Mr. Klessel is a Managing Director at Bain Capital, a position he has held since December 2011. Mr. Klessel joined Bain Capital in October 2005 as an Executive Vice President. Prior to joining Bain Capital, Mr. Klessel held several senior operating positions with Home Depot from 1997 to September 2005, including President of HD Supply' s Facilities Maintenance business, Divisional Merchandise Manager and head of Home Depot' s Strategic Business Development function. Prior to 1997, Mr. Klessel was a strategy consultant with McKinsey & Company and a senior auditor with Ernst & Young. Mr. Klessel serves on the board of directors of HD Supply, Inc. and Michaels Stores. Mr. Klessel also serves as a director and Vice President of Holdings. As a result of these and other professional experiences, Mr. Klessel brings to our board extensive experience in and knowledge of operating and managing complex organizations, particularly in the retail industry, which strengthen the collective qualifications, skills and experience of our Board of Directors.

Tom Stemberg. Mr. Stemberg has been a Managing General Partner at Highland Consumer Fund, an equity co-investor in connection with the Transactions, since November 2006. Mr. Stemberg joined Highland Consumer Fund in May 2005 as a venture partner. Prior to joining Highland, Mr. Stemberg founded Staples and served as its Chief Executive Officer for sixteen years until February 2002 and Chairman of the Board of Directors for three additional years until June 2005. Mr. Stemberg currently serves on the board of directors of CarMax, Inc., lulumonahtletica, PETsMART, Inc., Pharmca, City Sports and StriVectin. As a result of these and other professional experiences, Mr. Stemberg brings to our board deep knowledge of and expertise in finance, corporate strategy development and leading complex organizations, which strengthen the collective qualifications, skills and experience of our Board of Directors.

Table of Contents

Corporate Governance

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Board of Directors of Holdings is responsible for governing our business and affairs. As Holdings is privately held and the members of the Board of Directors are selected by Bain Capital, the board does not maintain policies and procedures by which stockholders may submit director candidates to the board or the stockholders for consideration. Highlights of our corporate governance practices are described below.

Board Committees

Currently, the Board of Directors of Holdings has two active standing committees.

Audit Committee

Lew Klessel is currently the sole member of the Audit Committee. The board has determined that the Audit Committee member is financially literate and has sufficient business and financial expertise to effectively perform his duties as a member of the Audit Committee. As Holdings is privately held and controlled by Bain Capital, the board has determined that it is not necessary to designate one or more of the Audit Committee members as an "audit committee financial expert" at this time. Mr. Klessel is not an independent director due to his affiliation with Bain Capital.

Under its charter, the Audit Committee is generally responsible for overseeing our financial reporting process and assists the board in fulfilling the board' s oversight responsibilities with respect to: (i) the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; (iii) the qualifications and independence of our independent registered public accounting firm; and (iv) the performance of the independent registered public accounting firm and of our internal audit function.

Compensation Committee

Please see "Item 11. Executive Compensation-Compensation Discussion and Analysis" for a description of the roles and responsibilities of the Compensation Committee.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to, among others, our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides information about the objectives and elements of our compensation philosophy, policies and practices with respect to the compensation of our executive officers who are listed in the Summary Compensation Table set forth below, which we refer to as our "named executive officers."

The Compensation Committee of the Board of Directors of Holdings is comprised of Jordan Hitch and Matthew Levin. Both Mr. Hitch and Mr. Levin are affiliated with Bain Capital, our sponsor. As a result, none of the members of Compensation Committee has been deemed to be an independent director.

Compensation Program

Our philosophy in establishing compensation policies for our officers and executive officers, including our named executive officers, is to align compensation with our strategic goals and our sponsor' s growth objectives, while concurrently providing

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

competitive compensation that enables us to attract and retain highly qualified executives. The principal guiding objectives of our compensation policies are to:

- fairly compensate our executive officers;
- attract and retain highly qualified individuals able to drive our financial performance and meet strategic goals;
- motivate executive officers to achieve exceptional levels of operating and financial performance; and
- align executive officers' interests with the long-term goals of our stockholders.

Currently, the total compensation for our officers and executive officers, including our named executive officers, consists of three main components: base salary, annual cash incentive bonuses and long-term equity-based incentive compensation awards. We strive to reward exceptional corporate and financial performance with higher annual cash compensation. While the Compensation Committee takes into account tax and accounting considerations in structuring the components of our compensation program, these considerations are secondary to the primary objectives described above.

Compensation Strategy

The Compensation Committee, in consultation with the Board of Directors and our Chief Executive Officer (other than with respect to his own compensation), is responsible for determining the compensation of all executive officers, including our named executive officers.

The compensation for officers below the executive officer level is typically established by our Chief Executive Officer, in consultation with the Compensation Committee.

To determine compensation levels for the executive officers, the Compensation Committee considers principally the consolidated financial performance of our company, including the achievement of financial and strategic initiatives. An executive officer's compensation level relative to other executive officers is also influenced by that officer's position and related responsibilities, length of service to our company and prior employment experience. For example, the total compensation of our former Chief Executive Officer and our interim Chief Executive Officer is greater than that of other current executive officers due to their leadership in setting overall strategic goals and considerable past experience as a chief executive. The compensation for Mr. Martin, our Chief Financial Officer, reflects his role in managing and leading our financial and accounting systems and his past experience in our industry fulfilling that role. The compensation for Mr. Mason, our Chief Strategic Officer, reflects his role in providing leadership for our technology, logistics and real estate functions and his more than 15 years of service to our company. The compensation for Mr. Joly, the Executive Vice President of Stores, reflects his role in directing the operations of our retail stores and his more than 10 years of service to our company. The compensation for Mr. O'Brien, the Chief Executive Officer of our Music & Arts business, reflects his more than 20 years of service to that business and his leadership of an important business segment. The compensation for Mr. Hamlin, the Executive Vice President responsible for our Guitar Center and direct response brands, reflects his role in directing the marketing and branding for our major brands.

The Compensation Committee also considers overall past compensation and incentives and seeks to appropriately motivate executives to achieve high levels of company performance. The Compensation Committee, through its members' involvement in numerous other of our sponsor's portfolio companies, has access to compensation-related information that serves to build our overall compensation program for employees generally, and for executive officers in particular.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

To date, we have not formally benchmarked our executive compensation against peer companies, nor have we identified a group of peer companies which would be included in a benchmarking survey. Compensation amounts historically have been highly individualized and discretionary, based largely on the collective experience and judgment of our Compensation Committee members, along with input from our Chief Executive Officer and other executive officers, as appropriate. While our Compensation Committee considers the overall mix of compensation components in its review of compensation matters, it has not adopted any policies or guidelines for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among different forms of non-cash compensation. Approvals by the Compensation Committee are therefore predominantly based on the experience of the members of the Compensation Committee and alignment with our overall strategic direction and goals.

Table of Contents

Components of Compensation

Base Salaries

Base salaries for our named executive officers are generally established at what the Compensation Committee believes are competitive levels based on the members' experience and knowledge of compensation paid by similar companies for similar positions and considering the scope of the individual's responsibilities, individual performance and prior experience, our operating and financial performance and the achievement of planned financial and strategic initiatives. The Compensation Committee sets base salaries at levels designed to attract and retain highly qualified individuals able to drive our financial performance and meet strategic goals. Base salaries are reviewed and adjusted annually as deemed appropriate by the Compensation Committee, but adjustments may occur at any time during a year at the discretion of the Compensation Committee.

The following table sets forth annual base salaries as of the end of 2012 and 2011 for our named executive officers:

	Base Salary	
	2012	2011
Tim Martin (1)(2)	$ 425,000	$ –
Erick Mason (2)	$ 423,500	$ 400,000
Frank Hamlin	$ 373,300	$ 335,000
Eugene Joly (2)	$ 372,000	$ 350,000
Kenneth O' Brien	$ 393,460	$ 382,000
Gregory Trojan (3)	$ 887,000	$ 850,000

(1) Mr. Martin joined the company in October 2012.

(2) Each of Mr. Joly, Mr. Martin and Mr. Mason also received a temporary salary increase in the amount of $50,000 per quarter for serving as a member of the Office of the Chief Executive, prorated for the period from October 29, 2012 to December 31, 2012.

(3) The base salary of Mr. Trojan reflects his base salary as of the date of his resignation in November 2012.

The base salary actually earned by each of our named executive officers is listed below in the Summary Compensation Table.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Annual Bonuses

In 2012, the Compensation Committee approved the executive bonus plan to provide financial incentives to executive officers and other members of management who are in a position to drive our financial performance and meet strategic goals.

Under the executive bonus plan, each named executive officer has an annual incentive target expressed as a percentage of base salary. Each named executive officer' s annual incentive award is based on EBITDA results for the enterprise or one or more of our business units, as well as an individual performance component. We believe that this methodology of determining the financial performance component of the annual bonus closely aligns the named executive officer' s interests with our stockholders' interests, as it is a measure used in calculating financial ratios in several debt covenants in our asset-based credit facility and term loan and we believe it is an accurate indicator of our financial performance. We calculate EBITDA, for this purpose, as earnings (loss) before interest, tax, depreciation and amortization with certain adjustments.

Accordingly, each named executive officer was entitled to a bonus of up to a certain percentage of that executive officer' s base salary. The Compensation Committee sets the threshold, target and maximum performance levels for all of the executive officers. The final award depends upon the actual level of performance achieved. The Compensation Committee, however, retains the right to make adjustments in its sole discretion. The target levels of performance for the bonus goals were set at levels that the Compensation Committee believed to be reasonably achievable in view of our historical annual performance.

The following table sets forth bonus targets and performance weightings for 2012:

	Erick Mason	Frank Hamlin	Eugene Joly	Kenneth O' Brien	Gregory Trojan
Target Bonus					
Percentage of base salary	75%	50%	50%	75%	100%
Performance target weightings					
Adjusted EBITDA					
Company	80%	80%	80%		80%
Music & Arts				60%	
Free Cash Flow					
Music & Arts				20%	
Individual performance	20%	20%	20%	20%	20%
Total	100%	100%	100%	100%	100%

Mr. Martin was hired as our Chief Financial Officer effective October 1, 2012 and his bonus was set pursuant to his offer of employment.

For 2012, the Compensation Committee established target levels for bonuses, with threshold bonuses beginning at 94% of target, and maximum bonuses being obtained at 120% of target.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The following tables set forth the bonus performance targets and achievement in 2012:

	Company	Music & Arts
Adjusted EBITDA		
Target (in millions)	$ 232.0	$ 23.0
Percentage of target achieved	86.2%	91.4%
Percentage of target bonus target earned	0%	0%
Free Cash Flow		
Target (in millions)		$ 14.0
Percentage of target achieved		91.5%
Percentage of target bonus earned		0%

	Erick Mason	Frank Hamlin	Kenneth O' Brien	Eugene Joly	Gregory Trojan
Individual performance	(1)	20%	20%	20%	(2)

(1) In connection with Mr. Mason' s departure from the company, he will receive payments in accordance with the terms of his severance agreement.

(2) Mr. Trojan did not receive a bonus in connection with his departure from the company in November 2012.

Actual bonus amounts earned by our named executive officers for 2012 are listed below in the Summary Compensation Table.

Long-Term Equity-Based Compensation

Our long-term incentive awards have primarily been in the form of stock options granted under the Guitar Center Holdings, Inc. 2009 Amended and Restated Management Equity Plan, which we refer to as the option plan, which was adopted by the Board of Directors on November 18, 2009. The option plan allows for the grant of non-qualified stock options and non-qualified rollover options, which are options granted before the original effective date of the option plan in connection with the contribution of equity by the executive officers in connection with the Transactions.

We have used grants of stock options as our principal form of equity incentive because we believe stock options are an effective means to align the long-term interests of our executive officers with those of our stockholders. The options attempt to achieve this alignment by providing our executive officers with equity incentives that vest over time or upon the occurrence of certain events. The value of an option is at risk for the executive officer and is entirely dependent on the value of a share of our stock. The value of our stock is dependent in many ways on management' s success in achieving our goals. If the price of our common stock drops, for any reason, over the vesting period of the option, the value of the option to the executive will drop and could become worthless.

The size of each option award is intended to offer the executive a meaningful opportunity for stock ownership relative to his or her position and reflects our Compensation Committee' s assessment of market conditions affecting the position as well as the individual' s potential for future responsibility within our company. Awards are generally granted in the year that an executive officer commences employment. Additional options may be granted in the discretion of the Compensation Committee. The size of option grants is determined by the Compensation Committee, typically based on the recommendation of our Chief Executive Officer (except with respect to his own option grants). Options granted to our named executive officers in 2012 are listed below in the Summary Compensation Table and the Grants of Plan-Based Awards table.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

We may in the future grant other forms of equity incentives, subject to the Compensation Committee' s discretion, to ensure that our executives are focused on long-term value creation.

The following is a summary of the material terms of the option plan, but does not include all of the provisions of the option plan. For further information about the option plan, we refer you to its complete copy filed as an exhibit to our registration statement on Form S-4, as filed with the SEC on June 30, 2011.

Administration. The option plan is currently administered by our Compensation Committee.

Available Shares. Under the option plan, the Compensation Committee may authorize awards consisting of rollover options in such numbers of shares as it may determine from time to time. An aggregate of no more than 1,102,500 shares of the common stock of Holdings are reserved for issuance of options other than rollover options, plus an additional number of options issued as replacement options for rollover options under the rollover program described below.

Eligibility for Participation. Our officers, directors, employees, consultants and advisors are eligible to receive awards under the option plan.

Options. Unless otherwise provided in an award agreement, options granted under the option plan have a ten year contractual term and are divided into three equal tranches. Each tranche is subject to a five-year service-based vesting period with 20% vesting on each anniversary date based on the original grant date. The vesting of tranche 3 awards is also dependent on achievement of performance- and market-based vesting conditions, requiring the realization in a liquidity event of an investment return equal to one and one-half times the investment by Bain Capital, or approximately $900 million based on an investment of approximately $600 million. Tranche 3 awards are only deemed fully vested when they have both time vested and performance vested. As of December 31, 2012, all outstanding tranche 1 and 3 awards have an exercise price of $63.00 per share and all outstanding tranche 2 awards have an exercise price of $31.50 per share. As of December 31, 2012, there were also 13,610 fully vested stock option awards outstanding with an exercise price of $26.26 per share. These awards are not subject to the service or performance- and market-based vesting conditions of other awards granted under the plan.

The plan provides for accelerated vesting of unvested stock options if there is a change in control, as defined in the option plan, or if Bain Capital fails to own at least 10% of our aggregate common stock after an initial public offering. However, no named executive officer would have received a payment or benefit as a result of this provision if a change in control had occurred as of December 31, 2012 because the value of our common stock did not exceed the exercise price of options held on that date.

The size of each award was based on each named executive officer' s position and the total target compensation packages deemed appropriate for such positions. The Compensation Committee believes these awards were reasonable and consistent with the nature of the individuals' responsibilities and satisfied the goals of competitive compensation and the retention of key executive officers.

Rollover options. The Compensation Committee issued options as consideration for the agreement of the respective participant to forgo the exercise of options issued by subsidiaries of Holdings prior to the original effective date of the option plan in connection with the Transactions in 2007. We refer to these options as "rollover options." However, the Compensation Committee has discretion to determine the quantity, price and the terms and conditions of future awards of rollover options.

Options that were granted on June 1, 2011 were replacement awards for rollover options. During 2010, all outstanding rollover options, with exercise prices ranging from $15.31 to $15.75, were exercised in a cashless exercise, whereby shares were surrendered to satisfy the exercise price. Concurrently with the cashless exercise, new options were granted to replace the surrendered options. A

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

portion of the outstanding shares related to the 2010 cashless exercise of rollover options were repurchased in June 2011 and new options were granted to replace the repurchased shares. The replacement options were fully vested with a contractual term of ten years from the grant date of June 1, 2011, and had an exercise price of $24.17, which was equal to the estimated fair value of our common stock on the grant date.

Table of Contents

Outstanding rollover options as of December 31, 2012 had exercise prices ranging from $22.82 to $24.17.

Other Benefits and Perquisites

Our named executive officers also receive various other benefits and perquisites. During 2012, these benefits included company-paid medical benefits and either a car allowance or the eligibility to participate in our company provided car program. The Compensation Committee and the Board of Directors believe these benefits and perquisites are reasonable and consistent with the nature of our named executive officers' responsibilities, provide a competitive level of total compensation to our executives and serve as an important element in retaining those individuals.

Compensation Committee Report

The Compensation Committee of the Board of Directors of Holdings has responsibility for determining the compensation of our named executive officers. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors of Holdings that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K for the year ended December 31, 2012 and such other filings with the SEC as may be appropriate.

Compensation Committee

Jordan Hitch
Matthew Levin

Table of Contents

Compensation Tables

The following tables provide information regarding the compensation earned by our named executive officers during 2012, 2011 and 2010.

Summary Compensation Table

The following table provides information for 2012, 2011 and 2010 concerning compensation earned for services rendered in all capacities by our named executive officers.

Name and Principal Position	Year	Salary	Bonus (1)	Option Awards (2)	All Other Compensation (3)	Total

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Tim Martin, Executive Vice President, Chief Financial Officer (4)(5)	2012	$ 132,692	$ 79,688	–	$ 18,843	$ 231,223
Erick Mason, Executive Vice President, Chief Strategic Officer (5)	2012	449,817	–	–	27,773	477,590
	2011	399,375	120,000	5,604	31,960	556,939
	2010	367,500	82,687	128,905	27,224	606,316
Frank Hamlin, Executive Vice President, E-Commerce and Marketing (6)	2012	339,682	33,500	–	91,027	464,209
	2011	335,000	100,650	33,663	32,169	501,482
	2010	190,385	42,650	72,000	11,250	316,285
Eugene Joly, Executive Vice President, Stores (5)(6)	2012	385,202	35,000	–	22,185	442,387
	2011	349,132	122,500	55,170	32,169	558,971
	2010	302,654	67,100	23,434	27,224	420,412
Kenneth O' Brien, Chief Executive Officer, Music & Arts	2012	390,815	57,300	–	5,352	453,467
	2011	382,000	237,827	467	4,415	624,709
	2010	371,315	284,056	7,372	5,225	667,968
Gregory Trojan, Chief Executive Officer (6)(7)	2012	824,414	–	95,951	29,720	950,085
	2011	850,000	340,000	–	38,675	1,228,675
	2010	657,692	198,750	270,132	36,257	1,162,831

(1) The amounts in this column reflect the cash awards earned by our named executive officers under the executive bonus plan attributable for the year, which are discussed in further detail in the preceding section "Compensation Discussion and Analysis−Compensation Elements−Annual Bonuses."

(2) The amounts in this column represent the grant date fair value of stock option awards granted to the named executive officers during the fiscal year. The grant date fair value for the awards is computed in accordance with FASB ASC Topic 718, using the assumptions stated in the notes to consolidated financial statements included in this annual report. Because Holdings is a privately-held company and there is no market for its common stock, the estimated fair value of its common stock is determined by our Board of Directors based on available information that is material to the value of its common stock, including any third party valuation reports, the principal amount of our indebtedness, our actual and projected financial results and fluctuations in the market value of publicly-traded companies in our industry.

Table of Contents

(3) The table below reflects the components of this column for 2012:

	Tim Martin	Erick Mason	Frank Hamlin	Eugene Joly	Kenneth O' Brien	Gregory Trojan
Medical (a)	$ –	$ 5,714	$ 5,714	$ 3,435	$ –	$ 5,714
Automobile (b)	4,500	22,059	18,750	18,750	5,352	24,006
Relocation (c)	14,343	–	66,563	–	–	–
Total	$ 18,843	$ 27,773	$ 91,027	$ 22,185	$ 5,352	$ 29,720

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(a) Medical includes our payment of the employee portion of health insurance premiums for the period from January 1, 2012 until June 30, 2012, including reimbursement of associated income taxes.

(b) Automobile includes either an automobile allowance or the incremental costs to us associated with the named executive officer' s use of a company car, including the value of the use of the company car, automobile insurance costs incurred on behalf of each named executive officer, fuel expenses and maintenance expenses.

(c) Relocation benefits include amounts provided to the named executive officer for travel, lodging and automobile expenses that are treated as income for federal income tax purposes, including reimbursement of associated income taxes.

(4) Mr. Martin joined the company in October 2012.

(5) Salary amounts for 2012 reflect a temporary salary increase of $34,615 for serving as the Office of the Chief Executive from October 29, 2012 until December 31, 2012.

(6) Certain stock option awards granted in 2011 and 2010 are subject to performance and market conditions that must be met for the stock options to become vested and exercisable. The grant date fair value of stock option awards included in the compensation table reflects the probable achievement of the performance conditions on the grant date and the expected aggregate compensation cost that will be recognized over the service period in accordance with FASB ASC Topic 718. If different from the amounts presented in the summary compensation table, the grant date fair value of stock option awards, assuming full achievement of performance conditions, was as follows:

	Year	Option Awards
Frank Hamlin	2011	$ 43,432
	2010	88,900
Eugene Joly	2011	71,070
Gregory Trojan	2010	332,408

(7) Mr. Trojan left the company in November 2012.

Grants of Plan-Based Awards

The following table sets forth the plan-based awards granted to our named executive officers during 2012. In addition, Mr. Martin was eligible to receive a grant of options to purchase 85,000 shares of common stock of Holdings, subject to approval by the compensation committee of Holdings. As of December 31, 2012, this stock option award had not yet been approved and granted.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option Awards ($/sh)	Grant Date Fair Value of Stock and Option Awards (1)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

		Options (#)		
Gregory Trojan (2)	11/30/2012	13,610	26.26	$ 95,951

(1) Because Holdings is privately held and there is no market for its common stock, the estimated fair value is determined by the Board of Directors as of March 31 each year based on available information that is material to the stock value. Relevant information includes third party valuation reports, indebtedness, actual and projected financial results and the market value of publicly traded companies in the retail industry. Stock option awards were valued based on a price per share of $23.08, which was the estimated fair value of Holdings' common stock on March 31, 2012.

(2) Stock option awards granted to Mr. Trojan in 2012 were fully vested on the grant date.

Outstanding Equity Awards at Year-End

The following table presents the unexercised and unvested stock options held by named executive officers at December 31, 2012. Each equity grant is shown separately for each named executive officer. Based on the terms of the grants, tranche 1 and tranche 2 awards vest and become exercisable in equal annual installments on the first five anniversaries of the grant date. Tranche 3 awards vest in equal annual installments on the first five anniversaries of the grant date, but only when market and performance conditions specified in the plan have been met. No named executive officers hold any stock awards.

	Option Awards			
Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Erick Mason, Executive Vice President and Chief Financial Officer (1)(2)				
Rollover Options	18,879	–	22.82	10/12/2020
Rollover Options	588	–	24.17	6/1/2021
Tranche 1	21,041	5,459	63.00	12/29/2019
Tranche 2	15,900	10,600	31.50	12/29/2019
Tranche 3	–	26,500	63.00	12/29/2019
Frank Hamlin, Executive Vice President, E-Commerce and Marketing (3)				
Tranche 1	4,000	6,000	63.00	7/20/2020
Tranche 2	4,000	6,000	31.50	7/20/2020
Tranche 3	–	10,000	63.00	7/20/2020
Tranche 1	667	2,666	63.00	11/4/2021
Tranche 2	667	2,666	31.50	11/4/2021
Tranche 3	–	3,334	63.00	11/4/2021
Eugene Joly, Executive Vice President, Stores (1)(4)(5)				
Rollover Options	3,432	–	22.82	10/12/2020
Rollover Options	107	–	24.17	6/1/2021
Tranche 1	7,940	2,060	63.00	12/29/2019
Tranche 2	6,000	4,000	31.50	12/29/2019

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Tranche 3	–	10,000	63.00	12/29/2019
Tranche 1	1,000	4,000	63.00	3/10/2021
Tranche 2	1,000	4,000	31.50	3/10/2021
Tranche 3	–	5,000	63.00	3/10/2021
Kenneth O' Brien, Chief Executive Officer, Music & Arts (1)(6)				
Rollover Options	1,081	–	22.82	10/12/2020
Rollover Options	49	–	24.17	6/1/2021
Tranche 1	7,940	2,060	63.00	12/29/2019
Tranche 2	6,000	4,000	31.50	12/29/2019
Tranche 3	–	10,000	63.00	12/29/2019
Gregory Trojan, Chief Executive Officer (7)	13,610	–	26.26	11/30/2022

(1) Rollover option awards granted on October 12, 2010 and June 1, 2011 were fully vested and exercisable on the grant date.

Table of Contents

(2) Option awards were granted to Mr. Mason on December 29, 2009, of which 12,853 tranche 1 options were fully vested and exercisable on the grant date. The remaining options vest at a rate of 20% on each of the first five anniversaries of the grant date, or immediately on a change in control. Vesting for tranche 3 options is also conditioned on the achievement of a specified investment return by the majority stockholders.

(3) Option awards were granted to Mr. Hamlin on July 20, 2010 and November 4, 2011which vest at a rate of 20% on each of the first five anniversaries of the grant date, or immediately on a change in control. Vesting for tranche 3 options is also conditioned on the achievement of a specified investment return by the majority stockholders.

(4) Option awards were granted to Mr. Joly on December 29, 2009, of which 4,850 tranche 1 options were fully vested and exercisable on the grant date. The remaining options vest at a rate of 20% on each of the first five anniversaries of the grant date, or immediately on a change in control. Vesting for tranche 3 options is also conditioned on the achievement of a specified investment return by the majority stockholders.

(5) Option awards were granted to Mr. Joly on March 10, 2011, vesting at a rate of 20% on each of the first five anniversaries of the grant date, or immediately on a change in control. Vesting for tranche 3 options is also conditioned on the achievement of a specified investment return by the majority stockholders.

(6) Option awards were granted to Mr. O' Brien on December 29, 2009, of which 4,850 tranche 1 options were fully vested and exercisable on the grant date. The remaining options vest at a rate of 20% on each of the first five anniversaries of the grant date, or immediately on a change in control. Vesting for tranche 3 options is also conditioned on the achievement of a specified investment return by the majority stockholders.

(7) Option awards were granted to Mr. Trojan on November 30, 2012 upon his departure from the company, all of which were fully vested and exercisable on the grant date. All other stock option awards held by Mr. Trojan were canceled.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Option Exercises and Stock Vested

None of our named executive officers exercised stock options or earned vested stock awards during 2012.

Restricted Stock Unit Exercises and Shares Vested

None of our named executive officers hold any restricted stock awards or other stock awards, including any that vested during 2012.

Pension Benefits

We did not sponsor any qualified or nonqualified defined benefit plans during 2012.

Nonqualified Deferred Compensation

We did not provide any deferred compensation programs or benefits during 2012.

Employment and Severance Agreements

Mr. Hamlin, Executive Vice President, E-Commerce and Marketing

Mr. Joly, Executive Vice President, Stores

We are party to severance benefits agreements with Messrs. Hamlin and Joly. Under these agreements, we may elect to terminate the executive' s agreement by providing notice at least 15 but less than 120 days prior to the closing of a public offering of our common stock for cash, and in that case the termination will be effective upon closing of that offering. The agreements contain customary intellectual property, non-disclosure, non-competition and non-solicitation provisions that extend for one year after the termination of employment.

The severance benefits agreements provide that if the executive is terminated without cause or if he terminates with reasonable justification, he is entitled to (i) cash severance equal to his current annual base salary, payable over 12 months, (ii) an annual bonus equal to his last annual cash bonus, (iii) unpaid vacation accrued through the date of termination, (iv) reimbursement of expenses and (v) health insurance coverage, if continuation is elected, commencing on the date of termination and ending after 12 months if the date of termination. All equity incentives received up to the date of termination will continue to be governed by the option plan or other plans in effect. If the executive is terminated for cause, he is entitled only to receive his base salary to the extent any amounts have accrued.

Under these severance benefits agreements, "reasonable justification" is defined as the occurrence of any of the following events: (i) the executive is directed to perform an act which he reasonably believes to be in contravention of law, (ii) there has been a material reduction in his title or responsibilities, (iii) there has been a material reduction of his base salary or target bonus opportunity, (iv) he is required to relocate (within specified parameters) after having objected to such relocation and (v) there is a material failure by us to perform our obligations.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Under these severance benefits agreements, "cause" is generally defined as (i) the failure to perform lawful duties, (ii) the repeated material neglect of duties, (iii) the commission of fraud, theft or criminal dishonesty, (iv) the commission of any act involving moral turpitude (with certain qualifications) and (v) the material breach of the agreement.

Mr. Mason, Chief Strategic Officer

We are party to a severance benefits agreement with Mr. Mason. We may elect to terminate Mr. Mason' s agreement by providing him notice at least 15 but less than 120 days prior to the closing of a public offering of our common stock for cash, and in that case the termination will be effective upon closing of that offering. The agreement contains customary intellectual property, non-disclosure, non-competition and non-solicitation provisions that extend for one year after the termination of Mr. Mason' s employment.

Mr. Mason' s severance benefits agreement provides that if Mr. Mason is terminated without cause or if he terminates with reasonable justification, he is entitled to (i) cash severance equal to his current annual base salary payable over the 12 month period commencing on the date of termination, (ii) an annual bonus equal to the "target bonus," (iii) unpaid vacation accrued through the date of termination, (iv) reimbursement of expenses and (v) health insurance coverage, if Mr. Mason elects continuation for the 12 month period commencing on the date of termination. All equity incentives received up to the date of termination will continue to be governed by the option plan or other plans in effect. If Mr. Mason is terminated for cause, he is entitled only to receive his base salary to the extent any amounts have accrued.

Under Mr. Mason' s severance benefits agreement, "reasonable justification" is defined as the occurrence of any of the following events: (i) he is directed to perform an act which he reasonably believes to be in contravention of law, (ii) there has been a material reduction in his title or responsibilities, (iii) there has been a material reduction of his base salary or target bonus opportunity, (iv) he is required to relocate (within specified parameters) after having objected to such relocation and (v) there is a material failure by us to perform our obligations.

Under Mr. Mason' s severance benefit agreement, "cause" is generally defined as (i) the failure to perform lawful duties, (ii) the repeated material neglect of duties, (iii) the commission of fraud, theft or criminal dishonesty, (iv) the commission of any act involving moral turpitude (with certain qualifications) and (v) the material breach of the agreement.

In February 2013, Mr. Mason notified us of his intention to resign from his positions with Guitar Center and Holdings effective at the beginning of April. He will receive payments in 2013 according to the terms of his severance benefits agreement.

Mr. O' Brien, Chief Executive Officer, Music & Arts

We are party to an employment agreement with Mr. O' Brien. We may elect to terminate his agreement by providing Mr. O' Brien notice at least 15 but less than 120 days prior to the closing of a public offering of our common stock for cash, and in that case the termination will be effective upon closing of that offering. The agreement contains customary intellectual property and non-disclosure provisions that extend after the termination of the agreement. We also are a party to a non-compete agreement with Mr. O' Brien in connection with our purchase of the Music & Arts business that contains customary provisions and extends for a period of five years from the acquisition date or date of termination, whichever is later.

Mr. O' Brien' s employment agreement provides that if Mr. O' Brien is terminated without cause or if he terminates with reasonable justification, he is entitled to (i) cash severance equal to his current annual base salary payable, payable over 12 months commencing on the date of termination, (ii) an annual bonus equal to his last annual cash bonus, (iii) unpaid vacation accrued through the date of termination, (iv) reimbursement of expenses and (v) health insurance coverage, if Mr. O' Brien elects continuation for the period commencing on the date of termination and ending after 12 months. All equity incentives received up to the date of termination will continue to be governed by the option plan or other plans in effect. If Mr. O' Brien is terminated for cause, he is entitled only to receive his base salary only to the extent any amounts have accrued, plus unpaid vacation accrued through the date of termination and the reimbursement of expenses.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

Under Mr. O' Brien' s employment agreement, "reasonable justification" is defined as the occurrence of any of the following events: (i) he is directed to perform an act which he reasonably believes to be in contravention of law, (ii) there has been a material reduction in his title or responsibilities, (iii) there has been a material reduction of his base salary or target bonus opportunity, (iv) he is required to relocate (within specified parameters) after having objected to such relocation and (v) there is a material failure by us to perform our obligations.

Under Mr. O' Brien' s employment agreement, "cause" is generally defined as (i) the failure to perform lawful duties, (ii) the repeated material neglect of duties, (iii) the commission of fraud, theft or criminal dishonesty, (iv) the commission of any act involving moral turpitude (with certain qualifications) and (v) the material breach of the agreement.

Mr. Trojan, Chief Executive Officer

Mr. Trojan resigned his positions with Holdings and Guitar Center effective in November 2012.

Other than the stock option award described under "Grants of Plan-Based Awards," Mr. Trojan did not receive any separation payments or post-employment benefits in connection with his termination.

Potential Payments upon Termination or Change of Control

We have an employment agreement with Mr. O' Brien and a severance benefits agreement with Mr. Mason. See "Employment and Severance Agreements." As such, potential payments that could be received by our named executive officers upon termination of employment or a change-in-control would be related to these agreements and equity-based incentive awards granted under the option plan.

Termination Without Cause or With Reasonable Justification

In the event a named executive officer is terminated without cause or with reasonable justification, the executive will receive the cash compensation described above in connection with his applicable employment agreement or severance benefits agreement.

Termination for Any Other Reason

In the event a named executive officer is terminated for any other reason, including as a result of death, disability, voluntary resignation for other than with reasonable justification, the executive will only be entitled to receive all previously earned and accrued but unpaid base salary, vacation and unpaid business expenses up to the date of termination.

Change-in-Control

None of our named executive officers are entitled to receive any payments upon a change-in-control pursuant to the terms of the employment agreements or severance benefits agreements.

The option plan provides for the acceleration of the vesting of options upon the occurrence of certain events. All outstanding options will become fully time vested upon a change of control or the closing of an initial public offering where our sponsors fail to own 10% of their originally purchase common stock. However, no currently unvested options were in the money as of December 31, 2012, and as a result no proceeds would have been payable with respect to those options.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

The following table shows amounts that would have been payable to our named executive officers had that officer been terminated without cause or with reasonable justification on December 31, 2012. No named executive officer has unvested stock options that were in the money as of December 31, 2012. All amounts are paid subject to the executive' s continued compliance with applicable non-disclosure, non-solicitation and non-compete provisions in his agreement as of the payment date.

Name	Benefit(1)(2)(3)		Termination without cause or with reasonable justification
Tim Martin	Base salary continuation	$	425,000
	Bonus		79,688
	Continuation of benefits		–
	Total		504,688
Erick Mason	Base salary continuation	$	423,500
	Bonus		317,625
	Continuation of benefits		11,438
	Total		752,563
Frank Hamlin	Base salary continuation	$	373,300
	Bonus		100,650
	Continuation of benefits		15,351
	Total		489,301
Eugene Joly	Base salary continuation	$	372,000
	Bonus		122,500
	Continuation of benefits		6,399
	Total		500,899
Kenneth O' Brien	Base salary continuation	$	393,460
	Bonus		237,827
	Continuation of benefits		8,866
	Total		640,153

(1) Base salary continuation would include continued payments equal to base salary over the severance period, payable with normal payrolls.

(2) The named executive officers would receive a payment equal to the last annual cash bonus, other than Mr. Mason who would receive a payment equal to his target annual cash bonus and Mr. Martin whose bonus was calculated in accordance with his offer of employment.

(3) Continuation of benefits consists of company payments of the executive' s COBRA premiums over the severance period.

Table of Contents

Director Compensation

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Other than Mr. Albertson pursuant to his non-executive chairman agreement, the members of the Board of Directors are not paid any fees for services as directors. However, they are entitled to receive reimbursement for expenses incurred in connection with rendering director services.

Pursuant to his non-executive chairman agreement, for his services as non-executive chairman of the Board of Directors, Mr. Albertson is entitled to an annual salary of $1,000,000 and health and welfare insurance coverage at the same rate of contribution as in effect for executive vice presidents. Upon the expiration of the initial term of his appointment as chairman, on August 1, 2014, if Mr. Albertson' s agreement is renewed, Mr. Albertson will be entitled to receive an annual salary of $300,000 and the continuation of the health and welfare insurance coverage. If his agreement is not renewed, or if renewed, upon termination, Mr. Albertson will be entitled to purchase medical, dental and vision coverage under the our employee benefit plans until he attains the age of 65. If Mr. Albertson is terminated without "cause", his non-executive chairman agreement entitles him to payment of the aggregate amount of base salary payments that would have been paid after the date of termination until its expiration on August 1, 2014, payable (i) in pro rata monthly installments until the date of the second anniversary of the agreement, if the agreement is terminated before its second anniversary and (ii) 30 days after termination in a lump sum, if terminated after its second anniversary. Upon termination for any reason during any extension period, Mr. Albertson will only be entitled to receive accrued and unpaid benefits.

Compensation Committee Interlocks and Insider Participation

Each of the members of our Compensation Committee is affiliated with our sponsor, Bain Capital, and has not been deemed an independent director. None of our executive officers served on the compensation committee (or equivalent), or the Board of Directors, of another entity whose executive officer(s) served on our Compensation Committee or Board of Directors.

Table of Contents

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

As a result of the Transactions, all of Guitar Center' s outstanding stock is beneficially owned by Holdings. The following table sets forth, as of March 15, 2013, certain information regarding the ownership of common stock of Holdings by:

- each person who is the beneficial owner of more than 5% of its outstanding common stock;
- each member of the Board of Directors of Holdings and our named executive officers; and
- all named executive officers and directors as a group.

Beneficial ownership is based upon 9,740,160 shares of common stock outstanding as of March 15, 2013 plus the number of unissued shares as to which such person or persons has the right to acquire voting and/or investment power within 60 days.

Name of Beneficial Owner(1)	Number of Shares	Percent of Outstanding Shares
Principal Stockholder:		
Bain Capital Investors, LLC (2)	9,630,399	91.6%
Directors and Named Executive Officers:		
Tim Martin	–	–
Erick Mason	60,449	0.6

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Frank Hamlin	9,333	0.1
Kenneth O' Brien	16,356	0.2
Eugene Joly	22,214	0.2
Marty Albertson	278,334	2.7
Jordan Hitch(2)	–	–
Matthew Levin(2)	–	–
Lew Klessel (2)	–	–
Tom Stemberg	–	–
All Directors and Officers as a Group (14 persons)	408,410	4.0%

(1) Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership by a person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days. Unless otherwise indicated, the number of shares shown includes outstanding shares of common stock owned as of March 15, 2012 by the person indicated.

(2) Includes: (i) 9,289,701 shares of common stock held by Bain Capital Integral Investors 2006, LLC ("Integral Investors"), (ii) 69,471 shares of common stock held by BCIP TCV, LLC ("BCIP TCV") and (iii) 1,227 shares of common stock held by BCIP-G Associates ("BCIP-G"). Bain Capital Investors, LLC ("BCI") is the Administrative Member of and makes investment and voting decisions on behalf of each of Integral Investors and BCIP TCV. BCI is also the Managing General Partner of BCIP-G. As a result of these relationships, BCI may be deemed to control Integral Investors, BCIP TCV and BCIP-G, and thus may be deemed to share voting and dispositive power with respect to the shares of Holdings held by such entities. BCI expressly disclaims beneficial ownership of such securities except to the extent of its pecuniary interest therein. Investment and voting decisions by BCI are made jointly by three or more individuals who are managing directors of the entity, and therefore no individual managing director of BCI is the beneficial owner of the shares directly owned by Integral Investors, BCIP TCV and BCIP-G. Messrs. Levin, Klessel and Hitch are Managing Directors and Members of BCI, and therefore may be deemed to share voting and dispositive power with respect to all of the shares of common stock beneficially owned by Integral Investors, BCIP TCV and BCIP-G. The address for Integral Investors, BCIP TCV, BCIP-G, BCI and Messrs. Levin, Klessel and Hitch is c/o Bain Capital, LLC, 111 Huntington Avenue, Boston, Massachusetts 02199.

Table of Contents

Equity Compensation Plan Information

On November 18, 2009, the Board of Directors approved the 2009 Amended and Restated Management Equity Plan. The following table provides information about equity awards under the above-mentioned plan as of December 31, 2012.

Plan Category	**Number of securities to be issued upon exercise of outstanding**	**Weighted-average exercise price of outstanding options,**	**Number of securities remaining available for future issuance under equity compensation plans**

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	options, warrants and rights (a)	warrants and rights (b)	(excluding securities reflected in column (a)) (c)
Equity Compensation plans approved by security holders	–	–	–
Equity compensation not approved by security holders	877,456	$ 45.11	443,410
Total	877,456	$ 45.11	443,410

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Transactions

In connection with the Transactions, we entered into a number of agreements with related parties, including Bain Capital and members of our senior management. These agreements were entered into as of October 9, 2007, and the material terms of these agreements are summarized below.

Shareholders Agreement

We are party to a shareholders agreement with Bain Capital, a co-investor that owns less than 5% of Holdings' common stock and members of our senior management who own securities of Holdings. Subject to specified conditions, the agreement requires the shareholders to consent to any sale of Guitar Center or Holdings to a non-affiliate of Bain Capital if the sale is approved by Bain Capital. This provision generally applies to any set of transactions that results in the acquisition, by a person or group of related persons, of substantially all of Holdings' assets or Holdings' equity with sufficient voting power to elect a majority of its directors. However, a public offering of Holdings' stock is not subject to this provision.

The shareholders agreement also contains provisions with respect to the registration of our common stock. These provisions provide Bain Capital with the right at any time, subject to certain conditions, to request us, any corporate successor thereto or any of our subsidiaries, to register at our expense any or all of its securities under the Securities Act on Form S-1, which we refer to as a "long-form registration," or on Form S-3, which we refer to as a "short form registration." In addition, following an initial public offering by us, subject to certain conditions, Bain Capital will have the right to request unlimited short-form registrations at our expense. We are not required, however, to affect any long-form registration within a fixed amount of days after the effective date of a previous long-form registration or a previous registration in which Bain Capital was given the piggyback rights described in the following sentence. At our expense, Bain Capital and members of our management holding securities are entitled, subject to certain underwriter cutbacks, to the inclusion of their securities in any registration statement used by us to register any offering of our equity securities (other than pursuant to an initial public offering or a registration on Form S-4).

Table of Contents

Advisory Agreement

We are party to an advisory agreement with Bain Capital pursuant to which Bain Capital provides us with management and consulting services and financial and other advisory services. Pursuant to the agreement, we pay Bain Capital a periodic fee of $1 million per quarter plus reimbursement for reasonable out-of-pocket fees. This quarterly fee will be adjusted to an amount mutually agreed on by Bain Capital and us following an initial public offering. Additionally, we pay Bain Capital a fee equal to 1% of the transaction value of each acquisition, disposition or divesture involving us. In connection with this agreement, we paid Bain Capital fees

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of $4.5 million in 2010, $4.8 million in 2011 and $4.6 million in 2012. The advisory agreement has a 10-year initial term, and thereafter is subject to automatic one-year extensions unless we or Bain Capital provides written notice of termination; the agreement terminates automatically upon a change of control. If the agreement is terminated early, then Bain Capital will be entitled to receive all unpaid fees and unreimbursed out-of-pocket fees and expenses. The agreement includes customary indemnities in favor of Bain Capital.

Consulting Agreement

On October 9, 2007, Bain Capital entered into a consulting agreement with Mr. Stemberg, one of our and Holdings' directors. Pursuant to the consulting agreement, Bain Capital pays Mr. Stemberg a periodic fee of $25,000 per quarter in exchange for his board level services to us and Holdings.

Other Arrangements

During each of 2012, 2011 and 2010, we made payments of approximately $0.6 million to MACBEN, LLC, a Maryland limited partnership ("MACBEN"), under the Music & Arts leases for its headquarters building located in Frederick, Maryland. Kenneth O' Brien, the Chief Executive Officer of Music & Arts, owns a 30% interest in MACBEN. We entered into this lease in connection with our acquisition of Music & Art Center, Inc., in April 2005.

Approval of Related Party Transactions

We have not adopted any formal policies or procedures for the review, approval or ratification of certain related-party transactions that may be required to be reported under the disclosure rules of the Securities and Exchange Commission. However, prior to entering into a related party transaction, our Board of Directors reviews such transaction for any conflicts of interest or unfavorable terms relative to a similar arms-length transaction. Our Board of Directors believes that the transactions described in this section were on an arms-length basis and in the best interests of the stockholders.

Table of Contents

Item 14. Principal Accounting Fees and Services

KPMG, LLP served as our independent registered public accounting firm for the years ended December 31, 2012 and 2011. The following table presents the aggregate fees incurred for services rendered by KPMG during 2012 and 2011, respectively. The fees listed below were pre-approved by our Audit Committee pursuant to the Audit Committee' s pre-approval policy.

Service Type	2012	2011
Audit Fees(1)	$ 1,294,000	$ 1,557,700
Tax Fees(2)	187,810	95,500
Total Fees	$ 1,481,810	$ 1,653,200

(1) Consists of fees for professional services rendered in connection with the audits of our consolidated financial statements for the years ended December 31, 2012 and 2011; the reviews of the condensed consolidated financial statements included in our Quarterly Report on Form 10-Q during 2012 and 2011; consultations on accounting matters; and SEC registration statements.
(2) Consists primarily of tax compliance services based on time and materials.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

It is our policy that our independent registered public accounting firm be engaged to provide primarily audit and audit-related services. However, pursuant to the policy, in certain circumstances and using stringent standards in its evaluation, the Audit Committee may authorize our independent registered public accounting firm to provide tax services when it determines that KPMG is the most efficient and effective tax service provider.

Table of Contents

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Consolidated financial statements and related notes

See index to consolidated financial statements on page F-1.

(2) Supplementary financial statement schedules

Schedule I − condensed financial information of registrant

Schedule II − valuation and qualifying accounts

Other schedules have not been included because they are not applicable.

(3) Exhibits

The exhibits listed in the accompanying Index to Exhibits attached hereto are filed or incorporated by reference into this Annual Report on Form 10-K.

