Warner Music Group Corp.
Form 10-Q
May 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4271875**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

There is no public market for the Registrant s common stock. As of May 15, 2012 the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 1,000. All of the Registrant s common stock is owned by AI Entertainment Holdings LLC (formerly Airplanes Music LLC), which is an affiliate of Access Industries, Inc.

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WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	March 31, 2012	September 30, 2011
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 272	$ 154
Accounts receivable, less allowances of $73 and $40 million	306	385
Inventories	27	29
Royalty advances expected to be recouped within one year	129	135
Deferred tax assets	54	54
Other current assets	50	45
Total current assets	838	802
Royalty advances expected to be recouped after one year	158	173
Property, plant and equipment, net	172	182
Goodwill	1,376	1,372
Intangible assets subject to amortization, net	2,588	2,678
Intangible assets not subject to amortization	102	102
Other assets	70	71
Total assets	$ 5,304	$ 5,380
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 143	$ 165
Accrued royalties	1,004	974
Accrued liabilities	202	217
Accrued interest	89	55
Deferred revenue	102	101
Other current liabilities	3	10
Total current liabilities	1,543	1,522
Long-term debt	2,212	2,217
Deferred tax liabilities	401	411
Other noncurrent liabilities	136	148
Total liabilities	4,292	4,298
Commitments and Contingencies (See Note 8)		
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,000 shares issued and outstanding)		
Additional paid-in capital	1,129	1,129
Accumulated deficit	(93)	(31)
Accumulated other comprehensive loss, net	(41)	(33)
Total Warner Music Group Corp. equity	995	1,065
Noncontrolling interest	17	17
Total equity	1,012	1,082

Total liabilities and equity	$ 5,304	$ 5,380

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
	(in millions, except per share data)			
Revenues	$ 628	$ 684	$ 1,407	$ 1,462
Costs and expenses:				
Cost of revenues	(323)	(359)	(747)	(790)
Selling, general and administrative expenses (a)	(233)	(252)	(501)	(518)
Transaction costs		(2)		(2)
Amortization expense	(50)	(55)	(98)	(109)
Total costs and expenses	(606)	(668)	(1,346)	(1,419)
Operating income	22	16	61	43
Interest expense, net	(56)	(47)	(113)	(94)
Other income (expense), net	2	(1)		(1)
Loss before income taxes	(32)	(32)	(52)	(52)
Income tax expense	(2)	(7)	(8)	(5)
Net loss	(34)	(39)	(60)	(57)
Less: (income) loss attributable to noncontrolling interest	(2)	1	(2)	1
Net loss attributable to Warner Music Group Corp.	$ (36)	$ (38)	$ (62)	$ (56)
Net loss per common share attributable to Warner Music Group Corp.:				
Basic		$ (0.25)		$ (0.37)
Diluted		$ (0.25)		$ (0.37)
Weighted average common shares:				
Basic		150.5		150.2
Diluted		150.5		150.2
(a) Includes depreciation expense of:	$ (13)	$ (11)	$ (25)	$ (20)

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Successor Six Months Ended March 31, 2012	Predecessor Six Months Ended March 31, 2011
	(in millions)	
Cash flows from operating activities		
Net loss	$ (60)	$ (57)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	123	129
Deferred income taxes	(9)	(8)
Non-cash interest (income) expense	(1)	6
Non-cash share-based compensation expense		7
Other non-cash items		(1)
Changes in operating assets and liabilities:		
Accounts receivable	76	105
Inventories	2	7
Royalty advances	21	(35)
Accounts payable and accrued liabilities	(62)	(154)
Royalties payable	26	(16)
Accrued interest	34	1
Other balance sheet changes	(4)	9
Net cash provided by (used in) operating activities	146	(7)
Cash flows from investing activities		
Investments and acquisitions of businesses	(5)	(57)
Acquisition of publishing rights	(13)	(47)
Proceeds from the sale of music catalog	2	
Capital expenditures	(13)	(22)
Net cash used in investing activities	(29)	(126)
Cash flows from financing activities		
Distributions to noncontrolling interest holders	(2)	(1)
Net cash used in financing activities	(2)	(1)
Effect of exchange rate changes on cash and equivalents	3	14
Net increase (decrease) in cash and equivalents	118	(120)
Cash and equivalents at beginning of period	154	439
Cash and equivalents at end of period	$ 272	$ 319