Table of Contents

(b)

Exhibit Number	Description	Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation of Guitar Center, Inc.	S-4	333-175270	3.1	6/30/2011	
3.2	Bylaws of Guitar Center, Inc.	S-4	333-175270	3.2	6/30/2011	
3.3	Restated Certificate of Incorporation of Guitar Center Holdings, Inc.	S-4	333-175270	3.3	6/30/2011	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

3.4	Bylaws of Guitar Center Holdings, Inc.	S-4	333-175270	3.4	6/30/2011	
3.5	Certificate of Incorporation of Guitar Center Stores, Inc.	S-4	333-175270	3.5	6/30/2011	
3.6	Bylaws of Guitar Center Stores, Inc.	S-4	333-175270	3.6	6/30/2011	
3.7	Certificate of Incorporation of Music123, Inc.	S-4	333-175270	3.7	6/30/2011	
3.8	Bylaws of Music123, Inc.	S-4	333-175270	3.8	6/30/2011	
3.9	Certificate of Incorporation of Musician' s Friend, Inc.	S-4	333-175270	3.9	6/30/2011	
3.10	Amended and Restated Bylaws of Musician' s Friend, Inc.	S-4	333-175270	3.10	6/30/2011	
3.11	Certificate of Incorporation of GTRC Services, Inc. (formerly known as KORVAL, Inc.)	S-4	333-175270	3.11	6/30/2011	
3.12	Certificate of Amendment of Certificate of Incorporation of KORVAL, Inc., changing name to GTRC Services, Inc.	S-4	333-175270	3.12	6/30/2011	
3.13	Bylaws of GTRC Services, Inc. (formerly known as KORVAL, Inc.)	S-4	333-175270	3.13	6/30/2011	
3.14	Certificate of Formation of Harmony Central Group, LLC.	S-4	333-175270	3.14	6/30/2011	
3.15	Limited Liability Company Agreement of Harmony Central Group, LLC.	S-4	333-175270	3.15	6/30/2011	
3.16	Articles of Organization of Guitar Center Gift Card Company, LLC.	S-4	333-175270	3.16	6/30/2011	
3.17	Limited Liability Company Operating Agreement of Guitar Center Gift Card Company, LLC.	S-4	333-175270	3.17	6/30/2011	
3.18	Certificate of Incorporation of Woodwind & Brasswind, Inc.					X
3.19	Bylaws of Woodwind & Brasswind, Inc.					X
4.1	Amended and Restated Indenture, dated as of March 2, 2011, by and among Guitar Center, Inc., the initial guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company N.A., as trustee, governing the 11.50% Senior Notes due 2017.	S-4	333-175270	4.1	6/30/2011	

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

4.2	Form of 11.50% Senior Notes due 2017 (included in Exhibit 4.1)	S-4	333-175270	4.1	6/30/2011
4.3	Amended and Restated Indenture, dated as of March 2, 2011, by and between Guitar Center Holdings, Inc., and The Bank of New York Mellon Trust Company N.A., as trustee, relating to the 14.09% Senior PIK Notes due 2018.	S-4	333-175270	4.3	6/30/2011
4.4	Form of 14.09% Senior PIK Notes due 2018 (included in Exhibit 4.3)	S-4	333-175270	4.3	6/30/2011
4.5	Exchange and Registration Rights Agreement, dated August 7, 2008 (the "Senior Notes Exchange and Registration Rights Agreement"), by and among Guitar Center, Inc., the guarantors listed on the signature pages thereto, ACOF II GC Acquisition, L.P. and ACOF III GC Acquisition, L.P., relating to the 11.50% Senior Notes due 2017.	S-4	333-175270	4.5	6/30/2011
4.6	Letter Agreement, dated February 14, 2011, regarding the Senior Notes Exchange and Registration Rights Agreement.	S-4	333-175270	4.6	6/30/2011
4.7	Exchange and Registration Rights Agreement, dated August 7, 2008 (the "Senior PIK Notes Exchange and Registration Rights Agreement"), by and among Guitar Center Holdings, Inc., ACOF II GC Holdings (Direct), L.P. and ACOF III GC Holdings (Direct), L.P., relating to the 14.09% Senior PIK Notes due 2018.	S-4	333-175270	4.7	6/30/2011
4.8	Letter Agreement, dated February 14, 2011, regarding the Senior PIK Notes Exchange and Registration Rights Agreement.	S-4	333-175270	4.8	6/30/2011
4.9	Assignment and Assumption, dated as of March 2, 2011, among Guitar Center, Inc., Guitar Center Holdings, Inc., ACOF II GC Holdings (Direct), L.P. and ACOF III GC Holdings (Direct), L.P.	S-4	333-175270	4.9	6/30/2011
4.10	First Supplemental Indenture, dated as of March 30, 2012, by and among Guitar Center, Inc., Woodwind and Brasswind, Inc., as the new guarantor, and The Bank of New York Mellon Trust Company N.A., as trustee	10-Q	000-22207	4.1	5/14/2012
10.1	Credit Agreement, dated as of October 9, 2007 (the "Term Credit Agreement"), among Guitar Center, Inc., the facility guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and the other agents party thereto.	S-4	333-175270	10.1	8/9/2011

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

10.2	First Amendment to the Term Credit Agreement, dated as of March 2, 2011.	S-4	333-175270	10.2	8/9/2011
10.3	Credit Agreement, dated as of October 9, 2007 (the “ABL Credit Agreement”), among Guitar Center, Inc., the other borrowers party thereto, the facility guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and the other agents party thereto.	S-4	333-175270	10.3	8/9/2011
10.4	First Amendment to the ABL Credit Agreement, dated as of November 5, 2007.	S-4	333-175270	10.4	6/30/2011
10.5	Second Amendment to the ABL Credit Agreement, dated as of March 2, 2011.	S-4	333-175270	10.5	8/9/2011
10.6	Security Agreement, dated as of October 9, 2007, by and among Guitar Center, Inc., as borrower, Guitar Center Stores, Inc. and Musician’ s Friend, Inc., Guitar Center Holdings, Inc., Guitar Center Gift Card Company, LLC and Harmony Central Group, LLC, as guarantors, and JPMorgan Chase Bank, N.A., as collateral agent, relating to the Term Credit Agreement.	S-4	333-175270	10.6	6/30/2011
10.7	Guaranty, dated as of October 9, 2007, by Guitar Center Holdings, Inc., Guitar Center Stores, Inc., Musician’ s Friend, Inc., Guitar Center Gift Card Company, LLC and Harmony Central Group, LLC, in favor of JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, relating to the Term Credit Agreement.	S-4	333-175270	10.7	6/30/2011
10.8	Pledge Agreement, dated as of October 9, 2007, by and between Guitar Center Holdings, Inc., Guitar Center, Inc., Guitar Center Stores, Inc., Guitar Center Gift Card Company, LLC, Harmony Central Group, LLC and Musician’ s Friend, Inc., as pledgors, and JPMorgan Chase Bank, N.A., as collateral agent, relating to the Term Credit Agreement.	S-4	333-175270	10.8	6/30/2011
10.9	Security Agreement, dated as of October 9, 2007, by and among Guitar Center, Inc., Guitar Center Stores, Inc. and Musician’ s Friend, Inc., as borrowers, Guitar Center Holdings, Inc., Guitar Center Gift Card Company, LLC and Harmony Central Group, LLC, as guarantors, and JPMorgan	S-4	333-175270	10.9	6/30/2011

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Chase Bank, N.A., as collateral agent, relating to the ABL Credit Agreement				
10.10	Guaranty, dated as of October 9, 2007, by Guitar Center Holdings, Inc., Guitar Center Gift Card Company, LLC and Harmony Central Group, LLC, in favor of JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, relating to the ABL Credit Agreement.	S-4	333-175270	10.10	6/30/2011

10.11	Pledge Agreement, dated as of October 9, 2007, by and between Guitar Center Holdings, Inc., Guitar Center, Inc., Guitar Center Stores, Inc., Guitar Center Gift Card Company, LLC, Harmony Central Group, LLC and Musician' s Friend, Inc., as pledgors, and JPMorgan Chase Bank, N.A., as collateral agent, relating to the ABL Credit Agreement.	S-4	333-175270	10.11	6/30/2011
10.12	Intercreditor Agreement, dated as of October 9, 2007, by and between JPMorgan Chase Bank, N.A., as administrative agent and collateral agent under the ABL Credit Agreement, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent under the Term Credit Agreement.	S-4	333-175270	10.12	6/30/2011
10.13	Shareholders Agreement, dated as of October 9, 2007, by and among Guitar Center Holdings, Inc., Bain Capital Integral Investors 2006, LLC, BCIP Associates-G and the other persons identified on the signature pages thereto as co-investors.	S-4	333-175270	10.13	6/30/2011
10.14	Advisory Agreement, dated as of October 9, 2007, between Guitar Center Holdings, Inc., Guitar Center, Inc. and Bain Capital Partners, LLC.	S-4	333-175270	10.14	6/30/2011
10.15	Guitar Center Holdings, Inc. 2009 Amended and Restated Management Equity Plan. †	S-4	333-175270	10.15	6/30/2011
10.16	Form of Non-Qualified Stock Option under the 2009 Amended and Restated Management Equity Plan. †	S-4	333-175270	10.16	6/30/2011
10.17	Form of Non-Qualified Stock Option (rollover) under the 2009 Amended and Restated Management Equity Plan. †	S-4	333-175270	10.17	6/30/2011
10.18	Amendment No. 1 to the 2009 Amended and Restated Management Equity Plan. †	S-4	333-175270	10.18	6/30/2011

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

10.19	Non-Executive Chairman Agreement, dated as of August 11, 2010, between Guitar Center, Inc. and Marty Albertson. †	S-4	333-175270	10.19	6/30/2011
10.20	Employment Agreement, dated as of August 11, 2010, between Guitar Center, Inc. and Gregory A. Trojan. †	S-4	333-175270	10.20	6/30/2011
10.21	Executive Severance Benefits Agreement, dated as of April 28, 2010, between Guitar Center, Inc. and Erick Mason. †	S-4	333-175270	10.21	6/30/2011
10.23	Employment Agreement, dated as of April 15, 2005, between Music & Arts Center, Inc. and Kenneth O' Brien. †	S-4	333-175270	10.23	6/30/2011

10.24	Amendment No. 1 to Employment Agreement, dated as of October 9, 2007, between Music & Arts Center, Inc. and Kenneth O' Brien. †	S-4	333-175270	10.24	6/30/2011
10.25	Amendment No. 2 to Employment Agreement, dated as of December 8, 2008, between Guitar Center Stores, Inc. and Kenneth O' Brien. †	S-4	333-175270	10.25	6/30/2011
10.26	Amendment No. 3 to Employment Agreement, dated as of April 28, 2010, between Guitar Center Stores, Inc. and Kenneth O' Brien. †	S-4	333-175270	10.26	6/30/2011
10.27	Agreement Not To Compete, dated as of April 15, 2005, between Guitar Center Stores, Inc. and Kenneth O' Brien. †	S-4	333-175270	10.27	6/30/2011
10.29	Form of Indemnification Agreement between Guitar Center, Inc. and certain executive officers.	S-4	333-175270	10.29	6/30/2011
10.30	Additional commitment lender joinder agreement, dated as of March 16, 2012, under the Credit Agreement, dated as of October 9, 2007 (the "ABL Credit Agreement"), by and among General Electric Capital Corporation, Guitar Center, Inc., the other borrowers party thereto, the facility guarantors party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent.	10-Q	000-22207	10.1	5/14/2012
10.31	Conversion notice to convert a non-extended commitment to an extended commitment under the ABL Credit Agreement, dated as of March 29, 2012, by and among Guitar Center, Inc., the other borrowers party thereto, the guarantor parties thereto, the lenders party thereto, UBS Capital	10-Q	000-22207	10.2	5/14/2012

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Corporation and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent.	
10.32	Executive Severance Benefits Agreement, dated as of April 28, 2010, between Guitar Center, Inc. and Eugene Joly. †	X
21.1	List of material subsidiaries of Guitar Center, Inc. as of December 31, 2012	X
21.2	List of material subsidiaries of Guitar Center Holdings, Inc. as of December 31, 2012	X
31.1	Guitar Center, Inc. Certification of Chief Executive Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)).	X
31.2	Guitar Center, Inc. Certification of Chief Financial Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)).	X

31.3	Guitar Center Holdings, Inc. Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)).	X
32.1	Guitar Center, Inc. Certification 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.	X
32.2	Guitar Center Holdings, Inc. Certification 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.	X
101.INS*	XBRL Instance Document	
101.SCH*	XBRL Taxonomy Extension Schema Document	
101.CAL*	XBRL Taxonomy Calculation Linkbase Document	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB*	XBRL Taxonomy Exension Label Linkbase Document	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

* These exhibits are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we incorporate them by reference.

† Management contract or compensatory plan or arrangement.

(b) Exhibits required by item 601 of Regulation S-K are filed as exhibits to this Annual Report on Form 10-K or are incorporated by reference.

(c) The financial statement schedules required by Regulation S-X are filed with this Annual Report on Form 10-K.

GUITAR CENTER HOLDINGS, INC.
GUITAR CENTER, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Guitar Center Holdings, Inc., and Subsidiaries

Report of Independent Registered Accounting Firm — F-2
Consolidated Balance Sheets as of December 31, 2012 and 2011 — F-3
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2012, 2011 and 2010 — F-4
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2012, 2011 and 2010 — F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010 — F-6

Guitar Center, Inc., and Subsidiaries

Report of Independent Registered Accounting Firm — F-8
Consolidated Balance Sheets as of December 31, 2012 and 2011 — F-9
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010 — F-10
Consolidated Statements of Stockholder' s Equity for the years ended December 31, 2012, 2011 and 2010 — F-11
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010 — F-12

Guitar Center Holdings, Inc., and Subsidiaries and Guitar Center, Inc., and Subsidiaries

Combined notes to consolidated financial statements — F-14

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Guitar Center Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Guitar Center Holdings, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive loss, stockholders' equity (deficit) and cash

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I and II. These consolidated financial statements and financial statement schedules are the responsibility of the Company' s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guitar Center Holdings, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
Los Angeles, California
March 26, 2013

Table of Contents

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash	$ 74,836	$ 106,036
Accounts receivable, net of allowance for doubtful accounts of $2,849 and $2,979, respectively	44,015	44,732
Merchandise inventories	564,959	547,960
Prepaid expenses and other current assets	23,285	26,984
Deferred income taxes	3,165	937
Total current assets	710,260	726,649
Property and equipment, net of accumulated depreciation and amortization of $250,835 and $194,763, respectively	213,969	209,097
Goodwill	582,378	582,378
Intangible assets, net of accumulated amortization of $200,040 and $171,259, respectively	291,269	320,140
Other assets, net	18,682	20,802
Total assets	$ 1,816,558	$ 1,859,066
Liabilities and Stockholders' Deficit		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Current liabilities:		
Accounts payable	$ 116,973	$ 120,010
Accrued expenses and other current liabilities	132,119	128,787
Merchandise advances	34,901	30,982
Current portion of long-term debt	135,725	646
Total current liabilities	419,718	280,425
Other long-term liabilities	20,669	18,690
Deferred income taxes	79,537	76,529
Long-term debt	1,445,654	1,561,489
Total liabilities	1,965,578	1,937,133
Commitments and contingencies	–	–
Stockholders' deficit:		
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding	–	–
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97
Additional paid-in capital	633,800	632,757
Accumulated deficit	(782,917)	(710,748)
Accumulated other comprehensive loss	–	(173)
Total stockholders' deficit	(149,020)	(78,067)
Total liabilities and stockholders' deficit	$ 1,816,558	$ 1,859,066

See accompanying notes to consolidated financial statements

Table of Contents

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Net sales	$ 2,139,191	$ 2,082,577	$ 2,010,895
Cost of goods sold, buying and occupancy	1,495,800	1,447,434	1,405,044
Gross profit	643,391	635,143	605,851
Selling, general and administrative expenses	547,724	579,226	546,135
Impairment of intangible assets	–	45,961	–
Impairment of goodwill	–	107,026	–
Operating income (loss)	95,667	(97,070)	59,716
Interest expense	(165,378)	(161,250)	(145,572)
Interest income	34	214	339
Loss before income taxes	(69,677)	(258,106)	(85,517)
Income tax expense (benefit)	2,492	(21,167)	(29,140)
Net loss	(72,169)	(236,939)	(56,377)
Other comprehensive income (loss), net of income tax	173	210	(440)
Comprehensive loss	$ (71,996)	$ (236,729)	$ (56,817)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2009	9,695	$ 97	$ 629,002	$ (417,432)	$ 57	$ 211,724
Stock-based compensation expense	–	–	3,218	–	–	3,218
Exercise of employee stock options	279	3	4,384	–	–	4,387
Repurchase of common stock	(224)	(2)	(5,114)	–	–	(5,116)
Net loss	–	–	–	(56,377)	–	(56,377)
Other comprehensive loss	–	–	–	–	(440)	(440)
Balance at December 31, 2010	9,750	98	631,490	(473,809)	(383)	157,396
Stock-based compensation expense	–	–	1,552	–	–	1,552
Exercise of employee stock options	13	–	290	–	–	290
Repurchase of common stock	(21)	(1)	(575)	–	–	(576)
Net loss	–	–	–	(236,939)	–	(236,939)
Other comprehensive income	–	–	–	–	210	210
Balance at December 31, 2011	9,742	97	632,757	(710,748)	(173)	(78,067)
Stock-based compensation expense	–	–	1,082	–	–	1,082
Repurchase of common stock	(2)	–	(39)	–	–	(39)
Net loss	–	–	–	(72,169)	–	(72,169)
Other comprehensive income	–	–	–	–	173	173
Balance at December 31, 2012	9,740	$ 97	$ 633,800	$ (782,917)	$ –	$ (149,020)

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Year ended December 31,		
	2012	2011	2010
Operating activities:			
Net loss	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	90,905	106,197	104,846
Impairment of goodwill	–	107,026	–
Impairment of intangible assets	–	45,961	–
Impairment of property and equipment	559	1,294	884
Net loss on disposal of property and equipment	36	5,157	995
Amortization of deferred financing fees	3,191	2,896	2,531
Non-cash interest expense	20,295	8,504	57,415
Stock-based compensation	1,082	1,552	3,218
Deferred income taxes	549	(25,421)	(32,341)
Changes in operating assets and liabilities:			
Accounts receivable	717	(7,861)	(1,638)
Merchandise inventories	(16,999)	(46,095)	11,351
Prepaid expenses and other current assets	832	(3,814)	16,181
Other assets, net	(306)	(19)	76
Accounts payable	(3,037)	15,302	8,642
Accrued expenses and other current liabilities	3,332	(5,291)	16,848
Merchandise advances	3,919	3,254	3,663
Other long-term liabilities	1,979	3,412	7,150
Net cash provided by (used in) operating activities	34,885	(24,885)	143,444
Investing activities:			
Purchase of property and equipment	(67,468)	(57,324)	(47,887)
Acquisition of intangible assets	(110)	(197)	(250)
Net proceeds from disposal of property and equipment	2,944	4,002	238
Net cash used in investing activities	(64,634)	(53,519)	(47,899)
Financing activities:			
Borrowings on asset-based revolving credit facility	225,000	–	–
Repayment of asset-based revolving credit facility	(225,000)	–	–
Repayment of long-term debt	(647)	(641)	(20,750)
Financing fees	(765)	(8,400)	–
Repurchase of common stock	(39)	(286)	(729)
Net cash used in financing activities	(1,451)	(9,327)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701
Cash at end of year	$ 74,836	$ 106,036	$ 193,767

See accompanying notes to consolidated financial statements

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 141,291	$ 157,461	$ 69,001
Income taxes	2,562	1,908	2,749

See accompanying notes to consolidated financial statements

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
Guitar Center, Inc.:

We have audited the accompanying consolidated balance sheets of Guitar Center, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income (loss), stockholder' s equity, and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company' s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guitar Center, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
Los Angeles, California
March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash	$ 74,836	$ 106,036
Accounts receivable, net of allowance for doubtful accounts of $2,849 and $2,979, respectively	44,015	44,732
Merchandise inventories	564,959	547,960
Prepaid expenses and other current assets	23,285	26,093
Deferred income taxes	34,614	29,121
Total current assets	741,709	753,942
Property and equipment, net of accumulated depreciation and amortization of $250,835 and $194,763, respectively	213,969	209,097
Goodwill	582,378	582,378
Intangible assets, net of accumulated amortization of $200,040 and $171,259, respectively	291,269	320,140
Other assets, net	16,484	18,192
Total assets	$ 1,845,809	$ 1,883,749
Liabilities and Stockholder' s Equity		
Current liabilities:		
Accounts payable	$ 116,973	$ 120,010
Accrued expenses and other current liabilities	199,195	171,929
Merchandise advances	34,901	30,982
Current portion of long-term debt	5,941	646
Total current liabilities	357,010	323,567
Other long-term liabilities	20,669	18,690
Deferred income taxes	105,327	117,686
Long-term debt	1,010,765	996,816
Due to Guitar Center Holdings, Inc.	224,113	303,715
Total liabilities	1,717,884	1,760,474
Commitments and contingencies	–	–
Stockholder' s equity:		
Common stock, $0.01 par value, 1,000 shares authorized 100 shares issued and outstanding	–	–
Additional paid-in capital	620,190	619,108
Accumulated deficit	(492,265)	(495,660)
Accumulated other comprehensive loss	–	(173)
Total stockholder' s equity	127,925	123,275
Total liabilities and stockholder' s equity	$ 1,845,809	$ 1,883,749

See accompanying notes to consolidated financial statements

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

GUITAR CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year ended December 31,		
	2012	2011	2010
Net sales	$ 2,139,191	$ 2,082,577	$ 2,010,895
Cost of goods sold, buying and occupancy	1,495,800	1,447,434	1,405,044
Gross profit	643,391	635,143	605,851
Selling, general and administrative expenses	547,724	578,948	546,135
Impairment of intangible assets	–	45,961	–
Impairment of goodwill	–	107,026	–
Operating income (loss)	95,667	(96,792)	59,716
Interest expense	(85,403)	(81,277)	(71,181)
Interest income	34	214	339
Income (loss) before income taxes	10,298	(177,855)	(11,126)
Income tax expense (benefit)	6,903	(24,150)	(2,262)
Net income (loss)	3,395	(153,705)	(8,864)
Other comprehensive income (loss), net of income tax	173	210	(440)
Comprehensive income (loss)	$ 3,568	$ (153,495)	$ (9,304)

See accompanying notes to consolidated financial statements

Table of Contents

GUITAR CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER' S EQUITY
(in thousands)

	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2009	$ 614,338	$ (333,091)	$ 57	$ 281,304
Stock-based compensation expense	3,218	–	–	3,218
Net loss	–	(8,864)	–	(8,864)
Other comprehensive loss	–	–	(440)	(440)
Balance at December 31, 2010	617,556	(341,955)	(383)	275,218
Stock-based compensation expense	1,552	–	–	1,552
Net loss	–	(153,705)	–	(153,705)
Other comprehensive income	–	–	210	210

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance at December 31, 2011	619,108	(495,660)	(173)	123,275
Stock-based compensation expense	1,082	–	–	1,082
Net income	–	3,395	–	3,395
Other comprehensive income	–	–	173	173
Balance at December 31, 2012	$ 620,190	$ (492,265)	$ –	$ 127,925

See accompanying notes to consolidated financial statements

GUITAR CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Operating activities:			
Net income (loss)	$ 3,395	$ (153,705)	$ (8,864)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	90,905	106,197	104,846
Impairment of goodwill	–	107,026	–
Impairment of intangible assets	–	45,961	–
Impairment of property and equipment	559	1,294	884
Net loss on disposal of property and equipment	36	5,157	995
Amortization of deferred financing fees	2,779	2,485	2,130
Non-cash interest expense	404	216	–
Stock-based compensation	1,082	1,552	3,218
Deferred income taxes	(18,083)	(32,711)	(19,340)
Changes in operating assets and liabilities:			
Accounts receivable	717	(7,861)	(1,638)
Merchandise inventories	(16,999)	(46,095)	11,351
Prepaid expenses and other current assets	(59)	(5,483)	(2,136)
Other assets, net	(306)	(19)	76
Accounts payable	(3,037)	15,302	8,642
Accrued expenses and other current liabilities	27,266	8,974	32,467
Merchandise advances	3,919	3,254	3,663
Other long-term liabilities	1,979	3,412	7,150
Net cash provided by operating activities	94,557	54,956	143,444
Investing activities:			
Purchase of property and equipment	(67,468)	(57,324)	(47,887)
Acquisition of intangible assets	(110)	(197)	(250)
Net proceeds from disposal of property and equipment	2,944	4,002	238
Net cash used in investing activities	(64,634)	(53,519)	(47,899)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Financing activities:			
Borrowings on asset-based revolving credit facility	225,000	–	–
Repayment of asset-based revolving credit facility	(225,000)	–	–
Proceeds from issuance of long-term debt	19,891	–	–
Repayment of long-term debt	(647)	(641)	(20,750)
Financing fees	(765)	(7,499)	–
Repayments to Guitar Center Holdings, Inc.	(79,602)	(81,028)	(729)
Net cash used in financing activities	(61,123)	(89,168)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701
Cash at end of year	$ 74,836	$ 106,036	$ 193,767

See accompanying notes to consolidated financial statements

GUITAR CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 81,619	$ 77,898	$ 69,001
Income taxes	2,562	1,908	2,749

See accompanying notes to consolidated financial statements

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Significant Accounting Policies

Nature of Business

Guitar Center Holdings, Inc. is the parent company of wholly-owned Guitar Center, Inc. and its wholly-owned subsidiaries. All of the company’ s operating activities are conducted out of Guitar Center, Inc. and its subsidiaries. The parent company’ s business activities consist solely of debt and equity financing related to its ownership of Guitar Center, Inc.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

In these notes, we refer to the consolidated financial statements of Guitar Center Holdings, Inc. and its subsidiaries as "Holdings," except where the context requires otherwise when discussing the debt or equity of the Guitar Center Holdings, Inc. entity. We refer to the consolidated financial statements of Guitar Center, Inc. and its subsidiaries as "Guitar Center." The terms "we," "us," "our" and "the company" refer to Holdings and Guitar Center collectively.

We operate three businesses under our Guitar Center, Music & Arts and direct response brands.

Guitar Center is the leading United States retailer of guitars, amplifiers, percussion instruments, keyboards and pro-audio and recording equipment. As of December 31, 2012, Guitar Center operated 240 Guitar Center stores across the United States, with 151 primary format stores, 78 secondary format stores and 11 tertiary format stores, along with the www.guitarcenter.com website.

Music & Arts specializes in band and orchestra instruments for sale and rental, serving students, teachers, band directors and college professors. As of December 31, 2012, Music & Arts operated 109 stores in 22 states, along with the www.musicarts.com website.

Our direct response segment is a leading direct response retailer of musical instruments in the United States, and its operations include the Musician' s Friend and other branded websites and catalogs.

Principles of Consolidation

The accompanying consolidated financial statements of Holdings and Guitar Center include the accounts of the respective companies' wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

As a result of economic conditions in the United States, there is uncertainty about unemployment, consumer confidence and business and consumer spending. Over the last several years, these factors have reduced our visibility into long-term trends, dampen our expectations of future business performance and have increased the degree of uncertainty in our estimates.

Cash and Cash Equivalents

Cash consists of cash on hand and bank deposits. Cash equivalents generally consist of highly liquid investments with an original maturity of three months or less. We had no cash equivalents as of December 31, 2012 or 2011.

Accounts Receivable

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We grant credit directly to certain customers in the ordinary course of business. Prior to granting credit, we conduct a credit analysis based on financial and other criteria and generally do not require collateral.

We record accounts receivable net of an allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses from the failure of our customers to make their required payments. We base our allowance on an analysis of the aging of accounts receivable at the date of the financial statements, an assessment of historical collection trends and an evaluation of the impact of current economic conditions.

Merchandise Inventories

We value inventories at the lower of the weighted average cost method or market value. We capitalize to inventory inbound freight costs from our vendors and the costs associated with bringing inventory through our Guitar Center distribution center, and then expense these amounts to cost of goods sold as the associated inventory is sold.

We value rental inventories and used and vintage guitars at the lower of cost or market using the specific identification method. We depreciate rental inventories on a straight-line basis while out under the rental agreement for rent-to-own sales.

We receive price protection credits and rebates from our vendors, which we account for as a component of merchandise inventory and record at the time the credit or rebate is earned. We typically receive rebates on a quarterly or annual basis. We do not believe we have significant risk related to rebates receivable, based upon historically low write-offs, our long-standing relationships with a consistent pool of rebate vendors and our ability to net unpaid rebates against vendor account payables. We recognize the effect of price protection credits and vendor rebates in the income statement as a reduction in cost of goods sold at the time the related item of inventory is sold. We do not record any of these credits as revenue.

Property and Equipment

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally five years for furniture, fixtures and vehicles, three to five years for computer equipment and 15 years for buildings. We amortize leasehold improvements over the shorter of their estimated useful lives or the terms of the related leases. We expense maintenance and repair costs as they are incurred, while renewals and betterments are capitalized.

Impairment and Disposal of Long-lived Assets

We evaluate long-lived assets, such as property and equipment and amortizing intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If those assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

When evaluating long-lived assets for impairment, we group assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Asset groups for our retail businesses generally are comprised of retail store locations. The asset group for our internet and catalog operations includes the fulfillment center, customer contact centers and amortizing intangible assets of our internet and catalog businesses. We also group assets at higher levels for impairment evaluation. These asset groups include our retail distribution centers, corporate headquarters facilities and data centers.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Impairment charges related to tangible long-lived assets are included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss. See Note 11 for further discussion of impairment of long-lived assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. Property and equipment are classified as held for sale when a plan of sale has been initiated, the property is being actively marketed for sale, the property is available for immediate sale and a completed sale is expected within 12 months. Property and equipment held for sale are not depreciated. When we commit to a plan to sell an asset or asset group, we revise our depreciation estimates to reflect the assets' shortened useful lives for the period they will be held and used.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business acquisitions. We also have intangible assets primarily related to trademarks, customer relationships and favorable leases.

Goodwill and certain intangible assets with indefinite lives are not amortized but are subject to an annual impairment test. Our policy is to test goodwill and indefinite-lived intangible assets for impairment annually at the beginning of the fourth quarter. We test all intangible assets, including goodwill and indefinite-lived intangible assets, whenever events and circumstances indicate that there may be an impairment of the asset value.

We test goodwill for impairment at the reporting unit level. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by management. Our operating segments and reporting units are the same, consisting of Guitar Center, direct response and Music & Arts.

In 2012 and 2011, our process for evaluating goodwill for impairment was as follows:

- We first perform a qualitative assessment annually on October 1 of each reporting unit that has goodwill to determine if facts and circumstances indicate that goodwill is more likely than not impaired. If the qualitative assessment indicates that goodwill of a reporting unit is not more likely than not impaired, we do not perform a quantitative impairment test for the reporting unit. If the qualitative assessment indicates that goodwill of a reporting unit is more likely than not impaired, we perform the first step, or step 1, of the quantitative goodwill impairment test.

- In step 1, we compare the carrying amounts of the reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we use market multiple and discounted cash flow analyses. If the carrying amounts of the reporting units exceed their estimated fair values, we perform the second step, or step 2, of the goodwill impairment test.

- In step 2, we determine the implied fair value of goodwill at the affected reporting unit by allocating the reporting unit' s estimated fair value to all the assets and liabilities of the applicable reporting unit (including any unrecognized intangible assets and related deferred taxes) as if the reporting unit had been acquired in a business combination. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

- We also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2010, our policy was to test goodwill for impairment at the beginning of the fourth quarter by performing step 1 of the goodwill impairment test and performing step 2 if the carrying amount of a reporting unit exceeded its estimated fair value. We would also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances, but no such events occurred during 2010.

Beginning in 2012, we adopted new accounting standards related to testing indefinite-lived intangible assets for impairment. Under the revised standards, we are permitted to first perform a qualitative assessment to determine if facts and circumstances indicate that an indefinite-lived intangible asset is more likely than not impaired. If the qualitative assessment does not indicate the asset is more likely than not impaired, we do not perform any further impairment testing on the asset. If the qualitative assessment indicates that an indefinite-lived intangible asset is more likely than not impaired, we compare the fair value of the intangible asset to its carrying amount. An impairment charge is recorded for the amount by which its carrying amount exceeds its fair value.

Significant management judgment is required in the qualitative assessments, specifically with respect to macroeconomic conditions, industry and market conditions such as competition and the regulatory environment and entity-specific events that can affect the estimated fair value of a reporting unit or indefinite-lived intangible assets.

Significant management judgment is required in the forecasts of future operating results that are used in both undiscounted and discounted impairment tests. We use estimates and assumptions that we consider reasonable in relation to the plans and estimates used to manage our business. We also consider assumptions that we believe market participants would use in pricing the assets and liabilities. It is possible that the plans may change and estimates may prove to be inaccurate. If actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

We amortize intangible assets with finite useful lives over their estimated useful lives. We amortize customer relationships using an accelerated method based on expected customer attrition rates. Other intangible assets with finite useful lives are generally amortized using the straight-line method.

Intangible assets with finite lives are reviewed for impairment in the same manner as long-lived assets.

See Note 2 for further discussion of goodwill, intangible assets and impairment.

Merchandise Advances / Gift Cards

Merchandise advances represent layaway deposits which are recorded as a liability pending consummation of the sale when we receive the full purchase price from the customer. Gift certificates, gift cards and credits on account are recorded as a liability until redeemed by the customer.

Our gift card subsidiaries issue gift cards that are sold to customers in our stores and online. Revenue from gift card sales is recognized upon the redemption of the gift card. Our gift cards do not have expiration dates. Based on historical redemption rates, a certain percentage of gift cards will never be redeemed, referred to as "breakage." We record breakage as a reduction of cost of goods sold for the estimated amount of gift cards that are expected to go unused and that are not subject to escheatment. We recognize gift card breakage proportionally over the estimated period of performance by applying our estimated breakage rate to actual gift card redemptions. Our estimated breakage rate is based on customers' historical redemption rates and patterns.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Self-Insurance Reserves

We maintain a self-insurance program for workers' compensation of up to $500,000 per claim and medical insurance of up to $400,000 per claim. Excess amounts are covered by stop-loss insurance coverage, subject to an aggregate annual deductible of $100,000 for medical insurance claims. Estimated costs under these programs, including incurred but not reported claims, are recorded as expenses based upon actuarially determined historical experience and trends of paid and incurred claims.

As of December 31, 2012, self-insurance reserves for workers' compensation were $4.7 million and for medical insurance was $1.6 million. As of December 31, 2011, self-insurance reserves for workers' compensation were $4.3 million and for medical insurance was $1.9 million. These balances are included in accrued expenses and other current liabilities in our consolidated balance sheets.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

We recognize retail sales at the time of sale, net of a provision for estimated returns.

We recognize online and catalog sales and shipping and handling fees charged to customers when the products are estimated to be received by the customer, net of a provision for estimated returns. Return allowances are estimated using historical experience.

We recognize band instrument rentals on a straight-line basis over the term of the rental agreement, unless a trial period is offered, in which case we recognize rental income for the trial period over the term of the trial period. The terms of the majority of our rental agreements do not exceed 36 months. Trial periods are usually from one to four months.

Shipping and Handling Costs

We define shipping and handling costs as costs incurred for a third-party shipper to transport merchandise from our stores and our direct response fulfillment center to our customers. Shipping and handling costs are included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Shipping and handling fees charged to customers are included in net sales in our consolidated statements of comprehensive income or loss.

Advertising Costs

We expense Guitar Center, direct response non-catalog and Music & Arts advertising costs as incurred. Advertising costs for the Guitar Center and Music & Arts segments were $42.5 million in 2012, $39.5 million in 2011 and $38.3 million in 2010. Direct response non-catalog advertising costs were $19.9 million in 2012, $20.2 million in 2011 and $22.0 million in 2010.

We capitalize mail order catalog costs on a catalog by catalog basis and amortize the amount over the expected period of future benefits, not to exceed five months. Capitalized mail order catalog costs included in prepaid expenses and other current assets was $0.5 million at December 31, 2012 and $1.2 million at December 31, 2011.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We evaluate the realizability of capitalized mail order catalog costs at each balance sheet date by comparing the carrying amount of those assets on a cost-pool-by-cost-pool basis to the probable remaining future net revenues expected to result directly from that advertising. If the carrying amounts of deferred mail order catalog costs exceed the probable remaining future net revenues, we write down the excess capitalized amount and expense that amount in the current period.

We receive cooperative advertising allowances from manufacturers in order to subsidize advertising and promotional expenditures relating to the vendor' s products. We recognize these advertising allowances as a reduction to selling, general and administrative expense when the advertising costs are incurred. We recognized cooperative advertising allowances of $8.1 million in 2012, $8.7 million in 2011 and $9.1 million in 2010.

Rent Expense

We lease substantially all of our store locations under operating leases that provide for monthly payments that typically increase over the life of the leases. We expense the aggregate of the minimum annual payments on a straight-line basis over the term of the lease. The amount by which straight-line rent expense exceeds actual lease payment requirements in the early years of the leases is accrued as deferred minimum rent and reduced in later years when the actual cash payment requirements exceed the straight-line expense. When a lease includes lease incentives such as a rent holiday or construction costs reimbursement or requires fixed minimum lease payment escalations, we recognize rental expense on a straight-line basis over the initial term of the lease, and we include the difference between the average rental amount charged to expense and amounts payable under the lease in deferred rent and lease incentives in our consolidated balance sheets.

Rent expense related to our stores and retail store distribution centers is included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Rent expense related to our corporate offices, customer contact and data centers and direct response fulfillment center is included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

We account for income taxes using the asset and liability method. Under this method, we defer tax assets and liabilities until they are recognizable pursuant to tax law. Deferred tax assets and liabilities are measured using enacted tax rates for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits of the position, that the position will be sustained upon examination. Our policy is to recognize interest and penalties related to uncertain tax positions as a component of income tax expense.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize a valuation

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

allowance if, based on the weight of available evidence, it is more likely than not that some portion of a deferred tax asset will not be realized.

Guitar Center is included in Holdings' consolidated federal and state income tax returns. Because Guitar Center does not have a standalone income tax liability, we allocate income tax provisions using the separate return method. Under this method, current and deferred taxes are allocated to each reporting entity as if it were to file a separate tax return. Differences between the consolidated and separate return income tax provisions are eliminated in consolidation. See Note 10 for additional information regarding income taxes.

Stock-Based Compensation

Holdings grants stock-based awards to certain Guitar Center employees under its management equity plan. Guitar Center recognizes the related compensation expense in selling, general and administrative expenses and as a capital contribution from Holdings. Guitar Center itself does not grant stock option or other stock-based compensation to its employees or to third parties.

Stock-based compensation expense is measured based on the fair value of the award on the grant date and recognized on a straight-line basis over the requisite service period for awards expected to vest. Stock-based compensation expense is recorded net of estimated forfeitures. The forfeiture rate assumption used in determining stock-based compensation expense is estimated based on historical data and management' s expectations about future forfeiture rates. Assumptions about forfeitures were developed separately for our senior management from the other participants of our stock plans, as senior management' s exercise and retention behavior is expected to differ materially from the other participants. The actual forfeiture rate could differ from these estimates.

Concentration of Credit Risk

Our cash deposits are with various high quality financial institutions. Customer purchases generally are transacted using cash or credit cards. In limited instances, we grant credit for larger purchases under customary trade terms. Credit losses have historically been within our expectations.

Fair Value of Financial Instruments

The principal amount of our long-term debt is stated at par value and its significant terms are described in Note 5.

Companies may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. We did not elect to apply the fair value option for reporting financial assets or liabilities.

The fair values of our financial assets and liabilities are discussed in Note 11.

Comprehensive Income or Loss

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Our comprehensive income or loss consists of net income or loss and unrealized gains and losses on derivative instruments, net of amounts reclassified into income. Cumulative gains and losses on derivative instruments, net of income tax, are included in accumulated other comprehensive loss in our consolidated balance sheets and statements of stockholders' equity or deficit.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued revised standards related to fair value measurements and disclosures. The revised standards clarify existing fair value measurement principles, modify the application of fair value measurement principles in certain circumstances and expand the disclosure requirements related to fair value measurements.

The revised standards are effective for interim and annual reporting periods beginning after December 15, 2011. We adopted the revised standards on January 1, 2012. The change resulted in expanded fair value disclosures in the notes to financial statements and had no effect on our balance sheets, statements of comprehensive income or loss or cash flows.

In June 2011, FASB issued revised standards related to the presentation of comprehensive income. The revised standards eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of income and comprehensive income or in two separate but consecutive statements.

The revised standard is effective for interim and annual reporting periods beginning after December 15, 2011 and must be applied retrospectively to all periods upon adoption. We adopted the revised standards on January 1, 2012, opting to present components of other comprehensive income in a single continuous statement of comprehensive income or loss.

In July 2012, FASB issued revised standards related to testing indefinite-lived intangible assets for impairment. The new standards permit an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would only be required to calculate the fair value of an indefinite-lived intangible asset if the entity determines, based on qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. The revised standard is intended to reduce costs and simplify how entities test indefinite-lived intangible assets for impairment.

The revised standard is effective for annual and interim impairment tests of indefinite-lived intangible assets performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We adopted the revised standard for our annual impairment tests of indefinite-lived intangible assets performed during the fourth quarter of 2012. The adoption of the revised standard did not affect our financial statements.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Goodwill and Intangible Assets

We have goodwill at our Guitar Center reporting unit, which is also an operating segment. We also have intangible assets primarily related to trademarks, customer relationships and favorable leases.

Goodwill impairment

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

In performing the qualitative assessments of our Guitar Center reporting unit as of October 1, 2012 and 2011, we considered macroeconomic conditions, industry and market conditions such as competition and the regulatory environment and entity-specific events that can affect the estimated fair value of a reporting unit. We determined that facts and circumstances did not indicate that the goodwill of the reporting unit was more likely than not impaired. Accordingly, we did not perform the quantitative goodwill impairment test for the Guitar Center reporting unit in 2012 or 2011.

Our qualitative assessment of our direct response reporting unit as of October 1, 2011 initially indicated that its goodwill was not more likely than not impaired. Before concluding the goodwill impairment test, revenue and operating income began to fall significantly below management' s expectations during the critical holiday selling season in November and December. We therefore determined it was appropriate to update our revenue and net cash flow projections and proceed to the two step goodwill impairment test and include updated information based on our fourth quarter results.

In performing step 1 of the goodwill impairment test of the direct response reporting unit, we used a discounted cash flow analysis and a market multiple analysis, equally weighted, to determine the estimated fair value of the reporting unit. We used discount rates that ranged from 14.0% to 15.0% for the discounted cash flow analysis. In addition, we used the Gordon Growth Method, for which the terminal capitalization rates used ranged from 0.5% to 1.5%. In the market multiple analysis, we used multiples based on earnings before interest, taxes, depreciation and amortization that ranged from 3.5x to 4.5x. The results of the step 1 impairment test indicated that there was a potential impairment of goodwill, as the carrying amount of the reporting unit exceeded its estimated fair value.

Consequently, we performed step 2 of the goodwill impairment test for the direct response reporting unit. The step 2 analysis resulted in an impairment charge of $107.0 million, which represented the remaining goodwill carrying amount. The primary reason for the decrease in estimated fair value of the direct response reporting unit with respect to the market multiple analysis and discounted cash flow analyses was decreased cash flow projections for the reporting unit. We reduced our cash flow projections for the reporting unit due to revenue and operating income results that were significantly below management' s expectations during the 2011 holiday selling season and uncertainty about how effectively the direct response reporting unit will emerge from the restructuring activities of 2011, our ability to optimize its new web platform and the extent to which intensifying e-commerce competition will continue to affect its operating results in future periods.

In 2010, the results of the step 1 process did not indicate a potential impairment of goodwill in the Guitar Center reporting unit or the direct response reporting unit, as the estimated fair values of the reporting units exceeded their carrying amounts. As a result, we did not complete step 2 of the goodwill impairment test for either reporting unit. In performing the step 1 process in 2010, we used discount rates that ranged from 11.0% to 14.0% and Gordon Growth terminal capitalization rates that ranged from 3.0% to 5.0%.

Goodwill allocation

In the first quarter of 2011, we reorganized our operating segments to emphasize a brand reporting structure. As a result of this change, the Guitar Center segment includes the sales and operating expenses of our Guitar Center online operations together with the sales and operating expenses of Guitar Center stores. Similarly, the Music & Arts segment includes the sales and operating expenses of our Music & Arts online operations with those of Music & Arts stores. We had previously reported the results of our Guitar Center and Music & Arts online operations with the direct response segment.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We reallocated goodwill from the direct response segment to the Guitar Center segment based on the relative fair values of the www.guitarcenter.com and direct response components. We did not allocate any goodwill to the www.musicarts.com component, as its net sales and operating income were not material in relation to the direct response segment as a whole.

In determining the estimated fair values of the direct response and guitarcenter.com components, we used a market multiple and a discounted cash flow analysis, as used for the annual goodwill impairment test. We used discount rates of 12.5% to 14.0% for the discounted cash flow analysis as of January 1, 2011. In addition, we used the Gordon Growth Method, for which the terminal capitalization rates used ranged from 4.8% to 5.0%.

Based on the results of this analysis, we reallocated $61.8 million of goodwill from the direct response segment to the Guitar Center segment.

The following table presents an analysis of the changes in goodwill by segment (in thousands):

	Guitar Center	Direct Response	Total
Balance at December 31, 2010			
Goodwill	$ 644,393	$ 170,718	$ 815,111
Accumulated impairment losses	(123,804)	(1,903)	(125,707)
	520,589	168,815	689,404
Reasssignment of goodwill upon change in operating segments	61,789	(61,789)	–
Goodwill impairment	–	(107,026)	(107,026)
Balance at December 31, 2011			
Goodwill	706,182	108,929	815,111
Accumulated impairment losses	(123,804)	(108,929)	(232,733)
	582,378	–	582,378
Balance at December 31, 2012			
Goodwill	706,182	–	706,182
Accumulated impairment losses	(123,804)	–	(123,804)
	$ 582,378	$ –	$ 582,378

Goodwill impairment did not result in non-compliance under our debt covenants.

Table of Contents

Other intangible assets

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We recognized impairment charges of $32.5 million in 2011 related to our direct response indefinite-lived trademarks.

The decline in estimated fair value of our direct response trademarks in 2011 was due to changes in management' s expectations about future operating results for our direct response segment. We significantly reduced our revenue and operating income projections for these brands due to revenue and operating income results that were significantly below management' s expectations during the 2011 holiday selling season and uncertainty about the growth of these brands and the restructuring activities of 2011. The reduced projections prompted us to use a lower royalty rate in the discounted cash flow analysis. In addition, we used a higher discount rate, primarily in applying a size risk premium based on market observations for similarly-sized companies.

We recognized impairment charges of $13.5 million in 2011 related to our direct response customer relationship intangible asset. Management determined that the carrying amount of the asset was not recoverable, primarily based on reduced revenue and operating income projections for our direct response segment. Because the direct response segment experienced a downward trend in revenue due to increasing competition and fell significantly below management' s expectations during the holiday selling season in 2011, revenue and operating income projections for the segment were reduced accordingly.

See Note 11 for more information about fair value measurements for our other intangible assets.

The following tables present a summary of our intangible assets (dollars in thousands, life in years):

		December 31, 2012		
	Weighted-Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Unamortized trademark	–	$ 208,501	$ –	$ 208,501
Amortized				
Customer relationships	13.0	224,302	(148,042)	76,260
Favorable lease terms	7.5	57,721	(51,323)	6,398
Covenants not to compete and other	4.3	785	(675)	110
		$ 491,309	$ (200,040)	$ 291,269

		December 31, 2011		
	Weighted-Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Unamortized trademark	–	$ 208,501	$ –	$ 208,501
Amortized				
Customer relationships	13.0	224,302	(125,049)	99,253
Favorable lease terms	7.5	57,721	(45,436)	12,285
Covenants not to compete and other	4.5	875	(774)	101
		$ 491,399	$ (171,259)	$ 320,140

We include amortization of favorable leases in cost of goods sold, buying and occupancy. We include amortization of other intangible assets such as customer relationships and non-compete agreements in selling, general and administrative expenses.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Amortization expense included in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31,	
	2012	2011
Cost of goods sold, buying and occupancy	$ 5,887	$ 7,486
Selling, general and administrative expenses	23,093	35,396

The estimated amortization expense related to intangible assets for each of the next five years and thereafter as of December 31, 2012 was as follows (in thousands):

Year	
2013	$ 22,227
2014	16,387
2015	12,442
2016	9,640
2017	7,620
Thereafter	14,452
Total	$ 82,768

Table of Contents

3. Restructuring and Exit Activities

In April 2011, we initiated a restructuring plan to realign certain management and support functions across the organization. As part of the restructuring plan, we relocated the operations of our direct response business from Medford, Oregon to Southern California in the second half of 2011. We believe that having our Guitar Center and direct response management operations at a single location will improve our ability to execute strategic initiatives.

In connection with this restructuring activity, we incurred employee termination costs, which include retention bonuses and severance pay to personnel in Medford and at our corporate office. We also incurred other transition costs, such as relocation assistance, additional recruiting and travel expense, information technology integration costs and other similar costs.

During 2012, we incurred restructuring costs totaling $0.6 million at our direct response segment and $1.5 million at our corporate segment. The restructuring plan was substantially complete in the first half of 2012.

Restructuring costs incurred for each segment during 2011 were as follows (in thousands):

Year ended December 31, 2011

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,182	$ 1,044	$ 5,416
Employee relocation and recruiting costs	143	433	1,786	2,362
Consulting costs	150	1,604	424	2,178
Other costs	983	1,667	365	3,015
Total	$ 1,466	$ 7,886	$ 3,619	$ 12,971

Cumulative restructuring costs incurred for each segment from inception of the restructuring plan through December 31, 2012 were as follows (in thousands):

	Cumulative amount through December 31, 2012			
	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,419	$ 1,043	$ 5,652
Employee relocation and recruiting costs	178	433	3,021	3,632
Consulting costs	150	1,546	621	2,317
Other costs	987	2,063	427	3,477
Total	$ 1,505	$ 8,461	$ 5,112	$ 15,078

Cumulative employee termination costs through December 31, 2012 include retention bonuses of $4.4 million and severance payments of $1.3 million under employment agreements with certain executives whose positions were eliminated in the restructuring.

Restructuring and exit activity costs are included in selling, general and administrative expenses in the consolidated statements of comprehensive income or loss. The restructuring plan did not result in any impairment of property and equipment in 2012 or 2011.

Table of Contents

The following table summarizes our restructuring accrual activity for the year ended December 31, 2012, as it relates to employee termination costs (in thousands):

	Termination Costs
Balance at December 31, 2011	$ 3,926
Charges	244
Cash payments	(4,170)
Balance at December 31, 2012	$ –

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued termination costs as of December 31, 2011 are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Table of Contents

4. Balance Sheet Components

Selected balance sheet components of Holdings and Guitar Center consisted of the following (in thousands):

	December 31,	
	2012	2011
Merchandise inventories:		
Major goods	$ 344,673	$ 337,537
Band instruments	79,499	76,188
Accessories	114,412	110,740
Vintage instruments	13,948	13,635
Used major goods	18,018	15,366
	570,550	553,466
Less inventory reserves	5,591	5,506
	$ 564,959	$ 547,960

Major goods include stringed merchandise, percussion, keyboards, live-sound/DJ and recording equipment. Band instruments include horns, flutes, brass and woodwind instruments. Accessories are comprised of accessories to major goods and band instruments, apparel, cables and books.

	December 31,	
	2012	2011
Property and equipment:		
Land	$ 20,940	$ 20,940
Buildings	12,001	11,969
Furniture and fixtures	49,153	41,535
Transportation equipment	3,195	2,659
Computer equipment	164,163	139,788
Leasehold improvements	207,424	182,369
Construction in progress	7,928	4,600
	464,804	403,860
Less accumulated depreciation and amortization	250,835	194,763
	$213,969	$209,097

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Holdings

	December 31,	
	2012	2011
Accrued expenses and other current liabilities:		
Wages, salaries and benefits	$ 27,226	$ 34,973
Accrued interest	27,067	26,500
Sales tax payable	16,799	13,708
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Income taxes payable	1,349	1,548
Other	12,502	11,213
	$ 132,119	$ 128,787

Guitar Center

	December 31,	
	2012	2011
Accrued expenses and other current liabilities:		
Income taxes payable	$ 85,000	$ 61,266
Wages, salaries and benefits	27,226	34,973
Sales tax payable	16,799	13,708
Accrued interest	10,492	9,924
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued utilities	1,358	1,065
Other	12,502	11,213
	$ 199,195	$ 171,929

Table of Contents

5. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	December 31,	
	2012	2011
Guitar Center		
Senior secured asset-based revolving facility	$ –	$ –
Senior secured term loan	621,762	621,762
Obligations under capital lease, payable in monthly installments through 2013	54	700
Senior unsecured notes	394,890	375,000
	1,016,706	997,462
Less current portion	5,941	646
Guitar Center long-term debt, net of current portion	1,010,765	996,816
Holdings		
Senior unsecured PIK notes	564,673	564,673
Less current portion	129,784	–
Holdings long-term debt, net of current portion	434,889	564,673
Holdings consolidated long-term debt, net of current portion	$ 1,445,654	$ 1,561,489

Guitar Center long-term debt as of December 31, 2012 consisted of (1) a senior secured asset-based revolving facility, referred to as the asset-based facility, with a maximum availability of $373 million, (2) a senior secured term loan facility, referred to as the term loan, with an initial aggregate principal amount of $650 million and (3) a senior unsecured loan facility, referred to as the senior notes, with an initial aggregate principal amount of $375 million.

Holdings long-term debt as of December 31, 2012 consisted of a senior subordinated unsecured payment-in-kind loan facility, referred to as the senior PIK notes, with an initial aggregate principal amount of $375 million.

Guitar Center' s term loan, asset-based facility and senior notes are guaranteed by substantially all of its subsidiaries. The subsidiary guarantors are 100% owned, all of the guarantees are full and unconditional and joint and several and Guitar Center, Inc. has no assets or operations independent from its subsidiaries within the meaning of Regulation S-X, Rule 3-10. Any non-guarantor subsidiaries are minor.

Amendments and Extensions of Long-Term Debt

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

On March 2, 2011, we entered into amendments and extensions to our asset-based facility, term loan, senior notes and senior PIK notes. The transactions extended the terms of the facilities, modified pricing and amended the financial covenant and other terms of the facilities. Loans held by lenders not agreeing to extend their loans in the transaction will continue at their original pricing and maturity.

Lenders holding in excess of two-thirds of the commitments under our asset-based facility and in excess of 95% of our term loan facility elected to extend their commitments, and all of the holders of our senior notes and senior PIK notes consented to the transactions. We paid the lenders an aggregate of $8.1 million in arrangement, consent and extension fees as part of the transactions. Fees paid to lenders were capitalized as debt issuance costs and are included in other assets, net in our consolidated balance sheets. We amortize debt issuance costs to interest expense over the term of the related debts, using the effective interest method. Certain costs paid to third parties totaling $0.8 million for Holdings and $0.5 million for Guitar Center related to this amendment were expensed and are included in selling, general and administrative expenses in our consolidated statements of comprehensive loss for the year ended December 31, 2011.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the third quarter of 2011, we obtained an additional $15 million commitment under the extended terms of the asset-based facility to substitute commitments that were not extended by other participating lenders in March 2011. We paid an aggregate of $0.2 million in arrangement, consent and extension fees as part of the transaction. Fees paid were capitalized and are amortized into interest expense using the effective interest method.

During the first quarter of 2012, we obtained an additional $55 million in commitments under the extended terms of the asset-based facility to substitute commitments that were not extended in March 2011. We paid an aggregate of $0.7 million in arrangement, consent and extension fees as part of the transactions. Fees paid were capitalized and are amortized into interest expense using the effective interest method.

Long-Term Debt

Guitar Center Asset-Based Facility

As of December 31, 2012, the asset-based facility had a maximum borrowing amount of $373 million, subject to a borrowing base which is calculated monthly based on specified percentages of eligible inventory, credit card receivables and trade receivables. Our obligations under this facility are secured by a first priority lien on all of our personal property, consisting of inventory, accounts receivable, cash and deposit accounts, as well as a second priority lien on our capital stock and assets.

The asset-based facility matures in February 2016 with respect to $323 million of the maximum borrowing amount and in October 2013 with respect to $50 million of the maximum borrowing amount. Outstanding principal is due and payable upon maturity. The asset-based facility requires mandatory pre-payment of principal in the event of extraordinary sales of assets or receipt of casualty or other insurance proceeds in excess of $2.5 million.

At our option, we can borrow under the asset-based facility at either the (a) London Inter-Bank Offered Rate, or LIBOR, plus a margin based on average borrowings that ranges from 2.75% to 3.25% on extended commitments and from 1.25% to 1.75% on non-extended commitments or (b) prime rate, plus a margin based on average borrowings that ranges from 1.75% to 2.25% on extended

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

commitments and from 0% to 0.5% on non-extended commitments. Interest is payable on the agreed upon ending date of each related LIBOR borrowing agreement, and quarterly for prime rate borrowings.

We are required to pay a commitment fee to the lenders at a rate of 0.5% per annum for extended commitments and 0.25% per annum for non-extended commitments. The commitment fee is payable each quarter based upon the unused portion of the commitment amount. We are required to pay an annual agency fee of $200,000, payable each quarter in advance. We also are required to pay fees for outstanding letters of credit equal to the applicable LIBOR margin for standby letters of credit or 50% of the LIBOR margin rate for commercial letters of credit.

As of December 31, 2012, the borrowing base on the asset-based facility was $295.4 million, which supported $8.6 million of outstanding letters of credit and $286.8 million of undrawn availability. Average daily borrowings on the asset-based facility were $9.7 million during 2012. Borrowings on the asset-based facility during 2011 were not significant and we did not draw any amounts on the asset-based facility during 2010.

Guitar Center Term Loan

As of December 31, 2012, the outstanding principal balance on the term loan was $622 million, maturing in April 2017 with respect to $613.8 million of outstanding principal and in October 2014 with respect to $7.9 million of outstanding principal. Principal is repaid in quarterly installments of 0.25% of the initial principal amount, which commenced on December 31, 2008 and continues through March 2017, with the remaining outstanding balance due on the maturity date. Our obligations under this facility are secured by a first priority lien on our capital stock and assets and a second priority lien on all of the assets subject to a first priority lien securing the asset-based facility.

The term loan requires prepayment of principal in an amount of up to 50% of our excess cash flows, as defined in the credit agreement, which commenced in the calendar year ended December 31, 2008. The excess cash flow prepayment is applied to the quarterly scheduled principal payments in the order that they are otherwise required to be paid. We were not required to make an excess cash flow payment for 2012 or 2011.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The term loan bears interest at LIBOR plus a margin of 5.25% per annum with respect to the extended term loan and 3.50% per annum with respect to the non-extended term loan. We can elect to convert all or a portion of the balance due on the term loan to an interest rate based on the prime rate plus an applicable margin of 4.25% per annum with respect to the extended term loan and 2.5% per annum with respect to the non-extended term loan. Interest is payable on the agreed upon ending date of each related LIBOR borrowing agreement, and quarterly for prime rate borrowings. As of December 31, 2012, the applicable interest rate on the note was 5.56% on $613.8 million of outstanding principal and 3.71% on $7.9 million of outstanding principal.

We are required to pay an annual agency fee of $125,000, payable quarterly in advance.

Guitar Center Senior Notes

The senior unsecured notes bear interest at 11.50% per annum, payable semi-annually in April and October. As of December 31, 2012, the senior notes were in the principal amount of $394.9 million and mature in October 2017.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Holdings Senior PIK Notes

The senior PIK notes bear interest at 14.09% per annum. Interest on the senior PIK notes is payable semi-annually in April and October, except that until October 15, 2010, interest on the senior PIK notes was at our election payable either by increasing the principal amount of the senior PIK notes or by issuing additional senior PIK notes. As of December 31, 2012, payment-in-kind interest of $189.7 million had been added to the initial principal balance senior PIK notes, and the resulting outstanding principal amount was $564.7 million.

Under the amended terms of the senior PIK notes, we were permitted to require the holders of the senior PIK notes to reinvest 50% of the four semi-annual interest payments due between April 2011 and October 2012 in newly issued Guitar Center senior notes, provided a secured net leverage ratio of 8.5x was maintained. For periods after October 2012, interest on the senior PIK notes is payable only in cash.

We elected to require the holders of the senior PIK notes to reinvest 50% of the October 2012 interest payment in newly issued Guitar Center senior notes totaling $19.9 million. We did not make the reinvestment election for any part of the interest payments due in 2011 or in April 2012 on the senior PIK notes.

Covenants

These loan facilities contain covenants that, among other things, limit our ability to:

- pay dividends on, redeem or repurchase capital stock;
- make investments and other restricted payments;
- incur additional indebtedness or issue preferred stock;
- create liens;
- permit dividend or other payment restrictions on our restricted subsidiaries;
- sell all or substantially all of our assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

In addition, the asset-based facility requires us to maintain a minimum consolidated fixed charge coverage ratio during a cash dominion event when the excess availability in that facility falls below a minimum threshold or during certain events of default. The term loan requires us to maintain a maximum consolidated secured net leverage ratio and limits our ability to make capital expenditures.

As of December 31, 2012, we were in compliance with all of our debt covenants.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future maturities

Future maturities of long-term debt as of December 31, 2012 were as follows (in thousands):

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Guitar Center	Holdings	Holdings Consolidated
2013 (1)	$ 5,941	$ 129,784	$ 135,725
2014	14,314	–	14,314
2015	6,500	–	6,500
2016	6,500	–	6,500
2017	983,451	–	983,451
Thereafter	–	434,889	434,889
	$ 1,016,706	$ 564,673	$ 1,581,379

(1) We anticipate making a one-time principal payment on the senior PIK notes in April 2013. This payment will be $129.8 million, which is the amount of previously capitalized PIK interest that is required to be paid to prevent the senior PIK notes from being treated as "applicable high yield discount obligations" within the meaning of Section 163(i)(1) of the Internal Revenue Code. This amount is included in current portion of long-term debt in Holdings' consolidated balance sheet as of December 31, 2012. The remaining unpaid balance of the senior PIK notes matures in April 2018.

Certain dividend restrictions

The guarantors under the term loan, the asset-based facility and the senior notes are generally not restricted in their ability to dividend or otherwise distribute funds to Guitar Center except for restrictions imposed under applicable state corporate law. However, Guitar Center is limited in its ability to pay dividends or otherwise make distributions to Holdings under the term loan, the asset-based facility and the indenture governing the senior notes. Specifically, the term loan and the asset-based facility each prohibits Guitar Center from making any distributions to Holdings except for limited purposes, including, but not limited to: (i) the payment of interest on the senior PIK notes by Holdings so long as no payment or bankruptcy event of default exists; (ii) general corporate, overhead and similar expenses of Holdings incurred in the ordinary course of business, (iii) the payment of taxes by Holdings as the parent of a consolidated group that includes Holdings, Guitar Center and the guarantors, (iv) the partial redemption or prepayment of the senior PIK notes by Holdings to the extent necessary to make an "applicable high yield discount obligation" (AHYDO) "catch-up" payment thereon and (v) advisory fees not to exceed the amounts payable in respect thereof under the advisory agreement with Bain Capital as in effect on October 9, 2007 so long as certain events of default do not exist. Notwithstanding the foregoing, so long as no event of default existed or exists, Guitar Center may make distributions to Holdings in an aggregate amount not to exceed $25 million after March 2, 2011.

The senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings in an amount not to exceed (a) 50% of Guitar Center's consolidated net income for the period beginning March 2, 2011 and ending as of the end of the last fiscal quarter before the proposed payment, plus (b) 100% of the net cash proceeds received by Guitar Center from the issuance and sale of capital stock, plus (c) 100% of cash contributions to Guitar Center's capital, plus (d) to the extent not included in consolidated net income, 100% of the amount received in cash from the sale or other disposition of certain investments, provided that certain conditions are satisfied, including that Guitar Center would, at the time of the proposed payment and after giving pro forma effect thereto, have been permitted to incur at least $1.00 of additional indebtedness pursuant to the fixed charge coverage ratio test set forth in the indenture. Similar provisions regarding dividends and other distributions payable by Holdings are included in the senior PIK notes indenture.

Notwithstanding the foregoing, the senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings to, among other things, fund (A) interest payments on the senior PIK notes, (B) any mandatory redemption of a portion of the senior PIK notes pursuant to the senior PIK notes indenture, (C) an offer to purchase upon a change of control or asset sale to the extent required by the terms of the senior PIK notes indenture, (D) tax payments, (E) general corporate overhead and operating expenses and (F) fees of Holdings under the advisory agreement with Bain Capital.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Holdings has no assets or liabilities other than its net investment in Guitar Center, deferred financing fees related to the senior PIK notes and the outstanding balance on the senior PIK notes. It has no operating activities and its net loss consists of interest expense on the senior PIK notes.

Deferred Financing Fees

Amortization of deferred financing fees included in interest expense in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31,	
	2012	2011
Holdings	$ 3,191	$ 2,896
Guitar Center	2,779	2,485

Unamortized deferred financing fees included in other assets in the consolidated balance sheets were as follows (in thousands):

	December 31,	
	2012	2011
Holdings	$ 13,097	$ 15,524
Guitar Center	10,899	12,913

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Segment Information

We have three reporting segments; Guitar Center, direct response and Music & Arts.

Beginning in 2012, our corporate segment includes the activities of our shared services subsidiary, GTRC Services, Inc. This shared service organization operates support services for all our brands, including distribution and fulfillment centers, contact centers and technology services that were previously managed separately by our Guitar Center and direct response segments. We believe that centralizing the management of these shared operations will improve our flexibility to efficiently manage these resources. Substantially all of the costs of these shared service operations are allocated among our segments based on estimated usage, as determined primarily based on sales, cost of goods sold or call volume at each business.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Certain costs related to corporate office facilities were previously incurred directly by our Guitar Center and direct response segments. Upon implementing GTRC Services, Inc., our corporate office facility is shared and the related costs are not allocated to our business segments. Segment results for 2011 and 2010 have been adjusted to reflect this change.

The Guitar Center segment sells products and services through Guitar Center retail stores and online. For the Guitar Center segment, operating costs primarily consist of labor, advertising, depreciation and store occupancy costs.

The direct response segment sells products through direct mail catalogs and e-commerce websites. For the direct response segment, operating costs primarily consist of catalog costs, e-commerce advertising costs and order processing and fulfillment costs.

The Music & Arts segment specializes in band instruments for sales and rental, serving students, teachers, band directors and college professors.

Corporate consists of centralized management, general and administrative functions and unallocated costs of our shared service operations. Interest expense, interest income and income tax expense or benefit are evaluated on a consolidated basis and are not considered in the evaluation of segment results.

Our chief operating decision makers include our chief executive officer and chief financial officer. Our chief operating decision makers evaluate segment performance based primarily on net sales and Adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, with adjustments for certain non-cash and non-recurring expenses and other adjustments permitted under our debt agreements. Management views Adjusted EBITDA as an important measure of segment performance because it is considered an indicator of segment operating cash flows and facilitates comparison of operating performance on a consistent basis. Adjusted EBITDA is a measure which is also used in calculating financial ratios in several debt covenants in our asset-based credit facility and term loan.

The following tables summarize financial information for Holdings' reporting segments (in thousands):

	Year ended December 31, 2012				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$ 1,596,094	$ 189,766	$ 353,331	$ –	$ 2,139,191
Gross profit	459,680	86,043	97,668	–	643,391
Selling, general and administrative expenses	356,832	69,791	95,196	25,905	547,724
Operating income (loss)	102,848	16,252	2,472	(25,905)	95,667
Depreciation and amortization	66,457	4,414	15,801	4,233	90,905
Adjusted EBITDA	173,153	21,041	19,159	(13,349)	200,004
Capital expenditures	39,041	7,051	7,858	13,518	67,468
Total assets					
Holdings	1,410,303	113,119	166,496	126,640	1,816,558
Guitar Center	1,410,303	113,119	166,496	155,891	1,845,809

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Year ended December 31, 2011				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$ 1,530,133	$ 178,443	$ 374,001	$ –	$ 2,082,577
Gross profit	448,543	83,307	103,293	–	635,143
Selling, general and administrative expenses	355,879	68,373	116,798	38,176	579,226
Impairment of intangible assets	–	–	45,961	–	45,961
Impairment of goodwill	–	–	107,026	–	107,026
Operating income (loss)	92,664	14,934	(166,492)	(38,176)	(97,070)
Depreciation and amortization	74,719	4,380	24,264	2,834	106,197
Adjusted EBITDA	174,554	19,607	19,034	(16,285)	196,910
Capital expenditures	29,269	3,535	8,881	15,639	57,324
Total assets					
Holdings	1,480,701	105,170	171,639	101,556	1,859,066
Guitar Center	1,480,701	105,170	171,639	126,239	1,883,749

	Year ended December 31, 2010				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$ 1,444,829	$ 175,659	$ 390,407	$ –	$ 2,010,895
Gross profit	416,212	80,125	109,514	–	605,851
Selling, general and administrative expenses	343,407	68,595	105,974	28,159	546,135
Operating income (loss)	72,805	11,530	3,540	(28,159)	59,716
Depreciation and amortization	80,574	4,317	17,961	1,994	104,846
Adjusted EBITDA	160,479	16,458	22,216	(14,846)	184,307
Capital expenditures	19,659	2,685	13,346	12,197	47,887
Total assets					
Holdings	1,471,302	101,280	331,737	216,399	2,120,718
Guitar Center	1,471,302	101,280	331,737	211,296	2,115,615

Segment operating results of Guitar Center are the same as for Holdings, except that in 2011, selling, general and administrative expenses of $0.3 million related to the amendments and extension of our long-term debt were incurred at the corporate segment at Holdings and were not allocated to Guitar Center.

We record property and equipment at our segments based on direct capital expenditures made at each segment. We allocate depreciation and amortization expense to our segments based on actual usage for assets used exclusively at each segment, and based on estimated usage, primarily measured by gross sales, for shared assets. Although depreciation and amortization expense are excluded from Adjusted EBITDA, these measures are regularly provided to our chief operating decision makers.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Material unallocated assets at our corporate segment primarily consist of cash, property and equipment related to our shared data centers and corporate office facilities, deferred income taxes and capitalized financing fees.

We reassigned the assets of our shared data centers and our corporate office facilities and certain cash accounts to the corporate segment upon implementing our shared services organization. Total assets for each segment in 2011 and 2010 have been adjusted to reflect this change.

Table of Contents

The following tables present a reconciliation of Adjusted EBITDA to consolidated income or loss before income taxes (in thousands):

Holdings

	Year ended December 31,		
	2012	**2011**	**2010**
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458
Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	165,344	161,036	145,233
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	–	5,257	–
Impairment charges	559	154,281	884
Other adjustments	10,608	24,863	13,704
Consolidated loss before income taxes	$ (69,677)	$ (258,106)	$ (85,517)

Guitar Center

	Year ended December 31,		
	2012	**2011**	**2010**
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	85,369	81,063	70,842
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	–	5,257	–
Impairment charges	559	154,281	884
Other adjustments	10,608	24,585	13,704
Consolidated income (loss) before income taxes	$ 10,298	$ (177,855)	$ (11,126)

Adjustments in the calculation of Adjusted EBITDA include the following:

- Non-cash charges include stock-based compensation expense and the non-cash portion of rent expense.

- Non-recurring charges in 2011consist of the loss recognized on the sale of our corporate aircraft.

Table of Contents

- Other adjustments include restructuring charges, severance payments, bonuses under our long-term management incentive plan, various debt and financing costs, gains and losses on disposal of assets, special charges and management fees paid to Bain Capital as discussed in Note 13.

  Restructuring charges included in other adjustments were $2.1 million for 2012 and $13.0 million for 2011.

7. Lease Commitments

We lease offices, retail stores, distribution centers and personal property used in our business. These leases are operating leases which expire at varying dates through 2022. We are typically required to pay for normal repairs and maintenance, property taxes and insurance under these leases.

The future annual minimum lease payments at December 31, 2012 under operating leases were as follows (in thousands):

Year	Operating Leases
2013	76,789
2014	69,271
2015	61,596
2016	49,623
2017	30,922

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Thereafter	68,217
Total minimum lease payments	$ 356,418

Total rent expense included in our consolidated statements of comprehensive income or loss is $76.7 million for 2012, $70.6 million for 2011 and $69.2 million for 2010. These rent expense amounts exclude common area maintenance expenses.

As of December 31, 2012, our obligations under capital leases were not material.

8. Employee Benefit Plan

We have a defined contribution 401(k) plan with a 401(a) profit-sharing component for the exclusive benefit of eligible employees and their beneficiaries. Eligible employees can contribute from one to seventy-five percent of their compensation.

At management' s discretion, we may make matching contributions to the plan at a uniform percentage of the eligible employees' contributions. We historically have not made any matching contributions.

At management' s discretion, we also may make profit-sharing contributions to the plan. The profit-sharing contributions are allocated based on the relative compensation of all eligible employees. We did not make any profit sharing contributions in 2012, 2011 or 2010.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock-Based Compensation

Stock Option Plans

On December 29, 2009, the Board of Directors adopted the 2009 Amended and Restated Management Equity Plan. The 2009 plan modified all stock options that were outstanding under the 2007 Management Equity Plan.

The 2009 plan provides for the granting of stock awards with service-, performance- and market-based components to executive officers and other key employees. An aggregate of 1,102,500 shares of the common stock of Holdings are reserved for issuance of options, plus an additional number of rollover options, described below. Option awards are granted by the compensation committee, with an exercise price equal to or greater than the fair value of our stock at the date of grant. Service-based awards generally vest over five years of continuous service. Performance- and market-based awards contingently vest over five years of continuous service and become exercisable only when they have both time vested and met the performance and market condition requirements specified in the award.

Options granted under the 2009 plan have a ten year contractual term and are divided into three equal tranches. Tranche 1 and tranche 2 awards are subject to a five-year service-based vesting period with 20% vesting on each anniversary date based on the original grant date. Tranche 3 time vest in the same manner as tranche 1 and 2 awards and only become fully vested and exercisable upon the achievement of performance- and market-based vesting conditions. The performance- and market-based conditions of tranche 3 awards

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

require specified levels of investment return to be realized by the majority of common stock holders through certain transactions specified in the plan.

The awards provide for accelerated vesting if there is a change in control, as defined in the 2009 plan. As of December 31, 2012, the performance conditions for tranche 3 awards were not deemed probable of achievement and therefore no stock-based compensation expense had been recognized for tranche 3 awards. When the performance conditions are deemed to be probable of achievement, the related stock-based compensation expense will then be recognized based on the service-based vesting achieved at that time.

Rollover Options

In connection with our acquisition by affiliates of Bain Capital, certain members of management elected to reinvest their equity in fully vested stock option awards outstanding from 2006 and earlier Guitar Center stock option plans. The options granted in this reinvestment, authorized under the 2009 plan, are referred to as rollover options. During the fourth quarter of 2010, all outstanding rollover options, with exercise prices ranging from $15.31 to $15.75, were exercised in a cashless exercise, whereby shares were surrendered to satisfy the exercise price. Concurrently with the cashless exercise, 224,210 new options were granted to replace the surrendered shares. The replacement options were fully vested with a contractual term of ten years from the grant date and had an exercise price of $22.82, equal to the estimated fair value of Holdings' common stock on the grant date. We recognized compensation cost of $1.5 million in 2010 related to the grant of vested replacement options. Compensation cost in 2011 related to rollover options was not material. We did not have any compensation cost related to rollover options in 2012.

Option Valuation

We use the Black-Scholes-Merton method to value stock option grants that do not have market-based vesting conditions. We use a binomial model to value stock option grants having market-based vesting conditions. We use a combination of historical data and internally-developed expectations about employees' option exercise and post-vesting departure behavior to estimate the expected term of the options. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve on the grant date. Because our shares are not publicly traded, there is no market price for our stock and volatility of the fair value of our stock is not readily calculable. We estimate the fair value of our stock annually during the first quarter, or whenever a transaction requires a valuation, using a combination of observed market multiples for similar publicly-traded companies and a discounted cash flow analysis. The discounted cash flow analysis is based on internally-developed cash flow forecasts, discounted using our weighted-average cost of capital, and considers our net assets and credit risk to arrive at net enterprise value. We discount the calculated fair value to account for illiquidity of our shares. We estimate the expected volatility based on the average historical volatility of similar entities with publicly traded shares.

Holdings granted 22,610 options in 2012, 236,829 options in 2011 and 409,710 options in 2010.

We recognized total stock-based compensation expense of $1.1 million in 2012, $1.6 million in 2011 and $3.2 million in 2010. This expense is included in selling, general, and administrative expenses in the consolidated statements of comprehensive income or loss.

As of December 31, 2012, there was approximately $2.4 million of total unrecognized compensation cost related to stock option grants under the 2009 plan, of which $1.5 million relates to tranche 1 and 2 options and $0.9 million relates to tranche 3 options. This

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

cost is expected to be recognized over the weighted-average period of 2.5 years, assuming full achievement of related performance and market conditions.

10. Income Taxes

Total income tax expense or benefit for 2012, 2011 and 2010 was as follows (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$ –	$ –	$ (268)
State	1,943	4,254	3,469
Total current tax provision	1,943	4,254	3,201
Deferred:			
Federal	–	(20,991)	(28,797)
State	549	(4,430)	(3,544)
Total deferred tax provision	549	(25,421)	(32,341)
Total income tax expense (benefit)	$ 2,492	$ (21,167)	$ (29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$ 20,005	$ 4,917	$ 16,004
State	4,750	3,620	1,335
Total current tax provision	24,755	8,537	17,339
Deferred:			
Federal	(16,584)	(29,171)	(16,823)
State	(1,268)	(3,516)	(2,778)
Total deferred tax provision	(17,852)	(32,687)	(19,601)
Total income tax expense (benefit)	$ 6,903	$ (24,150)	$ (2,262)

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Actual income taxes differ from the statutory tax rate of 35% as applied to net income or loss before income taxes as follows (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Expected income tax benefit	$ (24,387)	$ (90,337)	$ (29,622)
State income taxes, net of federal tax benefit	2,492	(1,463)	(440)
Goodwill impairment	–	37,460	–
Stock options	567	–	(159)
Change in valuation allowance	23,348	32,247	–
Meals & entertainment and non-deductible items	352	348	337
Other	120	578	744
Actual income tax expense (benefit)	$ 2,492	$ (21,167)	$ (29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Expected income tax expense (benefit)	$ 3,604	$ (62,249)	$ (3,894)
State income taxes, net of federal tax benefit	2,280	(253)	746
Goodwill impairment	–	37,460	–
Stock options	567	–	(159)
Meals & entertainment and non-deductible items	352	348	337
Other	100	544	708
Actual income tax expense (benefit)	$ 6,903	$ (24,150)	$ (2,262)

Table of Contents

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented below (in thousands):

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Holdings		Guitar Center	
	December 31,		December 31,	
	2012	2011	2012	2011
Deferred tax assets:				
Net operating loss	$ 50,194	$ 43,179	$ –	$ –
State net operating loss carryforward	2,247	2,042	–	–
Accrued liabilities	26,488	26,572	26,688	26,572
Merchandise inventories	3,215	2,961	3,215	2,961
Intangibles	8,743	8,084	8,743	8,084
Stock options	2,504	2,652	2,504	2,652
Capital loss carryover	133	129	133	129
Fixed assets	4,893	(2,203)	4,893	(2,203)
Total gross deferred tax assets	98,417	83,416	46,176	38,195
Less valuation allowance	(58,210)	(32,558)	(310)	(310)
Net deferred tax assets	40,207	50,858	45,866	37,885
Deferred tax liabilities:				
Depreciation	(5,534)	(5,813)	(5,534)	(5,813)
Intangibles	(110,864)	(120,196)	(110,864)	(120,196)
Other	(181)	(441)	(181)	(441)
Total gross deferred tax liabilities	(116,579)	(126,450)	(116,579)	(126,450)
Net deferred tax liabilities	$ (76,372)	$ (75,592)	$ (70,713)	$ (88,565)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

We consider scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on the available objective evidence, management believes it is more likely than not that Holdings will not fully realize the benefits of its deductible temporary differences. Accordingly, we increased the valuation allowance on Holdings' federal and state net operating losses and other deferred tax assets by $25.7 million in 2012 and $32.2 million in 2011.

Holdings' available unused net operating loss carryforwards, which may be applied against future taxable income, expire in tax years between 2027 and 2031.

We account for the tax benefit resulting from the employee exercises of non-qualifying stock options or the disqualified disposition of incentive stock options as a reduction in income tax payable and an increase to additional paid-in capital.

Holdings' charge in lieu of taxes attributable to tax benefit from employee stock options was $0.6 million in 2010. There was no charge in lieu of taxes attributable to tax benefit from employee stock options in 2012 or 2011.

Table of Contents

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The reconciliation of unrecognized tax benefits in 2012, the balance of which is classified as other current assets in the consolidated balance sheet, is as follows (in thousands):

Balance at January 1, 2012	$	1,245
Additions based on tax positions of current years		–
Additions based on tax positions of prior years		181
Reductions based on tax positions of prior years		(133)
Balance at December 31, 2012	$	1,293

The amount of unrecognized tax benefits that, if recognized, would impact the effective rate as of December 31, 2012 was $1.3 million.

As of December 31, 2012 and 2011, accrued interest and penalties related to uncertain tax positions were not material. Our policy is to classify interest and penalties as income tax expense.

Tax years that remain subject to examination are 2009 and forward by the Internal Revenue Service and 2008 and forward by other state and local jurisdictions. It is reasonably possible that our recognized tax benefit could change. However, we do not expect any such change to be material.

Table of Contents

11. Fair Value Measurements

The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under GAAP. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions.

Valuation inputs are classified into the following hierarchy:

- Level 1 Inputs− Quoted prices for identical instruments in active markets.
- Level 2 Inputs− Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value
- Level 3 Inputs− Instruments with primarily unobservable value drivers.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Valuation policies and procedures for fair value measurements using level 3 inputs are established by finance management reporting to our chief financial officer. We corroborate level 3 inputs with historical and market information where possible and appropriate and we may engage third-party valuation firms to assist us in determining certain fair value measurements.

We do not have any material assets or liabilities measured at fair value on a recurring basis.

The fair values of cash, receivables, accounts payable, accrued expenses and other current liabilities approximate their carrying amounts because of their short-term nature.

Some assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These assets can include long-lived and intangible assets that have been reduced to fair value when they are impaired and long-lived assets that are held for sale. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Year ended December 31, 2012				
	Level 1	Level 2	Level 3	Total	Total Losses
Specific-store leasehold improvements	–	–	$ 195	$ 195	$ 559

	Year ended December 31, 2011				
	Level 1	Level 2	Level 3	Total	Total Losses
Direct response goodwill, net of accumulated impairment losses	$ –	$ –	$ –	$ –	$ 107,026
Direct response trademarks and trade names	–	–	11,500	11,500	32,500
Direct response customer relationship intangible asset	–	–	6,800	6,800	13,461
Specific-store leasehold improvements	–	–	745	745	1,294

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We estimate the fair value of goodwill using a combination of income-based and market-based approaches using level 3 inputs. We estimate the fair value of other intangible assets using an income-based approach with level 3 inputs. The methods and assumptions used to measure the fair value of goodwill are discussed in Note 2.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We estimate the fair value of our customer relationship intangible assets using a discounted cash flow analysis, specifically the excess earnings method. This approach uses unobservable inputs, including projected revenue and net cash flows related to our existing customer relationships, our estimates of future customer retention and our internal cost of capital.

We estimate the fair values of indefinite-lived trademarks and trade names using a discounted cash flow analysis, specifically the relief-from-royalty method. This approach uses unobservable inputs, including projected revenue and our internal cost of capital. This approach also uses market observations about royalty rates.

We estimate the fair value of specific-store leasehold improvements using an income-based approach, considering the cash flows expected over the remaining lease term for each location. The income-based approach uses unobservable inputs, including projected free cash flow and internal cost of capital and accordingly these fair value measurements have been classified as level 3 in the fair value hierarchy.

The following tables present quantitative information about level 3 inputs used in our fair value measurements:

Fair Value Measurement	Fair Value at December 31, 2012 (in thousands)	Valuation technique(s)	Unobservable input	Range
Specific-store leasehold improvements	$ 195	Discounted cash flow	Weighted-average cost of capital	9.8%
			Long-term revenue growth rate	3.0%

Fair Value Measurement	Fair Value at December 31, 2011 (in thousands)	Valuation technique(s)	Unobservable input	Range
Direct response trademarks and trade names	$ 11,500	Discounted cash flow	Weighted-average cost of capital	16.5%
			Long-term revenue growth rate	1.0%
			Royalty rates	0.5% - 1.5%
Direct response customer relationship intangible asset	6,800	Discounted cash flow	Weighted-average cost of capital	17.5%
			Customer attrition rate	59.9% - 25.0%
Specific-store leasehold improvements	745	Discounted cash flow	Weighted-average cost of capital	10.9%
			Long-term revenue growth rate	3.0%

Table of Contents

The following table presents the difference between the carrying amount and estimated fair value of our long-term debt (in thousands):

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Guitar Center				
Senior secured asset-based revolving credit facility	$ –	$ –	$ –	$ –
Senior secured term loan	621,762	600,000	621,762	545,596
Senior unsecured notes	394,890	418,579	375,000	394,542
Capital lease obligations	54	54	700	700
Total Guitar Center	1,016,706	1,018,633	997,462	940,838
Holdings				
Senior unsecured PIK notes	564,673	596,965	564,673	609,312
Holdings Consolidated	$ 1,581,379	$ 1,615,598	$ 1,562,135	$ 1,550,150

We estimate the fair value of our long-term debt using observable inputs classified as level 2 in the fair value hierarchy. We use present value and market techniques that consider rates of return on similar credit facilities recently initiated by companies with like credit quality in similar industries, quoted prices for similar instruments, and inquiries with certain investment communities.

12. Legal

On September 11, 2009, a putative class action was filed by an individual consumer named David Giambusso in the United States District Court for the Southern District of California. The complaint alleged that Guitar Center and other defendants, including a trade association and a large musical instrument manufacturer, exchanged sensitive information and strategies for implementing minimum advertised pricing, attempted to restrict retail price competition and monopolize at trade association-organized meetings, all in violation of Sections 1 and 2 of the Sherman Antitrust Act and California' s Unfair Competition Law. Subsequently, numerous additional lawsuits were filed in several federal courts (and one state court) attempting to represent comparable classes of plaintiffs with parallel allegations. Some of these lawsuits have expanded the group of defendants to include other manufacturers and others have alleged additional legal theories under state laws.

In December 2009 and January 2010, the Judicial Panel on Multidistrict Litigation issued several orders which had the effect of consolidating all pending actions in federal court under the caption In Re Musical Instruments and Equipment Antitrust Litigation, Case No. MDL-2121 ("MDL 2121"), except one filed in Tennessee. A consolidated amended complaint in MDL 2121 was filed on July 16, 2010, in the United States District Court for the Southern District of California. On August 20, 2010, defendants filed a motion to dismiss the consolidated amended complaint. The hearing was held on November 1, 2010. The court rendered its opinion on August 19, 2011, granting the motion to dismiss with leave to amend. Plaintiffs filed a first amended consolidated class action complaint on September 22, 2011. On December 28, 2011, the Magistrate Judge issued an order limiting the scope of discovery to non-public meetings at NAMM conventions. This ruling was affirmed by the District Court on February 7, 2012. On February 24, 2012, plaintiffs filed a second amended complaint. On March 26, 2012, defendants filed a motion to dismiss the second amended complaint. The motion was heard by the court on May 21, 2012. On August 20, 2012, the court dismissed, with prejudice, plaintiffs' Sherman Act claim for failure to plead an antitrust conspiracy. On September 9, 2012, defendants filed a motion to alter or amend the judgment, requesting that the court amend the judgment to include the dismissal of plaintiffs' state-law claims. This motion was denied on jurisdictional grounds. Plaintiffs filed an appeal before the Ninth Circuit Court of Appeals which is currently pending. With regard to the Tennessee action, we had previously filed a motion to dismiss on September 3, 2010. On February 22, 2011, the plaintiff filed an amended complaint, for which we filed an additional motion to dismiss on March 24, 2011. The parties in the Tennessee action have agreed to cooperate with regard to a scheduling order, accordingly there is no hearing date set for the motion to dismiss. The plaintiffs in the consolidated actions are seeking an injunction against further behavior that has been alleged, as well as monetary damages,

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

restitution and treble damages in unspecified amounts. The plaintiffs in the Tennessee action are seeking no more than $5.0 million in compensatory damages. We are not currently able to estimate a probable outcome or range of loss in this matter.

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On August 31, 2011, a putative class action was filed by a former employee in San Francisco Superior Court in an action entitled Carson Pellanda vs. Guitar Center, Inc. The complaint alleges that Guitar Center allegedly violated California wage and hour laws, including failure to provide required meal periods, rest breaks, unpaid work time, and failure to provide accurate itemized wage statements. On October 4, 2011, a first amended complaint was filed, adding new allegations, including wrongful termination. Guitar Center has retained defense counsel. The first amended complaint seeks injunctive relief as well as monetary damages in unspecified amounts. Mediation was held on May 17, 2012. The matter did not settle. On September 6, 2012, a Second Amended Complaint was filed, incorporating the allegations of a parallel wage and hour matter, Gomez vs. Guitar Center Stores, Inc., which was subsequently dismissed. Discovery continues. We are not currently able to estimate a probable outcome or range of loss in this matter.

On May 24, 2011, a putative class action was filed in Los Angeles Superior Court in an action entitled Jason George vs. Guitar Center, Inc. and Guitar Center Stores, Inc. The complaint alleges that Guitar Center violated the California Song-Beverly Credit Card Act by requesting that its customers provide personal identification information in connection with the use of their credit cards. The complaint seeks monetary damages including statutory civil penalties in amounts of up to $1,000 per violation. This matter was subsequently consolidated with Justin Hupalo vs. Guitar Center, a putative class action alleging violations of the Song-Beverly Credit Card Act, filed on October 27, 2011. Discovery continues. In December 2012, a motion for summary judgment was filed on behalf of Guitar Center. This motion is currently pending. We are not currently able to estimate a probable outcome or range of loss in this matter.

In addition to the matters described above, we are involved in various claims and legal actions in the normal course of business. We expect to defend all unresolved actions vigorously. We cannot assure you that we will be able to achieve a favorable settlement of these lawsuits or obtain a favorable resolution if they are not settled. However, it is management' s opinion that, after consultation with counsel and a review of the facts, a material loss with respect to our financial position, results of operations and cash flows is not probable from such currently pending normal course of business litigation matters.

13. Related Party Transactions

In connection with our acquisition by affiliates of Bain Capital in 2007, we entered into an advisory agreement with Bain Capital pursuant to which Bain Capital provides us with management and consulting services and financial and other advisory services. Pursuant to the advisory agreement, we pay Bain Capital a periodic fee of $1.0 million per quarter, plus reimbursement for reasonable out-of-pocket fees, and a fee equal to 1% of the transaction value of each acquisition, disposition or divestiture by or involving us.

The advisory fee totaled $4.5 million in 2012, $4.8 million in 2011 and $4.5 million in 2010. The advisory fee is included in selling, general and administrative expenses. The advisory agreement has a 10-year initial term, and thereafter is subject to automatic one-year extensions unless we or Bain Capital provides written notice of termination. The advisory agreement terminates automatically upon a change of control. The advisory agreement includes customary indemnities in favor of Bain Capital.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

14. Quarterly Financial Data (unaudited)

The following is a presentation of unaudited quarterly results (in thousands):

Holdings

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net loss	$ (16,210)	$ (28,763)	$ (25,658)	$ (1,538)	$ (72,169)

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net loss	$ (11,451)	$ (25,952)	$ (27,383)	$ (172,153)	$ (236,939)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net loss	$ (10,991)	$ (20,134)	$ (23,050)	$ (2,202)	$ (56,377)

Guitar Center

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net income (loss)	$ 2,547	$ (4,817)	$ (2,038)	$ 7,703	$ 3,395

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net income (loss)	$ 1,772	$ (12,398)	$ (13,759)	$ (129,320)	$ (153,705)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net income (loss)	$ 160	$ (8,332)	$ (11,119)	$ 10,427	$ (8,864)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

15. Subsequent Events

We evaluated events and transactions subsequent to December 31, 2012 for disclosure or recognition through the date the financial statements were issued.

Table of Contents

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2012	December 31, 2011
Assets		
Investment in Guitar Center, Inc.	$ 127,925	$ 123,275
Receivable from Guitar Center, Inc.	224,113	303,715
Deferred income taxes	77,993	73,581
Other assets, net	2,197	2,610
Total assets	$ 432,228	$ 503,181
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accrued interest	$ 16,575	$ 16,575
Current portion of long-term debt	129,784	–
Total current liabilities	146,359	16,575
Long-term debt	434,889	564,673
Total liabilities	581,248	581,248
Commitments and contingencies	–	–
Stockholders' deficit:		
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding	–	–
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97
Additional paid-in capital	633,800	632,757
Accumulated deficit	(782,917)	(710,748)
Accumulated other comprehensive loss	–	(173)
Total stockholders' deficit	(149,020)	(78,067)
Total liabilities and stockholders' deficit	$ 432,228	$ 503,181

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Table of Contents

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year ended December 31,		
	2012	2011	2010
General and administrative expenses	$ –	$ 277	$ –
Interest expense	79,975	79,973	74,391
Equity in net income (loss) of Guitar Center, Inc., net of income tax	3,395	(153,705)	(8,864)
Loss before income taxes	(76,580)	(233,955)	(83,255)
Income tax expense (benefit)	(4,411)	2,984	(26,878)
Net loss	(72,169)	(236,939)	(56,377)
Equity in other comprehensive income (loss) of Guitar Center, Inc., net of income tax	173	210	(440)
Comprehensive loss	$ (71,996)	$ (236,729)	$ (56,817)

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

Table of Contents

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2012	2011	2010
Operating activities:			
Net loss	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in net (income) loss of Guitar Center, Inc.	(3,395)	153,705	8,864
Amortization of deferred financing fees	412	410	400
Non-cash interest expense	19,891	8,288	57,415
Deferred income taxes	(4,411)	2,984	(26,878)
Changes in operating assets and liabilities:			

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued expenses and other current liabilities	–	(8,288)	16,576
Net cash used in operating activities	(59,672)	(79,840)	–
Financing activities:			
Repurchase of common stock	(39)	(286)	(729)
Financing fees	–	(902)	–
Repayments from Guitar Center, Inc.	59,711	81,028	729
Net cash provided by financing activities	59,672	79,840	–
Net change in cash	–	–	–
Cash at beginning of year	–	–	–
Cash at end of year	$ –	$ –	$ –
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 59,672	$ 79,562	$ –
Income taxes	–	–	–

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

Schedule I, Condensed Financial Information of Registrant, is required in Securities and Exchange Commission (“SEC”) filings when restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets at the end of the most recent fiscal year. The restricted net assets of Guitar Center, Inc. were $243 million as of December 31, 2012.