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interests	Total Equity
	(in millions, except per share amounts)							
Balance at September 30, 2011	1,000	$ 0.001	$ 1,129	$ (31)	$ (33)	$ 1,065	$ 17	$ 1,082
Comprehensive loss:								
Net loss				(62)		(62)	2	(60)
Foreign currency translation adjustment					(8)	(8)		(8)
Total comprehensive loss						(70)	2	(68)
Noncontrolling interests							(2)	(2)
Balance at March 31, 2012	1,000	$ 0.001	$ 1,129	$ (93)	$ (41)	$ 995	$ 17	$ 1,012

See accompanying notes.

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger).

On the Closing Date, in connection with the Merger, each outstanding share of common stock of the Company (other than any shares owned by the Company or its wholly owned subsidiaries, or by Parent and its affiliates, or by any stockholders who were entitled to and who properly exercised appraisal rights under Delaware law, and shares of unvested restricted stock granted under the Company s equity plan) was cancelled and converted automatically into the right to receive $8.25 in cash, without interest and less applicable withholding taxes (collectively, the Merger Consideration).

On the Closing Date, the Company notified the New York Stock Exchange, Inc. (the NYSE) of its intent to remove the Company s common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company s common stock from the NYSE. On July 21, 2011, in accordance with the Company s request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company s common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On August 2, 2011 the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. The Company has continued to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing the Company s outstanding indebtedness. Additionally, the Company filed two exchange offer registration statements with the SEC in connection with the registration of its guarantee of the 11.50% Senior Notes due 2018 issued by Acquisition Corp. and the 13.75% Senior Notes due 2019 issued by Holdings, both of which became effective on March 16, 2012. As a result, the Company is currently required to file reports pursuant to Section 15(d) of the Exchange Act. The Company has included condensed consolidating financial information as a condition to omitting separate financial statements for Acquisition Corp. and Holdings under Section 15(d) of the Exchange Act as permitted by Rule 3-10 of Regulation S-X.

Parent funded the Merger Consideration through cash on hand at the Company at closing, equity financing obtained from Parent and debt financing obtained from third-party lenders.

Although the Company continued as the same legal entity after the Merger, the accompanying consolidated financial statements are presented for the Predecessor and Successor relating to the periods preceding and succeeding the Merger, respectively. As a result of the Company applying the acquisition method of accounting, the Successor period financial statements reflect a new basis of accounting, while the Predecessor financial statements have been prepared using the Company s historical cost basis of accounting. As a result, the Predecessor and Successor financial statements are not comparable. There have been no changes in the business operations of the Company due to the Merger.

See Note 4 for further discussion on the Merger and purchase price. The accounting for this transaction has been pushed down to the Company s financial statements.

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

Recorded Music Operations

The Company s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists.

The Company is also diversifying its revenues beyond its traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, the Company provides services to and participates in artists activities outside the traditional recorded music business. The Company has built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands it helps create. In developing the Company s artist services business, the Company has both built and expanded in-house capabilities and expertise and has acquired a number of existing artist services companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, concert promotion, fan clubs, original programming and video entertainment. The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities associated with the Company s artists and other artists will permit it to diversify revenue streams to better capitalize on the growth areas of the music industry and permit it to build stronger, long-term relationships with artists and more effectively connect artists and fans.

In the U.S., Recorded Music operations are conducted principally through the Company s major record labels Warner Bros. Records and the Atlantic Records Group. The Company s Recorded Music operations also include Rhino, a division that specializes in marketing the Company s music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. Rhino has also become the Company s primary licensing division focused on acquiring broader licensing rights from certain catalog artists. For example, the Company has an exclusive license with The Grateful Dead to manage the band s intellectual property and a 50% interest in Frank Sinatra Enterprises, an entity that administers licenses for use of Frank Sinatra s name and likeness and manages all aspects of his music, film and stage content. The Company also conducts its Recorded Music operations through a collection of additional record labels, including, among others, Asylum, East West, Elektra, Nonesuch, Reprise, Roadrunner, Rykodisc, Sire and Word.