Pursuant to the rules and regulations of the SEC, the condensed parent company financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with United States generally accepted accounting principles. In addition, for purposes of this schedule, the investment in wholly-owned subsidiary, Guitar Center, Inc., is accounted for using the equity method of accounting, which is not in accordance with United States generally accepted accounting principles. The condensed financial statements of the parent company should be read in conjunction with the consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc. and the combined notes thereto.

2. Dividends from Subsidiary

The parent company did not receive any dividends from Guitar Center, Inc. during 2012, 2011 or 2010.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

3. Long-Term Debt

The terms and future maturities of the parent company' s long-term debt are presented in Note 5 of the combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc.

Holdings' interest payments on the senior PIK notes are funded by repayments received from Guitar Center, Inc. on intercompany debt. Interest payments due on the senior PIK notes totaled $79.6 million in 2012. Interest payable in 2012 was settled with cash payments of $59.7 million and a reinvestment by the holders of the senior PIK notes in newly issued Guitar Center, Inc. senior notes totaling $19.9 million.

4. Litigation, Contingencies and Commitments

See Note 12 of the combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc. for a discussion of litigation contingencies.

The parent company did not have any separate material long-term obligations or guarantees as of December 31, 2012.

Table of Contents

SCHEDULE II

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands)

	Balance at beginning of year	Additions charged to expense	Deductions from allowance	Balance at end of year
Allowance for doubtful accounts				
Year ended December 31, 2012	$ 2,979	3,840	3,970	$ 2,849
Year ended December 31, 2011	$ 3,030	4,104	4,155	$ 2,979
Year ended December 31, 2010	$ 3,105	4,900	4,975	$ 3,030

Table of Contents

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.

March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER, INC.

By:	/s/ MARTIN HANAKA
Name:	Martin Hanaka
Title:	Interim Chief Executive Officer

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 March 26, 2013:

Signature	Title
/s/ MARTIN HANAKA Martin Hanaka	Interim Chief Executive Officer and Director (principal executive officer)
/s/ TIM MARTIN Tim Martin	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ MATTHEW SPEITEL Matthew Speitel	Vice President of Finance (principal accounting officer)
/s/ MARTY ALBERTSON Marty Albertson	Director and Non-Executive Chairman
/s/ JORDAN HITCH Jordan Hitch	Director
/s/ LEW KLESSEL Lew Klessel	Director
/s/ MATTHEW LEVIN Matthew Levin	Director
/s/ THOMAS STEMBERG Thomas Stemberg	Director

Table of Contents

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.

March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC.

By:	/s/ TIM MARTIN
Name:	Tim Martin
Title:	Vice President and Assistant Secretary

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 March 26, 2013:

Signature	Title
/s/ TIM MARTIN Tim Martin	Vice President and Assistant Secretary (principal executive officer, principal financial officer and principal accounting officer)
/s/ MARTY ALBERTSON Marty Albertson	Director
/s/ JORDAN HITCH Jordan Hitch	Director
/s/ LEW KLESSEL Lew Klessel	Director
/s/ MATTHEW LEVIN Matthew Levin	Director
/s/ THOMAS STEMBERG Thomas Stemberg	Director

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 3.18

CERTIFICATE OF INCORPORATION

OF

WOODWIND & BRASSWIND, INC.

ARTICLE ONE

The name of the Corporation is Woodwind & Brasswind, Inc.

ARTICLE TWO

The address of the Corporation' s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE THREE

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

The total number of shares of capital stock that the Corporation has authority to issue is 1,000 shares of Common Stock, par value $0.01 per share.

ARTICLE FIVE

The name and mailing address of the sole incorporator are as follows:

NAME	MAILING ADDRESS
Leslie A. Cowan	5795 Lindero Canyon Road Westlake Village, CA 91362

ARTICLE SIX

The Corporation is to have perpetual existence.

ARTICLE SEVEN

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Corporation is expressly authorized to make, alter or repeal the by-laws of the Corporation.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

ARTICLE EIGHT

Meetings of stockholders may be held within or outside of the State of Delaware, as the by-laws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the Corporation. Election of directors need not be by written ballot unless the by-laws of the Corporation so provide.

ARTICLE NINE

To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended, a director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director. Any repeal or modification of this ARTICLE NINE shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE TEN

The Corporation expressly elects not to be governed by §203 of the General Corporation Law of the State of Delaware.

ARTICLE ELEVEN

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed herein and by the laws of the State of Delaware, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE TWELVE

To the maximum extent permitted from time to time under the law of the State of Delaware, the Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to its officers, directors or stockholders, other than those officers, directors or stockholders who are employees of the Corporation. No amendment or repeal of this ARTICLE TWELVE shall apply to or have any effect on the liability or alleged liability of any officer, director or stockholder of the Corporation for or with respect to any opportunities of which such officer, director, or stockholder becomes aware prior to such amendment or repeal.

* * * * *

I, THE UNDERSIGNED, being the sole incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is my act and deed and the facts stated herein are true, and accordingly have hereunto set my hand on the 23rd day of January, 2012.

/s/*Leslie A. Cowan*

Leslie A. Cowan, Sole Incorporator

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 3.19

BY-LAWS

OF

WOODWIND & BRASSWIND, INC.

A Delaware corporation
(Adopted as of January 24, 2012)

ARTICLE I
OFFICES

Section 1. Registered Office. The address of the Corporation' s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, New Castle County, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company. The registered office and/or registered agent of the corporation may be changed from time to time by action of the board of directors.

Section 2. Other Offices. The corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 1. Annual Meetings. An annual meeting of the stockholders shall be held each year within 120 days after the close of the immediately preceding fiscal year of the corporation for the purpose of electing directors and conducting such other proper business as may come before the meeting. The date, time and place, if any, and/or the means of remote communication, of the annual meeting shall be determined by the president of the corporation; provided, however, that if the president does not act, the board of directors shall determine the date, time and place, if any, and/or the means of remote communication, of such meeting. No annual meeting of stockholders need be held if not required by the corporation' s certificate of incorporation or by the General Corporation Law of the State of Delaware.

Section 2. Special Meetings. Special meetings of stockholders may be called for any purpose (including, without limitation, the filling of board vacancies and newly created directorships) and may be held at such time and place, within or without the State of Delaware, and/or by means of remote communication, as shall be stated in a notice of meeting or in a duly executed waiver of notice thereof. Such meetings may be called at any time by the board of directors or the president and shall be called by the president upon the written request of holders of shares entitled to cast not less than 50 percent of the votes at the meeting, which written request shall state the purpose or purposes of the meeting and shall be delivered to the president.

Section 3. Place of Meetings. The board of directors may designate any place, either within or without the State of Delaware, and/or by means of remote communication, as the place of meeting for any annual meeting or for any special meeting called by the board of directors. If

---

no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal executive office of the corporation.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Section 4. Notice. Whenever stockholders are required or permitted to take any action at a meeting, written or printed notice stating the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of special meetings, the purpose or purposes, of such meeting, shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting. All such notices shall be delivered, either personally, by mail, or by a form of electronic transmission consented to by the stockholder to whom the notice is given, by or at the direction of the board of directors, the president or the secretary, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the stockholder at his, her or its address as the same appears on the records of the corporation. If given by electronic transmission, such notice shall be deemed to be delivered (a) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (b) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (c) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (1) such posting and (2) the giving of such separate notice; and (3) if by any other form of electronic transmission, when directed to the stockholder. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if (1) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (2) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Stockholders List. The officer who has charge of the stock ledger of the corporation shall make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, and/or (ii) during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 6. Quorum. The holders of a majority of the votes represented by the issued and outstanding shares of capital stock, entitled to vote thereon, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders, except as otherwise provided by statute or by the certificate of incorporation. If a quorum is not present, the holders of a majority of the shares present in person or represented by proxy at the meeting, and entitled to vote at the meeting, may adjourn the meeting to another time and/or place.

Section 7. Adjourned Meetings. When a meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Section 8. Vote Required. When a quorum is present, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the question is one upon which by express provisions of an applicable law or of the certificate of incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 9. Voting Rights. Except as otherwise provided by the General Corporation Law of the State of Delaware or by the certificate of incorporation of the corporation or any amendments thereto and subject to Section 3 of Article VI hereof, every stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of common stock held by such stockholder.

Section 10. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. At each meeting of the stockholders, and before any voting commences, all proxies filed at or before the meeting shall be submitted to and examined by the secretary or a person designated by the secretary, and no shares may be represented or voted under a proxy that has been found to be invalid or irregular.

Section 11. Action by Written Consent. Unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in

the state of Delaware, or the corporation' s principal place of business, or an officer or agent of the corporation having custody of the book or books in which proceedings of meetings of the stockholders are recorded. Delivery made to the corporation' s registered office shall be by hand or by certified or registered mail, return receipt requested or by reputable overnight courier service. All consents properly delivered in accordance with this section shall be deemed to be recorded when so delivered. No written consent shall be effective to take the corporate action referred to therein unless, within 60 days after the earliest dated consent delivered to the corporation as required by this section, written consents signed by the holders of a sufficient number of shares to take such corporate action are so recorded. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Any action taken pursuant to such written consent or consents of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used; provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

Section 12. Action by Telegram, Cablegram or Other Electronic Transmission Consent A telegram, cablegram or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, or by a person or persons authorized to act for a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this section; provided that any such telegram, cablegram or other electronic transmission sets forth or is delivered with information from which the corporation can determine (A) that the telegram, cablegram or other electronic transmission was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder or proxyholder and (B) the date on which such stockholder or proxyholder or authorized person or persons transmitted such telegram, cablegram or electronic transmission. The date on which

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

such telegram, cablegram or electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. No consent given by telegram, cablegram or other electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded if, to the extent and in the manner provided by resolution of the board of directors of the corporation.

ARTICLE III
DIRECTORS

Section 1. General Powers. The business and affairs of the corporation shall be managed by or under the direction of the board of directors.

Section 2. Number, Election and Term of Office. The number of directors which shall constitute the first board shall be three. Thereafter, the number of directors shall be established from time to time by resolution of the board. The directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote

in the election of directors. The directors shall be elected in this manner at the annual meeting of the stockholders, except as provided in Section 4 of this Article III. Each director elected shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal and Resignation. Any director or the entire board of directors may be removed at any time, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of any class or series are entitled to elect one or more directors by the provisions of the corporation' s certificate of incorporation, the provisions of this section shall apply, in respect to the removal without cause of a director or directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director. Each director so chosen shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as herein provided.

Section 5. Annual Meetings. The annual meeting of each newly elected board of directors shall be held without notice (other than notice under these by-laws) immediately after, and at the same place, if any, as the annual meeting of stockholders.

Section 6. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the board of directors may be held without notice at such time and at such place, if any, as shall from time to time be determined by resolution of the board of directors and promptly communicated to all directors then in office. Special meetings of the board of directors may be called, on at least 24 hours notice to each director, either personally, by telephone, by mail, or by facsimile or electronic mail.

Section 7. Quorum, Required Vote and Adjournment. A majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of directors present at a meeting at which a quorum is present shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Section 8. Committees. The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation, which to the extent provided in such resolution or these by-laws shall have and may exercise the powers of the board of directors in the management and affairs of the corporation, except as otherwise limited by law. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the board of directors designating such committee. In the event that a member and that member' s alternate, if alternates are designated by the board of directors as provided in Section 8 of this Article III, of such committee is or are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in place of any such absent or disqualified member.

Section 10. Communications Equipment. Members of the board of directors or any committee thereof may participate in and act at any meeting of such board or committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in the meeting pursuant to this section shall constitute presence in person at the meeting.

Section 11. Waiver of Notice and Presumption of Assent. Any member of the board of directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting, except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

Section 12. Action by Written Consent. Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

ARTICLE IV
OFFICERS

Section 1. Number. The officers of the corporation shall be elected by the board of directors and shall consist of such officers and assistant officers as may be deemed necessary or desirable by the board of directors. Any number of offices may be held by the same person. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable.

Section 2. Election and Term of Office. The president shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of stockholders or as soon thereafter as conveniently may be. The president shall appoint other

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

officers to serve for such terms as he or she deems desirable. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. Any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term by the board of directors then in office.

Section 5. Compensation. Compensation of all officers shall be fixed by the board of directors, and no officer shall be prevented from receiving such compensation by virtue of his or her also being a director of the corporation.

Section 6. The President. The president shall be the chief executive officer of the corporation; shall preside at all meetings of the stockholders and board of directors at which he or she is present; subject to the powers of the board of directors, shall have general charge of the business, affairs and property of the corporation, and control over its officers, agents and employees; and shall see that all orders and resolutions of the board of directors are carried into effect. The president shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. The president shall have such other powers and perform such other duties as may be prescribed by the board of directors or as may be provided in these by-laws.

Section 7. Chief Financial Officer. The chief financial officer of the corporation shall, under the direction of the chief executive officer, be responsible for all financial and accounting matters and for the direction of the offices of treasurer and controller. The chief financial officer shall have such other powers and perform such other duties as may be prescribed by the chairman of the board, the president or the board of directors or as may be provided in these by-laws.

Section 8. Executive Vice-Presidents. The executive vice-president, or if there shall be more than one, the executive vice-presidents in the order determined by the board of directors, shall, in the absence or disability of the president, act with all of the powers and be subject to all the restrictions of the president. The executive vice-presidents shall also perform such other duties and have such other powers as the board of directors, the president or these by-laws may, from time to time, prescribe.

Section 9. Secretary and Assistant Secretaries. The secretary shall attend all meetings of the board of directors, all meetings of the committees thereof and all meetings of the stockholders and record all the proceedings of the meetings in a book or books to be kept for that purpose. Under the president' s supervision, the secretary shall give, or cause to be given, all

notices required to be given by these by-laws or by law, shall have such powers and perform such duties as the board of directors, the president or these by-laws may, from time to time, prescribe, and shall have custody of the corporate seal of the corporation. The secretary, or an assistant secretary, shall have authority to affix the corporate seal to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his or her signature. The assistant secretary, or if

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

there be more than one, the assistant secretaries in the order determined by the board of directors, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors, the president, or secretary may, from time to time, prescribe.

Section 10. Treasurer and Assistant Treasurer. The treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all monies and other valuable effects in the name and to the credit of the corporation as may be ordered by the board of directors; shall cause the funds of the corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the president and the board of directors, at its regular meeting or when the board of directors so requires, an account of the corporation; shall have such powers and perform such duties as the board of directors, the president or these by-laws may, from time to time, prescribe. If required by the board of directors, the treasurer shall give the corporation a bond (which shall be rendered every six years) in such sums and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of the office of treasurer and for the restoration to the corporation, in case of death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in the possession or under the control of the treasurer belonging to the corporation. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the board of directors, shall in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer. The assistant treasurers shall perform such other duties and have such other powers as the board of directors, the president or treasurer may, from time to time, prescribe.

Section 11. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these by-laws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the board of directors.

Section 12. Absence or Disability of Officers. In the case of the absence or disability of any officer of the corporation and of any person hereby authorized to act in such officer' s place during such officer' s absence or disability, the board of directors may by resolution delegate the powers and duties of such officer to any other officer or to any director, or to any other person whom it may select.

ARTICLE V
INDEMNIFICATION OF OFFICERS, DIRECTORS AND OTHERS

Section 1. Nature of Indemnity. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil,

criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer, of the corporation or is or was serving at the request of the corporation as a director, officer, employee, fiduciary, or agent of another corporation or of a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the corporation to the fullest extent which it is empowered to do so by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment) against all expense, liability and loss (including attorneys' fees actually and reasonably incurred by such person in connection with such proceeding), and such indemnification shall inure to the benefit of his or her heirs, executors and administrators; provided that, except as provided in Section 2 hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding initiated by such person only if such proceeding was authorized by the board of directors of the corporation. The right to indemnification conferred in this Article V shall be a contract right and, subject to Sections 2 and 5 hereof, shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

its final disposition. The corporation may, by action of its board of directors, provide indemnification to employees and agents of the corporation with the same scope and effect as the foregoing indemnification of directors and officers.

Section 2. Procedure for Indemnification of Directors and Officers. Any indemnification of a director or officer of the corporation provided for under Section 1 of this Article V or advance of expenses provided for under Section 5 of this Article V shall be made promptly, and in any event within 30 days, upon the written request of the director or officer. If a determination by the corporation that the director or officer is entitled to indemnification pursuant to this Article V is required, and the corporation fails to respond within 60 days to a written request for indemnity, the corporation shall be deemed to have approved the request. If the corporation wrongfully denies a written request for indemnification or advancing of expenses, in whole or in part, or if payment in full pursuant to such request is not properly made within 30 days, the right to indemnification or advances as granted by this Article V shall be enforceable by the director or officer in any court of competent jurisdiction. Such person' s costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the corporation to indemnify the claimant for the amount claimed, but the burden of such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the corporation (including its board of directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 3. Article Not Exclusive. The rights to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article V shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the certificate of incorporation, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Section 4. Insurance. The corporation may purchase and maintain insurance on its own behalf and on behalf of any person who is or was a director, officer, employee, fiduciary, or agent of the corporation or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, whether or not the corporation would have the power to indemnify such person against such liability under this Article V.

Section 5. Expenses. Expenses incurred by any person described in Section 1 of this Article V in defending a proceeding shall be paid by the corporation in advance of such proceeding' s final disposition upon receipt of an undertaking by or on behalf of the director or officer or other person to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 6. Employees and Agents. Persons who are not covered by the foregoing provisions of this Article V and who are or were employees or agents of the corporation, or who are or were serving at the request of the corporation as employees or agents of another corporation, partnership, joint venture, trust or other enterprise, may be indemnified, and may be advanced expenses, to the extent authorized at any time or from time to time by the board of directors.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Section 7. Contract Rights. The provisions of this Article V shall be deemed to be a contract right between the corporation and each director or officer who serves in any such capacity at any time while this Article V and the relevant provisions of the General Corporation Law of the State of Delaware or other applicable law are in effect, and any repeal or modification of this Article V or any such law shall not affect any rights or obligations then existing with respect to any state of facts or proceeding then existing.

Section 8. Merger or Consolidation. For purposes of this Article V, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article V with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

ARTICLE VI
CERTIFICATES OF STOCK

Section 1. Form. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by the president or an executive vice-president and the secretary or an assistant secretary of the corporation, certifying the number of shares owned by such holder in the corporation. If such a certificate is countersigned (1) by a transfer agent or an assistant transfer agent other than the corporation or its employee or (2) by a registrar, other than the corporation or its employee, the signature of any such president, executive vice-president, secretary, or assistant secretary may be facsimiles. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the corporation. Shares of stock of the corporation shall only be transferred on the books of the corporation by the holder of record thereof or by such holder' s attorney duly authorized in writing, upon surrender to the corporation of the certificate or certificates for such shares endorsed by the appropriate person or persons, with such evidence of the authenticity of such endorsement, transfer, authorization, and other matters as the corporation may reasonably require, and accompanied by all necessary stock transfer stamps. In that event, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate or certificates, and record the transaction on its books. The board of directors may appoint a bank or trust company organized under the laws of the United States or any state thereof to act as its transfer agent or registrar, or both in connection with the transfer of any class or series of securities of the corporation.

Section 2. Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his or her legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against the corporation on account of the loss, theft or destruction of any such certificate or the issuance of such new certificate.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Section 3. Fixing a Record Date for Stockholder Meetings. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the board of directors, the

record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the next day preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided that the board of directors may fix a new record date for the adjourned meeting.

Section 4. Fixing a Record Date for Action by Written Consent. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by statute, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation' s registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by statute, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

Section 5. Fixing a Record Date for Other Purposes. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment or any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purposes of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 6. Registered Stockholders. Prior to the surrender to the corporation of the certificate or certificates for a share or shares of stock with a request to record the transfer of such share or shares, the corporation may treat the registered owner as the person entitled to receive dividends, to vote, to receive notifications, and otherwise to exercise all the rights and powers of an owner.

Section 7. Subscriptions for Stock. Unless otherwise provided for in the subscription agreement, subscriptions for shares shall be paid in full at such time, or in such installments and at such times, as shall be determined by the board of directors. Any call made by the board of directors for payment on subscriptions shall be uniform as to all shares of the same class or as to all shares of the same series. In case of default in the payment of any installment or call when

such payment is due, the corporation may proceed to collect the amount due in the same manner as any debt due the corporation.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

ARTICLE VII
GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or any other purpose and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks, Drafts or Orders. All checks, drafts, or other orders for the payment of money by or to the corporation and all notes and other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation, and in such manner, as shall be determined by resolution of the board of directors or a duly authorized committee thereof.

Section 3. Contracts. The board of directors may authorize any officer or officers, or any agent or agents, of the corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 4. Loans. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

Section 5. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 6. Corporate Seal. The board of directors shall provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the corporation and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 7. Voting Securities Owned By Corporation. Voting securities in any other corporation held by the corporation shall be voted by the president, unless the board of directors specifically confers authority to vote with respect thereto, which authority may be general or

confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

Section 8. Inspection of Books and Records. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation' s stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean any purpose reasonably related to such person' s interest as a stockholder. In every instance

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal place of business.

Section 9. Section Headings. Section headings in these by-laws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

Section 10. Inconsistent Provisions. In the event that any provision of these by-laws is or becomes inconsistent with any provision of the certificate of incorporation, the General Corporation Law of the State of Delaware or any other applicable law, the provision of these by-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

ARTICLE VIII
AMENDMENTS

These by-laws may be amended, altered, or repealed and new by-laws adopted at any meeting of the board of directors by a majority vote. The fact that the power to adopt, amend, alter, or repeal the by-laws has been conferred upon the board of directors shall not divest the stockholders of the same powers.

ARTICLE IX
CERTAIN BUSINESS COMBINATIONS

The corporation, by the affirmative vote (in addition to any other vote required by law or the certificate of incorporation) of its stockholders holding a majority of the shares entitled to vote, expressly elects not to be governed by §203 of the General Corporation Law of the State of Delaware.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 10.32

EXECUTIVE SEVERANCE BENEFITS AGREEMENT

This EXECUTIVE SEVERANCE BENEFITS AGREEMENT (the "Agreement") is made and entered into effective as of April 28, 2010 (the "Commencement Date"), between **Guitar Center, Inc.**, a Delaware corporation (the "Company"), and **Eugene J. Joly** (the "Executive").

RECITALS:

A. Executive is currently employed by the Company (which for purposes hereof shall include employment by a Company subsidiary).

B. The Company and Executive wish to set forth the compensation and benefits which Executive shall be entitled to receive in the event Executive' s employment with the Company is terminated under the circumstances described herein.

C. This Agreement supersedes any prior Executive Severance Benefits Agreement between the Company and Executive.

AGREEMENT:

In consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. TERM OF AGREEMENT. This Agreement shall commence on the Commencement Date hereof and shall continue in effect until, if elected by the Company in its sole discretion, immediately prior to the closing of a public offering and sale of the Company' s Common Stock for cash pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, provided that the Company notifies the Executive in writing of such pending termination at least fifteen (15) days but no more than one hundred and twenty (120) days prior to the date of closing of such public offering (the "Scheduled Expiration Date").

2. SEVERANCE.

(a) SEVERANCE. No benefits shall be payable under this Agreement unless there has been a Qualifying Termination. For purposes of this Agreement, a "Qualifying Termination" shall mean a termination of Executive' s employment with the Company prior to the Scheduled Expiration Date (i) by the Company without Cause or (ii) by the Executive with Reasonable Justification. A termination of Executive' s employment as a result of Executive' s death or Disability (as defined below) shall not be a Qualifying Termination. In the event of a Qualifying Termination, Executive shall be entitled to receive the following severance benefits, unless Executive has breached the provisions of this Agreement, in which case the provisions of Section 8(a)(ii) shall apply:

(i) ACCRUED BASE SALARY. The Company shall pay to the Executive his current base salary through the date of termination.

(ii) CASH SEVERANCE. Subject to the provisions of Section 8(o), Executive shall be entitled to receive, at the times specified in Section 2(b), severance pay in an amount equal to the sum of:

(A) Executive' s current annual base salary as in effect immediately prior to the date of termination, payable over the twelve (12) month period commencing on the date of termination (the "Severance Period"); plus

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(B) an annual cash bonus equal to the last annual cash bonus (excluding any portion thereof that the Chief Executive Officer of the Company considered extraordinary and non-recurring) Executive received prior to termination, if any (except as set forth in the immediately preceding clause, the Company shall not be obligated to pay any bonus with respect to the year in which the date of termination occurs or for any completed year for which bonuses have not yet been allocated, regardless of the financial performance of the Company or any other Company policy or prior practice); plus

(C) any unpaid vacation accrued through the date of termination in accordance with Company policy; plus

(D) reimbursement for all outstanding expenses incurred by Executive prior to the date of termination and in the course of performing Executive' s duties as an employee of the Company which are consistent with the Company' s policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company' s requirements with respect to reporting and documenting such expenses.

(iii) BENEFITS. In the event that Executive elects to continue group health insurance coverage for himself and his eligible dependents who were covered under the Company' s medical plans as of the date of termination, at the same level in effect as of the date of termination, pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company shall pay for the amount of his premium payments for such coverage for the Severance Period (or, if such continuation is not permitted by the Company' s insurers beyond the date of termination, a lump sum cash payment equal to the average annual premium the Company pays to obtain health insurance for an employee and his or her eligible dependents, which shall be paid to Executive within sixty (60) days after the date of termination). In the event Executive desires to discontinue this coverage, he shall notify the Company in writing which shall promptly terminate the coverage benefit.

(iv) COMPANY CAR. Executive may at his sole expense elect to (A) assume the lease on any Company-provided automobile used by Executive as of the date of termination, if any, or, if such vehicle is owned by the Company, purchase such vehicle at a price equal to its wholesale "blue book" value or (B) return such vehicle to the Company as provided for in Section 8(h).

(v) EQUITY INCENTIVE PROGRAMS. Following the date of termination, Executive' s equity incentives, if any, shall continue to be governed by the terms of the plan and agreements pursuant to which such equity incentives were granted.

(b) TIMING OF POST-TERMINATION PAYMENTS. Subject to Section 8(o), the severance payments provided for in Section 2(a)(ii)(A) above shall be paid periodically in the same amounts and at the same intervals as Executive' s base salary was paid immediately prior to the date of termination. The severance payment provided for in Section 2(a)(ii)(B) above shall be paid on the last day of the Severance Period. If Executive has breached the provisions of this Agreement, the Company shall have the right to terminate the severance payments provided for in this Section 2 pursuant to the provisions of Section 8(a)(ii).

(c) TAXES. Executive understands and agrees that all payments under this Agreement will be subject to appropriate tax withholding and other deductions, as and to the extent required by law. To the extent any taxes may be payable by the Executive for the benefits provided to him by this Agreement beyond those withheld by the Company, the Executive agrees to pay them himself and to indemnify and hold the Company and the other entities released herein harmless for any tax claims or penalties, and associated attorneys' fees and costs, resulting from any failure by him to make required payments.

(d) EXCLUSIVE REMEDY. Except as otherwise expressly required by law (e.g., COBRA) or as specifically provided herein, all of the Executive' s rights to salary, severance, benefits, bonuses and other amounts hereunder (if any) accruing after the termination of Executive' s employment shall cease upon such termination. In the event of a termination of Executive' s employment

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

with the Company, the Executive' s sole and exclusive remedy shall be to receive the severance payments and benefits described in this Section 2. Executive shall have no duty to mitigate any damages which Executive may suffer as a result of any termination of employment nor shall the severance benefits payable to Executive be reduced by any sums actually earned by Executive as a result of any other employment obtained by Executive.

(e) RELEASE. As a condition to the Executive' s receipt of any post-termination benefits described in this Agreement, the Executive shall be required, within 60 days of Executive' s termination of employment, to execute a general release of all claims arising out of his employment or the termination thereof, which general release will also include a customary non-disparagement covenant from Executive (the "Executive Release"), in a form reasonably acceptable to the Company. Such Executive Release shall specifically relate to all of the Executive' s rights and claims in existence at the time of such execution but shall exclude any continuing obligations the Company or any of its affiliates may have to the Executive following the date of termination under this Agreement or any other agreement expressly providing for obligations to survive the Executive' s termination of employment.

(f) OTHER TERMINATION. If the Employment Period is terminated prior to the Scheduled Expiration Date for any reason other than by the Company without Cause or by the Executive with Reasonable Justification, including as a result of Executive' s death or Disability, the Executive shall be entitled to receive only his base salary and then only to the extent such amount has accrued through the date of termination.

(g) DEFINITION OF CAUSE. For purposes of this Agreement, "Cause" means any termination by the Company of Executive' s employment within ninety (90) days after the Board of Guitar Center, Inc. ("Parent") becomes aware of the occurrence of any of the following:

(i) the ongoing and repeated failure by the Executive to perform such lawful duties consistent with Executive' s position as are reasonably requested by either the Chief Executive Officer of the Company or the Board of Parent in good faith as documented in writing to the Executive;

(ii) the Executive' s ongoing and repeated material neglect of his duties on a general basis, notwithstanding written notice of objection from either the Chief Executive Officer of the Company or the Board of Parent and the expiration of a thirty (30) day cure period;

(iii) the commission by the Executive of any act of fraud, theft or criminal dishonesty with respect to the Company or any of its affiliates, or the conviction of the Executive of any felony;

(iv) the Executive' s failure to adhere to all policies and procedures established by the Company from time to time in its discretion, generally applicable to all executives of the Company and disclosed to Executive, including without limitation, any policies related to sexual harassment, anti-discrimination and similar employment practices;

(v) the commission of any act involving moral turpitude which (y) brings the Company or any of its affiliates into public disrepute or disgrace, or (z) causes material injury to the customer relations, operations or the business prospects of the Company or any of its affiliates; or

(vi) material breach by the Executive of any agreement with the Company or any of its affiliates, including, without limitation, this Agreement and any breach by the Executive of the Nondisclosure, Noncompete and Nonsolicitation provisions provided in Section 3 below (the "Restrictive Covenants"), not cured within thirty (30) days after written notice to Executive from either the Chief Executive Officer of the Company or the Board of Parent; provided, however, that in the event of an intentional breach of the Restrictive Covenants, the Executive shall not have the opportunity to cure.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(h) DEFINITION OF DISABILITY. For purposes of this Agreement the term "Disability" means any long-term disability or incapacity which (i) renders the Executive unable to substantially perform all of his duties hereunder for ninety (90) days during any one hundred eighty (180) day period or (ii) would reasonably be expected to render the Executive unable to substantially perform all of his duties for ninety (90) days during any one hundred eighty (180) day period, in each case as determined by the Board of Parent (excluding the Executive if he should be a member of the Board of Parent at the time of such determination) in its good faith judgment after seeking and reviewing advice from a qualified physician.

(i) DEFINITION OF REASONABLE JUSTIFICATION. For purposes of this Agreement, "Reasonable Justification" means any voluntary termination by the Executive of his employment with the Company within ninety (90) days after the occurrence of any of the following events without Executive' s written consent:

(i) the Executive is directed to perform an act that the Executive reasonably believes after consultation with counsel to be in contravention of law, or which the Executive reasonably believes would subject the Company and himself to material liability, despite his prior express written objection addressed to the Board of Parent with respect to such action;

(ii) there has been any material reduction in the nature or scope of Executive' s responsibilities, or the Executive is assigned duties that are materially inconsistent with his position (in each case, other than on a temporary basis);

(iii) there is any material reduction in the Executive' s base salary or target bonus opportunity or a material reduction in Executive' s other benefits (other than reductions in benefits that generally affect all employees entitled to such benefits ratably);

(iv) the Executive is required by the Company or any of its affiliates, after written objection by the Executive addressed to the Chief Executive Officer of the Company, to relocate his principal place of employment outside a radius of fifty (50) miles from his place of employment immediately prior to such relocation; or

(v) there is a material failure by the Company or any of its affiliates to perform any of its obligations to the Executive under this Agreement; provided, however, that with respect to breaches of clauses (ii), (iii) and (v) above, the Company shall be given written notice by Executive within 30 days of the occurrence of such breach and thirty (30) days to cure such breach after receipt of such notice.

3. RESTRICTIVE COVENANTS.

(a) NONDISCLOSURE AND NONUSE OF CONFIDENTIAL INFORMATION.

(i) The Executive will not disclose to a third party or use for his personal benefit or for the benefit of a third party, at any time, either during the Executive' s employment period or thereafter, any Confidential Information (as defined below) of which the Executive is or becomes aware, whether or not such information is developed by him, except to the extent that such disclosure or use is directly related to and required by the Executive' s performance in good faith of duties assigned to the Executive by the Company or as required by law or as necessary for Executive to enforce his rights hereunder. The Executive will take all reasonable and appropriate steps to safeguard Confidential Information and to protect it against disclosure, misuse, espionage, loss and theft. The Executive shall deliver to the Company at the termination of his or her employment, or at any time the Company may request, all memoranda, notes, plans, records, reports, computer tapes and software and other documents and data (and copies thereof)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

relating to the Confidential Information, Work Product (as defined below) or the business of the Company or any of its subsidiaries or its affiliates which the Executive may then possess or have under his control.

(ii) As used in this Agreement, the term "Confidential Information" means information that is not generally known to the public and that is used, developed or obtained by the Company in connection with its business, including but not limited to (i) information, observations and data obtained by the Executive while employed by the Company (including those obtained prior to the date of this Agreement) concerning the business or affairs of the Company, its subsidiaries or affiliates, (ii) products or services, (iii) fees, costs and pricing structures, (iv) designs, (v) analyses, (vi) drawings, photographs and reports, (vii) computer software, including operating systems, applications and program listings, (viii) flow charts, manuals and documentation, (ix) data bases, (x) accounting and business methods, (xi) inventions, devices, new developments, methods and processes, whether patentable or unpatentable and whether or not reduced to practice, (xii) customers and clients and customer or client lists, (xiii) other copyrightable works, (xiv) all production methods, processes, technology and trade secrets, and (xv) all similar and related information in whatever form. Confidential Information will not include any information that has been published in a form generally available to the public prior to the date the Executive proposes to disclose or use such information. Confidential Information will not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

(b) INVENTIONS AND PATENTS.

(i) The Executive agrees that all inventions, innovations, improvements, technical information, systems, software developments, methods, designs, analyses, drawings, reports, service marks, trademarks, tradenames, logos and all similar or related information (whether patentable or unpatentable) which relates to the Company' s or any of its subsidiaries or affiliates' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by the Executive (whether or not during usual business hours and whether or not alone or in conjunction with any other person) while employed by the Company (including those conceived, developed or made prior to the date of this Agreement) together with all patent applications, letters patent, trademark, tradename and service mark applications or registrations, copyrights and reissues thereof that may be granted for or upon any of the foregoing (collectively referred to herein as, the "Work Product") belong to the Company, such subsidiary or such affiliate. The Executive will promptly disclose such Work Product as may be susceptible of such manner of communication to the Company' s board of directors and perform all actions reasonably requested by the board (whether during or after the Executive' s employment period) to establish and confirm such ownership (including, without limitation, the execution and delivery of assignments, consents, powers of attorney and other instruments) and to provide reasonable assistance to the Company or any of its subsidiaries or affiliates in connection with the prosecution

of any applications for patents, trademarks, trade names, service marks or reissues thereof or in the prosecution or defense of interferences relating to any Work Product.

(ii) CALIFORNIA EMPLOYEE PATENT ACT NOTIFICATION. In accordance with Section 2872 of the California Employee Patent Act, West' s Cal. Lab. Code Section 2870 et. seq., Executive is hereby advised that Section 3(b)(i) does not apply to any invention, new development or method (and all copies and tangible embodiments thereof) made solely by Executive for which no equipment, facility, material, Confidential Information or intellectual property of the Company or any of its subsidiaries or affiliates was used and which was developed entirely on the Executive' s own time; provided, however, that Section 3(b)(i) shall apply if the invention, new development or method (x) relates to the Company' s

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

or any of its Subsidiaries' or affiliates actual or demonstrably anticipated businesses or research and development, or (y) results from any work performed by Executive for the Company or any of its subsidiaries or affiliates.

(c) NON-COMPETE AND NON-SOLICITATION.

(i) The Executive acknowledges and agrees with the Company that during the course of the Executive' s involvement and/or employment with the Company, such Executive has had and will continue to have the opportunity to develop relationships with existing employees, vendors, suppliers, customers and other business associates of the Company which relationships constitute goodwill of the Company, and the Company would be irreparably damaged if the Executive were to take actions that would damage or misappropriate such goodwill. Accordingly, the Executive agrees as follows:

(A) The Executive acknowledges that the Company and its subsidiaries currently conducts its business throughout the United States, including without limitation the areas listed on Exhibit A attached hereto (the "Territory"). For purposes hereof, the "Territory" shall also include any international market in which the Company or any of its subsidiaries conducts its business or has plans to conduct its business, in either event, at the time of the Executive' s date of termination. Accordingly, during the period commencing on the date hereof and ending on the one-year anniversary of the Executive' s termination of employment with the Company or any of its subsidiaries or affiliates, (such period is referred to herein as the "Non-Compete Period"), the Executive shall not, directly or indirectly, enter into, engage in, assist, give or lend funds to or otherwise finance, be employed by or consult with, or have a financial or other interest in, any business which engages in marketing, selling, renting or otherwise providing musical instruments, pro-audio equipment or related accessories to retail consumers (including, without limitation, students, schools and other education institutions) through any means of commerce (including without limitation physical storefronts, mail order or the Internet) within the Territory (the "Line of Business"), whether for or by himself or as a representative for any other person or entity.

(B) Notwithstanding the foregoing, the aggregate passive ownership by the Executive of no more than two percent (on a fully-diluted basis) of the

outstanding equity securities of any entity, which securities are traded on a national or foreign securities exchange, quoted on the Nasdaq Stock Market or other automated quotation system, and which entity competes with the Company (or any subsidiary or affiliate) within the Territory, shall not be deemed to be giving or lending funds to, otherwise financing or having a financial interest in a competitor. In the event that any entity in which the Executive has any financial or other interest directly or indirectly enters into the Line of Business during the Non-Compete Period, the Executive shall use his reasonable best efforts to divest all of his interest (other than any amount permitted to be held pursuant to the first sentence of this Section 3(c)(i)(A)) in such entity within 30 days after learning that such entity has entered the Line of Business.

(C) The Executive covenants and agrees that, during the Non-Compete Period, the Executive will not, directly or indirectly, either for himself or for any other person or entity, solicit any employee of the Company or any subsidiary or affiliate to terminate his or her employment with the Company or such subsidiary or affiliate or employ any such individual during his or her employment with the Company or such subsidiary or affiliate and for a period of nine months after such individual terminates his or her employment with the Company or such subsidiary or affiliate.

(ii) The Executive understands that the foregoing restrictions may limit his ability to earn a livelihood in a business similar to the business of the Company, its subsidiaries and affiliates, but he nevertheless believes that he has received and will receive sufficient consideration and other benefits as an employee of the Company and as otherwise provided hereunder to clearly justify such restrictions which, in any event (given his education, skills and ability), the Executive does not believe would prevent him from otherwise earning a living.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(d) Executive agrees that before providing services, whether as an employee or consultant, to any entity during the Non-Compete Period, Executive will provide a copy of this Agreement (including, without limitation, Sections 3(a), (b) and (c)) to such entity, and such entity shall acknowledge to the Company in writing that it has read this Agreement. Executive further covenants that Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 3 and that Executive will reimburse the Company and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 3 if either the Company and/or its affiliates prevails on any material issue involved in such dispute or if Executive challenges the reasonability or enforceability of any of the provisions of this Section 3.

4. NON-DISPARAGEMENT. Executive agrees that he will not disparage or denigrate to any person any aspect of his relationship with the Company or any of its affiliates, nor the character of the Company or any of its affiliates or their respective agents, representatives, products, or operating methods, whether past, present, or future, and whether or not based on or with reference to their past relationship; provided, however, that this paragraph shall have no application to any evidence or testimony requested of Executive by any court or government agency. In the event any government agency or any of Company's or any of its affiliates' present

or future labor unions, adverse parties in actual or potential litigation, suppliers, service providers, employees or customers initiate communications with the Executive, the Executive agrees that he will only inform any such persons, consistent with this paragraph, of his change in status and direct such persons to an appropriate office or current employee of the Company.

5. TRANSITIONAL INQUIRIES. For a reasonable period of time following the date of termination, Executive agrees to make himself available to the Company to answer telephone inquiries related to the transition of his duties. Executive's obligations pursuant to this Section 5 are a material inducement to the Company's entering into this Agreement with Executive.

6. RIGHT TO CONSULT COUNSEL. EXECUTIVE REPRESENTS AND AGREES THAT HE FULLY UNDERSTANDS HIS RIGHT TO DISCUSS ALL ASPECTS OF THIS AGREEMENT WITH HIS PRIVATE ATTORNEY, AND THAT TO THE EXTENT, IF ANY, THAT HE DESIRED, HE AVAILED HIMSELF OF SUCH RIGHT. EXECUTIVE FURTHER REPRESENTS THAT HE HAS CAREFULLY READ AND FULLY UNDERSTANDS ALL OF THE PROVISIONS OF THIS AGREEMENT, THAT HE IS COMPETENT TO EXECUTE THIS AGREEMENT, THAT HIS AGREEMENT TO EXECUTE THIS AGREEMENT HAS NOT BEEN OBTAINED BY ANY DURESS AND THAT HE FREELY AND VOLUNTARILY ENTERS INTO IT, AND THAT HE HAS READ THIS DOCUMENT IN ITS ENTIRETY AND FULLY UNDERSTANDS THE MEANING, INTENT AND CONSEQUENCES OF THIS DOCUMENT.

7. NOTICES. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim or other communication hereunder shall be delivered personally to the recipient, delivered by United States Post Office mail (postage prepaid and return receipt requested), telecopied to the intended recipient at the number set forth therefor below (with hard copy to follow), or sent to the recipient by reputable express courier service (charges prepaid) and addressed to the intended recipient as set forth below:

If to the Company, to:

Guitar Center, Inc.5795 Lindero Canyon Road
Westlake Village, California 91362
Attention: General Counsel
Telephone: (818) 735-8800
Telecopier: (818) 735-4923

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

If to the Executive, to the address noted on the signature page of this Agreement or such other address as the recipient party to whom notice is to be given may have furnished to the other party in writing in accordance herewith. Any such communication shall be deemed to have been delivered and received (a) when delivered, if personally delivered, sent by telecopier or sent by overnight courier, and (b) on the fifth business day following the date posted, if sent by mail.

8. GENERAL PROVISIONS.

(a) SEVERABILITY/ENFORCEMENT.

(i) It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

(ii) In addition to the foregoing, and not in any way in limitation thereof, or in limitation of any right or remedy otherwise available to the Company, if the Executive materially violates any provision of this Agreement, including, without limitation, Section 3 or Section 4 hereof (and such violation, if unintentional on the part of the Executive, continues for a period of twenty-one (21) days following receipt of written notice from the Company), any severance payments then or thereafter due from the Company to the Executive may be terminated forthwith and upon such election by the Company, the Company' s obligation to pay and the Executive' s right to receive such severance payments shall terminate and be of no further force or effect. The Executive' s obligations under this Agreement, including, without limitation, Section 3 or Section 4 hereof, shall not be limited or affected by, and such provisions shall remain in full force and effect notwithstanding the termination of any severance payments by the Company in accordance with this Section 8(a)(ii). The exercise of the right to terminate such payments shall not be deemed to be an election of remedies by the Company and shall not in any manner modify, limit or preclude the Company from exercising any other rights or seeking any other remedies available to it at law or in equity.

(iii) The parties hereto agree that, because Executive' s services to the Company (and its subsidiaries and affiliates) are unique and because he has access to the Confidential Information and Work Product, money damages would not be an adequate remedy for any breach of this Agreement. Therefore, in the event of a breach or threatened breach of this Agreement, the Company may, in addition to any other rights and remedies existing in its favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security).

(b) COMPLETE AGREEMENT; SURVIVAL. This Agreement, those documents expressly referred to herein and all other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

may have related to the subject matter hereof in any way including, without limitation, any prior Executive Severance Benefits Agreement between the Company and Executive; provided, however, that this Agreement shall not amend, supercede or terminate any rights granted to Executive pursuant to any indemnification agreement between Executive and the Company or any affiliate of the Company. The representations, warranties, covenants and agreements made herein shall, as applicable, survive any termination of this Agreement in accordance with their respective terms.

(c) SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by the Executive and the Company and their respective successors, assigns, heirs, representatives and estate; provided, however, that the rights and obligations of the Executive under this Agreement shall not be assigned without the prior written consent of the Company. Without limiting the foregoing, it is expressly acknowledged that the Company may transfer Executive and assign this Agreement to any present or future affiliate of the Company.

(d) GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICTING PROVISION OR RULE THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF DELAWARE TO BE APPLIED.

(e) ARBITRATION.

(i) Unless otherwise provided herein, in the event that there shall be a dispute (a "Dispute") among the parties arising out of or relating to this Agreement, or the breach thereof, the parties agree that such dispute shall be resolved by final and binding arbitration before a single arbitrator in Los Angeles County, California, administered by the American Arbitration Association (the "AAA"), in accordance with AAA' s Employment ADR Rules. The arbitrator' s decision shall be final and binding upon the parties, and may be entered and enforced in any court of competent jurisdiction by either of the parties. The arbitrator shall have the power to grant temporary, preliminary and permanent relief, including without limitation, injunctive relief and specific performance.

(ii) The Company will pay the direct costs and expenses of the arbitration. Executive and the Company are responsible for their respective attorneys' fees incurred in connection with enforcing this Agreement; however, Executive and the Company agree that, except as may be prohibited by law, the arbitrator may, in his or her discretion, award reasonable attorneys' fees to the prevailing party.

(iii) This Section 8(e) shall not apply to Section 3 hereof.

(f) JURISDICTION, ETC.

(i) Without limiting the generality of the arbitration provisions contained in Section 8(e), each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any Delaware State court or Federal court of the United States of America sitting in the State of California, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement not required to be submitted to arbitration pursuant to Section 8(e) or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such Delaware State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(ii) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any Delaware State or Federal court. Each of the parties hereto irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(iii) The Company and the Executive further agree that the mailing by certified or registered mail, return receipt requested, of any process required by any such court shall constitute valid and lawful service of process against them, without the necessity for service by any other means provided by law.

(g) AMENDMENT AND WAIVER. The provisions of this Agreement may be amended and waived by mutual agreement of the parties only by a written instrument executed by the Company and Executive which makes express reference to this Agreement and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement or any provision hereof.

(h) TRANSFER OF COMPANY PROPERTY. On or before the commencement of the Severance Period, Executive agrees to turn over to the Company any and all property, tangible or intangible, relating to its business, which he possessed or had control over at any time (including, but not limited to, Executive' s Company-provided credit cards, building or office access cards, keys, computer equipment, manuals, files, documents, records, software, customer data base and other data), and that he shall not retain any copies, compilations, extracts, excerpts, summaries or other notes of any such manuals, files, documents, records, software, customer data base or other datafiles, memoranda, records, and other documents, and any other physical or personal property which are the property of the Company and which he had in his possession, custody or control, including any computers, cellular phones, PDA' s or similar business equipment.

(i) HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(j) COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

(k) CONSTRUCTION. The parties participated jointly in the negotiation and drafting of this Agreement and the language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent. If an ambiguity or question of intent or interpretation arises, then this Agreement will accordingly be construed as drafted jointly by the parties to this Agreement, and no presumption or burden of proof will arise favoring or disfavoring any party to this Agreement by virtue of the authorship of any of the provisions of this Agreement.

(l) AT-WILL EMPLOYMENT. The Company and Executive acknowledge that Executive' s employment is and shall continue to be at-will, as defined under applicable law. Executive acknowledges and agrees that nothing in this Agreement shall confer upon Executive any right with respect to continuation of employment by the Company, nor shall it interfere in any way with Executive' s right or the Company' s right to terminate Executive' s employment at any time, with or without cause and with or without prior notice.

(m) NO THIRD PARTY BENEFICIARIES. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties and their respective successors and permitted assigns any rights or remedies under or by reason of this Agreement.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(n) RESIGNATION AS OFFICER AND DIRECTOR. Effective as of the date of termination of employment with the Company for any reason, Executive shall be deemed to have resigned from all offices and directorships, if any, then held with the Company or any of its affiliates.

(o) (i) Notwithstanding anything in this Agreement to the contrary, no benefits deemed deferred compensation subject to Section 409A of the Code, shall be payable upon a termination of employment pursuant to this Agreement unless Executive' s termination of employment constitutes a "separation from service" with the Company within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the Department of Treasury regulations and other guidance promulgated thereunder (a "Separation from Service") and, except as provided under Section 8(o)(ii) of this Agreement, any such termination benefits shall not be paid, or, in the case of installments, shall not commence payment, until the sixtieth (60th) day following Executive' s Separation from Service. Any installment payments that would have been made to Executive during the sixty (60) day period immediately following Executive' s Separation from Service but for the preceding sentence shall be paid to Executive on the sixtieth (60th) day following Executive' s Separation from Service and the remaining payments shall be made as provided in this Agreement.

(ii) Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed by the Company at the time of Executive' s Separation from Service

to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent delayed commencement of any portion of the benefits to which Executive is entitled under this Agreement is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of Executive' s benefits shall not be provided to Executive prior to the earlier of (A) the expiration of the six-month period measured from the date of the Executive' s Separation from Service or (B) the date of Executive' s death. Upon the first business day following the expiration of the applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Section 8(o)(ii) shall be paid in a lump sum to Executive, and any remaining payments due under this Agreement shall be paid as otherwise provided herein.

(iii) To the extent that any reimbursements payable pursuant to this Agreement are subject to the provisions of Section 409A of the Code, any such reimbursements payable to Executive pursuant to this Agreement shall be paid to Executive no later than December 31 of the year following the year in which the expense was incurred, the amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year, and Executive' s right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(iv) For purposes of Section 409A of the Code (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), Executive' s right to receive the installment payments under this Agreement shall be treated as a right to receive a series of separate payments and, accordingly, each such installment payment shall at all times be considered a separate and distinct payment.

(v) In the event any payment pursuant to this Agreement is subject to Section 409A of the Code, the aggregate level of bona fide services required by Section 5 of this Agreement shall not exceed twenty percent (20%) of the average level of bona fide services provided by Executive during the thirty-six (36) month period preceding Executive' s date of termination of employment."

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

IN WITNESS WHEREOF, the parties hereto have executed this Executive Severance Benefits Agreement as of the date first written above.

GUITAR CENTER, INC.

By: ______________________________

Authorized Signatory

EXECUTIVE

____

Eugene J. Joly

Address for Notice:

____

____

____

____

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 21.1

List of Material Subsidiaries of Guitar Center, Inc. as of December 31, 2012

Name:	Jurisdiction:
Guitar Center Stores, Inc.	Delaware
Musician' s Friend, Inc.	Delaware
Music123, Inc.	Delaware
GTRC Services, Inc.	Delaware
Woodwind & Brasswind, Inc.	Delaware

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 21.2

List of Material Subsidiaries of Guitar Center Holdings, Inc. as of December 31, 2012

Name:	Jurisdiction:
Guitar Center, Inc.	Delaware
Guitar Center Stores, Inc.	Delaware
Musician' s Friend, Inc.	Delaware
Music123, Inc.	Delaware
GTRC Services, Inc.	Delaware
Woodwind & Brasswind, Inc.	Delaware

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 31.1

CERTIFICATION

I, Martin Hanaka, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guitar Center, Inc. (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(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 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: March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

/s/ MARTIN HANAKA

Martin Hanaka
Interim Chief Executive Officer and Director
(Principal Executive Officer)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 31.2

CERTIFICATION

I, Tim Martin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guitar Center, Inc. (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(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 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: March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

/s/ TIM MARTIN

Tim Martin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 31.3

CERTIFICATION

I, Tim Martin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guitar Center Holdings, Inc. (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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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 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. I have disclosed, based on the 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: March 26, 2013

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

/s/ TIM MARTIN

Tim Martin

Vice President and Assistant Secretary

(Principal Executive Officer, Principal Financial and Accounting Officer)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 32.1

CERTIFICATION 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 on Form 10-K of Guitar Center, Inc. (the “Company”) for the annual period ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned Martin Hanaka, Interim Chief Executive of the Company, and Tim Martin, Executive Vice President and Chief Financial Officer of the Company, certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company and its subsidiaries.

Date: March 26, 2013

/s/ MARTIN HANAKA
Martin Hanaka
Interim Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 26, 2013

/s/ TIM MARTIN
Tim Martin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 32.2

CERTIFICATION 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 on Form 10-K of Guitar Center Holdings, Inc. (the "Company") for the annual period ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Tim Martin, principal executive officer, and principal financial and accounting officer of the Company, certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company and its subsidiaries.

Date: March 26, 2013

/s/ TIM MARTIN

Tim Martin
Vice President and Assistant Secretary
(Principal Executive Officer, Principal Financial and Accounting Officer)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Nature of Business and Significant Accounting Policies (Details) (USD $)	12 Months Ended		
	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
Nature of Business and Significant Accounting Policies			
Number of operating segments	3		
Cash and Cash Equivalents			
Cash equivalents	$ 0	$ 0	
Impairment and Disposal of Long-lived Assets			
Period in which available-for-sale assets are expected to be sold	12 months		
Self-Insurance Reserves			
Aggregate annual deductible for stop-loss insurance on excess medical claims under the self-insurance program	100,000		
Self-insurance reserves for workers' compensation	4,700,000	4,300,000	
Self-insurance reserves for medical insurance	1,600,000	1,900,000	
Advertising Costs			
Capitalized mail order catalog costs	500,000	1,200,000	
Cooperative advertising allowances	8,100,000	8,700,000	9,100,000
Minimum			
Revenue Recognition			
Trial period	1 month		
Maximum			
Self-Insurance Reserves			
Self-insurance program for workers' compensation per claim	500,000		
Self-insurance program for medical insurance per claim	400,000		
Revenue Recognition			
Period of rental agreements	36 months		
Trial period	4 months		
Advertising Costs			
Amortization period of mail order catalog costs	5 months		
Furniture and fixtures			
Property and Equipment			
Useful lives	5 years		
Computer equipment | Minimum			
Property and Equipment			
Useful lives	3 years		
Computer equipment | Maximum			
Property and Equipment			
Useful lives	5 years		
Vehicles			
Property and Equipment			
Useful lives	5 years		
Buildings			
Property and Equipment			

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Useful lives	15 years		
Guitar Center			
Nature of Business			
Number of operated stores	240		
Number of primary format stores	151		
Number of secondary format stores	78		
Number of tertiary format stores	11		
Music & Arts			
Nature of Business			
Number of operated stores	109		
Number of states in which stores are operated by the entity	22		
Guitar Center and Music & Arts			
Advertising Costs			
Advertising costs	42,500,000	39,500,000	38,300,000
Direct Response			
Advertising Costs			
Advertising costs other than catalog advertising	$ 19,900,000	$ 20,200,000	$ 22,000,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fair Value Measurements (Details) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Total Losses			
Goodwill, net of accumulated impairment losses		$ 107,026	
Specific-store leasehold improvements	559	1,294	884
Direct Response			
Total Losses			
Goodwill, net of accumulated impairment losses		107,026	
Non-recurring basis			
Total Losses			
Specific-store leasehold improvements	559	1,294	
Non-recurring basis | Direct Response			
Total Losses			
Goodwill, net of accumulated impairment losses		107,026	
Trademarks and trade names		32,500	
Customer relationship intangible asset		13,461	
Non-recurring basis | Level 3			
Fair value measurements			
Specific-store leasehold improvements	195	745	
Non-recurring basis | Level 3 | Direct Response			
Fair value measurements			
Trademarks and trade names		11,500	
Customer relationship intangible asset		6,800	
Non-recurring basis | Total			
Fair value measurements			
Specific-store leasehold improvements	195	745	
Non-recurring basis | Total | Direct Response			
Fair value measurements			
Trademarks and trade names		11,500	
Customer relationship intangible asset		$ 6,800	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Segment Information (Details) (USD $)	3 Months Ended												12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
Segment Information															
Number of reporting segments													3		
Financial information of reporting segments															
Net sales	$ 628,211,000	$ 496,231,000	$ 486,598,000	$ 528,151,000	$ 612,595,000	$ 488,129,000	$ 479,053,000	$ 502,800,000	$ 597,517,000	$ 465,007,000	$ 460,957,000	$ 487,414,000	$ 2,139,191,000	$ 2,082,577,000	$ 2,010,895,000
Gross profit	185,993,000	147,362,000	146,460,000	163,576,000	189,225,000	144,253,000	145,549,000	156,116,000	188,012,000	134,509,000	134,333,000	148,997,000	643,391,000	635,143,000	605,851,000
Selling, general and administrative expenses													547,724,000	579,226,000	546,135,000
Impairment of intangible assets														45,961,000	
Impairment of goodwill														107,026,000	
Operating income (loss)													95,667,000	(97,070,000)	59,716,000
Depreciation and amortization													90,905,000	106,197,000	104,846,000
Adjusted EBITDA													200,004,000	196,910,000	184,307,000
Capital expenditures													67,468,000	57,324,000	47,887,000
Total assets	1,816,558,000				1,859,066,000				2,120,718,000				1,816,558,000	1,859,066,000	2,120,718,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes															
Adjusted EBITDA													200,004,000	196,910,000	184,307,000
Depreciation and amortization expense													90,905,000	106,197,000	104,846,000
Interest expense, net													165,344,000	161,036,000	145,233,000
Non-cash charges													2,265,000	3,382,000	5,157,000
Non-recurring charges														5,257,000	
Impairment charges													559,000	154,281,000	884,000
Other adjustments													10,608,000	24,863,000	13,704,000
Income (loss) before income taxes													(69,677,000)	(258,106,000)	(85,517,000)
Restructuring charges													2,100,000	13,000,000	
Cost related to amendments and extension of long-term debt included in selling, general and administrative expenses														800,000	
Guitar Center															
Financial information of reporting segments															
Net sales	628,211,000	496,231,000	486,598,000	528,151,000	612,595,000	488,129,000	479,053,000	502,800,000	597,517,000	465,007,000	460,957,000	487,414,000	2,139,191,000	2,082,577,000	2,010,895,000
Gross profit	185,993,000	147,362,000	146,460,000	163,576,000	189,225,000	144,253,000	145,549,000	156,116,000	188,012,000	134,509,000	134,333,000	148,997,000	643,391,000	635,143,000	605,851,000
Selling, general and administrative expenses													547,724,000	578,948,000	546,135,000
Impairment of intangible assets														45,961,000	
Impairment of goodwill														107,026,000	
Operating income (loss)													95,667,000	(96,792,000)	59,716,000
Depreciation and amortization													90,905,000	106,197,000	104,846,000
Adjusted EBITDA													200,004,000	196,910,000	184,307,000
Capital expenditures													67,468,000	57,324,000	47,887,000
Total assets	1,845,809,000				1,883,749,000				2,115,615,000				1,845,809,000	1,883,749,000	2,115,615,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes															
Adjusted EBITDA													200,004,000	196,910,000	184,307,000
Depreciation and amortization expense													90,905,000	106,197,000	104,846,000
Interest expense, net													85,369,000	81,063,000	70,842,000
Non-cash charges													2,265,000	3,382,000	5,157,000
Non-recurring charges														5,257,000	
Impairment charges													559,000	154,281,000	884,000
Other adjustments													10,608,000	24,585,000	13,704,000
Income (loss) before income taxes													10,298,000	(177,855,000)	(11,126,000)
Cost related to amendments and extension of long-term debt included in selling, general and administrative expenses														500,000	
Holdings															
Financial information of reporting segments															
Selling, general and administrative expenses														277,000	
Total assets	432,228,000				503,181,000								432,228,000	503,181,000	
Guitar Center															
Financial information of reporting segments															
Net sales													1,596,094,000	1,530,133,000	1,444,829,000
Gross profit													459,680,000	448,543,000	416,212,000
Selling, general and administrative expenses													356,832,000	355,879,000	343,407,000
Operating income (loss)													102,848,000	92,664,000	72,805,000
Depreciation and amortization													66,457,000	74,719,000	80,574,000
Adjusted EBITDA													173,153,000	174,554,000	160,479,000
Capital expenditures													39,041,000	29,269,000	19,659,000
Total assets	1,410,303,000				1,480,701,000				1,471,302,000				1,410,303,000	1,480,701,000	1,471,302,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes															
Adjusted EBITDA													173,153,000	174,554,000	160,479,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Depreciation and amortization expense				66,457,000	74,719,000	80,574,000
Guitar Center | Guitar Center						
Financial information of reporting segments						
Adjusted EBITDA				173,153,000	174,554,000	160,479,000
Total assets	1,410,303,000	1,480,701,000	1,471,302,000	1,410,303,000	1,480,701,000	1,471,302,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				173,153,000	174,554,000	160,479,000
Music & Arts						
Financial information of reporting segments						
Net sales				189,766,000	178,443,000	175,659,000
Gross profit				86,043,000	83,307,000	80,125,000
Selling, general and administrative expenses				69,791,000	68,373,000	68,595,000
Operating income (loss)				16,252,000	14,934,000	11,530,000
Depreciation and amortization				4,414,000	4,380,000	4,317,000
Adjusted EBITDA				21,041,000	19,607,000	16,458,000
Capital expenditures				7,051,000	3,535,000	2,685,000
Total assets	113,119,000	105,170,000	101,280,000	113,119,000	105,170,000	101,280,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				21,041,000	19,607,000	16,458,000
Depreciation and amortization expense				4,414,000	4,380,000	4,317,000
Music & Arts | Guitar Center						
Financial information of reporting segments						
Adjusted EBITDA				21,041,000	19,607,000	16,458,000
Total assets	113,119,000	105,170,000	101,280,000	113,119,000	105,170,000	101,280,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				21,041,000	19,607,000	16,458,000
Direct Response						
Financial information of reporting segments						
Net sales				353,331,000	374,001,000	390,407,000
Gross profit				97,668,000	103,293,000	109,514,000
Selling, general and administrative expenses				95,196,000	116,798,000	105,974,000
Impairment of intangible assets					45,961,000	
Impairment of goodwill					107,026,000	
Operating income (loss)				2,472,000	(166,492,000)	3,540,000
Depreciation and amortization				15,801,000	24,264,000	17,961,000
Adjusted EBITDA				19,159,000	19,034,000	22,216,000
Capital expenditures				7,858,000	8,881,000	13,346,000
Total assets	166,496,000	171,639,000	331,737,000	166,496,000	171,639,000	331,737,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				19,159,000	19,034,000	22,216,000
Depreciation and amortization expense				15,801,000	24,264,000	17,961,000
Direct Response | Guitar Center						
Financial information of reporting segments						
Adjusted EBITDA				19,159,000	19,034,000	22,216,000
Total assets	166,496,000	171,639,000	331,737,000	166,496,000	171,639,000	331,737,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				19,159,000	19,034,000	22,216,000
Corporate						
Financial information of reporting segments						
Selling, general and administrative expenses				25,905,000	38,176,000	28,159,000
Operating income (loss)				(25,905,000)	(38,176,000)	(28,159,000)
Depreciation and amortization				4,233,000	2,834,000	1,994,000
Adjusted EBITDA				(13,349,000)	(16,285,000)	(14,846,000)
Capital expenditures				13,518,000	15,639,000	12,197,000
Total assets	126,640,000	101,556,000	216,399,000	126,640,000	101,556,000	216,399,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				(13,349,000)	(16,285,000)	(14,846,000)
Depreciation and amortization expense				4,233,000	2,834,000	1,994,000
Corporate | Guitar Center						
Financial information of reporting segments						
Adjusted EBITDA				(13,349,000)	(16,285,000)	(14,846,000)
Total assets	155,891,000	126,239,000	211,296,000	155,891,000	126,239,000	211,296,000
Reconciliation of Adjusted EBITDA to consolidated loss before income taxes						
Adjusted EBITDA				(13,349,000)	(16,285,000)	(14,846,000)
Corporate | Holdings						

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Reconciliation of Adjusted EBITDA to consolidated loss before income taxes	
Cost related to amendments and extension of long-term debt included in selling, general and administrative expenses	$ 300,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fair Value Measurements (Details 2) (Discounted cash flow, USD $) In Thousands, unless otherwise specified	1 Months Ended	12 Months Ended	1 Months Ended	12 Months Ended								12 Months Ended		
	Jan. 31, 2011 Minimum	Dec. 31, 2010 Minimum	Jan. 31, 2011 Maximum	Dec. 31, 2010 Maximum	Dec. 31, 2012 Guitar Center Specific-store leasehold improvements Level 3 inputs	Dec. 31, 2011 Guitar Center Specific-store leasehold improvements Level 3 inputs	Dec. 31, 2011 Direct Response Minimum	Dec. 31, 2011 Direct Response Maximum	Dec. 31, 2011 Direct Response Customer relationships Level 3 inputs	Dec. 31, 2011 Direct Response Customer relationships Level 3 inputs Minimum	Dec. 31, 2011 Direct Response Customer relationships Level 3 inputs Maximum	Dec. 31, 2011 Direct Response Trademarks/ trade names Level 3 inputs	Dec. 31, 2011 Direct Response Trademarks/ trade names Level 3 inputs Minimum	Dec. 31, 2011 Direct Response Trademarks/ trade names Level 3 inputs Maximum
Fair value measurements														
Fair value of Specific-store leasehold improvements					$ 195	$ 745			$ 6,800			$ 11,500		
Weighted-average cost of capital (as a percent)	12.50%	11.00%	14.00%	14.00%	9.80%	10.90%	14.00%	15.00%	17.50%			16.50%		
Long-term revenue growth rate (as a percent)					3.00%	3.00%						1.00%		
Customer attrition rate (as a percent)										25.00%	59.90%			
Royalty rates (as a percent)													0.50%	1.50%

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance Sheet Components (Details 3) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Accrued expenses and other current liabilities:		
Wages, salaries and benefits	$ 27,226	$ 34,973
Accrued interest	27,067	26,500
Sales tax payable	16,799	13,708
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Income taxes payable	1,349	1,548
Other	12,502	11,213
Total accrued expenses and other current liabilities	132,119	128,787
Guitar Center		
Accrued expenses and other current liabilities:		
Wages, salaries and benefits	27,226	34,973
Accrued interest	10,492	9,924
Sales tax payable	16,799	13,708
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Income taxes payable	85,000	61,266
Other	12,502	11,213
Total accrued expenses and other current liabilities	$ 199,195	$ 171,929

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Long-Term Debt (Tables)

12 Months Ended Dec. 31, 2012

Long-Term Debt

Schedule of Long-term debt

Long-term debt consisted of the following (in thousands):

	December 31, 2012	December 31, 2011
Guitar Center		
Senior secured asset-based revolving facility	$ —	$ —
Senior secured term loan	621,762	621,762
Obligations under capital lease, payable in monthly installments through 2013	54	700
Senior unsecured notes	394,890	375,000
	1,016,706	997,462
Less current portion	5,941	646
Guitar Center long-term debt, net of current portion	1,010,765	996,816
Holdings		
Senior unsecured PIK notes	564,673	564,673
Less current portion	129,784	—
Holdings long-term debt, net of current portion	434,889	564,673
Holdings consolidated long-term debt, net of current portion	$1,445,654	$1,561,489

Schedule of future maturities expected payments of long-term debt

Future maturities of long-term debt as of December 31, 2012 were as follows (in thousands):

	Guitar Center	Holdings	Holdings Consolidated
2013 (1)	$ 5,941	$ 129,784	$ 135,725
2014	14,314	—	14,314
2015	6,500	—	6,500
2016	6,500	—	6,500
2017	983,451	—	983,451
Thereafter	—	434,889	434,889
	$ 1,016,706	$ 564,673	$1,581,379

(1) We anticipate making a one-time principal payment on the senior PIK notes in April 2013. This payment will be $129.8 million, which is the amount of previously capitalized PIK interest that is required to be paid to prevent the senior PIK notes from being treated as "applicable high yield discount obligations" within the meaning of Section 163(i)(1) of the Internal Revenue Code. This amount is included in current portion of long-term debt in Holdings' consolidated balance sheet as of December 31, 2012. The remaining unpaid balance of the senior PIK notes matures in April 2018.

Schedule of amortization of deferred financing fees included in interest expense

Amortization of deferred financing fees included in interest expense in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31, 2012	Year ended December 31, 2011
Holdings	$ 3,191	$ 2,896
Guitar Center	2,779	2,485

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Schedule of unamortized deferred financing fees included in other assets

Unamortized deferred financing fees included in other assets in the consolidated balance sheets were as follows (in thousands):

	December 31,	
	2012	2011
Holdings	$13,097	$15,524
Guitar Center	10,899	12,913

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Legal (Details) (USD $)	9 Months Ended Sep. 30, 2012 item
Class Action	
Legal	
Number of filed actions not consolidated under the caption	1
Class Action | Maximum	
Legal	
Compensatory damages	5,000,000
Jason George vs. Guitar Center, Inc. and Guitar Center Stores, Inc | Maximum	
Legal	
Monetary damages per violation	1,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Quarterly Financial Data (unaudited)

Quarterly Financial Data (unaudited)

Quarterly Financial Data (unaudited)

12 Months Ended Dec. 31, 2012

14. Quarterly Financial Data (unaudited)

The following is a presentation of unaudited quarterly results (in thousands):

Holdings

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net loss	$ (16,210)	$ (28,763)	$ (25,658)	$ (1,538)	$ (72,169)

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net loss	$ (11,451)	$ (25,952)	$ (27,383)	$ (172,153)	$ (236,939)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net loss	$ (10,991)	$ (20,134)	$ (23,050)	$ (2,202)	$ (56,377)

Guitar Center

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net income (loss)	$ 2,547	$ (4,817)	$ (2,038)	$ 7,703	$ 3,395

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net income (loss)	$ 1,772	$ (12,398)	$ (13,759)	$ (129,320)	$ (153,705)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net income (loss)	$ 160	$ (8,332)	$ (11,119)	$ 10,427	$ (8,864)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Employee Benefit Plan (Details)	12 Months Ended Dec. 31, 2012
Minimum	
Employee Benefit Plan	
Employee contribution limit per calendar year as a percentage of compensation	1.00%
Maximum	
Employee Benefit Plan	
Employee contribution limit per calendar year as a percentage of compensation	75.00%

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill and Intangible Assets (Details 3) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012
Future estimated amortization expense related to intangible assets	
2013	$ 22,227
2014	16,387
2015	12,442
2016	9,640
2017	7,620
Thereafter	14,452
Total	$ 82,768

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fair Value Measurements (Tables)	12 Months Ended Dec. 31, 2012

Fair value measurements

Schedule of fair value hierarchy for assets and liabilities measured at fair value on a non-recurring basis

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Year ended December 31, 2012				
	Level 1	Level 2	Level 3	Total	Total Losses
Specific-store leasehold improvements	—	—	$ 195	$ 195	$ 559

	Year ended December 31, 2011				
	Level 1	Level 2	Level 3	Total	Total Losses
Direct response goodwill, net of accumulated impairment losses	$ —	$ —	$ —	$ —	$107,026
Direct response trademarks and trade names	—	—	11,500	11,500	32,500
Direct response customer relationship intangible asset	—		6,800	6,800	13,461
Specific-store leasehold improvements	—	—	745	745	1,294

Quantitative information about level 3 inputs used in fair value measurements

The following tables present quantitative information about level 3 inputs used in our fair value measurements:

Fair Value Measurement	Fair Value at December 31, 2012 (in thousands)	Valuation technique(s)	Unobservable input	Range
Specific-store leasehold improvements	$ 195	Discounted cash flow	Weighted-average cost of capital	9.8%
			Long-term revenue growth rate	3.0%

Fair Value Measurement	Fair Value at December 31, 2011 (in thousands)	Valuation technique(s)	Unobservable input	Range
Direct response trademarks and trade names	$ 11,500	Discounted cash flow	Weighted-average cost of capital	16.5%

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

			Long-term revenue growth rate	1.0%
			Royalty rates	0.5% - 1.5%
Direct response customer relationship intangible asset	6,800	Discounted cash flow	Weighted-average cost of capital	17.5%
			Customer attrition rate	59.9% - 25.0%
Specific-store leasehold improvements	745	Discounted cash flow	Weighted-average cost of capital	10.9%
			Long-term revenue growth rate	3.0%

Schedule of difference between the carrying value and estimated fair value of the entity's long-term debt

The following table presents the difference between the carrying amount and estimated fair value of our long-term debt (in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Guitar Center				
Senior secured asset-based revolving credit facility	$ —	$ —	$ —	$ —
Senior secured term loan	621,762	600,000	621,762	545,596
Senior unsecured notes	394,890	418,579	375,000	394,542
Capital lease obligations	54	54	700	700
Total Guitar Center	1,016,706	1,018,633	997,462	940,838
Holdings				
Senior unsecured PIK notes	564,673	596,965	564,673	609,312
Holdings Consolidated	$1,581,379	$1,615,598	$1,562,135	$1,550,150

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income Taxes (Details) (USD $)	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Current:			
Federal			$ (268,000)
State	1,943,000	4,254,000	3,469,000
Total current tax provision	1,943,000	4,254,000	3,201,000
Deferred:			
Federal		(20,991,000)	(28,797,000)
State	549,000	(4,430,000)	(3,544,000)
Total deferred tax provision	549,000	(25,421,000)	(32,341,000)
Total income tax expense (benefit)	2,492,000	(21,167,000)	(29,140,000)
Federal statutory tax rate (as a percent)	35.00%		
Reconciliation of income tax			
Expected income tax benefit	(24,387,000)	(90,337,000)	(29,622,000)
State income taxes, net of federal tax benefit	2,492,000	(1,463,000)	(440,000)
Goodwill impairment		37,460,000	
Stock options	567,000		(159,000)
Change in valuation allowance	23,348,000	32,247,000	
Meals & entertainment and non-deductible items	352,000	348,000	337,000
Other	120,000	578,000	744,000
Actual income tax expense (benefit)	2,492,000	(21,167,000)	(29,140,000)
Deferred tax assets:			
Net operating loss	50,194,000	43,179,000	
State net operating loss carryforward	2,247,000	2,042,000	
Accrued liabilities	26,488,000	26,572,000	
Merchandise inventories	3,215,000	2,961,000	
Intangibles	8,743,000	8,084,000	
Stock options	2,504,000	2,652,000	
Capital loss carryover	133,000	129,000	
Fixed assets	4,893,000	(2,203,000)	
Total gross deferred tax assets	98,417,000	83,416,000	
Less valuation allowance	(58,210,000)	(32,558,000)	
Net deferred tax assets	40,207,000	50,858,000	
Deferred tax liabilities:			
Depreciation	(5,534,000)	(5,813,000)	
Intangibles	(110,864,000)	(120,196,000)	
Other	(181,000)	(441,000)	
Total gross deferred tax liabilities	(116,579,000)	(126,450,000)	
Net deferred tax liabilities	(76,372,000)	(75,592,000)	
Increase in valuation allowance	25,700,000	32,200,000	
Tax benefit from employee stock options	0	0	600,000
Guitar Center			
Current:			

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Federal	20,005,000	4,917,000	16,004,000
State	4,750,000	3,620,000	1,335,000
Total current tax provision	24,755,000	8,537,000	17,339,000
Deferred:			
Federal	(16,584,000)	(29,171,000)	(16,823,000)
State	(1,268,000)	(3,516,000)	(2,778,000)
Total deferred tax provision	(17,852,000)	(32,687,000)	(19,601,000)
Total income tax expense (benefit)	6,903,000	(24,150,000)	(2,262,000)
Reconciliation of income tax			
Expected income tax benefit	3,604,000	(62,249,000)	(3,894,000)
State income taxes, net of federal tax benefit	2,280,000	(253,000)	746,000
Goodwill impairment		37,460,000	
Stock options	567,000		(159,000)
Meals & entertainment and non-deductible items	352,000	348,000	337,000
Other	100,000	544,000	708,000
Actual income tax expense (benefit)	6,903,000	(24,150,000)	(2,262,000)
Deferred tax assets:			
Accrued liabilities	26,688,000	26,572,000	
Merchandise inventories	3,215,000	2,961,000	
Intangibles	8,743,000	8,084,000	
Stock options	2,504,000	2,652,000	
Capital loss carryover	133,000	129,000	
Fixed assets	4,893,000	(2,203,000)	
Total gross deferred tax assets	46,176,000	38,195,000	
Less valuation allowance	(310,000)	(310,000)	
Net deferred tax assets	45,866,000	37,885,000	
Deferred tax liabilities:			
Depreciation	(5,534,000)	(5,813,000)	
Intangibles	(110,864,000)	(120,196,000)	
Other	(181,000)	(441,000)	
Total gross deferred tax liabilities	(116,579,000)	(126,450,000)	
Net deferred tax liabilities	$ (70,713,000)	$ (88,565,000)	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE I - Condensed Financial Statement of Parent Company Only (Details 2) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Schedule I			
General and administrative expenses	$ 547,724	$ 579,226	$ 546,135
Interest expense	165,378	161,250	145,572
Income tax expense (benefit)	2,492	(21,167)	(29,140)
Net income (loss)	(72,169)	(236,939)	(56,377)
Equity in other comprehensive income (loss) of Guitar Center Inc., net of income tax	173	210	(440)
Comprehensive income (loss)	(71,996)	(236,729)	(56,817)
Parent			
Schedule I			
General and administrative expenses		277	
Interest expense	79,975	79,973	74,391
Equity in net income (loss) of Guitar Center, Inc., net of income tax	3,395	(153,705)	(8,864)
Loss before income taxes	(76,580)	(233,955)	(83,255)
Income tax expense (benefit)	(4,411)	2,984	(26,878)
Net income (loss)	(72,169)	(236,939)	(56,377)
Equity in other comprehensive income (loss) of Guitar Center Inc., net of income tax	173	210	(440)
Comprehensive income (loss)	$ (71,996)	$ (236,729)	$ (56,817)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Long-Term Debt (Details) (USD $)

Long-Term Debt (Details) (USD $)	1 Months Ended Mar. 31, 2011	12 Months Ended Dec. 31, 2012	12 Months Ended Dec. 31, 2011	12 Months Ended Dec. 31, 2010	Dec. 31, 2012 Guitar Center	Dec. 31, 2011 Guitar Center	Dec. 31, 2010 Guitar Center	Dec. 31, 2012 Guitar Center Maximum	12 Months Ended Dec. 31, 2012 Holdings	12 Months Ended Dec. 31, 2011 Holdings	12 Months Ended Dec. 31, 2010 Holdings	Dec. 31, 2012 Senior secured asset-based revolving facility Guitar Center	Dec. 31, 2012 Senior secured asset-based revolving facility Guitar Center Minimum	3 Months Ended Mar. 31, 2012 Senior secured asset-based revolving facility Extended commitments	3 Months Ended Sep. 30, 2011 Senior secured asset-based revolving facility Extended commitments	Dec. 31, 2012 Senior secured asset-based revolving facility Extended commitments Minimum
Debt instruments																
Long-term debt including current maturities		$ 1,581,379,000			$ 1,016,706,000	$ 997,462,000			$ 564,673,000	$ 564,673,000						
Less current portion		135,725,000	646,000		5,941,000	646,000			129,784,000							
Long-term debt		1,445,654,000	1,561,489,000		1,010,765,000	996,816,000			434,889,000	564,673,000						
Maximum available amount												373,000,000				
Initial aggregate principal amount																
Percentage of ownership interest in guarantor subsidiaries																
Share of credit facility facility held (as a percentage)																67.00%
Amount paid to third parties, expensed			800,000			500,000										
Amount of extended commitments obtained														55,000,000	15,000,000	
Arrangement, consent and extension fees	8,100,000													700,000	200,000	
Amount of extraordinary sales of assets or receipt of insurance proceeds that would trigger a mandatory pre-payment of principal													2,500,000			
Variable rate basis																
Interest rate margin (as a percent)																
Commitment fee (as a percent)																
Outstanding letters of credit fee as a percent of the LIBOR margin rate																
Annual agency fee payable in each quarter												200,000				
Current borrowing base												295,400,000				
Undrawn borrowing available												286,800,000				
Number of semi-annual interest payments																
Secured leverage ratio																
Outstanding principal balance																
Letters of credit outstanding												8,600,000				
Average daily borrowing												9,700,000				
The percentage of the initial principal amount applied to principal that is repaid quarterly																
Percentage of excess cash flow which is required to be used for principal prepayment																
Applicable interest rate (as a percent)																
Option to make payment of percentage of interest by issuance of additional senior notes																
Percentage of interest payment reinvested																
Notes issued																
Future maturities of long-term debt																
2013		135,725,000			5,941,000				129,784,000							
2014		14,314,000			14,314,000											
2015		6,500,000			6,500,000											
2016		6,500,000			6,500,000											
2017		983,451,000			983,451,000											
Thereafter		434,889,000							434,889,000							
Long-term debt, net of current portion		1,581,379,000			1,016,706,000	997,462,000			564,673,000	564,673,000						
Anticipated amount of one-time principal prepayment																
Certain dividend restrictions																
Aggregate amount available for distributions from Guitar Center, Inc. after March 2, 2011.								25,000,000								
Percentage of consolidated net income to calculate dividend and other distributions																
Percentage of proceeds received from issuance of capital stock to calculate dividend and other distributions																
Percentage of cash contributions to calculate dividend and other distributions																
Percentage of cash received from sale or disposal of investments to calculate dividend and other distributions																
Additional amount pursuant to fixed charge coverage ratio																
Deferred Financing Fees																
Amortization of deferred financing fees		3,191,000	2,896,000	2,531,000	2,779,000	2,485,000	2,130,000		412,000	410,000	400,000					
Unamortized deferred financing fees		$ 13,097,000	$ 15,524,000		$ 10,899,000	$ 12,913,000										

Long-Term Debt (Details) (USD $)	12 Months Ended Dec. 31, 2012 Senior secured asset-based revolving facility Extended commitments Guitar Center	Dec. 31, 2012 Senior secured asset-based revolving facility Non-extended commitments Guitar Center	Dec. 31, 2012 Senior secured asset-based revolving facility LIBOR Guitar Center	Dec. 31, 2012 Senior secured asset-based revolving facility LIBOR Extended commitments Guitar Center Minimum	Dec. 31, 2012 Senior secured asset-based revolving facility LIBOR Extended commitments Guitar Center Maximum	Dec. 31, 2012 Senior secured asset-based revolving facility LIBOR Non-extended commitments Guitar Center Minimum	Dec. 31, 2012 Senior secured asset-based revolving facility LIBOR Non-extended commitments Guitar Center Maximum	12 Months Ended Dec. 31, 2012 Senior secured asset-based revolving facility Prime rate Guitar Center	Dec. 31, 2012 Senior secured asset-based revolving facility Prime rate Extended commitments Guitar Center Minimum	Dec. 31, 2012 Senior secured asset-based revolving facility Prime rate Extended commitments Guitar Center Maximum	Dec. 31, 2012 Senior secured asset-based revolving facility Prime rate Non-extended commitments Guitar Center Minimum	Dec. 31, 2012 Senior secured asset-based revolving facility Prime rate Non-extended commitments Guitar Center Maximum	Dec. 31, 2012 Asset-based facility due in February 2016 Guitar Center	Dec. 31, 2012 Asset-based facility due in October 2013 Guitar Center
Debt instruments														
Long-term debt including current maturities														
Less current portion														
Long-term debt														
Maximum available amount													323,000,000	50,000,000
Initial aggregate principal amount														
Percentage of ownership interest in guarantor subsidiaries														
Share of credit facility facility held (as a percentage)														
Amount paid to third parties, expensed														
Amount of extended commitments obtained														
Arrangement, consent and extension fees														
Amount of extraordinary sales of assets or receipt of insurance proceeds that would trigger a mandatory pre-payment of principal														
Variable rate basis			LIBOR					Prime rate						
Interest rate margin (as a percent)				2.75%	3.25%	1.25%	1.75%		1.75%	2.25%	0.00%	0.50%		
Commitment fee (as a percent)	0.50%	0.25%												
Outstanding letters of credit fee as a percent of the LIBOR margin rate														
Annual agency fee payable in each quarter														
Current borrowing base														
Undrawn borrowing available														
Number of semi-annual interest payments														
Secured leverage ratio														
Outstanding principal balance														
Letters of credit outstanding														
Average daily borrowing														
The percentage of the initial principal amount applied to principal that is repaid quarterly														
Percentage of excess cash flow which is required to be used for principal prepayment														
Applicable interest rate (as a percent)														
Option to make payment of percentage of interest by issuance of additional senior notes														
Percentage of interest payment reinvested														
Notes issued														
Future maturities of long-term debt														
2013														
2014														
2015														
2016														
2017														
Thereafter														
Long-term debt, net of current portion														
Anticipated amount of one-time principal prepayment														
Certain dividend restrictions														
Aggregate amount available for distributions from Guitar Center, Inc. after March 2, 2011.														
Percentage of consolidated net income to calculate dividend and other distributions														
Percentage of proceeds received from issuance of capital stock to calculate dividend and other distributions														
Percentage of cash contributions to calculate dividend and other distributions														
Percentage of cash received from sale or disposal of investments to calculate dividend and other distributions														
Additional amount pursuant to fixed charge coverage ratio														
Deferred Financing Fees														
Amortization of deferred financing fees														
Unamortized deferred financing fees														

Long-Term Debt (Details) (USD $)	12 Months Ended Dec. 31, 2012 Senior secured term loan Guitar Center	Dec. 31, 2011 Senior secured term loan Guitar Center	12 Months Ended Dec. 31, 2012 Senior secured term loan Guitar Center Maximum	Dec. 31, 2012 Senior secured term loan Extended commitments Minimum	Dec. 31, 2012 Senior secured term loan Extended commitments Guitar Center	12 Months Ended Dec. 31, 2012 Senior secured term loan LIBOR Guitar Center	Dec. 31, 2012 Senior secured term loan LIBOR Extended commitments Guitar Center	Dec. 31, 2012 Senior secured term loan LIBOR Non-extended commitments Guitar Center	12 Months Ended Dec. 31, 2012 Senior secured term loan Prime rate Guitar Center	Dec. 31, 2012 Senior secured term loan Prime rate Extended commitments Guitar Center	Dec. 31, 2012 Senior secured term loan Prime rate Non-extended commitments Guitar Center	Dec. 31, 2012 Senior secured term loan due April 2017 Guitar Center	Dec. 31, 2012 Obligations under capital lease, payable in monthly installments through 2013 Guitar Center	Dec. 31, 2011 Obligations under capital lease, payable in monthly installments through 2013 Guitar Center
Debt instruments														
Long-term debt including current maturities	$ 621,762,000	$ 621,762,000										$ 613,800,000	$ 54,000	$ 700,000
Less current portion														
Long-term debt														
Maximum available amount														
Initial aggregate principal amount	650,000,000													
Percentage of ownership interest in guarantor subsidiaries														
Share of credit facility facility held (as a percentage)				95.00%										
Amount paid to third parties, expensed														
Amount of extended commitments obtained														
Arrangement, consent and extension fees														
Amount of extraordinary sales of assets or receipt of insurance proceeds that would trigger a mandatory pre-payment of principal														
Variable rate basis						LIBOR			Prime rate					
Interest rate margin (as a percent)							5.25%	3.50%		4.25%	2.50%			
Commitment fee (as a percent)														
Outstanding letters of credit fee as a percent of the LIBOR margin rate														
Annual agency fee payable in each quarter	125,000													
Current borrowing base														
Undrawn borrowing available														
Number of semi-annual interest payments														
Secured leverage ratio														
Outstanding principal balance	622,000,000													
Letters of credit outstanding														
Average daily borrowing														
The percentage of the initial principal amount applied to principal that is repaid quarterly	0.25%													
Percentage of excess cash flow which is required to be used for principal prepayment			50.00%											
Applicable interest rate (as a percent)					0.00%									
Option to make payment of percentage of interest by issuance of additional senior notes														
Percentage of interest payment reinvested														
Notes issued														
Future maturities of long-term debt														
2013														
2014														
2015														
2016														
2017														
Thereafter														
Long-term debt, net of current portion	621,762,000	621,762,000										613,800,000	54,000	700,000
Anticipated amount of one-time principal prepayment														
Certain dividend restrictions														
Aggregate amount available for distributions from Guitar Center, Inc. after March 2, 2011.														
Percentage of consolidated net income to calculate dividend and other distributions														
Percentage of proceeds received from issuance of capital stock to calculate dividend and other distributions														
Percentage of cash contributions to calculate dividend and other distributions														
Percentage of cash received from sale or disposal of investments to calculate dividend and other distributions														
Additional amount pursuant to fixed charge coverage ratio														
Deferred Financing Fees														
Amortization of deferred financing fees														
Unamortized deferred financing fees														

Long-Term Debt (Details) (USD $)	12 Months Ended Dec. 31, 2012 Senior unsecured notes Guitar Center	Dec. 31, 2011 Senior unsecured notes Guitar Center	12 Months Ended Dec. 31, 2012 Senior unsecured notes Guitar Center Minimum	12 Months Ended Dec. 31, 2012 Senior unsecured notes Guitar Center Maximum	Dec. 31, 2012 Senior unsecured PIK notes	1 Months Ended Oct. 31, 2012 Senior unsecured PIK notes Holdings	12 Months Ended Dec. 31, 2012 Senior unsecured PIK notes Holdings item	Dec. 31, 2011 Senior unsecured PIK notes Holdings	Dec. 31, 2012 Term Loan, Asset-Based Facility and Senior Notes Guitar Center	Dec. 31, 2012 Loan maturity in April 2017 Guitar Center	Dec. 31, 2012 Loan maturity in October 2014 Guitar Center	12 Months Ended Dec. 31, 2012 Letters of credit Guitar Center
Debt instruments												
Long-term debt including current maturities	$ 394,890,000	$ 375,000,000					$ 564,673,000	$ 564,673,000		$ 613,800,000	$ 7,900,000	
Less current portion												
Long-term debt												
Maximum available amount												
Initial aggregate principal amount	375,000,000						375,000,000					
Percentage of ownership interest in guarantor subsidiaries									100.00%			
Share of credit facility facility held (as a percentage)												
Amount paid to third parties, expensed												
Amount of extended commitments obtained												
Arrangement, consent and extension fees												
Amount of extraordinary sales of assets or receipt of insurance proceeds that would trigger a mandatory pre-payment of principal												
Variable rate basis												
Interest rate margin (as a percent)												
Commitment fee (as a percent)												
Outstanding letters of credit fee as a percent of the LIBOR margin rate												0.50%
Annual agency fee payable in each quarter												
Current borrowing base												
Undrawn borrowing available												
Number of semi-annual interest payments							4					
Secured leverage ratio							8.5					
Outstanding principal balance												
Letters of credit outstanding												
Average daily borrowing												
The percentage of the initial principal amount applied to principal that is repaid quarterly												
Percentage of excess cash flow which is required to be used for principal prepayment												
Applicable interest rate (as a percent)	11.50%						14.09%			5.56%	3.71%	
Option to make payment of percentage of interest by issuance of additional senior notes							50.00%					
Percentage of interest payment reinvested						50.00%						
Notes issued	19,900,000						189,700,000					
Future maturities of long-term debt												
2013												
2014												
2015												
2016												
2017												
Thereafter												
Long-term debt, net of current portion	394,890,000	375,000,000					564,673,000	564,673,000		613,800,000	7,900,000	
Anticipated amount of one-time principal prepayment					129,800,000							
Certain dividend restrictions												
Aggregate amount available for distributions from Guitar Center, Inc. after March 2, 2011.												
Percentage of consolidated net income to calculate dividend and other distributions				50.00%								
Percentage of proceeds received from issuance of capital stock to calculate dividend and other distributions				100.00%								
Percentage of cash contributions to calculate dividend and other distributions				100.00%								
Percentage of cash received from sale or disposal of investments to calculate dividend and other distributions				100.00%								
Additional amount pursuant to fixed charge coverage ratio			1.00									
Deferred Financing Fees												
Amortization of deferred financing fees												
Unamortized deferred financing fees												

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Net sales	$ 2,139,191	$ 2,082,577	$ 2,010,895
Cost of goods sold, buying and occupancy	1,495,800	1,447,434	1,405,044
Gross profit	643,391	635,143	605,851
Selling, general and administrative expenses	547,724	579,226	546,135
Impairment of intangible assets		45,961	
Impairment of goodwill		107,026	
Operating income (loss)	95,667	(97,070)	59,716
Interest expense	(165,378)	(161,250)	(145,572)
Interest income	34	214	339
Income (loss) before income taxes	(69,677)	(258,106)	(85,517)
Income tax expense (benefit)	2,492	(21,167)	(29,140)
Net income (loss)	(72,169)	(236,939)	(56,377)
Other comprehensive income (loss), net of income tax	173	210	(440)
Comprehensive income (loss)	(71,996)	(236,729)	(56,817)
GUITAR CENTER, INC.			
Net sales	2,139,191	2,082,577	2,010,895
Cost of goods sold, buying and occupancy	1,495,800	1,447,434	1,405,044
Gross profit	643,391	635,143	605,851
Selling, general and administrative expenses	547,724	578,948	546,135
Impairment of intangible assets		45,961	
Impairment of goodwill		107,026	
Operating income (loss)	95,667	(96,792)	59,716
Interest expense	(85,403)	(81,277)	(71,181)
Interest income	34	214	339
Income (loss) before income taxes	10,298	(177,855)	(11,126)
Income tax expense (benefit)	6,903	(24,150)	(2,262)
Net income (loss)	3,395	(153,705)	(8,864)
Other comprehensive income (loss), net of income tax	173	210	(440)
Comprehensive income (loss)	$ 3,568	$ (153,495)	$ (9,304)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE I - Condensed Financial Statement of Parent Company Only (Details 3) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Operating activities:			
Net loss	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of deferred financing fees	3,191	2,896	2,531
Non-cash interest expense	20,295	8,504	57,415
Deferred income taxes	549	(25,421)	(32,341)
Changes in operating assets and liabilities:			
Accrued expenses and other current liabilities	3,332	(5,291)	16,848
Net cash provided by (used in) operating activities	34,885	(24,885)	143,444
Financing activities:			
Repurchase of common stock	(39)	(286)	(729)
Financing fees	(765)	(8,400)	
Net cash used in financing activities	(1,451)	(9,327)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701
Cash at end of year	74,836	106,036	193,767
Cash paid during the year for:			
Interest	141,291	157,461	69,001
Income taxes	2,562	1,908	2,749
Parent			
Operating activities:			
Net loss	(72,169)	(236,939)	(56,377)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in net (income) loss of Guitar Center, Inc.	(3,395)	153,705	8,864
Amortization of deferred financing fees	412	410	400
Non-cash interest expense	19,891	8,288	57,415
Deferred income taxes	(4,411)	2,984	(26,878)
Changes in operating assets and liabilities:			
Accrued expenses and other current liabilities		(8,288)	16,576
Net cash provided by (used in) operating activities	(59,672)	(79,840)	
Financing activities:			
Repurchase of common stock	(39)	(286)	(729)
Financing fees		(902)	
Repayments from Guitar Center, Inc.	59,711	81,028	729
Net cash used in financing activities	59,672	79,840	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Cash paid during the year for:

Interest	$ 59,672	$ 79,562

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Restructuring and Exit Activities (Details) (USD $) In Thousands, unless otherwise specified	12 Months Ended	
	Dec. 31, 2012	Dec. 31, 2011
Restructuring costs		
Restructuring costs incurred		$ 12,971
Cumulative amount of restructuring costs	15,078	
Restructuring accrual activity		
Charges	2,100	13,000
Employee termination costs		
Restructuring costs		
Restructuring costs incurred		5,416
Cumulative amount of restructuring costs	5,652	
Restructuring accrual activity		
Balance at the beginning of the period	3,926	
Charges	244	
Cash payments	(4,170)	
Balance at the end of the period		3,926
Retention bonus		
Restructuring costs		
Cumulative amount of restructuring costs	4,400	
Severance Cost		
Restructuring costs		
Cumulative amount of restructuring costs	1,300	
Employee relocation and recruiting costs		
Restructuring costs		
Restructuring costs incurred		2,362
Cumulative amount of restructuring costs	3,632	
Consulting costs		
Restructuring costs		
Restructuring costs incurred		2,178
Cumulative amount of restructuring costs	2,317	
Other costs		
Restructuring costs		
Restructuring costs incurred		3,015
Cumulative amount of restructuring costs	3,477	
Guitar Center		
Restructuring costs		
Restructuring costs incurred		1,466
Cumulative amount of restructuring costs	1,505	
Guitar Center | Employee termination costs		
Restructuring costs		
Restructuring costs incurred		190
Cumulative amount of restructuring costs	190	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Guitar Center | Employee relocation and recruiting costs		
Restructuring costs		
Restructuring costs incurred		143
Cumulative amount of restructuring costs	178	
Guitar Center | Consulting costs		
Restructuring costs		
Restructuring costs incurred		150
Cumulative amount of restructuring costs	150	
Guitar Center | Other costs		
Restructuring costs		
Restructuring costs incurred		983
Cumulative amount of restructuring costs	987	
Direct Response		
Restructuring costs		
Restructuring costs incurred	600	7,886
Cumulative amount of restructuring costs	8,461	
Direct Response | Employee termination costs		
Restructuring costs		
Restructuring costs incurred		4,182
Cumulative amount of restructuring costs	4,419	
Direct Response | Employee relocation and recruiting costs		
Restructuring costs		
Restructuring costs incurred		433
Cumulative amount of restructuring costs	433	
Direct Response | Consulting costs		
Restructuring costs		
Restructuring costs incurred		1,604
Cumulative amount of restructuring costs	1,546	
Direct Response | Other costs		
Restructuring costs		
Restructuring costs incurred		1,667
Cumulative amount of restructuring costs	2,063	
Corporate		
Restructuring costs		
Restructuring costs incurred	1,500	3,619
Cumulative amount of restructuring costs	5,112	
Corporate | Employee termination costs		
Restructuring costs		
Restructuring costs incurred		1,044
Cumulative amount of restructuring costs	1,043	
Corporate | Employee relocation and recruiting costs		
Restructuring costs		
Restructuring costs incurred		1,786
Cumulative amount of restructuring costs	3,021	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Corporate | Consulting costs		
Restructuring costs		
Restructuring costs incurred		424
Cumulative amount of restructuring costs	621	
Corporate | Other costs		
Restructuring costs		
Restructuring costs incurred		365
Cumulative amount of restructuring costs	$ 427	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Nature of Business and Significant Accounting Policies (Policies)	12 Months Ended Dec. 31, 2012
Nature of Business and Significant Accounting Policies	
Principles of Consolidation	*Principles of Consolidation* The accompanying consolidated financial statements of Holdings and Guitar Center include the accounts of the respective companies' wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.
Use of Estimates in the Preparation of Financial Statements	*Use of Estimates in the Preparation of Financial Statements* The preparation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. As a result of economic conditions in the United States, there is uncertainty about unemployment, consumer confidence and business and consumer spending. Over the last several years, these factors have reduced our visibility into long-term trends, dampen our expectations of future business performance and have increased the degree of uncertainty in our estimates.
Cash and Cash Equivalents	*Cash and Cash Equivalents* Cash consists of cash on hand and bank deposits. Cash equivalents generally consist of highly liquid investments with an original maturity of three months or less. We had no cash equivalents as of December 31, 2012 or 2011.
Accounts Receivable	*Accounts Receivable* We grant credit directly to certain customers in the ordinary course of business. Prior to granting credit, we conduct a credit analysis based on financial and other criteria and generally do not require collateral. We record accounts receivable net of an allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses from the failure of our customers to make their required payments. We base our allowance on an analysis of the aging of accounts receivable at the date of the financial statements, an assessment of historical collection trends and an evaluation of the impact of current economic conditions.
Merchandise Inventories	*Merchandise Inventories* We value inventories at the lower of the weighted average cost method or market value. We capitalize to inventory inbound freight costs from our vendors and the costs associated with bringing inventory through our Guitar Center distribution center, and then expense these amounts to cost of goods sold as the associated inventory is sold. We value rental inventories and used and vintage guitars at the lower of cost or market using the specific identification method. We depreciate rental inventories on a straight-line basis while out under the rental agreement for rent-to-own sales. We receive price protection credits and rebates from our vendors, which we account for as a component of merchandise inventory and record at the time the credit or rebate is earned. We typically receive rebates on a quarterly or annual basis. We do not believe we have significant risk related to rebates receivable, based upon historically low write-offs, our long-standing relationships with a consistent pool of rebate vendors and our ability to net unpaid rebates against vendor account payables. We recognize the effect of price protection credits and vendor rebates in

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the income statement as a reduction in cost of goods sold at the time the related item of inventory is sold. We do not record any of these credits as revenue.

Property and Equipment

Property and Equipment

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally five years for furniture, fixtures and vehicles, three to five years for computer equipment and 15 years for buildings. We amortize leasehold improvements over the shorter of their estimated useful lives or the terms of the related leases. We expense maintenance and repair costs as they are incurred, while renewals and betterments are capitalized.

Impairment and Disposal of Long-lived Assets

Impairment and Disposal of Long-lived Assets

We evaluate long-lived assets, such as property and equipment and amortizing intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If those assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

When evaluating long-lived assets for impairment, we group assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Asset groups for our retail businesses generally are comprised of retail store locations. The asset group for our internet and catalog operations includes the fulfillment center, customer contact centers and amortizing intangible assets of our internet and catalog businesses. We also group assets at higher levels for impairment evaluation. These asset groups include our retail distribution centers, corporate headquarters facilities and data centers.

Impairment charges related to tangible long-lived assets are included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss. See Note 11 for further discussion of impairment of long-lived assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. Property and equipment are classified as held for sale when a plan of sale has been initiated, the property is being actively marketed for sale, the property is available for immediate sale and a completed sale is expected within 12 months. Property and equipment held for sale are not depreciated. When we commit to a plan to sell an asset or asset group, we revise our depreciation estimates to reflect the assets' shortened useful lives for the period they will be held and used.

Goodwill and Other Intangible Assets

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business acquisitions. We also have intangible assets primarily related to trademarks, customer relationships and favorable leases.

Goodwill and certain intangible assets with indefinite lives are not amortized but are subject to an annual impairment test. Our policy is to test goodwill and indefinite-lived intangible assets for impairment annually at the beginning of the fourth quarter. We test all intangible assets, including goodwill and indefinite-lived intangible assets, whenever events and circumstances indicate that there may be an impairment of the asset value.

We test goodwill for impairment at the reporting unit level. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by management. Our operating segments and reporting units are the same, consisting of Guitar Center, direct response and Music & Arts.

In 2012 and 2011, our process for evaluating goodwill for impairment was as follows:

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- We first perform a qualitative assessment annually on October 1 of each reporting unit that has goodwill to determine if facts and circumstances indicate that goodwill is more likely than not impaired. If the qualitative assessment indicates that goodwill of a reporting unit is not more likely than not impaired, we do not perform a quantitative impairment test for the reporting unit. If the qualitative assessment indicates that goodwill of a reporting unit is more likely than not impaired, we perform the first step, or step 1, of the quantitative goodwill impairment test.

- In step 1, we compare the carrying amounts of the reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we use market multiple and discounted cash flow analyses. If the carrying amounts of the reporting units exceed their estimated fair values, we perform the second step, or step 2, of the goodwill impairment test.

- In step 2, we determine the implied fair value of goodwill at the affected reporting unit by allocating the reporting unit's estimated fair value to all the assets and liabilities of the applicable reporting unit (including any unrecognized intangible assets and related deferred taxes) as if the reporting unit had been acquired in a business combination. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

- We also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances.

In 2010, our policy was to test goodwill for impairment at the beginning of the fourth quarter by performing step 1 of the goodwill impairment test and performing step 2 if the carrying amount of a reporting unit exceeded its estimated fair value. We would also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances, but no such events occurred during 2010.

Beginning in 2012, we adopted new accounting standards related to testing indefinite-lived intangible assets for impairment. Under the revised standards, we are permitted to first perform a qualitative assessment to determine if facts and circumstances indicate that an indefinite-lived intangible asset is more likely than not impaired. If the qualitative assessment does not indicate the asset is more likely than not impaired, we do not perform any further impairment testing on the asset. If the qualitative assessment indicates that an indefinite-lived intangible asset is more likely than not impaired, we compare the fair value of the intangible asset to its carrying amount. An impairment charge is recorded for the amount by which its carrying amount exceeds its fair value.

Significant management judgment is required in the qualitative assessments, specifically with respect to macroeconomic conditions, industry and market conditions such as competition and the regulatory environment and entity-specific events that can affect the estimated fair value of a reporting unit or indefinite-lived intangible assets.

Significant management judgment is required in the forecasts of future operating results that are used in both undiscounted and discounted impairment tests. We use estimates and assumptions that we consider reasonable in relation to the plans and estimates used to manage our business. We also consider assumptions that we believe market participants would use in pricing the assets and liabilities. It is possible that the plans may change and estimates may prove to be inaccurate. If actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

We amortize intangible assets with finite useful lives over their estimated useful lives. We amortize customer relationships using an accelerated method based on expected customer

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

attrition rates. Other intangible assets with finite useful lives are generally amortized using the straight-line method.

Intangible assets with finite lives are reviewed for impairment in the same manner as long-lived assets.

See Note 2 for further discussion of goodwill, intangible assets and impairment.

[Merchandise Advances / Gift Cards]

Merchandise Advances / Gift Cards

Merchandise advances represent layaway deposits which are recorded as a liability pending consummation of the sale when we receive the full purchase price from the customer. Gift certificates, gift cards and credits on account are recorded as a liability until redeemed by the customer.

Our gift card subsidiaries issue gift cards that are sold to customers in our stores and online. Revenue from gift card sales is recognized upon the redemption of the gift card. Our gift cards do not have expiration dates. Based on historical redemption rates, a certain percentage of gift cards will never be redeemed, referred to as "breakage." We record breakage as a reduction of cost of goods sold for the estimated amount of gift cards that are expected to go unused and that are not subject to escheatment. We recognize gift card breakage proportionally over the estimated period of performance by applying our estimated breakage rate to actual gift card redemptions. Our estimated breakage rate is based on customers' historical redemption rates and patterns.

[Self-Insurance Reserves]

Self-Insurance Reserves

We maintain a self-insurance program for workers' compensation of up to $500,000 per claim and medical insurance of up to $400,000 per claim. Excess amounts are covered by stop-loss insurance coverage, subject to an aggregate annual deductible of $100,000 for medical insurance claims. Estimated costs under these programs, including incurred but not reported claims, are recorded as expenses based upon actuarially determined historical experience and trends of paid and incurred claims.

As of December 31, 2012, self-insurance reserves for workers' compensation were $4.7 million and for medical insurance was $1.6 million. As of December 31, 2011, self-insurance reserves for workers' compensation were $4.3 million and for medical insurance was $1.9 million. These balances are included in accrued expenses and other current liabilities in our consolidated balance sheets.

[Revenue Recognition]

Revenue Recognition

We recognize retail sales at the time of sale, net of a provision for estimated returns.

We recognize online and catalog sales and shipping and handling fees charged to customers when the products are estimated to be received by the customer, net of a provision for estimated returns. Return allowances are estimated using historical experience.

We recognize band instrument rentals on a straight-line basis over the term of the rental agreement, unless a trial period is offered, in which case we recognize rental income for the trial period over the term of the trial period. The terms of the majority of our rental agreements do not exceed 36 months. Trial periods are usually from one to four months.

[Shipping and Handling Costs]

Shipping and Handling Costs

We define shipping and handling costs as costs incurred for a third-party shipper to transport merchandise from our stores and our direct response fulfillment center to our customers. Shipping and handling costs are included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Shipping and handling fees charged to customers are included in net sales in our consolidated statements of comprehensive income or loss.

[Advertising Costs]

Advertising Costs

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We expense Guitar Center, direct response non-catalog and Music & Arts advertising costs as incurred. Advertising costs for the Guitar Center and Music & Arts segments were $42.5 million in 2012, $39.5 million in 2011 and $38.3 million in 2010. Direct response non-catalog advertising costs were $19.9 million in 2012, $20.2 million in 2011 and $22.0 million in 2010.

We capitalize mail order catalog costs on a catalog by catalog basis and amortize the amount over the expected period of future benefits, not to exceed five months. Capitalized mail order catalog costs included in prepaid expenses and other current assets was $0.5 million at December 31, 2012 and $1.2 million at December 31, 2011.

We evaluate the realizability of capitalized mail order catalog costs at each balance sheet date by comparing the carrying amount of those assets on a cost-pool-by-cost-pool basis to the probable remaining future net revenues expected to result directly from that advertising. If the carrying amounts of deferred mail order catalog costs exceed the probable remaining future net revenues, we write down the excess capitalized amount and expense that amount in the current period.

We receive cooperative advertising allowances from manufacturers in order to subsidize advertising and promotional expenditures relating to the vendor's products. We recognize these advertising allowances as a reduction to selling, general and administrative expense when the advertising costs are incurred. We recognized cooperative advertising allowances of $8.1 million in 2012, $8.7 million in 2011 and $9.1 million in 2010.

Rent Expense

Rent Expense

We lease substantially all of our store locations under operating leases that provide for monthly payments that typically increase over the life of the leases. We expense the aggregate of the minimum annual payments on a straight-line basis over the term of the lease. The amount by which straight-line rent expense exceeds actual lease payment requirements in the early years of the leases is accrued as deferred minimum rent and reduced in later years when the actual cash payment requirements exceed the straight-line expense. When a lease includes lease incentives such as a rent holiday or construction costs reimbursement or requires fixed minimum lease payment escalations, we recognize rental expense on a straight-line basis over the initial term of the lease, and we include the difference between the average rental amount charged to expense and amounts payable under the lease in deferred rent and lease incentives in our consolidated balance sheets.

Rent expense related to our stores and retail store distribution centers is included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Rent expense related to our corporate offices, customer contact and data centers and direct response fulfillment center is included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss.

Income Taxes

Income Taxes

We account for income taxes using the asset and liability method. Under this method, we defer tax assets and liabilities until they are recognizable pursuant to tax law. Deferred tax assets and liabilities are measured using enacted tax rates for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits of the position, that the position will be sustained upon examination. Our policy is to recognize interest and penalties related to uncertain tax positions as a component of income tax expense.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

periods in which those temporary differences become deductible. We consider the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of a deferred tax asset will not be realized.

Guitar Center is included in Holdings' consolidated federal and state income tax returns. Because Guitar Center does not have a standalone income tax liability, we allocate income tax provisions using the separate return method. Under this method, current and deferred taxes are allocated to each reporting entity as if it were to file a separate tax return. Differences between the consolidated and separate return income tax provisions are eliminated in consolidation. See Note 10 for additional information regarding income taxes.

Stock-Based Compensation

Stock-Based Compensation

Holdings grants stock-based awards to certain Guitar Center employees under its management equity plan. Guitar Center recognizes the related compensation expense in selling, general and administrative expenses and as a capital contribution from Holdings. Guitar Center itself does not grant stock option or other stock-based compensation to its employees or to third parties.

Stock-based compensation expense is measured based on the fair value of the award on the grant date and recognized on a straight-line basis over the requisite service period for awards expected to vest. Stock-based compensation expense is recorded net of estimated forfeitures. The forfeiture rate assumption used in determining stock-based compensation expense is estimated based on historical data and management's expectations about future forfeiture rates. Assumptions about forfeitures were developed separately for our senior management from the other participants of our stock plans, as senior management's exercise and retention behavior is expected to differ materially from the other participants. The actual forfeiture rate could differ from these estimates.

Concentration of Credit Risk

Concentration of Credit Risk

Our cash deposits are with various high quality financial institutions. Customer purchases generally are transacted using cash or credit cards. In limited instances, we grant credit for larger purchases under customary trade terms. Credit losses have historically been within our expectations.

Fair Value of Financial Instruments

Fair Value of Financial Instruments

The principal amount of our long-term debt is stated at par value and its significant terms are described in Note 5.

Companies may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. We did not elect to apply the fair value option for reporting financial assets or liabilities.

The fair values of our financial assets and liabilities are discussed in Note 11.

Comprehensive Income or Loss

Comprehensive Income or Loss

Our comprehensive income or loss consists of net income or loss and unrealized gains and losses on derivative instruments, net of amounts reclassified into income. Cumulative gains and losses on derivative instruments, net of income tax, are included in accumulated other comprehensive loss in our consolidated balance sheets and statements of stockholders' equity or deficit.

New Accounting Pronouncements

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued revised standards related to fair value measurements and disclosures. The revised standards clarify existing fair

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

value measurement principles, modify the application of fair value measurement principles in certain circumstances and expand the disclosure requirements related to fair value measurements.

The revised standards are effective for interim and annual reporting periods beginning after December 15, 2011. We adopted the revised standards on January 1, 2012. The change resulted in expanded fair value disclosures in the notes to financial statements and had no effect on our balance sheets, statements of comprehensive income or loss or cash flows.

In June 2011, FASB issued revised standards related to the presentation of comprehensive income. The revised standards eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of income and comprehensive income or in two separate but consecutive statements.

The revised standard is effective for interim and annual reporting periods beginning after December 15, 2011 and must be applied retrospectively to all periods upon adoption. We adopted the revised standards on January 1, 2012, opting to present components of other comprehensive income in a single continuous statement of comprehensive income or loss.

In July 2012, FASB issued revised standards related to testing indefinite-lived intangible assets for impairment. The new standards permit an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would only be required to calculate the fair value of an indefinite-lived intangible asset if the entity determines, based on qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. The revised standard is intended to reduce costs and simplify how entities test indefinite-lived intangible assets for impairment.

The revised standard is effective for annual and interim impairment tests of indefinite-lived intangible assets performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We adopted the revised standard for our annual impairment tests of indefinite-lived intangible assets performed during the fourth quarter of 2012. The adoption of the revised standard did not affect our financial statements.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS	12 Months Ended Dec. 31, 2012

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II

GUITAR CENTER HOLDINGS, INC. AND SUBSIDIARIES
GUITAR CENTER, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands)

	Balance at beginning of year	Additions charged to expense	Deductions from allowance	Balance at end of year
Allowance for doubtful accounts				
Year ended December 31, 2012	$ 2,979	3,840	3,970	$ 2,849
Year ended December 31, 2011	$ 3,030	4,104	4,155	$ 2,979
Year ended December 31, 2010	$ 3,105	4,900	4,975	$ 3,030

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fair Value Measurements (Details 3) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Carrying Amount		
Carrying value and fair value of long-term debt		
Long-term debt	$ 1,581,379	$ 1,562,135
Carrying Amount | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	1,016,706	997,462
Carrying Amount | Senior secured term loan | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	621,762	621,762
Carrying Amount | Senior unsecured notes | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	394,890	375,000
Carrying Amount | Capital lease obligations | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	54	700
Carrying Amount | Senior unsecured PIK notes | Holdings		
Carrying value and fair value of long-term debt		
Long-term debt	564,673	564,673
Fair Value		
Carrying value and fair value of long-term debt		
Long-term debt	1,615,598	1,550,150
Fair Value | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	1,018,633	940,838
Fair Value | Senior secured term loan | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	600,000	545,596
Fair Value | Senior unsecured notes | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	418,579	394,542
Fair Value | Capital lease obligations | Guitar Center		
Carrying value and fair value of long-term debt		
Long-term debt	54	700
Fair Value | Senior unsecured PIK notes | Holdings		
Carrying value and fair value of long-term debt		
Long-term debt	$ 596,965	$ 609,312

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance Sheet Components (Details) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Merchandise inventories:		
Inventory gross	$ 570,550	$ 553,466
Less inventory reserves	5,591	5,506
Inventory, net	564,959	547,960
Major goods		
Merchandise inventories:		
Inventory gross	344,673	337,537
Band instruments		
Merchandise inventories:		
Inventory gross	79,499	76,188
Accessories		
Merchandise inventories:		
Inventory gross	114,412	110,740
Vintage instruments		
Merchandise inventories:		
Inventory gross	13,948	13,635
Used major goods		
Merchandise inventories:		
Inventory gross	$ 18,018	$ 15,366

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill and Intangible Assets (Tables)

12 Months Ended Dec. 31, 2012

Goodwill and Intangible Assets

Schedule of changes in goodwill by segment

The following table presents an analysis of the changes in goodwill by segment (in thousands):

	Guitar Center	Direct Response	Total
Balance at December 31, 2010			
Goodwill	$644,393	$170,718	$815,111
Accumulated impairment losses	(123,804)	(1,903)	(125,707)
	520,589	168,815	689,404
Reasssignment of goodwill upon change in operating segments	61,789	(61,789)	—
Goodwill impairment	—	(107,026)	(107,026)
Balance at December 31, 2011			
Goodwill	706,182	108,929	815,111
Accumulated impairment losses	(123,804)	(108,929)	(232,733)
	582,378	—	582,378
Balance at December 31, 2012			
Goodwill	706,182	—	706,182
Accumulated impairment losses	(123,804)	—	(123,804)
	$582,378	$ —	$582,378

Intangible Assets

Summary of intangible assets

The following tables present a summary of our intangible assets (dollars in thousands, life in years):

	Weighted-Average Useful Life	December 31, 2012 Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Unamortized trademark	—	$208,501	$ —	$208,501
Amortized				
Customer relationships	13.0	224,302	(148,042)	76,260
Favorable lease terms	7.5	57,721	(51,323)	6,398
Covenants not to compete and other	4.3	785	(675)	110
		$491,309	$ (200,040)	$291,269

	Weighted-Average Useful Life	December 31, 2011 Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Unamortized trademark	—	$208,501	$ —	$208,501
Amortized				
Customer relationships	13.0	224,302	(125,049)	99,253
Favorable lease terms	7.5	57,721	(45,436)	12,285
Covenants not to compete and other	4.5	875	(774)	101
		$491,399	$ (171,259)	$320,140

Schedule of amortization expense

Amortization expense included in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31,	
	2012	2011
Cost of goods sold, buying and occupancy	$ 5,887	$ 7,486
Selling, general and administrative expenses	23,093	35,396

Schedule of future estimated amortization expense related to intangible assets

The estimated amortization expense related to intangible assets for each of the next five years and thereafter as of December 31, 2012 was as follows (in thousands):

Year	
2013	$22,227
2014	16,387
2015	12,442
2016	9,640
2017	7,620
Thereafter	14,452
Total	$82,768

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Restructuring and Exit Activities (Tables)	12 Months Ended Dec. 31, 2012

Restructuring and Exit Activities

Schedule of restructuring costs incurred for each segment

Restructuring costs incurred for each segment during 2011 were as follows (in thousands):

	Year ended December 31, 2011			
	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,182	$ 1,044	$ 5,416
Employee relocation and recruiting costs	143	433	1,786	2,362
Consulting costs	150	1,604	424	2,178
Other costs	983	1,667	365	3,015
Total	$ 1,466	$ 7,886	$ 3,619	$ 12,971

Cumulative restructuring costs incurred for each segment from inception of the restructuring plan through December 31, 2012 were as follows (in thousands):

	Cumulative amount through December 31, 2012			
	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,419	$ 1,043	$ 5,652
Employee relocation and recruiting costs	178	433	3,021	3,632
Consulting costs	150	1,546	621	2,317
Other costs	987	2,063	427	3,477
Total	$ 1,505	$ 8,461	$ 5,112	$ 15,078

Schedule of our restructuring accrual activity

The following table summarizes our restructuring accrual activity for the year ended December 31, 2012, as it relates to employee termination costs (in thousands):

	Termination Costs
Balance at December 31, 2011	$ 3,926
Charges	244
Cash payments	(4,170)
Balance at December 31, 2012	$ —

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD $) In Thousands, except Share data, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Accounts receivable, allowance for doubtful accounts (in dollars)	$ 2,849	$ 2,979
Property and equipment, accumulated depreciation and amortization (in dollars)	250,835	194,763
Intangible assets, accumulated amortization (in dollars)	200,040	171,259
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01
Common stock, shares authorized	20,000,000	20,000,000
Common stock, shares issued	9,740,000	9,742,000
Common stock, shares outstanding	9,740,000	9,742,000
GUITAR CENTER, INC.		
Accounts receivable, allowance for doubtful accounts (in dollars)	2,849	2,979
Property and equipment, accumulated depreciation and amortization (in dollars)	250,835	194,763
Intangible assets, accumulated amortization (in dollars)	$ 200,040	$ 171,259
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01
Common stock, shares authorized	1,000	1,000
Common stock, shares issued	100	100
Common stock, shares outstanding	100	100

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance Sheet Components (Tables)	12 Months Ended Dec. 31, 2012

Balance Sheet Components

Schedule of merchandise inventories

Selected balance sheet components of Holdings and Guitar Center consisted of the following (in thousands):

	December 31,	
	2012	2011
Merchandise inventories:		
Major goods	$344,673	$337,537
Band instruments	79,499	76,188
Accessories	114,412	110,740
Vintage instruments	13,948	13,635
Used major goods	18,018	15,366
	570,550	553,466
Less inventory reserves	5,591	5,506
	$564,959	$547,960

Schedule of property and equipment

	December 31,	
	2012	2011
Property and equipment:		
Land	$ 20,940	$ 20,940
Buildings	12,001	11,969
Furniture and fixtures	49,153	41,535
Transportation equipment	3,195	2,659
Computer equipment	164,163	139,788
Leasehold improvements	207,424	182,369
Construction in progress	7,928	4,600
	464,804	403,860
Less accumulated depreciation and amortization	250,835	194,763
	$213,969	$209,097

Schedule of accrued expenses and other current liabilities

Holdings

December 31,	
2012	2011

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued expenses and other current liabilities:		
Wages, salaries and benefits	$ 27,226	$ 34,973
Accrued interest	27,067	26,500
Sales tax payable	16,799	13,708
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Income taxes payable	1,349	1,548
Other	12,502	11,213
	$132,119	$128,787

Guitar Center

	December 31,	
	2012	2011
Accrued expenses and other current liabilities:		
Income taxes payable	$ 85,000	$ 61,266
Wages, salaries and benefits	27,226	34,973
Sales tax payable	16,799	13,708
Accrued interest	10,492	9,924
Unearned revenue	8,971	9,252

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Other	12,502	11,213
	$199,195	$171,929

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill and Intangible Assets (Details) (USD $) In Thousands, unless otherwise specified	12 Months Ended			1 Months Ended	12 Months Ended	1 Months Ended	12 Months Ended	1 Months Ended	12 Months Ended	1 Months Ended	12 Months Ended				12 Months Ended		12 Months Ended							
	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2010	Jan. 31, 2011 Minimum Discounted cash flow	Dec. 31, 2010 Minimum Discounted cash flow	Jan. 31, 2011 Minimum Gordon Growth Method	Dec. 31, 2010 Minimum Gordon Growth Method	Jan. 31, 2011 Maximum Discounted cash flow	Dec. 31, 2010 Maximum Discounted cash flow	Jan. 31, 2011 Maximum Gordon Growth Method	Dec. 31, 2010 Maximum Gordon Growth Method	Dec. 31, 2011 Guitar Center	Dec. 31, 2012 Guitar Center	Dec. 31, 2010 Guitar Center	Dec. 31, 2011 Direct Response	Dec. 31, 2010 Direct Response	Dec. 31, 2011 Direct Response Minimum Discounted cash flow	Dec. 31, 2011 Direct Response Minimum Gordon Growth Method	Dec. 31, 2011 Direct Response Minimum Market multiple analysis	Dec. 31, 2011 Direct Response Maximum Discounted cash flow	Dec. 31, 2011 Direct Response Maximum Gordon Growth Method	Dec. 31, 2011 Direct Response Maximum Market multiple analysis	Dec. 31, 2011 Direct Response Trademarks	Dec. 31, 2011 Direct Response Customer relationship intangible asset
Goodwill allocation																								
Discount rate (as a percent)				12.50%	11.00%			14.00%	14.00%								14.00%			15.00%				
Terminal Capitalization rate (as a percent)						4.80%	3.00%			5.00%	5.00%							0.50%			1.50%			
Multiples Used																			3.5			4.5		
Goodwill	$ 815,111	$ 706,182	$ 815,111									$ 706,182	$ 706,182	$ 644,393	$ 108,929	$ 170,718								
Accumulated impairment losses	(232,733)	(123,804)	(125,707)									(123,804)	(123,804)	(123,804)	(108,929)	(1,903)								
Goodwill, net	582,378	582,378	689,404									582,378	582,378	520,589		168,815								
Reassignment of goodwill upon change in operating segments												61,789			(61,789)									
Goodwill impairment	107,026														107,026									
Intangible assets impairment																								
Impairment of indefinite-lived intangible assets																							32,500	
Impairment of finite-lived intangible assets																								$ 13,500

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income Taxes (Details 2) (USD $)	12 Months Ended Dec. 31, 2012
Reconciliation of unrecognized tax benefits, which are classified as other current assets	
Balance at the beginning of the period	$ 1,245,000
Additions based on tax positions of prior years	181,000
Reductions based on tax positions of prior years	(133,000)
Balance at the end of the period	1,293,000
Impact of unrecognized tax benefits, if recognized	$ 1,300,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED BALANCE SHEETS (Guitar Center Holdings, Inc.) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Current assets:				
Cash	$ 74,836	$ 106,036	$ 193,767	$ 119,701
Accounts receivable, net of allowance for doubtful accounts of $2,849 and $2,979, respectively	44,015	44,732		
Merchandise inventories	564,959	547,960		
Prepaid expenses and other current assets	23,285	26,984		
Deferred income taxes	3,165	937		
Total current assets	710,260	726,649		
Property and equipment, net of accumulated depreciation and amortization of $250,835 and $194,763, respectively	213,969	209,097		
Goodwill	582,378	582,378	689,404	
Intangible assets, net of accumulated amortization of $200,040 and $171,259, respectively	291,269	320,140		
Other assets, net	18,682	20,802		
Total assets	1,816,558	1,859,066	2,120,718	
Current liabilities:				
Accounts payable	116,973	120,010		
Accrued expenses and other current liabilities	132,119	128,787		
Merchandise advances	34,901	30,982		
Current portion of long-term debt	135,725	646		
Total current liabilities	419,718	280,425		
Other long-term liabilities	20,669	18,690		
Deferred income taxes	79,537	76,529		
Long-term debt	1,445,654	1,561,489		
Total liabilities	1,965,578	1,937,133		
Commitments and contingencies				
Stockholders' deficit:				
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding				
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97		
Additional paid-in capital	633,800	632,757		
Accumulated deficit	(782,917)	(710,748)		
Accumulated other comprehensive loss		(173)		
Total stockholder's equity (deficit)	(149,020)	(78,067)	157,396	211,724
Total liabilities and stockholder's equity (deficit)	$ 1,816,558	$ 1,859,066		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance Sheet Components (Details 2) (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Property and equipment:		
Property and equipment, gross	$ 464,804	$ 403,860
Less accumulated depreciation and amortization	250,835	194,763
Property and equipment, net	213,969	209,097
Land		
Property and equipment:		
Property and equipment, gross	20,940	20,940
Buildings		
Property and equipment:		
Property and equipment, gross	12,001	11,969
Furniture and fixtures		
Property and equipment:		
Property and equipment, gross	49,153	41,535
Transportation equipment		
Property and equipment:		
Property and equipment, gross	3,195	2,659
Computer equipment		
Property and equipment:		
Property and equipment, gross	164,163	139,788
Leasehold improvements		
Property and equipment:		
Property and equipment, gross	207,424	182,369
Construction in progress		
Property and equipment:		
Property and equipment, gross	$ 7,928	$ 4,600

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF CASH FLOWS (Guitar Center Holdings, Inc.) (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Operating activities:			
Net loss	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	90,905	106,197	104,846
Impairment of goodwill		107,026	
Impairment of intangible assets		45,961	
Impairment of property and equipment	559	1,294	884
Net loss on disposal of property and equipment	36	5,157	995
Amortization of deferred financing fees	3,191	2,896	2,531
Non-cash interest expense	20,295	8,504	57,415
Stock-based compensation	1,082	1,552	3,218
Deferred income taxes	549	(25,421)	(32,341)
Changes in operating assets and liabilities:			
Accounts receivable	717	(7,861)	(1,638)
Merchandise inventories	(16,999)	(46,095)	11,351
Prepaid expenses and other current assets	832	(3,814)	16,181
Other assets, net	(306)	(19)	76
Accounts payable	(3,037)	15,302	8,642
Accrued expenses and other current liabilities	3,332	(5,291)	16,848
Merchandise advances	3,919	3,254	3,663
Other long-term liabilities	1,979	3,412	7,150
Net cash provided by (used in) operating activities	34,885	(24,885)	143,444
Investing activities:			
Purchase of property and equipment	(67,468)	(57,324)	(47,887)
Acquisition of intangible assets	(110)	(197)	(250)
Net proceeds from disposal of property and equipment	2,944	4,002	238
Net cash used in investing activities	(64,634)	(53,519)	(47,899)
Financing activities:			
Borrowings on asset-based revolving credit facility	225,000		
Repayment of asset-based revolving credit facility	(225,000)		
Repayment of long-term debt	(647)	(641)	(20,750)
Financing fees	(765)	(8,400)	
Repurchase of common stock	(39)	(286)	(729)
Net cash used in financing activities	(1,451)	(9,327)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Cash at end of year	74,836	106,036	193,767
Cash paid during the year for:			
Interest	141,291	157,461	69,001
Income taxes	$ 2,562	$ 1,908	$ 2,749

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Quarterly Financial Data (unaudited) (Details) (USD $) In Thousands, unless otherwise specified	3 Months Ended												12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Quarterly financial data (unaudited)															
Net sales	$ 628,211	$ 496,231	$ 486,598	$ 528,151	$ 612,595	$ 488,129	$ 479,053	$ 502,800	$ 597,517	$ 465,007	$ 460,957	$ 487,414	$ 2,139,191	$ 2,082,577	$ 2,010,895
Gross profit	185,993	147,362	146,460	163,576	189,225	144,253	145,549	156,116	188,012	134,509	134,333	148,997	643,391	635,143	605,851
Net income (loss)	(1,538)	(25,658)	(28,763)	(16,210)	(172,153)	(27,383)	(25,952)	(11,451)	(2,202)	(23,050)	(20,134)	(10,991)	(72,169)	(236,939)	(56,377)
Guitar Center															
Quarterly financial data (unaudited)															
Net sales	628,211	496,231	486,598	528,151	612,595	488,129	479,053	502,800	597,517	465,007	460,957	487,414	2,139,191	2,082,577	2,010,895
Gross profit	185,993	147,362	146,460	163,576	189,225	144,253	145,549	156,116	188,012	134,509	134,333	148,997	643,391	635,143	605,851
Net income (loss)	$ 7,703	$ (2,038)	$ (4,817)	$ 2,547	$ (129,320)	$ (13,759)	$ (12,398)	$ 1,772	$ 10,427	$ (11,119)	$ (8,332)	$ 160	$ 3,395	$ (153,705)	$ (8,864)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Lease Commitments (Tables)	12 Months Ended Dec. 31, 2012
Lease Commitments	
Schedule of future annual minimum lease payments	The future annual minimum lease payments at December 31, 2012 under operating leases were as follows (in thousands):

Year	Operating Leases
2013	76,789
2014	69,271
2015	61,596
2016	49,623
2017	30,922
Thereafter	68,217
Total minimum lease payments	$356,418

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fair Value Measurements

12 Months Ended Dec. 31, 2012

Fair Value Measurements

Fair Value Measurements

11. Fair Value Measurements

The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under GAAP. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions.

Valuation inputs are classified into the following hierarchy:

- Level 1 Inputs— Quoted prices for identical instruments in active markets.
- Level 2 Inputs— Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value
- Level 3 Inputs— Instruments with primarily unobservable value drivers.

Valuation policies and procedures for fair value measurements using level 3 inputs are established by finance management reporting to our chief financial officer. We corroborate level 3 inputs with historical and market information where possible and appropriate and we may engage third-party valuation firms to assist us in determining certain fair value measurements.

We do not have any material assets or liabilities measured at fair value on a recurring basis.

The fair values of cash, receivables, accounts payable, accrued expenses and other current liabilities approximate their carrying amounts because of their short-term nature.

Some assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These assets can include long-lived and intangible assets that have been reduced to fair value when they are impaired and long-lived assets that are held for sale. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Year ended December 31, 2012				
	Level 1	Level 2	Level 3	Total	Total Losses
Specific-store leasehold improvements	—	—	$ 195	$ 195	$ 559

	Year ended December 31, 2011				
	Level 1	Level 2	Level 3	Total	Total Losses
Direct response goodwill, net of accumulated impairment losses	$ —	$ —	$ —	$ —	$107,026

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Direct response trademarks and trade names	—	—	11,500	11,500	32,500
Direct response customer relationship intangible asset	—		6,800	6,800	13,461
Specific-store leasehold improvements	—	—	745	745	1,294

We estimate the fair value of goodwill using a combination of income-based and market-based approaches using level 3 inputs. We estimate the fair value of other intangible assets using an income-based approach with level 3 inputs. The methods and assumptions used to measure the fair value of goodwill are discussed in Note 2.

We estimate the fair value of our customer relationship intangible assets using a discounted cash flow analysis, specifically the excess earnings method. This approach uses unobservable inputs, including projected revenue and net cash flows related to our existing customer relationships, our estimates of future customer retention and our internal cost of capital.

We estimate the fair values of indefinite-lived trademarks and trade names using a discounted cash flow analysis, specifically the relief-from-royalty method. This approach uses unobservable inputs, including projected revenue and our internal cost of capital. This approach also uses market observations about royalty rates.

We estimate the fair value of specific-store leasehold improvements using an income-based approach, considering the cash flows expected over the remaining lease term for each location. The income-based approach uses unobservable inputs, including projected free cash flow and internal cost of capital and accordingly these fair value measurements have been classified as level 3 in the fair value hierarchy.

The following tables present quantitative information about level 3 inputs used in our fair value measurements:

Fair Value Measurement	**Fair Value at December 31, 2012 (in thousands)**	**Valuation technique(s)**	**Unobservable input**	**Range**
Specific-store leasehold improvements	$ 195	Discounted cash flow	Weighted-average cost of capital	9.8%
			Long-term revenue growth rate	3.0%

Fair Value Measurement	**Fair Value at December 31, 2011 (in thousands)**	**Valuation technique(s)**	**Unobservable input**	**Range**
Direct response trademarks and trade names	$ 11,500	Discounted cash flow	Weighted-average cost of capital	16.5%
			Long-term revenue growth rate	1.0%
			Royalty rates	0.5% - 1.5%
Direct response customer	6,800	Discounted cash flow	Weighted-average cost of capital	17.5%

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

relationship intangible asset				
			Customer attrition rate	59.9% - 25.0%
Specific-store leasehold improvements	745	Discounted cash flow	Weighted-average cost of capital	10.9%
			Long-term revenue growth rate	3.0%

The following table presents the difference between the carrying amount and estimated fair value of our long-term debt (in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Guitar Center				
Senior secured asset-based revolving credit facility	$ —	$ —	$ —	$ —
Senior secured term loan	621,762	600,000	621,762	545,596
Senior unsecured notes	394,890	418,579	375,000	394,542
Capital lease obligations	54	54	700	700
Total Guitar Center	1,016,706	1,018,633	997,462	940,838
Holdings				
Senior unsecured PIK notes	564,673	596,965	564,673	609,312
Holdings Consolidated	$1,581,379	$1,615,598	$1,562,135	$1,550,150

We estimate the fair value of our long-term debt using observable inputs classified as level 2 in the fair value hierarchy. We use present value and market techniques that consider rates of return on similar credit facilities recently initiated by companies with like credit quality in similar industries, quoted prices for similar instruments, and inquiries with certain investment communities.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income Taxes (Tables)

	12 Months Ended
	Dec. 31, 2012

Income Taxes

Schedule of components of income tax expense or benefit

Total income tax expense or benefit for 2012, 2011 and 2010 was as follows (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$ —	$ —	$ (268)
State	1,943	4,254	3,469
Total current tax provision	1,943	4,254	3,201
Deferred:			
Federal	—	(20,991)	(28,797)
State	549	(4,430)	(3,544)
Total deferred tax provision	549	(25,421)	(32,341)
Total income tax expense (benefit)	$ 2,492	$(21,167)	$(29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$20,005	$ 4,917	$16,004
State	4,750	3,620	1,335
Total current tax provision	24,755	8,537	17,339
Deferred:			
Federal	(16,584)	(29,171)	(16,823)
State	(1,268)	(3,516)	(2,778)
Total deferred tax provision	(17,852)	(32,687)	(19,601)
Total income tax expense (benefit)	$ 6,903	$(24,150)	$ (2,262)

Reconciliation of income tax expense or benefit to expected amount based on statutory rates

Actual income taxes differ from the statutory tax rate of 35% as applied to net income or loss before income taxes as follows (in thousands):

Holdings

Year ended December 31,		
2012	2011	2010

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Expected income tax benefit	$(24,387)	$(90,337)	$(29,622)
State income taxes, net of federal tax benefit	2,492	(1,463)	(440)
Goodwill impairment	—	37,460	—
Stock options	567	—	(159)
Change in valuation allowance	23,348	32,247	—
Meals & entertainment and non-deductible items	352	348	337
Other	120	578	744
Actual income tax expense (benefit)	$ 2,492	$(21,167)	$(29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Expected income tax expense (benefit)	$ 3,604	$(62,249)	$ (3,894)
State income taxes, net of federal tax benefit	2,280	(253)	746
Goodwill impairment	—	37,460	—
Stock options	567	—	(159)
Meals & entertainment and non-deductible items	352	348	337
Other	100	544	708
Actual income tax expense (benefit)	$ 6,903	$(24,150)	$ (2,262)

Schedule of components of deferred tax assets and liabilities

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented below (in thousands):

	Holdings		Guitar Center	
	December 31,		December 31,	
	2012	2011	2012	2011
Deferred tax assets:				
Net operating loss	$ 50,194	$ 43,179	$ —	$ —

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

State net operating loss carryforward	2,247	2,042	—	—
Accrued liabilities	26,488	26,572	26,688	26,572
Merchandise inventories	3,215	2,961	3,215	2,961
Intangibles	8,743	8,084	8,743	8,084
Stock options	2,504	2,652	2,504	2,652
Capital loss carryover	133	129	133	129
Fixed assets	4,893	(2,203)	4,893	(2,203)
Total gross deferred tax assets	98,417	83,416	46,176	38,195
Less valuation allowance	(58,210)	(32,558)	(310)	(310)
Net deferred tax assets	40,207	50,858	45,866	37,885
Deferred tax liabilities:				
Depreciation	(5,534)	(5,813)	(5,534)	(5,813)
Intangibles	(110,864)	(120,196)	(110,864)	(120,196)
Other	(181)	(441)	(181)	(441)
Total gross deferred tax liabilities	(116,579)	(126,450)	(116,579)	(126,450)
Net deferred tax liabilities	$ (76,372)	$ (75,592)	$ (70,713)	$ (88,565)

Schedule of changes in unrecognized tax benefits

The reconciliation of unrecognized tax benefits in 2012, the balance of which is classified as other current assets in the consolidated balance sheet, is as follows (in thousands):

Balance at January 1, 2012	$ 1,245
Additions based on tax positions of current years	—
Additions based on tax positions of prior years	181
Reductions based on tax positions of prior years	(133)
Balance at December 31, 2012	$ 1,293

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Related Party Transactions	12 Months Ended Dec. 31, 2012
Related Party Transactions	
Related Party Transactions	**13. Related Party Transactions** In connection with our acquisition by affiliates of Bain Capital in 2007, we entered into an advisory agreement with Bain Capital pursuant to which Bain Capital provides us with management and consulting services and financial and other advisory services. Pursuant to the advisory agreement, we pay Bain Capital a periodic fee of $1.0 million per quarter, plus reimbursement for reasonable out-of-pocket fees, and a fee equal to 1% of the transaction value of each acquisition, disposition or divestiture by or involving us. The advisory fee totaled $4.5 million in 2012, $4.8 million in 2011 and $4.5 million in 2010. The advisory fee is included in selling, general and administrative expenses. The advisory agreement has a 10-year initial term, and thereafter is subject to automatic one-year extensions unless we or Bain Capital provides written notice of termination. The advisory agreement terminates automatically upon a change of control. The advisory agreement includes customary indemnities in favor of Bain Capital.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED BALANCE SHEETS (USD $) In Thousands, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
Current assets:		
Cash	$ 74,836	$ 106,036
Accounts receivable, net of allowance for doubtful accounts of $2,849 and $2,979, respectively	44,015	44,732
Merchandise inventories	564,959	547,960
Prepaid expenses and other current assets	23,285	26,984
Deferred income taxes	3,165	937
Total current assets	710,260	726,649
Property and equipment, net of accumulated depreciation and amortization of $250,835 and $194,763, respectively	213,969	209,097
Goodwill	582,378	582,378
Intangible assets, net of accumulated amortization of $200,040 and $171,259, respectively	291,269	320,140
Other assets, net	18,682	20,802
Total assets	1,816,558	1,859,066
Current liabilities:		
Accounts payable	116,973	120,010
Accrued expenses and other current liabilities	132,119	128,787
Merchandise advances	34,901	30,982
Current portion of long-term debt	135,725	646
Total current liabilities	419,718	280,425
Other long-term liabilities	20,669	18,690
Deferred income taxes	79,537	76,529
Long-term debt	1,445,654	1,561,489
Total liabilities	1,965,578	1,937,133
Commitments and contingencies		
Stockholder's equity:		
Common stock, $0.01 par value, 1,000 shares authorized 100 shares issued and outstanding	97	97
Additional paid-in capital	633,800	632,757
Accumulated deficit	(782,917)	(710,748)
Accumulated other comprehensive loss		(173)
Total stockholder's equity (deficit)	(149,020)	(78,067)
Total liabilities and stockholder's equity (deficit)	1,816,558	1,859,066
GUITAR CENTER, INC.		
Current assets:		
Cash	74,836	106,036
Accounts receivable, net of allowance for doubtful accounts of $2,849 and $2,979, respectively	44,015	44,732
Merchandise inventories	564,959	547,960

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Prepaid expenses and other current assets	23,285	26,093
Deferred income taxes	34,614	29,121
Total current assets	741,709	753,942
Property and equipment, net of accumulated depreciation and amortization of $250,835 and $194,763, respectively	213,969	209,097
Goodwill	582,378	582,378
Intangible assets, net of accumulated amortization of $200,040 and $171,259, respectively	291,269	320,140
Other assets, net	16,484	18,192
Total assets	1,845,809	1,883,749
Current liabilities:		
Accounts payable	116,973	120,010
Accrued expenses and other current liabilities	199,195	171,929
Merchandise advances	34,901	30,982
Current portion of long-term debt	5,941	646
Total current liabilities	357,010	323,567
Other long-term liabilities	20,669	18,690
Deferred income taxes	105,327	117,686
Long-term debt	1,010,765	996,816
Due to Guitar Center Holdings, Inc.	224,113	303,715
Total liabilities	1,717,884	1,760,474
Commitments and contingencies		
Stockholder's equity:		
Common stock, $0.01 par value, 1,000 shares authorized 100 shares issued and outstanding		
Additional paid-in capital	620,190	619,108
Accumulated deficit	(492,265)	(495,660)
Accumulated other comprehensive loss		(173)
Total stockholder's equity (deficit)	127,925	123,275
Total liabilities and stockholder's equity (deficit)	$ 1,845,809	$ 1,883,749

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED BALANCE SHEETS (Parenthetical) (Guitar Center Holdings, Inc.) (USD $) In Thousands, except Per Share data, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011
CONSOLIDATED BALANCE SHEETS		
Accounts receivable, allowance for doubtful accounts (in dollars)	$ 2,849	$ 2,979
Property and equipment, accumulated depreciation and amortization (in dollars)	250,835	194,763
Intangible assets, accumulated amortization (in dollars)	$ 200,040	$ 171,259
Preferred stock, par value (in dollars per share)	$ 0.01	$ 0.01
Preferred stock, shares authorized	5,000	5,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01
Common stock, shares authorized	20,000	20,000
Common stock, shares issued	9,740	9,742
Common stock, shares outstanding	9,740	9,742

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Segment Information

12 Months Ended Dec. 31, 2012

Segment Information

Segment Information

6. Segment Information

We have three reporting segments; Guitar Center, direct response and Music & Arts.

Beginning in 2012, our corporate segment includes the activities of our shared services subsidiary, GTRC Services, Inc. This shared service organization operates support services for all our brands, including distribution and fulfillment centers, contact centers and technology services that were previously managed separately by our Guitar Center and direct response segments. We believe that centralizing the management of these shared operations will improve our flexibility to efficiently manage these resources. Substantially all of the costs of these shared service operations are allocated among our segments based on estimated usage, as determined primarily based on sales, cost of goods sold or call volume at each business.

Certain costs related to corporate office facilities were previously incurred directly by our Guitar Center and direct response segments. Upon implementing GTRC Services, Inc., our corporate office facility is shared and the related costs are not allocated to our business segments. Segment results for 2011 and 2010 have been adjusted to reflect this change.

The Guitar Center segment sells products and services through Guitar Center retail stores and online. For the Guitar Center segment, operating costs primarily consist of labor, advertising, depreciation and store occupancy costs.

The direct response segment sells products through direct mail catalogs and e-commerce websites. For the direct response segment, operating costs primarily consist of catalog costs, e-commerce advertising costs and order processing and fulfillment costs.

The Music & Arts segment specializes in band instruments for sales and rental, serving students, teachers, band directors and college professors.

Corporate consists of centralized management, general and administrative functions and unallocated costs of our shared service operations. Interest expense, interest income and income tax expense or benefit are evaluated on a consolidated basis and are not considered in the evaluation of segment results.

Our chief operating decision makers include our chief executive officer and chief financial officer. Our chief operating decision makers evaluate segment performance based primarily on net sales and Adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, with adjustments for certain non-cash and non-recurring expenses and other adjustments permitted under our debt agreements. Management views Adjusted EBITDA as an important measure of segment performance because it is considered an indicator of segment operating cash flows and facilitates comparison of operating performance on a consistent basis. Adjusted EBITDA is a measure which is also used in calculating financial ratios in several debt covenants in our asset-based credit facility and term loan.

The following tables summarize financial information for Holdings' reporting segments (in thousands):

	Year ended December 31, 2012				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,596,094	$ 189,766	$353,331	$ —	$2,139,191
Gross profit	459,680	86,043	97,668	—	643,391

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Selling, general and administrative expenses	356,832	69,791	95,196	25,905	547,724
Operating income (loss)	102,848	16,252	2,472	(25,905)	95,667
Depreciation and amortization	66,457	4,414	15,801	4,233	90,905
Adjusted EBITDA	173,153	21,041	19,159	(13,349)	200,004
Capital expenditures	39,041	7,051	7,858	13,518	67,468
Total assets					
Holdings	1,410,303	113,119	166,496	126,640	1,816,558
Guitar Center	1,410,303	113,119	166,496	155,891	1,845,809

	Year ended December 31, 2011				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,530,133	$ 178,443	$ 374,001	$ —	$2,082,577
Gross profit	448,543	83,307	103,293	—	635,143
Selling, general and administrative expenses	355,879	68,373	116,798	38,176	579,226
Impairment of intangible assets	—	—	45,961	—	45,961
Impairment of goodwill	—	—	107,026	—	107,026
Operating income (loss)	92,664	14,934	(166,492)	(38,176)	(97,070)
Depreciation and amortization	74,719	4,380	24,264	2,834	106,197
Adjusted EBITDA	174,554	19,607	19,034	(16,285)	196,910
Capital expenditures	29,269	3,535	8,881	15,639	57,324
Total assets					
Holdings	1,480,701	105,170	171,639	101,556	1,859,066
Guitar Center	1,480,701	105,170	171,639	126,239	1,883,749

	Year ended December 31, 2010				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,444,829	$ 175,659	$ 390,407	$ —	$2,010,895
Gross profit	416,212	80,125	109,514	—	605,851
Selling, general and administrative expenses	343,407	68,595	105,974	28,159	546,135
Operating income (loss)	72,805	11,530	3,540	(28,159)	59,716
Depreciation and amortization	80,574	4,317	17,961	1,994	104,846
Adjusted EBITDA	160,479	16,458	22,216	(14,846)	184,307
Capital expenditures	19,659	2,685	13,346	12,197	47,887

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total assets					
Holdings	1,471,302	101,280	331,737	216,399	2,120,718
Guitar Center	1,471,302	101,280	331,737	211,296	2,115,615

Segment operating results of Guitar Center are the same as for Holdings, except that in 2011, selling, general and administrative expenses of $0.3 million related to the amendments and extension of our long-term debt were incurred at the corporate segment at Holdings and were not allocated to Guitar Center.

We record property and equipment at our segments based on direct capital expenditures made at each segment. We allocate depreciation and amortization expense to our segments based on actual usage for assets used exclusively at each segment, and based on estimated usage, primarily measured by gross sales, for shared assets. Although depreciation and amortization expense are excluded from Adjusted EBITDA, these measures are regularly provided to our chief operating decision makers.

Material unallocated assets at our corporate segment primarily consist of cash, property and equipment related to our shared data centers and corporate office facilities, deferred income taxes and capitalized financing fees.

We reassigned the assets of our shared data centers and our corporate office facilities and certain cash accounts to the corporate segment upon implementing our shared services organization. Total assets for each segment in 2011 and 2010 have been adjusted to reflect this change.

The following tables present a reconciliation of Adjusted EBITDA to consolidated income or loss before income taxes (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458
Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	165,344	161,036	145,233
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	—	5,257	—
Impairment charges	559	154,281	884
Other adjustments	10,608	24,863	13,704
Consolidated loss before income taxes	$ (69,677)	$ (258,106)	$ (85,517)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	85,369	81,063	70,842
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	—	5,257	—
Impairment charges	559	154,281	884
Other adjustments	10,608	24,585	13,704
Consolidated income (loss) before income taxes	$ 10,298	$ (177,855)	$ (11,126)

Adjustments in the calculation of Adjusted EBITDA include the following:

- Non-cash charges include stock-based compensation expense and the non-cash portion of rent expense.

- Non-recurring charges in 2011consist of the loss recognized on the sale of our corporate aircraft.

- Other adjustments include restructuring charges, severance payments, bonuses under our long-term management incentive plan, various debt and financing costs, gains and losses on disposal of assets, special charges and management fees paid to Bain Capital as discussed in Note 13.

  Restructuring charges included in other adjustments were $2.1 million for 2012 and $13.0 million for 2011.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Document and Entity Information (USD $)	12 Months Ended Dec. 31, 2012	Mar. 15, 2013	Jun. 30, 2012
Document and Entity Information			
Entity Registrant Name	GUITAR CENTER HOLDINGS, INC.		
Entity Central Index Key	0001427553		
Document Type	10-K		
Document Period End Date	Dec. 31, 2012		
Amendment Flag	false		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	Yes		
Entity Current Reporting Status	Yes		
Entity Filer Category	Non-accelerated Filer		
Entity Public Float			$ 0
Entity Common Stock, Shares Outstanding		9,740,160	
Document Fiscal Year Focus	2012		
Document Fiscal Period Focus	FY		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Lease Commitments	12 Months Ended Dec. 31, 2012

Lease Commitments

Lease Commitments

7. Lease Commitments

We lease offices, retail stores, distribution centers and personal property used in our business. These leases are operating leases which expire at varying dates through 2022. We are typically required to pay for normal repairs and maintenance, property taxes and insurance under these leases.

The future annual minimum lease payments at December 31, 2012 under operating leases were as follows (in thousands):

Year	Operating Leases
2013	76,789
2014	69,271
2015	61,596
2016	49,623
2017	30,922
Thereafter	68,217
Total minimum lease payments	$356,418

Total rent expense included in our consolidated statements of comprehensive income or loss is $76.7 million for 2012, $70.6 million for 2011 and $69.2 million for 2010. These rent expense amounts exclude common area maintenance expenses.

As of December 31, 2012, our obligations under capital leases were not material.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Guitar Center Holdings, Inc.) (USD $) In Thousands, unless otherwise specified	3 Months Ended												12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS															
Net sales	$ 628,211	$ 496,231	$ 486,598	$ 528,151	$ 612,595	$ 488,129	$ 479,053	$ 502,800	$ 597,517	$ 465,007	$ 460,957	$ 487,414	$ 2,139,191	$ 2,082,577	$ 2,010,895
Cost of goods sold, buying and occupancy													1,495,800	1,447,434	1,405,044
Gross profit	185,993	147,362	146,460	163,576	189,225	144,253	145,549	156,116	188,012	134,509	134,333	148,997	643,391	635,143	605,851
Selling, general and administrative expenses													547,724	579,226	546,135
Impairment of intangible assets														45,961	
Impairment of goodwill														107,026	
Operating income (loss)													95,667	(97,070)	59,716
Interest expense													(165,378)	(161,250)	(145,572)
Interest income													34	214	339
Income (loss) before income taxes													(69,677)	(258,106)	(85,517)
Income tax expense (benefit)													2,492	(21,167)	(29,140)
Net income (loss)													(72,169)	(236,939)	(56,377)
Other comprehensive income (loss), net of income tax													173	210	(440)
Comprehensive income (loss)													$ (71,996)	$ (236,729)	$ (56,817)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Nature of Business and Significant Accounting Policies	12 Months Ended Dec. 31, 2012

Nature of Business and Significant Accounting Policies
Nature of Business and Significant Accounting Policies

1. Nature of Business and Significant Accounting Policies

Nature of Business

Guitar Center Holdings, Inc. is the parent company of wholly-owned Guitar Center, Inc. and its wholly-owned subsidiaries. All of the company's operating activities are conducted out of Guitar Center, Inc. and its subsidiaries. The parent company's business activities consist solely of debt and equity financing related to its ownership of Guitar Center, Inc.

In these notes, we refer to the consolidated financial statements of Guitar Center Holdings, Inc. and its subsidiaries as "Holdings," except where the context requires otherwise when discussing the debt or equity of the Guitar Center Holdings, Inc. entity. We refer to the consolidated financial statements of Guitar Center, Inc. and its subsidiaries as "Guitar Center." The terms "we," "us," "our" and "the company" refer to Holdings and Guitar Center collectively.

We operate three businesses under our Guitar Center, Music & Arts and direct response brands.

Guitar Center is the leading United States retailer of guitars, amplifiers, percussion instruments, keyboards and pro-audio and recording equipment. As of December 31, 2012, Guitar Center operated 240 Guitar Center stores across the United States, with 151 primary format stores, 78 secondary format stores and 11 tertiary format stores, along with the www.guitarcenter.com website.

Music & Arts specializes in band and orchestra instruments for sale and rental, serving students, teachers, band directors and college professors. As of December 31, 2012, Music & Arts operated 109 stores in 22 states, along with the www.musicarts.com website.

Our direct response segment is a leading direct response retailer of musical instruments in the United States, and its operations include the Musician's Friend and other branded websites and catalogs.

Principles of Consolidation

The accompanying consolidated financial statements of Holdings and Guitar Center include the accounts of the respective companies' wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

As a result of economic conditions in the United States, there is uncertainty about unemployment, consumer confidence and business and consumer spending. Over the last several years, these factors have reduced our visibility into long-term trends, dampen our expectations of future business performance and have increased the degree of uncertainty in our estimates.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Cash and Cash Equivalents

Cash consists of cash on hand and bank deposits. Cash equivalents generally consist of highly liquid investments with an original maturity of three months or less. We had no cash equivalents as of December 31, 2012 or 2011.

Accounts Receivable

We grant credit directly to certain customers in the ordinary course of business. Prior to granting credit, we conduct a credit analysis based on financial and other criteria and generally do not require collateral.

We record accounts receivable net of an allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses from the failure of our customers to make their required payments. We base our allowance on an analysis of the aging of accounts receivable at the date of the financial statements, an assessment of historical collection trends and an evaluation of the impact of current economic conditions.

Merchandise Inventories

We value inventories at the lower of the weighted average cost method or market value. We capitalize to inventory inbound freight costs from our vendors and the costs associated with bringing inventory through our Guitar Center distribution center, and then expense these amounts to cost of goods sold as the associated inventory is sold.

We value rental inventories and used and vintage guitars at the lower of cost or market using the specific identification method. We depreciate rental inventories on a straight-line basis while out under the rental agreement for rent-to-own sales.

We receive price protection credits and rebates from our vendors, which we account for as a component of merchandise inventory and record at the time the credit or rebate is earned. We typically receive rebates on a quarterly or annual basis. We do not believe we have significant risk related to rebates receivable, based upon historically low write-offs, our long-standing relationships with a consistent pool of rebate vendors and our ability to net unpaid rebates against vendor account payables. We recognize the effect of price protection credits and vendor rebates in the income statement as a reduction in cost of goods sold at the time the related item of inventory is sold. We do not record any of these credits as revenue.

Property and Equipment

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally five years for furniture, fixtures and vehicles, three to five years for computer equipment and 15 years for buildings. We amortize leasehold improvements over the shorter of their estimated useful lives or the terms of the related leases. We expense maintenance and repair costs as they are incurred, while renewals and betterments are capitalized.

Impairment and Disposal of Long-lived Assets

We evaluate long-lived assets, such as property and equipment and amortizing intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the asset group. If those assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

When evaluating long-lived assets for impairment, we group assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

liabilities. Asset groups for our retail businesses generally are comprised of retail store locations. The asset group for our internet and catalog operations includes the fulfillment center, customer contact centers and amortizing intangible assets of our internet and catalog businesses. We also group assets at higher levels for impairment evaluation. These asset groups include our retail distribution centers, corporate headquarters facilities and data centers.

Impairment charges related to tangible long-lived assets are included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss. See Note 11 for further discussion of impairment of long-lived assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs. Property and equipment are classified as held for sale when a plan of sale has been initiated, the property is being actively marketed for sale, the property is available for immediate sale and a completed sale is expected within 12 months. Property and equipment held for sale are not depreciated. When we commit to a plan to sell an asset or asset group, we revise our depreciation estimates to reflect the assets' shortened useful lives for the period they will be held and used.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business acquisitions. We also have intangible assets primarily related to trademarks, customer relationships and favorable leases.

Goodwill and certain intangible assets with indefinite lives are not amortized but are subject to an annual impairment test. Our policy is to test goodwill and indefinite-lived intangible assets for impairment annually at the beginning of the fourth quarter. We test all intangible assets, including goodwill and indefinite-lived intangible assets, whenever events and circumstances indicate that there may be an impairment of the asset value.

We test goodwill for impairment at the reporting unit level. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by management. Our operating segments and reporting units are the same, consisting of Guitar Center, direct response and Music & Arts.

In 2012 and 2011, our process for evaluating goodwill for impairment was as follows:

- We first perform a qualitative assessment annually on October 1 of each reporting unit that has goodwill to determine if facts and circumstances indicate that goodwill is more likely than not impaired. If the qualitative assessment indicates that goodwill of a reporting unit is not more likely than not impaired, we do not perform a quantitative impairment test for the reporting unit. If the qualitative assessment indicates that goodwill of a reporting unit is more likely than not impaired, we perform the first step, or step 1, of the quantitative goodwill impairment test.

- In step 1, we compare the carrying amounts of the reporting units to their estimated fair values. In determining the estimated fair values of the reporting units, we use market multiple and discounted cash flow analyses. If the carrying amounts of the reporting units exceed their estimated fair values, we perform the second step, or step 2, of the goodwill impairment test.

- In step 2, we determine the implied fair value of goodwill at the affected reporting unit by allocating the reporting unit's estimated fair value to all the assets and liabilities of the applicable reporting unit (including any unrecognized intangible assets and related deferred taxes) as if the reporting unit had been acquired in a business combination. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- We also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances.

In 2010, our policy was to test goodwill for impairment at the beginning of the fourth quarter by performing step 1 of the goodwill impairment test and performing step 2 if the carrying amount of a reporting unit exceeded its estimated fair value. We would also test goodwill for impairment upon the occurrence of certain events or substantive changes in circumstances, but no such events occurred during 2010.

Beginning in 2012, we adopted new accounting standards related to testing indefinite-lived intangible assets for impairment. Under the revised standards, we are permitted to first perform a qualitative assessment to determine if facts and circumstances indicate that an indefinite-lived intangible asset is more likely than not impaired. If the qualitative assessment does not indicate the asset is more likely than not impaired, we do not perform any further impairment testing on the asset. If the qualitative assessment indicates that an indefinite-lived intangible asset is more likely than not impaired, we compare the fair value of the intangible asset to its carrying amount. An impairment charge is recorded for the amount by which its carrying amount exceeds its fair value.

Significant management judgment is required in the qualitative assessments, specifically with respect to macroeconomic conditions, industry and market conditions such as competition and the regulatory environment and entity-specific events that can affect the estimated fair value of a reporting unit or indefinite-lived intangible assets.

Significant management judgment is required in the forecasts of future operating results that are used in both undiscounted and discounted impairment tests. We use estimates and assumptions that we consider reasonable in relation to the plans and estimates used to manage our business. We also consider assumptions that we believe market participants would use in pricing the assets and liabilities. It is possible that the plans may change and estimates may prove to be inaccurate. If actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

We amortize intangible assets with finite useful lives over their estimated useful lives. We amortize customer relationships using an accelerated method based on expected customer attrition rates. Other intangible assets with finite useful lives are generally amortized using the straight-line method.

Intangible assets with finite lives are reviewed for impairment in the same manner as long-lived assets.

See Note 2 for further discussion of goodwill, intangible assets and impairment.

Merchandise Advances / Gift Cards

Merchandise advances represent layaway deposits which are recorded as a liability pending consummation of the sale when we receive the full purchase price from the customer. Gift certificates, gift cards and credits on account are recorded as a liability until redeemed by the customer.

Our gift card subsidiaries issue gift cards that are sold to customers in our stores and online. Revenue from gift card sales is recognized upon the redemption of the gift card. Our gift cards do not have expiration dates. Based on historical redemption rates, a certain percentage of gift cards will never be redeemed, referred to as "breakage." We record breakage as a reduction of cost of goods sold for the estimated amount of gift cards that are expected to go unused and that are not subject to escheatment. We recognize gift card breakage proportionally over the estimated period of performance by applying our estimated breakage rate to actual gift card redemptions. Our estimated breakage rate is based on customers' historical redemption rates and patterns.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Self-Insurance Reserves

We maintain a self-insurance program for workers' compensation of up to $500,000 per claim and medical insurance of up to $400,000 per claim. Excess amounts are covered by stop-loss insurance coverage, subject to an aggregate annual deductible of $100,000 for medical insurance claims. Estimated costs under these programs, including incurred but not reported claims, are recorded as expenses based upon actuarially determined historical experience and trends of paid and incurred claims.

As of December 31, 2012, self-insurance reserves for workers' compensation were $4.7 million and for medical insurance was $1.6 million. As of December 31, 2011, self-insurance reserves for workers' compensation were $4.3 million and for medical insurance was $1.9 million. These balances are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Revenue Recognition

We recognize retail sales at the time of sale, net of a provision for estimated returns.

We recognize online and catalog sales and shipping and handling fees charged to customers when the products are estimated to be received by the customer, net of a provision for estimated returns. Return allowances are estimated using historical experience.

We recognize band instrument rentals on a straight-line basis over the term of the rental agreement, unless a trial period is offered, in which case we recognize rental income for the trial period over the term of the trial period. The terms of the majority of our rental agreements do not exceed 36 months. Trial periods are usually from one to four months.

Shipping and Handling Costs

We define shipping and handling costs as costs incurred for a third-party shipper to transport merchandise from our stores and our direct response fulfillment center to our customers. Shipping and handling costs are included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Shipping and handling fees charged to customers are included in net sales in our consolidated statements of comprehensive income or loss.

Advertising Costs

We expense Guitar Center, direct response non-catalog and Music & Arts advertising costs as incurred. Advertising costs for the Guitar Center and Music & Arts segments were $42.5 million in 2012, $39.5 million in 2011 and $38.3 million in 2010. Direct response non-catalog advertising costs were $19.9 million in 2012, $20.2 million in 2011 and $22.0 million in 2010.

We capitalize mail order catalog costs on a catalog by catalog basis and amortize the amount over the expected period of future benefits, not to exceed five months. Capitalized mail order catalog costs included in prepaid expenses and other current assets was $0.5 million at December 31, 2012 and $1.2 million at December 31, 2011.

We evaluate the realizability of capitalized mail order catalog costs at each balance sheet date by comparing the carrying amount of those assets on a cost-pool-by-cost-pool basis to the probable remaining future net revenues expected to result directly from that advertising. If the carrying amounts of deferred mail order catalog costs exceed the probable remaining future net revenues, we write down the excess capitalized amount and expense that amount in the current period.

We receive cooperative advertising allowances from manufacturers in order to subsidize advertising and promotional expenditures relating to the vendor's products. We recognize these

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

advertising allowances as a reduction to selling, general and administrative expense when the advertising costs are incurred. We recognized cooperative advertising allowances of $8.1 million in 2012, $8.7 million in 2011 and $9.1 million in 2010.

Rent Expense

We lease substantially all of our store locations under operating leases that provide for monthly payments that typically increase over the life of the leases. We expense the aggregate of the minimum annual payments on a straight-line basis over the term of the lease. The amount by which straight-line rent expense exceeds actual lease payment requirements in the early years of the leases is accrued as deferred minimum rent and reduced in later years when the actual cash payment requirements exceed the straight-line expense. When a lease includes lease incentives such as a rent holiday or construction costs reimbursement or requires fixed minimum lease payment escalations, we recognize rental expense on a straight-line basis over the initial term of the lease, and we include the difference between the average rental amount charged to expense and amounts payable under the lease in deferred rent and lease incentives in our consolidated balance sheets.

Rent expense related to our stores and retail store distribution centers is included in cost of goods sold, buying and occupancy in our consolidated statements of comprehensive income or loss. Rent expense related to our corporate offices, customer contact and data centers and direct response fulfillment center is included in selling, general and administrative expenses in our consolidated statements of comprehensive income or loss.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, we defer tax assets and liabilities until they are recognizable pursuant to tax law. Deferred tax assets and liabilities are measured using enacted tax rates for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits of the position, that the position will be sustained upon examination. Our policy is to recognize interest and penalties related to uncertain tax positions as a component of income tax expense.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of a deferred tax asset will not be realized.

Guitar Center is included in Holdings' consolidated federal and state income tax returns. Because Guitar Center does not have a standalone income tax liability, we allocate income tax provisions using the separate return method. Under this method, current and deferred taxes are allocated to each reporting entity as if it were to file a separate tax return. Differences between the consolidated and separate return income tax provisions are eliminated in consolidation. See Note 10 for additional information regarding income taxes.

Stock-Based Compensation

Holdings grants stock-based awards to certain Guitar Center employees under its management equity plan. Guitar Center recognizes the related compensation expense in selling, general and administrative expenses and as a capital contribution from Holdings. Guitar Center

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

itself does not grant stock option or other stock-based compensation to its employees or to third parties.

Stock-based compensation expense is measured based on the fair value of the award on the grant date and recognized on a straight-line basis over the requisite service period for awards expected to vest. Stock-based compensation expense is recorded net of estimated forfeitures. The forfeiture rate assumption used in determining stock-based compensation expense is estimated based on historical data and management's expectations about future forfeiture rates. Assumptions about forfeitures were developed separately for our senior management from the other participants of our stock plans, as senior management's exercise and retention behavior is expected to differ materially from the other participants. The actual forfeiture rate could differ from these estimates.

Concentration of Credit Risk

Our cash deposits are with various high quality financial institutions. Customer purchases generally are transacted using cash or credit cards. In limited instances, we grant credit for larger purchases under customary trade terms. Credit losses have historically been within our expectations.

Fair Value of Financial Instruments

The principal amount of our long-term debt is stated at par value and its significant terms are described in Note 5.

Companies may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. We did not elect to apply the fair value option for reporting financial assets or liabilities.

The fair values of our financial assets and liabilities are discussed in Note 11.

Comprehensive Income or Loss

Our comprehensive income or loss consists of net income or loss and unrealized gains and losses on derivative instruments, net of amounts reclassified into income. Cumulative gains and losses on derivative instruments, net of income tax, are included in accumulated other comprehensive loss in our consolidated balance sheets and statements of stockholders' equity or deficit.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued revised standards related to fair value measurements and disclosures. The revised standards clarify existing fair value measurement principles, modify the application of fair value measurement principles in certain circumstances and expand the disclosure requirements related to fair value measurements.

The revised standards are effective for interim and annual reporting periods beginning after December 15, 2011. We adopted the revised standards on January 1, 2012. The change resulted in expanded fair value disclosures in the notes to financial statements and had no effect on our balance sheets, statements of comprehensive income or loss or cash flows.

In June 2011, FASB issued revised standards related to the presentation of comprehensive income. The revised standards eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of income and comprehensive income or in two separate but consecutive statements.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The revised standard is effective for interim and annual reporting periods beginning after December 15, 2011 and must be applied retrospectively to all periods upon adoption. We adopted the revised standards on January 1, 2012, opting to present components of other comprehensive income in a single continuous statement of comprehensive income or loss.

In July 2012, FASB issued revised standards related to testing indefinite-lived intangible assets for impairment. The new standards permit an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would only be required to calculate the fair value of an indefinite-lived intangible asset if the entity determines, based on qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired. The revised standard is intended to reduce costs and simplify how entities test indefinite-lived intangible assets for impairment.

The revised standard is effective for annual and interim impairment tests of indefinite-lived intangible assets performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We adopted the revised standard for our annual impairment tests of indefinite-lived intangible assets performed during the fourth quarter of 2012. The adoption of the revised standard did not affect our financial statements.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Operating activities:			
Net income (loss)	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	90,905	106,197	104,846
Impairment of goodwill		107,026	
Impairment of intangible assets		45,961	
Impairment of property and equipment	559	1,294	884
Net loss on disposal of property and equipment	36	5,157	995
Amortization of deferred financing fees	3,191	2,896	2,531
Non-cash interest expense	20,295	8,504	57,415
Stock-based compensation	1,082	1,552	3,218
Changes in operating assets and liabilities:			
Accounts receivable	717	(7,861)	(1,638)
Merchandise inventories	(16,999)	(46,095)	11,351
Prepaid expenses and other current assets	832	(3,814)	16,181
Other assets, net	(306)	(19)	76
Accounts payable	(3,037)	15,302	8,642
Accrued expenses and other current liabilities	3,332	(5,291)	16,848
Merchandise advances	3,919	3,254	3,663
Other long-term liabilities	1,979	3,412	7,150
Net cash provided by (used in) operating activities	34,885	(24,885)	143,444
Investing activities:			
Purchase of property and equipment	(67,468)	(57,324)	(47,887)
Acquisition of intangible assets	(110)	(197)	(250)
Net proceeds from disposal of property and equipment	2,944	4,002	238
Net cash used in investing activities	(64,634)	(53,519)	(47,899)
Financing activities:			
Borrowings on asset-based revolving credit facility	225,000		
Repayment of asset-based revolving credit facility	(225,000)		
Repayment of long-term debt	(647)	(641)	(20,750)
Financing fees	(765)	(8,400)	
Net cash used in financing activities	(1,451)	(9,327)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701
Cash at end of year	74,836	106,036	193,767
Cash paid during the year for:			
Interest	141,291	157,461	69,001

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income taxes	2,562	1,908	2,749
GUITAR CENTER, INC.			
Operating activities:			
Net income (loss)	3,395	(153,705)	(8,864)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	90,905	106,197	104,846
Impairment of goodwill		107,026	
Impairment of intangible assets		45,961	
Impairment of property and equipment	559	1,294	884
Net loss on disposal of property and equipment	36	5,157	995
Amortization of deferred financing fees	2,779	2,485	2,130
Non-cash interest expense	404	216	
Stock-based compensation	1,082	1,552	3,218
Deferred income taxes	(18,083)	(32,711)	(19,340)
Changes in operating assets and liabilities:			
Accounts receivable	717	(7,861)	(1,638)
Merchandise inventories	(16,999)	(46,095)	11,351
Prepaid expenses and other current assets	(59)	(5,483)	(2,136)
Other assets, net	(306)	(19)	76
Accounts payable	(3,037)	15,302	8,642
Accrued expenses and other current liabilities	27,266	8,974	32,467
Merchandise advances	3,919	3,254	3,663
Other long-term liabilities	1,979	3,412	7,150
Net cash provided by (used in) operating activities	94,557	54,956	143,444
Investing activities:			
Purchase of property and equipment	(67,468)	(57,324)	(47,887)
Acquisition of intangible assets	(110)	(197)	(250)
Net proceeds from disposal of property and equipment	2,944	4,002	238
Net cash used in investing activities	(64,634)	(53,519)	(47,899)
Financing activities:			
Borrowings on asset-based revolving credit facility	225,000		
Repayment of asset-based revolving credit facility	(225,000)		
Proceeds from issuance of long-term debt	19,891		
Repayment of long-term debt	(647)	(641)	(20,750)
Financing fees	(765)	(7,499)	
Repayments to Guitar Center Holdings, Inc.	(79,602)	(81,028)	(729)
Net cash used in financing activities	(61,123)	(89,168)	(21,479)
Net increase (decrease) in cash	(31,200)	(87,731)	74,066
Cash at beginning of year	106,036	193,767	119,701
Cash at end of year	74,836	106,036	193,767
Cash paid during the year for:			
Interest	81,619	77,898	69,001
Income taxes	$ 2,562	$ 1,908	$ 2,749

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Legal	12 Months Ended Dec. 31, 2012

Legal

Legal

12. Legal

On September 11, 2009, a putative class action was filed by an individual consumer named David Giambusso in the United States District Court for the Southern District of California. The complaint alleged that Guitar Center and other defendants, including a trade association and a large musical instrument manufacturer, exchanged sensitive information and strategies for implementing minimum advertised pricing, attempted to restrict retail price competition and monopolize at trade association-organized meetings, all in violation of Sections 1 and 2 of the Sherman Antitrust Act and California's Unfair Competition Law. Subsequently, numerous additional lawsuits were filed in several federal courts (and one state court) attempting to represent comparable classes of plaintiffs with parallel allegations. Some of these lawsuits have expanded the group of defendants to include other manufacturers and others have alleged additional legal theories under state laws.

In December 2009 and January 2010, the Judicial Panel on Multidistrict Litigation issued several orders which had the effect of consolidating all pending actions in federal court under the caption In Re Musical Instruments and Equipment Antitrust Litigation, Case No. MDL-2121 ("MDL 2121"), except one filed in Tennessee. A consolidated amended complaint in MDL 2121 was filed on July 16, 2010, in the United States District Court for the Southern District of California. On August 20, 2010, defendants filed a motion to dismiss the consolidated amended complaint. The hearing was held on November 1, 2010. The court rendered its opinion on August 19, 2011, granting the motion to dismiss with leave to amend. Plaintiffs filed a first amended consolidated class action complaint on September 22, 2011. On December 28, 2011, the Magistrate Judge issued an order limiting the scope of discovery to non-public meetings at NAMM conventions. This ruling was affirmed by the District Court on February 7, 2012. On February 24, 2012, plaintiffs filed a second amended complaint. On March 26, 2012, defendants filed a motion to dismiss the second amended complaint. The motion was heard by the court on May 21, 2012. On August 20, 2012, the court dismissed, with prejudice, plaintiffs' Sherman Act claim for failure to plead an antitrust conspiracy. On September 9, 2012, defendants filed a motion to alter or amend the judgment, requesting that the court amend the judgment to include the dismissal of plaintiffs' state-law claims. This motion was denied on jurisdictional grounds. Plaintiffs filed an appeal before the Ninth Circuit Court of Appeals which is currently pending. With regard to the Tennessee action, we had previously filed a motion to dismiss on September 3, 2010. On February 22, 2011, the plaintiff filed an amended complaint, for which we filed an additional motion to dismiss on March 24, 2011. The parties in the Tennessee action have agreed to cooperate with regard to a scheduling order, accordingly there is no hearing date set for the motion to dismiss. The plaintiffs in the consolidated actions are seeking an injunction against further behavior that has been alleged, as well as monetary damages, restitution and treble damages in unspecified amounts. The plaintiffs in the Tennessee action are seeking no more than $5.0 million in compensatory damages. We are not currently able to estimate a probable outcome or range of loss in this matter.

On August 31, 2011, a putative class action was filed by a former employee in San Francisco Superior Court in an action entitled Carson Pellanda vs. Guitar Center, Inc. The complaint alleges that Guitar Center allegedly violated California wage and hour laws, including failure to provide required meal periods, rest breaks, unpaid work time, and failure to provide accurate itemized wage statements. On October 4, 2011, a first amended complaint was filed, adding new allegations, including wrongful termination. Guitar Center has retained defense counsel. The first amended complaint seeks injunctive relief as well as monetary damages in unspecified amounts. Mediation was held on May 17, 2012. The matter did not settle. On September 6, 2012, a Second Amended Complaint was filed, incorporating the allegations of a parallel wage and hour matter, Gomez vs. Guitar Center Stores, Inc., which was subsequently

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

dismissed. Discovery continues. We are not currently able to estimate a probable outcome or range of loss in this matter.

On May 24, 2011, a putative class action was filed in Los Angeles Superior Court in an action entitled Jason George vs. Guitar Center, Inc. and Guitar Center Stores, Inc. The complaint alleges that Guitar Center violated the California Song-Beverly Credit Card Act by requesting that its customers provide personal identification information in connection with the use of their credit cards. The complaint seeks monetary damages including statutory civil penalties in amounts of up to $1,000 per violation. This matter was subsequently consolidated with Justin Hupalo vs. Guitar Center, a putative class action alleging violations of the Song-Beverly Credit Card Act, filed on October 27, 2011. Discovery continues. In December 2012, a motion for summary judgment was filed on behalf of Guitar Center. This motion is currently pending. We are not currently able to estimate a probable outcome or range of loss in this matter.

In addition to the matters described above, we are involved in various claims and legal actions in the normal course of business. We expect to defend all unresolved actions vigorously. We cannot assure you that we will be able to achieve a favorable settlement of these lawsuits or obtain a favorable resolution if they are not settled. However, it is management's opinion that, after consultation with counsel and a review of the facts, a material loss with respect to our financial position, results of operations and cash flows is not probable from such currently pending normal course of business litigation matters.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Employee Benefit Plan	12 Months Ended Dec. 31, 2012
Employee Benefit Plan	
Employee Benefit Plan	**8. Employee Benefit Plan** We have a defined contribution 401(k) plan with a 401(a) profit-sharing component for the exclusive benefit of eligible employees and their beneficiaries. Eligible employees can contribute from one to seventy-five percent of their compensation. At management's discretion, we may make matching contributions to the plan at a uniform percentage of the eligible employees' contributions. We historically have not made any matching contributions. At management's discretion, we also may make profit-sharing contributions to the plan. The profit-sharing contributions are allocated based on the relative compensation of all eligible employees. We did not make any profit sharing contributions in 2012, 2011 or 2010.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance Sheet Components

12 Months Ended Dec. 31, 2012

Balance Sheet Components

Balance Sheet Components

4. Balance Sheet Components

Selected balance sheet components of Holdings and Guitar Center consisted of the following (in thousands):

	December 31, 2012	December 31, 2011
Merchandise inventories:		
Major goods	$344,673	$337,537
Band instruments	79,499	76,188
Accessories	114,412	110,740
Vintage instruments	13,948	13,635
Used major goods	18,018	15,366
	570,550	553,466
Less inventory reserves	5,591	5,506
	$564,959	$547,960

Major goods include stringed merchandise, percussion, keyboards, live-sound/DJ and recording equipment. Band instruments include horns, flutes, brass and woodwind instruments. Accessories are comprised of accessories to major goods and band instruments, apparel, cables and books.

	December 31, 2012	December 31, 2011
Property and equipment:		
Land	$ 20,940	$ 20,940
Buildings	12,001	11,969
Furniture and fixtures	49,153	41,535
Transportation equipment	3,195	2,659
Computer equipment	164,163	139,788
Leasehold improvements	207,424	182,369
Construction in progress	7,928	4,600
	464,804	403,860
Less accumulated depreciation and amortization	250,835	194,763
	$213,969	$209,097

Holdings

	December 31, 2012	December 31, 2011
Accrued expenses and other current liabilities:		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Wages, salaries and benefits	$ 27,226	$ 34,973
Accrued interest	27,067	26,500
Sales tax payable	16,799	13,708
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044
Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Income taxes payable	1,349	1,548
Other	12,502	11,213
	$132,119	$128,787

Guitar Center

	December 31,	
	2012	**2011**
Accrued expenses and other current liabilities:		
Income taxes payable	$ 85,000	$ 61,266
Wages, salaries and benefits	27,226	34,973
Sales tax payable	16,799	13,708
Accrued interest	10,492	9,924
Unearned revenue	8,971	9,252
Accrued advertising	8,142	6,165
Accrued insurance	6,326	6,109
Accrued freight	5,202	3,441
Accrued fixed assets	4,918	3,819
Accrued warranty obligation	4,410	2,480
Provision for sales returns	4,218	4,319
Accrued real estate tax	2,159	2,044

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accrued professional fees	1,472	2,151
Accrued utilities	1,358	1,065
Other	12,502	11,213
	$199,195	$171,929

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE I - Condensed Financial Statement of Parent Company Only (Details) (USD $) In Thousands, except Share data, unless otherwise specified	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Assets				
Other assets, net	$ 18,682	$ 20,802		
Total assets	1,816,558	1,859,066	2,120,718	
Current liabilities:				
Accrued interest	27,067	26,500		
Current portion of long-term debt	135,725	646		
Total current liabilities	419,718	280,425		
Long-term debt	1,445,654	1,561,489		
Total liabilities	1,965,578	1,937,133		
Commitments and contingencies				
Stockholders' deficit:				
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding				
Preferred stock, par value (in dollars per share)	$ 0.01	$ 0.01		
Preferred stock, shares authorized	5,000,000	5,000,000		
Preferred stock, shares issued	0	0		
Preferred stock, shares outstanding	0	0		
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97		
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01		
Common stock, shares authorized	20,000,000	20,000,000		
Common stock, shares issued	9,740,000	9,742,000		
Common stock, shares outstanding	9,740,000	9,742,000		
Additional paid-in capital	633,800	632,757		
Accumulated deficit	(782,917)	(710,748)		
Accumulated other comprehensive loss		(173)		
Total stockholder's equity (deficit)	(149,020)	(78,067)	157,396	211,724
Total liabilities and stockholder's equity (deficit)	1,816,558	1,859,066		
Parent				
Assets				
Investment in Guitar Center, Inc.	127,925	123,275		
Receivable from Guitar Center, Inc.	224,113	303,715		
Deferred income taxes	77,993	73,581		
Other assets, net	2,197	2,610		
Total assets	432,228	503,181		
Current liabilities:				
Accrued interest	16,575	16,575		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Current portion of long-term debt	129,784	
Total current liabilities	146,359	16,575
Long-term debt	434,889	564,673
Total liabilities	581,248	581,248
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding		
Preferred stock, par value (in dollars per share)	$ 0.01	$ 0.01
Preferred stock, shares authorized	5,000,000	5,000,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01
Common stock, shares authorized	20,000,000	20,000,000
Common stock, shares issued	9,740,000	9,742,000
Common stock, shares outstanding	9,740,000	9,742,000
Additional paid-in capital	633,800	632,757
Accumulated deficit	(782,917)	(710,748)
Accumulated other comprehensive loss		(173)
Total stockholder's equity (deficit)	(149,020)	(78,067)
Total liabilities and stockholder's equity (deficit)	$ 432,228	$ 503,181

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill and Intangible Assets	12 Months Ended Dec. 31, 2012

Goodwill and Intangible Assets

Goodwill and Intangible Assets

2. Goodwill and Intangible Assets

We have goodwill at our Guitar Center reporting unit, which is also an operating segment. We also have intangible assets primarily related to trademarks, customer relationships and favorable leases.

Goodwill impairment

In performing the qualitative assessments of our Guitar Center reporting unit as of October 1, 2012 and 2011, we considered macroeconomic conditions, industry and market conditions such as competition and the regulatory environment and entity-specific events that can affect the estimated fair value of a reporting unit. We determined that facts and circumstances did not indicate that the goodwill of the reporting unit was more likely than not impaired. Accordingly, we did not perform the quantitative goodwill impairment test for the Guitar Center reporting unit in 2012 or 2011.

Our qualitative assessment of our direct response reporting unit as of October 1, 2011 initially indicated that its goodwill was not more likely than not impaired. Before concluding the goodwill impairment test, revenue and operating income began to fall significantly below management's expectations during the critical holiday selling season in November and December. We therefore determined it was appropriate to update our revenue and net cash flow projections and proceed to the two step goodwill impairment test and include updated information based on our fourth quarter results.

In performing step 1 of the goodwill impairment test of the direct response reporting unit, we used a discounted cash flow analysis and a market multiple analysis, equally weighted, to determine the estimated fair value of the reporting unit. We used discount rates that ranged from 14.0% to 15.0% for the discounted cash flow analysis. In addition, we used the Gordon Growth Method, for which the terminal capitalization rates used ranged from 0.5% to 1.5%. In the market multiple analysis, we used multiples based on earnings before interest, taxes, depreciation and amortization that ranged from 3.5x to 4.5x. The results of the step 1 impairment test indicated that there was a potential impairment of goodwill, as the carrying amount of the reporting unit exceeded its estimated fair value.

Consequently, we performed step 2 of the goodwill impairment test for the direct response reporting unit. The step 2 analysis resulted in an impairment charge of $107.0 million, which represented the remaining goodwill carrying amount. The primary reason for the decrease in estimated fair value of the direct response reporting unit with respect to the market multiple analysis and discounted cash flow analyses was decreased cash flow projections for the reporting unit. We reduced our cash flow projections for the reporting unit due to revenue and operating income results that were significantly below management's expectations during the 2011 holiday selling season and uncertainty about how effectively the direct response reporting unit will emerge from the restructuring activities of 2011, our ability to optimize its new web platform and the extent to which intensifying e-commerce competition will continue to affect its operating results in future periods.

In 2010, the results of the step 1 process did not indicate a potential impairment of goodwill in the Guitar Center reporting unit or the direct response reporting unit, as the estimated fair values of the reporting units exceeded their carrying amounts. As a result, we did not complete step 2 of the goodwill impairment test for either reporting unit. In performing the step 1 process in 2010, we used discount rates that ranged from 11.0% to 14.0% and Gordon Growth terminal capitalization rates that ranged from 3.0% to 5.0%.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill allocation

In the first quarter of 2011, we reorganized our operating segments to emphasize a brand reporting structure. As a result of this change, the Guitar Center segment includes the sales and operating expenses of our Guitar Center online operations together with the sales and operating expenses of Guitar Center stores. Similarly, the Music & Arts segment includes the sales and operating expenses of our Music & Arts online operations with those of Music & Arts stores. We had previously reported the results of our Guitar Center and Music & Arts online operations with the direct response segment.

We reallocated goodwill from the direct response segment to the Guitar Center segment based on the relative fair values of the www.guitarcenter.com and direct response components. We did not allocate any goodwill to the www.musicarts.com component, as its net sales and operating income were not material in relation to the direct response segment as a whole.

In determining the estimated fair values of the direct response and guitarcenter.com components, we used a market multiple and a discounted cash flow analysis, as used for the annual goodwill impairment test. We used discount rates of 12.5% to 14.0% for the discounted cash flow analysis as of January 1, 2011. In addition, we used the Gordon Growth Method, for which the terminal capitalization rates used ranged from 4.8% to 5.0%.

Based on the results of this analysis, we reallocated $61.8 million of goodwill from the direct response segment to the Guitar Center segment.

The following table presents an analysis of the changes in goodwill by segment (in thousands):

	Guitar Center	Direct Response	Total
Balance at December 31, 2010			
Goodwill	$ 644,393	$ 170,718	$ 815,111
Accumulated impairment losses	(123,804)	(1,903)	(125,707)
	520,589	168,815	689,404
Reasssignment of goodwill upon change in operating segments	61,789	(61,789)	—
Goodwill impairment	—	(107,026)	(107,026)
Balance at December 31, 2011			
Goodwill	706,182	108,929	815,111
Accumulated impairment losses	(123,804)	(108,929)	(232,733)
	582,378	—	582,378
Balance at December 31, 2012			
Goodwill	706,182	—	706,182
Accumulated impairment losses	(123,804)	—	(123,804)
	$ 582,378	$ —	$ 582,378

Goodwill impairment did not result in non-compliance under our debt covenants.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Other intangible assets

We recognized impairment charges of $32.5 million in 2011 related to our direct response indefinite-lived trademarks.

The decline in estimated fair value of our direct response trademarks in 2011 was due to changes in management's expectations about future operating results for our direct response segment. We significantly reduced our revenue and operating income projections for these brands due to revenue and operating income results that were significantly below management's expectations during the 2011 holiday selling season and uncertainty about the growth of these brands and the restructuring activities of 2011. The reduced projections prompted us to use a lower royalty rate in the discounted cash flow analysis. In addition, we used a higher discount rate, primarily in applying a size risk premium based on market observations for similarly-sized companies.

We recognized impairment charges of $13.5 million in 2011 related to our direct response customer relationship intangible asset. Management determined that the carrying amount of the asset was not recoverable, primarily based on reduced revenue and operating income projections for our direct response segment. Because the direct response segment experienced a downward trend in revenue due to increasing competition and fell significantly below management's expectations during the holiday selling season in 2011, revenue and operating income projections for the segment were reduced accordingly.

See Note 11 for more information about fair value measurements for our other intangible assets.

The following tables present a summary of our intangible assets (dollars in thousands, life in years):

		December 31, 2012		
	Weighted-Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Unamortized trademark	—	$ 208,501	$ —	$ 208,501
Amortized				
Customer relationships	13.0	224,302	(148,042)	76,260
Favorable lease terms	7.5	57,721	(51,323)	6,398
Covenants not to compete and other	4.3	785	(675)	110
		$ 491,309	$ (200,040)	$ 291,269

		December 31, 2011		
	Weighted-Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Unamortized trademark	—	$ 208,501	$ —	$ 208,501
Amortized				
Customer relationships	13.0	224,302	(125,049)	99,253
Favorable lease terms	7.5	57,721	(45,436)	12,285
Covenants not to compete and other	4.5	875	(774)	101
		$ 491,399	$ (171,259)	$ 320,140

We include amortization of favorable leases in cost of goods sold, buying and occupancy. We include amortization of other intangible assets such as customer relationships and non-compete agreements in selling, general and administrative expenses.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Amortization expense included in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31,	
	2012	**2011**
Cost of goods sold, buying and occupancy	$ 5,887	$ 7,486
Selling, general and administrative expenses	23,093	35,396

The estimated amortization expense related to intangible assets for each of the next five years and thereafter as of December 31, 2012 was as follows (in thousands):

Year	
2013	$22,227
2014	16,387
2015	12,442
2016	9,640
2017	7,620
Thereafter	14,452
Total	$82,768

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Restructuring and Exit Activities	12 Months Ended Dec. 31, 2012
Restructuring and Exit Activities	
Restructuring and Exit Activities	

3. Restructuring and Exit Activities

In April 2011, we initiated a restructuring plan to realign certain management and support functions across the organization. As part of the restructuring plan, we relocated the operations of our direct response business from Medford, Oregon to Southern California in the second half of 2011. We believe that having our Guitar Center and direct response management operations at a single location will improve our ability to execute strategic initiatives.

In connection with this restructuring activity, we incurred employee termination costs, which include retention bonuses and severance pay to personnel in Medford and at our corporate office. We also incurred other transition costs, such as relocation assistance, additional recruiting and travel expense, information technology integration costs and other similar costs.

During 2012, we incurred restructuring costs totaling $0.6 million at our direct response segment and $1.5 million at our corporate segment. The restructuring plan was substantially complete in the first half of 2012.

Restructuring costs incurred for each segment during 2011 were as follows (in thousands):

	Year ended December 31, 2011			
	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,182	$ 1,044	$ 5,416
Employee relocation and recruiting costs	143	433	1,786	2,362
Consulting costs	150	1,604	424	2,178
Other costs	983	1,667	365	3,015
Total	$ 1,466	$ 7,886	$ 3,619	$ 12,971

Cumulative restructuring costs incurred for each segment from inception of the restructuring plan through December 31, 2012 were as follows (in thousands):

	Cumulative amount through December 31, 2012			
	Guitar Center	Direct Response	Corporate	Total
Employee termination costs	$ 190	$ 4,419	$ 1,043	$ 5,652
Employee relocation and recruiting costs	178	433	3,021	3,632
Consulting costs	150	1,546	621	2,317
Other costs	987	2,063	427	3,477
Total	$ 1,505	$ 8,461	$ 5,112	$ 15,078

Cumulative employee termination costs through December 31, 2012 include retention bonuses of $4.4 million and severance payments of $1.3 million under employment agreements with certain executives whose positions were eliminated in the restructuring.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Restructuring and exit activity costs are included in selling, general and administrative expenses in the consolidated statements of comprehensive income or loss. The restructuring plan did not result in any impairment of property and equipment in 2012 or 2011.

The following table summarizes our restructuring accrual activity for the year ended December 31, 2012, as it relates to employee termination costs (in thousands):

	Termination Costs
Balance at December 31, 2011	$ 3,926
Charges	244
Cash payments	(4,170)
Balance at December 31, 2012	$ —

Accrued termination costs as of December 31, 2011 are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Long-Term Debt	12 Months Ended Dec. 31, 2012

Long-Term Debt

Long-Term Debt

5. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	December 31,	
	2012	**2011**
Guitar Center		
Senior secured asset-based revolving facility	$ —	$ —
Senior secured term loan	621,762	621,762
Obligations under capital lease, payable in monthly installments through 2013	54	700
Senior unsecured notes	394,890	375,000
	1,016,706	997,462
Less current portion	5,941	646
Guitar Center long-term debt, net of current portion	1,010,765	996,816
Holdings		
Senior unsecured PIK notes	564,673	564,673
Less current portion	129,784	—
Holdings long-term debt, net of current portion	434,889	564,673
Holdings consolidated long-term debt, net of current portion	$1,445,654	$1,561,489

Guitar Center long-term debt as of December 31, 2012 consisted of (1) a senior secured asset-based revolving facility, referred to as the asset-based facility, with a maximum availability of $373 million, (2) a senior secured term loan facility, referred to as the term loan, with an initial aggregate principal amount of $650 million and (3) a senior unsecured loan facility, referred to as the senior notes, with an initial aggregate principal amount of $375 million.

Holdings long-term debt as of December 31, 2012 consisted of a senior subordinated unsecured payment-in-kind loan facility, referred to as the senior PIK notes, with an initial aggregate principal amount of $375 million.

Guitar Center's term loan, asset-based facility and senior notes are guaranteed by substantially all of its subsidiaries. The subsidiary guarantors are 100% owned, all of the guarantees are full and unconditional and joint and several and Guitar Center, Inc. has no assets or operations independent from its subsidiaries within the meaning of Regulation S-X, Rule 3-10. Any non-guarantor subsidiaries are minor.

Amendments and Extensions of Long-Term Debt

On March 2, 2011, we entered into amendments and extensions to our asset-based facility, term loan, senior notes and senior PIK notes. The transactions extended the terms of the facilities, modified pricing and amended the financial covenant and other terms of the facilities. Loans held by lenders not agreeing to extend their loans in the transaction will continue at their original pricing and maturity.

Lenders holding in excess of two-thirds of the commitments under our asset-based facility and in excess of 95% of our term loan facility elected to extend their commitments, and all of the holders of our senior notes and senior PIK notes consented to the transactions. We paid the lenders an aggregate of $8.1 million in arrangement, consent and extension fees as part of the transactions. Fees paid to lenders were capitalized as debt issuance costs and are included in

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

other assets, net in our consolidated balance sheets. We amortize debt issuance costs to interest expense over the term of the related debts, using the effective interest method. Certain costs paid to third parties totaling $0.8 million for Holdings and $0.5 million for Guitar Center related to this amendment were expensed and are included in selling, general and administrative expenses in our consolidated statements of comprehensive loss for the year ended December 31, 2011.

During the third quarter of 2011, we obtained an additional $15 million commitment under the extended terms of the asset-based facility to substitute commitments that were not extended by other participating lenders in March 2011. We paid an aggregate of $0.2 million in arrangement, consent and extension fees as part of the transaction. Fees paid were capitalized and are amortized into interest expense using the effective interest method.

During the first quarter of 2012, we obtained an additional $55 million in commitments under the extended terms of the asset-based facility to substitute commitments that were not extended in March 2011. We paid an aggregate of $0.7 million in arrangement, consent and extension fees as part of the transactions. Fees paid were capitalized and are amortized into interest expense using the effective interest method.

Long-Term Debt

Guitar Center Asset-Based Facility

As of December 31, 2012, the asset-based facility had a maximum borrowing amount of $373 million, subject to a borrowing base which is calculated monthly based on specified percentages of eligible inventory, credit card receivables and trade receivables. Our obligations under this facility are secured by a first priority lien on all of our personal property, consisting of inventory, accounts receivable, cash and deposit accounts, as well as a second priority lien on our capital stock and assets.

The asset-based facility matures in February 2016 with respect to $323 million of the maximum borrowing amount and in October 2013 with respect to $50 million of the maximum borrowing amount. Outstanding principal is due and payable upon maturity. The asset-based facility requires mandatory pre-payment of principal in the event of extraordinary sales of assets or receipt of casualty or other insurance proceeds in excess of $2.5 million.

At our option, we can borrow under the asset-based facility at either the (a) London Inter-Bank Offered Rate, or LIBOR, plus a margin based on average borrowings that ranges from 2.75% to 3.25% on extended commitments and from 1.25% to 1.75% on non-extended commitments or (b) prime rate, plus a margin based on average borrowings that ranges from 1.75% to 2.25% on extended commitments and from 0% to 0.5% on non-extended commitments. Interest is payable on the agreed upon ending date of each related LIBOR borrowing agreement, and quarterly for prime rate borrowings.

We are required to pay a commitment fee to the lenders at a rate of 0.5% per annum for extended commitments and 0.25% per annum for non-extended commitments. The commitment fee is payable each quarter based upon the unused portion of the commitment amount. We are required to pay an annual agency fee of $200,000, payable each quarter in advance. We also are required to pay fees for outstanding letters of credit equal to the applicable LIBOR margin for standby letters of credit or 50% of the LIBOR margin rate for commercial letters of credit.

As of December 31, 2012, the borrowing base on the asset-based facility was $295.4 million, which supported $8.6 million of outstanding letters of credit and $286.8 million of undrawn availability. Average daily borrowings on the asset-based facility were $9.7 million during 2012. Borrowings on the asset-based facility during 2011 were not significant and we did not draw any amounts on the asset-based facility during 2010.

Guitar Center Term Loan

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

As of December 31, 2012, the outstanding principal balance on the term loan was $622 million, maturing in April 2017 with respect to $613.8 million of outstanding principal and in October 2014 with respect to $7.9 million of outstanding principal. Principal is repaid in quarterly installments of 0.25% of the initial principal amount, which commenced on December 31, 2008 and continues through March 2017, with the remaining outstanding balance due on the maturity date. Our obligations under this facility are secured by a first priority lien on our capital stock and assets and a second priority lien on all of the assets subject to a first priority lien securing the asset-based facility.

The term loan requires prepayment of principal in an amount of up to 50% of our excess cash flows, as defined in the credit agreement, which commenced in the calendar year ended December 31, 2008. The excess cash flow prepayment is applied to the quarterly scheduled principal payments in the order that they are otherwise required to be paid. We were not required to make an excess cash flow payment for 2012 or 2011.

The term loan bears interest at LIBOR plus a margin of 5.25% per annum with respect to the extended term loan and 3.50% per annum with respect to the non-extended term loan. We can elect to convert all or a portion of the balance due on the term loan to an interest rate based on the prime rate plus an applicable margin of 4.25% per annum with respect to the extended term loan and 2.5% per annum with respect to the non-extended term loan. Interest is payable on the agreed upon ending date of each related LIBOR borrowing agreement, and quarterly for prime rate borrowings. As of December 31, 2012, the applicable interest rate on the note was 5.56% on $613.8 million of outstanding principal and 3.71% on $7.9 million of outstanding principal.

We are required to pay an annual agency fee of $125,000, payable quarterly in advance.

Guitar Center Senior Notes

The senior unsecured notes bear interest at 11.50% per annum, payable semi-annually in April and October. As of December 31, 2012, the senior notes were in the principal amount of $394.9 million and mature in October 2017.

Holdings Senior PIK Notes

The senior PIK notes bear interest at 14.09% per annum. Interest on the senior PIK notes is payable semi-annually in April and October, except that until October 15, 2010, interest on the senior PIK notes was at our election payable either by increasing the principal amount of the senior PIK notes or by issuing additional senior PIK notes. As of December 31, 2012, payment-in-kind interest of $189.7 million had been added to the initial principal balance senior PIK notes, and the resulting outstanding principal amount was $564.7 million.

Under the amended terms of the senior PIK notes, we were permitted to require the holders of the senior PIK notes to reinvest 50% of the four semi-annual interest payments due between April 2011 and October 2012 in newly issued Guitar Center senior notes, provided a secured net leverage ratio of 8.5x was maintained. For periods after October 2012, interest on the senior PIK notes is payable only in cash.

We elected to require the holders of the senior PIK notes to reinvest 50% of the October 2012 interest payment in newly issued Guitar Center senior notes totaling $19.9 million. We did not make the reinvestment election for any part of the interest payments due in 2011 or in April 2012 on the senior PIK notes.

Covenants

These loan facilities contain covenants that, among other things, limit our ability to:

- pay dividends on, redeem or repurchase capital stock;
- make investments and other restricted payments;

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

- incur additional indebtedness or issue preferred stock;
- create liens;
- permit dividend or other payment restrictions on our restricted subsidiaries;
- sell all or substantially all of our assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

In addition, the asset-based facility requires us to maintain a minimum consolidated fixed charge coverage ratio during a cash dominion event when the excess availability in that facility falls below a minimum threshold or during certain events of default. The term loan requires us to maintain a maximum consolidated secured net leverage ratio and limits our ability to make capital expenditures.

As of December 31, 2012, we were in compliance with all of our debt covenants.

Future maturities

Future maturities of long-term debt as of December 31, 2012 were as follows (in thousands):

	Guitar Center	Holdings	Holdings Consolidated
2013 (1)	$ 5,941	$ 129,784	$ 135,725
2014	14,314	—	14,314
2015	6,500	—	6,500
2016	6,500	—	6,500
2017	983,451	—	983,451
Thereafter	—	434,889	434,889
	$ 1,016,706	$ 564,673	$ 1,581,379

(1) We anticipate making a one-time principal payment on the senior PIK notes in April 2013. This payment will be $129.8 million, which is the amount of previously capitalized PIK interest that is required to be paid to prevent the senior PIK notes from being treated as "applicable high yield discount obligations" within the meaning of Section 163(i)(1) of the Internal Revenue Code. This amount is included in current portion of long-term debt in Holdings' consolidated balance sheet as of December 31, 2012. The remaining unpaid balance of the senior PIK notes matures in April 2018.

Certain dividend restrictions

The guarantors under the term loan, the asset-based facility and the senior notes are generally not restricted in their ability to dividend or otherwise distribute funds to Guitar Center except for restrictions imposed under applicable state corporate law. However, Guitar Center is limited in its ability to pay dividends or otherwise make distributions to Holdings under the term loan, the asset-based facility and the indenture governing the senior notes. Specifically, the term loan and the asset-based facility each prohibits Guitar Center from making any distributions to Holdings except for limited purposes, including, but not limited to: (i) the payment of interest on the senior PIK notes by Holdings so long as no payment or bankruptcy event of default exists; (ii) general corporate, overhead and similar expenses of Holdings incurred in the ordinary course of business, (iii) the payment of taxes by Holdings as the parent of a consolidated group that includes Holdings, Guitar Center and the guarantors, (iv) the partial redemption or prepayment of the senior PIK notes by Holdings to the extent necessary to make an "applicable high yield discount obligation" (AHYDO) "catch-up" payment thereon and (v) advisory fees not to exceed the amounts payable in respect thereof under the advisory agreement with Bain Capital as in effect on October 9, 2007 so long as certain events of default do not exist. Notwithstanding the

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

foregoing, so long as no event of default existed or exists, Guitar Center may make distributions to Holdings in an aggregate amount not to exceed $25 million after March 2, 2011.

The senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings in an amount not to exceed (a) 50% of Guitar Center's consolidated net income for the period beginning March 2, 2011 and ending as of the end of the last fiscal quarter before the proposed payment, plus (b) 100% of the net cash proceeds received by Guitar Center from the issuance and sale of capital stock, plus (c) 100% of cash contributions to Guitar Center's capital, plus (d) to the extent not included in consolidated net income, 100% of the amount received in cash from the sale or other disposition of certain investments, provided that certain conditions are satisfied, including that Guitar Center would, at the time of the proposed payment and after giving pro forma effect thereto, have been permitted to incur at least $1.00 of additional indebtedness pursuant to the fixed charge coverage ratio test set forth in the indenture. Similar provisions regarding dividends and other distributions payable by Holdings are included in the senior PIK notes indenture.

Notwithstanding the foregoing, the senior notes indenture provides that Guitar Center can generally pay dividends and make other distributions to Holdings to, among other things, fund (A) interest payments on the senior PIK notes, (B) any mandatory redemption of a portion of the senior PIK notes pursuant to the senior PIK notes indenture, (C) an offer to purchase upon a change of control or asset sale to the extent required by the terms of the senior PIK notes indenture, (D) tax payments, (E) general corporate overhead and operating expenses and (F) fees of Holdings under the advisory agreement with Bain Capital.

Holdings has no assets or liabilities other than its net investment in Guitar Center, deferred financing fees related to the senior PIK notes and the outstanding balance on the senior PIK notes. It has no operating activities and its net loss consists of interest expense on the senior PIK notes.

Deferred Financing Fees

Amortization of deferred financing fees included in interest expense in the consolidated statements of comprehensive income or loss was as follows (in thousands):

	Year ended December 31,	
	2012	2011
Holdings	$ 3,191	$ 2,896
Guitar Center	2,779	2,485

Unamortized deferred financing fees included in other assets in the consolidated balance sheets were as follows (in thousands):

	December 31,	
	2012	2011
Holdings	$13,097	$15,524
Guitar Center	10,899	12,913

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (Details) (Allowance for doubtful accounts, USD $) In Thousands, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Allowance for doubtful accounts			
Movement in valuation and qualifying accounts			
Balance at beginning of year	$ 2,979	$ 3,030	$ 3,105
Additions charged to expense	3,840	4,104	4,900
Deductions from allowance	3,970	4,155	4,975
Balance at end of year	$ 2,849	$ 2,979	$ 3,030

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE I - Condensed Financial Statement of Parent Company Only (Details 4) (USD $)	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Basis of Presentation			
Restricted net assets as a percentage of consolidated assets for filing	25.00%		
Restricted net assets of the consolidated subsidiary	$ 243,000,000		
Long-Term Debt			
Interest payable settled with cash payments	141,291,000	157,461,000	69,001,000
Guitar Center, Inc.			
Long-Term Debt			
Interest payable settled with cash payments	81,619,000	77,898,000	69,001,000
Senior PIK notes			
Long-Term Debt			
Interest payment due	79,600,000		
Interest payable settled with cash payments	59,700,000		
Senior unsecured notes | Guitar Center, Inc.			
Long-Term Debt			
Notes issued	$ 19,900,000		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Segment Information (Tables)

Segment Information

Schedule of financial information for reporting segments

12 Months Ended Dec. 31, 2012

The following tables summarize financial information for Holdings' reporting segments (in thousands):

	Year ended December 31, 2012				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,596,094	$ 189,766	$353,331	$ —	$2,139,191
Gross profit	459,680	86,043	97,668	—	643,391
Selling, general and administrative expenses	356,832	69,791	95,196	25,905	547,724
Operating income (loss)	102,848	16,252	2,472	(25,905)	95,667
Depreciation and amortization	66,457	4,414	15,801	4,233	90,905
Adjusted EBITDA	173,153	21,041	19,159	(13,349)	200,004
Capital expenditures	39,041	7,051	7,858	13,518	67,468
Total assets					
Holdings	1,410,303	113,119	166,496	126,640	1,816,558
Guitar Center	1,410,303	113,119	166,496	155,891	1,845,809

	Year ended December 31, 2011				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,530,133	$ 178,443	$ 374,001	$ —	$2,082,577
Gross profit	448,543	83,307	103,293	—	635,143
Selling, general and administrative expenses	355,879	68,373	116,798	38,176	579,226
Impairment of intangible assets	—	—	45,961	—	45,961
Impairment of goodwill	—	—	107,026	—	107,026
Operating income (loss)	92,664	14,934	(166,492)	(38,176)	(97,070)
Depreciation and amortization	74,719	4,380	24,264	2,834	106,197
Adjusted EBITDA	174,554	19,607	19,034	(16,285)	196,910
Capital expenditures	29,269	3,535	8,881	15,639	57,324
Total assets					
Holdings	1,480,701	105,170	171,639	101,556	1,859,066
Guitar Center	1,480,701	105,170	171,639	126,239	1,883,749

	Year ended December 31, 2010				
	Guitar Center	Music & Arts	Direct Response	Corporate	Total
Net sales	$1,444,829	$ 175,659	$ 390,407	$ —	$2,010,895
Gross profit	416,212	80,125	109,514	—	605,851

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Selling, general and administrative expenses	343,407	68,595	105,974	28,159	546,135
Operating income (loss)	72,805	11,530	3,540	(28,159)	59,716
Depreciation and amortization	80,574	4,317	17,961	1,994	104,846
Adjusted EBITDA	160,479	16,458	22,216	(14,846)	184,307
Capital expenditures	19,659	2,685	13,346	12,197	47,887
Total assets					
Holdings	1,471,302	101,280	331,737	216,399	2,120,718
Guitar Center	1,471,302	101,280	331,737	211,296	2,115,615

Schedule of reconciliation of adjusted EBITDA to consolidated income (loss) before income taxes

The following tables present a reconciliation of Adjusted EBITDA to consolidated income or loss before income taxes (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458
Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	165,344	161,036	145,233
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	—	5,257	—
Impairment charges	559	154,281	884
Other adjustments	10,608	24,863	13,704
Consolidated loss before income taxes	$ (69,677)	$ (258,106)	$ (85,517)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Adjusted EBITDA			
Guitar Center	$ 173,153	$ 174,554	$ 160,479
Music & Arts	21,041	19,607	16,458
Direct Response	19,159	19,034	22,216
Corporate	(13,349)	(16,285)	(14,846)
	200,004	196,910	184,307
Depreciation and amortization expense	90,905	106,197	104,846
Interest expense, net	85,369	81,063	70,842
Non-cash charges	2,265	3,382	5,157
Non-recurring charges	—	5,257	—

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Impairment charges	559	154,281	884
Other adjustments	10,608	24,585	13,704
Consolidated income (loss) before income taxes	$ 10,298	$ (177,855)	$ (11,126)

Adjustments in the calculation of Adjusted EBITDA include the following:

- Non-cash charges include stock-based compensation expense and the non-cash portion of rent expense.
- Non-recurring charges in 2011consist of the loss recognized on the sale of our corporate aircraft.
- Other adjustments include restructuring charges, severance payments, bonuses under our long-term management incentive plan, various debt and financing costs, gains and losses on disposal of assets, special charges and management fees paid to Bain Capital as discussed in Note 13.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Stock-Based Compensation (Details) (USD $)	3 Months Ended	12 Months Ended									
	Dec. 31, 2010 Rollover Options	Dec. 31, 2010 Rollover Options	Dec. 31, 2012 Tranche 1 and 2	Dec. 31, 2012 Tranche 3	Dec. 31, 2012 2009 Management Equity Plan	Dec. 31, 2011 2009 Management Equity Plan	Dec. 31, 2010 2009 Management Equity Plan	Dec. 31, 2012 2009 Management Equity Plan Options	Dec. 31, 2012 2009 Management Equity Plan Tranche 1 and 2	Dec. 31, 2012 2009 Management Equity Plan Tranche 3	Dec. 31, 2012 2009 Management Equity Plan Option Tranches item
Stock-Based Compensation											
Number of shares of the common stock of Holdings reserved for issuance								1,102,500			
Vesting period			5 years								
Vesting period for service				5 years							5 years
Contractual term of options granted	10 years							10 years			
Number of tranches											3
Percentage of the award vesting on each anniversary									20.00%		
Percentage of the award vesting based on service period on each anniversary					20.00%						
Exercise price of outstanding options, minimum (in dollars per share) that were exercised	$ 15.31										
Exercise price of outstanding options, maximum (in dollars per share) that were exercised	$ 15.75										
Options granted (in shares)	224,210				22,610	236,829	409,710				
Exercise price (in dollars per share)	$ 22.82										
Recognized compensation cost		$ 1,500,000			$ 1,100,000	$ 1,600,000	$ 3,200,000			$ 0	
Unrecognized compensation cost			$ 1,500,000	$ 900,000				$ 2,400,000			
Expected weighted-average period of recognition of unrecognized compensation cost								2 years 6 months			

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income Taxes	12 Months Ended Dec. 31, 2012

Income Taxes
Income Taxes

10. Income Taxes

Total income tax expense or benefit for 2012, 2011 and 2010 was as follows (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$ —	$ —	$ (268)
State	1,943	4,254	3,469
Total current tax provision	1,943	4,254	3,201
Deferred:			
Federal	—	(20,991)	(28,797)
State	549	(4,430)	(3,544)
Total deferred tax provision	549	(25,421)	(32,341)
Total income tax expense (benefit)	$ 2,492	$ (21,167)	$ (29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Current:			
Federal	$ 20,005	$ 4,917	$ 16,004
State	4,750	3,620	1,335
Total current tax provision	24,755	8,537	17,339
Deferred:			
Federal	(16,584)	(29,171)	(16,823)
State	(1,268)	(3,516)	(2,778)
Total deferred tax provision	(17,852)	(32,687)	(19,601)
Total income tax expense (benefit)	$ 6,903	$ (24,150)	$ (2,262)

Actual income taxes differ from the statutory tax rate of 35% as applied to net income or loss before income taxes as follows (in thousands):

Holdings

	Year ended December 31,		
	2012	2011	2010
Expected income tax benefit	$ (24,387)	$ (90,337)	$ (29,622)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

State income taxes, net of federal tax benefit	2,492	(1,463)	(440)
Goodwill impairment	—	37,460	—
Stock options	567	—	(159)
Change in valuation allowance	23,348	32,247	—
Meals & entertainment and non-deductible items	352	348	337
Other	120	578	744
Actual income tax expense (benefit)	$ 2,492	$ (21,167)	$ (29,140)

Guitar Center

	Year ended December 31,		
	2012	2011	2010
Expected income tax expense (benefit)	$ 3,604	$ (62,249)	$ (3,894)
State income taxes, net of federal tax benefit	2,280	(253)	746
Goodwill impairment	—	37,460	—
Stock options	567	—	(159)
Meals & entertainment and non-deductible items	352	348	337
Other	100	544	708
Actual income tax expense (benefit)	$ 6,903	$ (24,150)	$ (2,262)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented below (in thousands):

	Holdings		Guitar Center	
	December 31,		December 31,	
	2012	2011	2012	2011
Deferred tax assets:				
Net operating loss	$ 50,194	$ 43,179	$ —	$ —
State net operating loss carryforward	2,247	2,042	—	—
Accrued liabilities	26,488	26,572	26,688	26,572
Merchandise inventories	3,215	2,961	3,215	2,961
Intangibles	8,743	8,084	8,743	8,084
Stock options	2,504	2,652	2,504	2,652
Capital loss carryover	133	129	133	129
Fixed assets	4,893	(2,203)	4,893	(2,203)
Total gross deferred tax assets	98,417	83,416	46,176	38,195
Less valuation allowance	(58,210)	(32,558)	(310)	(310)
Net deferred tax assets	40,207	50,858	45,866	37,885
Deferred tax liabilities:				

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Depreciation	(5,534)	(5,813)	(5,534)	(5,813)
Intangibles	(110,864)	(120,196)	(110,864)	(120,196)
Other	(181)	(441)	(181)	(441)
Total gross deferred tax liabilities	(116,579)	(126,450)	(116,579)	(126,450)
Net deferred tax liabilities	$ (76,372)	$ (75,592)	$ (70,713)	$ (88,565)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

We consider scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on the available objective evidence, management believes it is more likely than not that Holdings will not fully realize the benefits of its deductible temporary differences. Accordingly, we increased the valuation allowance on Holdings' federal and state net operating losses and other deferred tax assets by $25.7 million in 2012 and $32.2 million in 2011.

Holdings' available unused net operating loss carryforwards, which may be applied against future taxable income, expire in tax years between 2027 and 2031.

We account for the tax benefit resulting from the employee exercises of non-qualifying stock options or the disqualified disposition of incentive stock options as a reduction in income tax payable and an increase to additional paid-in capital.

Holdings' charge in lieu of taxes attributable to tax benefit from employee stock options was $0.6 million in 2010. There was no charge in lieu of taxes attributable to tax benefit from employee stock options in 2012 or 2011.

The reconciliation of unrecognized tax benefits in 2012, the balance of which is classified as other current assets in the consolidated balance sheet, is as follows (in thousands):

Balance at January 1, 2012	$ 1,245
Additions based on tax positions of current years	—
Additions based on tax positions of prior years	181
Reductions based on tax positions of prior years	(133)
Balance at December 31, 2012	$ 1,293

The amount of unrecognized tax benefits that, if recognized, would impact the effective rate as of December 31, 2012 was $1.3 million.

As of December 31, 2012 and 2011, accrued interest and penalties related to uncertain tax positions were not material. Our policy is to classify interest and penalties as income tax expense.

Tax years that remain subject to examination are 2009 and forward by the Internal Revenue Service and 2008 and forward by other state and local jurisdictions. It is reasonably possible that our recognized tax benefit could change. However, we do not expect any such change to be material.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Subsequent Events	12 Months Ended Dec. 31, 2012
Subsequent Events	
Subsequent Events	**15. Subsequent Events** We evaluated events and transactions subsequent to December 31, 2012 for disclosure or recognition through the date the financial statements were issued.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Lease Commitments (Details) (USD $)	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Future annual minimum lease payments in operating leases			
2013	$ 76,789,000		
2014	69,271,000		
2015	61,596,000		
2016	49,623,000		
2017	30,922,000		
Thereafter	68,217,000		
Total minimum lease payments	356,418,000		
Total rent expense	$ 76,700,000	$ 70,600,000	$ 69,200,000

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Goodwill and Intangible Assets (Details 2) (USD $) In Thousands, unless otherwise specified	12 Months Ended	
	Dec. 31, 2012	Dec. 31, 2011
Amortized		
Accumulated Amortization	$ (200,040)	$ (171,259)
Total	82,768	
Gross Carrying Amount	491,309	491,399
Total	291,269	320,140
Cost of goods sold, buying and occupancy		
Amortized		
Amortization expenses	5,887	7,486
Selling, general and administrative expenses		
Amortized		
Amortization expenses	23,093	35,396
Customer relationships		
Intangible Assets		
Weighted-Average Useful Life	13 years	13 years
Amortized		
Gross Carrying Amount	224,302	224,302
Accumulated Amortization	(148,042)	(125,049)
Total	76,260	99,253
Favorable lease terms		
Intangible Assets		
Weighted-Average Useful Life	7 years 6 months	7 years 6 months
Amortized		
Gross Carrying Amount	57,721	57,721
Accumulated Amortization	(51,323)	(45,436)
Total	6,398	12,285
Covenants not to compete		
Intangible Assets		
Weighted-Average Useful Life	4 years 3 months 18 days	4 years 6 months
Amortized		
Gross Carrying Amount	785	875
Accumulated Amortization	(675)	(774)
Total	110	101
Unamortized trademark		
Intangible Assets		
Indefinite lived intangible assets	$ 208,501	$ 208,501

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Guitar Center Holdings, Inc.) (USD $) In Thousands, except Share data, unless otherwise specified	Total	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance at Dec. 31, 2009	$ 211,724	$ 97	$ 629,002	$ (417,432)	$ 57
Balance (in shares) at Dec. 31, 2009		9,695,000			
Increase (Decrease) in Stockholders' Equity					
Stock-based compensation expense	3,218		3,218		
Exercise of employee stock options	4,387	3	4,384		
Exercise of employee stock options (in shares)		279,000			
Repurchase of common stock	(5,116)	(2)	(5,114)		
Repurchase of common stock (in shares)		(224,000)			
Net loss	(56,377)			(56,377)	
Other comprehensive income (loss)	(440)				(440)
Balance at Dec. 31, 2010	157,396	98	631,490	(473,809)	(383)
Balance (in shares) at Dec. 31, 2010		9,750,000			
Increase (Decrease) in Stockholders' Equity					
Stock-based compensation expense	1,552		1,552		
Exercise of employee stock options	290		290		
Exercise of employee stock options (in shares)		13,000			
Repurchase of common stock	(576)	(1)	(575)		
Repurchase of common stock (in shares)		(21,000)			
Net loss	(236,939)			(236,939)	
Other comprehensive income (loss)	210				210
Balance at Dec. 31, 2011	(78,067)	97	632,757	(710,748)	(173)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance (in shares) at Dec. 31, 2011	9,742,000	9,742,000			
Increase (Decrease) in Stockholders' Equity					
Stock-based compensation expense	1,082		1,082		
Repurchase of common stock	(39)		(39)		
Repurchase of common stock (in shares)		(2,000)			
Net loss	(72,169)			(72,169)	
Other comprehensive income (loss)	173				173
Balance at Dec. 31, 2012	$ (149,020)	$ 97	$ 633,800	$ (782,917)	
Balance (in shares) at Dec. 31, 2012	9,740,000	9,740,000			

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (USD $) In Thousands, unless otherwise specified	Total	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	GUITAR CENTER, INC.	GUITAR CENTER, INC. Additional Paid-in Capital	GUITAR CENTER, INC. Accumulated Deficit	GUITAR CENTER, INC. Accumulated Other Comprehensive Income (Loss)
Balance at Dec. 31, 2009	$ 211,724	$ 629,002	$ (417,432)	$ 57	$ 281,304	$ 614,338	$ (333,091)	$ 57
Increase (Decrease) in Stockholders' Equity								
Stock-based compensation expense	3,218	3,218			3,218	3,218		
Net income (loss)	(56,377)		(56,377)		(8,864)		(8,864)	
Other comprehensive income (loss)	(440)			(440)	(440)			(440)
Balance at Dec. 31, 2010	157,396	631,490	(473,809)	(383)	275,218	617,556	(341,955)	(383)
Increase (Decrease) in Stockholders' Equity								
Stock-based compensation expense	1,552	1,552			1,552	1,552		
Net income (loss)	(236,939)		(236,939)		(153,705)		(153,705)	
Other comprehensive income (loss)	210			210	210			210
Balance at Dec. 31, 2011	(78,067)	632,757	(710,748)	(173)	123,275	619,108	(495,660)	(173)
Increase (Decrease) in Stockholders' Equity								
Stock-based compensation expense	1,082	1,082			1,082	1,082		
Net income (loss)	(72,169)		(72,169)		3,395		3,395	
Other comprehensive income (loss)	173			173	173			173
Balance at Dec. 31, 2012	$ (149,020)	$ 633,800	$ (782,917)		$ 127,925	$ 620,190	$ (492,265)	

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Related Party Transactions (Details) (Bain Capital, USD $) In Millions, unless otherwise specified	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Bain Capital			
Related Party Transactions			
Periodic fee (per quarter)	$ 1.0		
Fee (as a percent)	1.00%		
Advisory fee	$ 4.5	$ 4.8	$ 4.5
Period of the advisory agreement	10 years		
Extension of the agreement period	1 year		

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SCHEDULE I - Condensed Financial Statement of Parent Company Only

12 Months Ended

Dec. 31, 2012

SCHEDULE I - Condensed Financial Statement of Parent Company Only

SCHEDULE I - Condensed Financial Statement of Parent Company Only

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2012	December 31, 2011
Assets		
Investment in Guitar Center, Inc.	$ 127,925	$ 123,275
Receivable from Guitar Center, Inc.	224,113	303,715
Deferred income taxes	77,993	73,581
Other assets, net	2,197	2,610
Total assets	$ 432,228	$ 503,181
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accrued interest	$ 16,575	$ 16,575
Current portion of long-term debt	129,784	—
Total current liabilities	146,359	16,575
Long-term debt	434,889	564,673
Total liabilities	581,248	581,248
Commitments and contingencies	—	—
Stockholders' deficit:		
Preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.01 par value, 20,000 shares authorized, 9,740 and 9,742 shares issued and outstanding, respectively	97	97
Additional paid-in capital	633,800	632,757
Accumulated deficit	(782,917)	(710,748)
Accumulated other comprehensive loss	—	(173)
Total stockholders' deficit	(149,020)	(78,067)
Total liabilities and stockholders' deficit	$ 432,228	$ 503,181

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year ended December 31,		
	2012	2011	2010
General and administrative expenses	$ —	$ 277	$ —
Interest expense	79,975	79,973	74,391

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	2012	2011	2010
Equity in net income (loss) of Guitar Center, Inc., net of income tax	3,395	(153,705)	(8,864)
Loss before income taxes	(76,580)	(233,955)	(83,255)
Income tax expense (benefit)	(4,411)	2,984	(26,878)
Net loss	(72,169)	(236,939)	(56,377)
Equity in other comprehensive income (loss) of Guitar Center, Inc., net of income tax	173	210	(440)
Comprehensive loss	$ (71,996)	$ (236,729)	$ (56,817)

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

SCHEDULE I

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Operating activities:			
Net loss	$ (72,169)	$ (236,939)	$ (56,377)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in net (income) loss of Guitar Center, Inc.	(3,395)	153,705	8,864
Amortization of deferred financing fees	412	410	400
Non-cash interest expense	19,891	8,288	57,415
Deferred income taxes	(4,411)	2,984	(26,878)
Changes in operating assets and liabilities:			
Accrued expenses and other current liabilities	—	(8,288)	16,576
Net cash used in operating activities	(59,672)	(79,840)	—
Financing activities:			
Repurchase of common stock	(39)	(286)	(729)
Financing fees	—	(902)	—
Repayments from Guitar Center, Inc.	59,711	81,028	729
Net cash provided by financing activities	59,672	79,840	—
Net change in cash	—	—	—
Cash at beginning of year	—	—	—
Cash at end of year	$ —	$ —	$ —
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 59,672	$ 79,562	$ —
Income taxes	—	—	—

See accompanying notes to condensed financial statements

The combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Subsidiaries and Guitar Center, Inc. and Subsidiaries are an integral part of these statements.

SCHEDULE I

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

GUITAR CENTER HOLDINGS, INC. (PARENT COMPANY ONLY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

Schedule I, Condensed Financial Information of Registrant, is required in Securities and Exchange Commission ("SEC") filings when restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets at the end of the most recent fiscal year. The restricted net assets of Guitar Center, Inc. were $243 million as of December 31, 2012.

Pursuant to the rules and regulations of the SEC, the condensed parent company financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with United States generally accepted accounting principles. In addition, for purposes of this schedule, the investment in wholly-owned subsidiary, Guitar Center, Inc., is accounted for using the equity method of accounting, which is not in accordance with United States generally accepted accounting principles. The condensed financial statements of the parent company should be read in conjunction with the consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc. and the combined notes thereto.

2. Dividends from Subsidiary

The parent company did not receive any dividends from Guitar Center, Inc. during 2012, 2011 or 2010.

3. Long-Term Debt

The terms and future maturities of the parent company's long-term debt are presented in Note 5 of the combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc.

Holdings' interest payments on the senior PIK notes are funded by repayments received from Guitar Center, Inc. on intercompany debt. Interest payments due on the senior PIK notes totaled $79.6 million in 2012. Interest payable in 2012 was settled with cash payments of $59.7 million and a reinvestment by the holders of the senior PIK notes in newly issued Guitar Center, Inc. senior notes totaling $19.9 million.

4. Litigation, Contingencies and Commitments

See Note 12 of the combined notes to consolidated financial statements of Guitar Center Holdings, Inc. and Guitar Center, Inc. for a discussion of litigation contingencies.

The parent company did not have any separate material long-term obligations or guarantees as of December 31, 2012.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Quarterly Financial Data (unaudited) (Tables)

Quarterly Financial Data (unaudited)

Schedule of quarterly results

12 Months Ended Dec. 31, 2012

The following is a presentation of unaudited quarterly results (in thousands):

Holdings

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net loss	$ (16,210)	$ (28,763)	$ (25,658)	$ (1,538)	$ (72,169)

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net loss	$ (11,451)	$ (25,952)	$ (27,383)	$ (172,153)	$ (236,939)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net loss	$ (10,991)	$ (20,134)	$ (23,050)	$ (2,202)	$ (56,377)

Guitar Center

	Year ended December 31, 2012				
	First	Second	Third	Fourth	Total
Net sales	$ 528,151	$ 486,598	$ 496,231	$ 628,211	$ 2,139,191
Gross profit	$ 163,576	$ 146,460	$ 147,362	$ 185,993	$ 643,391
Net income (loss)	$ 2,547	$ (4,817)	$ (2,038)	$ 7,703	$ 3,395

	Year ended December 31, 2011				
	First	Second	Third	Fourth	Total
Net sales	$ 502,800	$ 479,053	$ 488,129	$ 612,595	$ 2,082,577
Gross profit	$ 156,116	$ 145,549	$ 144,253	$ 189,225	$ 635,143
Net income (loss)	$ 1,772	$ (12,398)	$ (13,759)	$ (129,320)	$ (153,705)

	Year ended December 31, 2010				
	First	Second	Third	Fourth	Total
Net sales	$ 487,414	$ 460,957	$ 465,007	$ 597,517	$ 2,010,895
Gross profit	$ 148,997	$ 134,333	$ 134,509	$ 188,012	$ 605,851
Net income (loss)	$ 160	$ (8,332)	$ (11,119)	$ 10,427	$ (8,864)

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Stock-Based Compensation	12 Months Ended Dec. 31, 2012
Stock-Based Compensation	
Stock-Based Compensation	**9. Stock-Based Compensation**

Stock Option Plans

On December 29, 2009, the Board of Directors adopted the 2009 Amended and Restated Management Equity Plan. The 2009 plan modified all stock options that were outstanding under the 2007 Management Equity Plan.

The 2009 plan provides for the granting of stock awards with service-, performance- and market-based components to executive officers and other key employees. An aggregate of 1,102,500 shares of the common stock of Holdings are reserved for issuance of options, plus an additional number of rollover options, described below. Option awards are granted by the compensation committee, with an exercise price equal to or greater than the fair value of our stock at the date of grant. Service-based awards generally vest over five years of continuous service. Performance- and market-based awards contingently vest over five years of continuous service and become exercisable only when they have both time vested and met the performance and market condition requirements specified in the award.

Options granted under the 2009 plan have a ten year contractual term and are divided into three equal tranches. Tranche 1 and tranche 2 awards are subject to a five-year service-based vesting period with 20% vesting on each anniversary date based on the original grant date. Tranche 3 time vest in the same manner as tranche 1 and 2 awards and only become fully vested and exercisable upon the achievement of performance- and market-based vesting conditions. The performance- and market-based conditions of tranche 3 awards require specified levels of investment return to be realized by the majority of common stock holders through certain transactions specified in the plan.

The awards provide for accelerated vesting if there is a change in control, as defined in the 2009 plan. As of December 31, 2012, the performance conditions for tranche 3 awards were not deemed probable of achievement and therefore no stock-based compensation expense had been recognized for tranche 3 awards. When the performance conditions are deemed to be probable of achievement, the related stock-based compensation expense will then be recognized based on the service-based vesting achieved at that time.

Rollover Options

In connection with our acquisition by affiliates of Bain Capital, certain members of management elected to reinvest their equity in fully vested stock option awards outstanding from 2006 and earlier Guitar Center stock option plans. The options granted in this reinvestment, authorized under the 2009 plan, are referred to as rollover options. During the fourth quarter of 2010, all outstanding rollover options, with exercise prices ranging from $15.31 to $15.75, were exercised in a cashless exercise, whereby shares were surrendered to satisfy the exercise price. Concurrently with the cashless exercise, 224,210 new options were granted to replace the surrendered shares. The replacement options were fully vested with a contractual term of ten years from the grant date and had an exercise price of $22.82, equal to the estimated fair value of Holdings' common stock on the grant date. We recognized compensation cost of $1.5 million in 2010 related to the grant of vested replacement options. Compensation cost in 2011 related to rollover options was not material. We did not have any compensation cost related to rollover options in 2012.

Option Valuation

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

We use the Black-Scholes-Merton method to value stock option grants that do not have market-based vesting conditions. We use a binomial model to value stock option grants having market-based vesting conditions. We use a combination of historical data and internally-developed expectations about employees' option exercise and post-vesting departure behavior to estimate the expected term of the options. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve on the grant date. Because our shares are not publicly traded, there is no market price for our stock and volatility of the fair value of our stock is not readily calculable. We estimate the fair value of our stock annually during the first quarter, or whenever a transaction requires a valuation, using a combination of observed market multiples for similar publicly-traded companies and a discounted cash flow analysis. The discounted cash flow analysis is based on internally-developed cash flow forecasts, discounted using our weighted-average cost of capital, and considers our net assets and credit risk to arrive at net enterprise value. We discount the calculated fair value to account for illiquidity of our shares. We estimate the expected volatility based on the average historical volatility of similar entities with publicly traded shares.

Holdings granted 22,610 options in 2012, 236,829 options in 2011 and 409,710 options in 2010.

We recognized total stock-based compensation expense of $1.1 million in 2012, $1.6 million in 2011 and $3.2 million in 2010. This expense is included in selling, general, and administrative expenses in the consolidated statements of comprehensive income or loss.

As of December 31, 2012, there was approximately $2.4 million of total unrecognized compensation cost related to stock option grants under the 2009 plan, of which $1.5 million relates to tranche 1 and 2 options and $0.9 million relates to tranche 3 options. This cost is expected to be recognized over the weighted-average period of 2.5 years, assuming full achievement of related performance and market conditions.

Copyright © 2013 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document