Outside the U.S., Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees, which the Company sometimes refers to collectively as Warner Music International, or WMI. WMI engages in the same activities as the Company s U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom the Company s U.S. record labels have international rights. In certain smaller markets, WMI licenses to unaffiliated third-party record labels the right to distribute its records. The Company s international artist services operations also include a network of concert promoters through which WMI provides resources to coordinate tours for the Company s artists and other artists.

Recorded Music distribution operations include: WEA Corp., which markets and sells music and DVD products to retailers and wholesale distributors in the U.S.; ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally; an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

The Company plays an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing albums and promoting artists and their products. After an artist has entered into a contract with one of the Company s record labels, a master recording of the artist s music is created. The recording is then replicated for sale to consumers primarily in CD and digital formats. In the U.S., WEA Corp., ADA and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to record stores, mass merchants and other retailers. The Company s recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint. The Company is also selling recorded music products through other digital distribution channels such as streaming or subscription services. In the case of expanded-rights deals where the Company acquires broader rights in a recording artist s career, the Company may provide more comprehensive career support and actively develop new opportunities for an artist through touring, fan clubs, merchandising and sponsorships, among other areas. The Company believes expanded-rights deals create better partnerships with its artists, which allow the Company and its artists to work together more closely to create and sustain artistic and commercial success.

The Company has integrated the sale of digital content into all aspects of its Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. The Company s new media executives work closely with A&R departments to make sure that while a record is being made, digital assets are also created with all distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. The Company works side by side with its mobile and online partners to test new concepts. The Company believes existing and new digital businesses will be a significant source of growth for the next several years and will provide new opportunities to monetize its assets and create new revenue streams. As a music-based content company, the Company has assets that go beyond its recorded music and music publishing catalogs, such as its music video library, which it has begun to monetize through digital channels. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is in the relatively early stages of growth, proportions may change as the roll out of new technologies continues. As an owner of musical content, the Company believes it is well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of its assets.

Music Publishing Operations

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

The Company s Music Publishing operations include Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. In January 2011, the Company acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, Disney Music Publishing and Turner Music Publishing. In 2007, the Company entered the production music library business with the acquisition of Non-Stop Music and further expanded its production music operations with the acquisitions of Groove Addicts Production Music Library and Carlin Recorded Music Library in 2010 and 615 Music in 2011, collectively branded as Warner/Chappell Production Music.

2. Basis of Presentation

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2012 are not necessarily indicative of the results that may be expected for the twelve months ended September 30, 2012.

The consolidated balance sheet at September 30, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the twelve months ended September 30, 2011(File No. 001-32502).

Basis of Consolidation

The accompanying financial statements present the consolidated accounts of all entities in which the Company has a controlling voting interest and/or variable interest entities required to be consolidated in accordance with U.S. GAAP. Significant inter-company balances and transactions have been eliminated. Certain reclassifications have been made to the prior fiscal years consolidated financial statements to conform with the current fiscal-year presentation.

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

The Company maintains a 52-53 week fiscal year ending on the Friday nearest to each reporting date. As such, all references to March 31, 2012 and March 31, 2011 relate to the three and six-month periods ended March 30, 2012 and March 25, 2011, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31.

The Company has performed a review of all subsequent events through the date the financial statements were issued, and has determined no additional disclosures are necessary.

New Accounting Pronouncements

During the second quarter of fiscal 2012, the Company adopted ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.* ASU 2011-04 provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. The adoption of this standard update did not have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income.* ASU 2011-05 requires entities to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. In addition, in December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-12 defers the requirement to present components of reclassifications of comprehensive income on the statement of comprehensive income, with all other requirements of ASU 2011-05 unaffected. Both ASU 2011-05 and 2011-12 will be effective as of October 1, 2012 for the Company and are not expected to have a significant impact on our financial statements, other than presentation.

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In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. ASU 2011-08 provides entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. This standard is not expected to have a significant impact on our financial statements.

3. Comprehensive (Loss) Income

Comprehensive (loss) income consists of net loss and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net (loss) income. For the Company, the components of other comprehensive (loss) income primarily consist of foreign currency translation gains and losses and deferred gains and losses on financial instruments designated as hedges under FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815), which include foreign exchange contracts. The following summary sets forth the components of accumulated other comprehensive loss, net of related taxes:

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	Derivative Financial Instruments Gain (in millions)	Accumulated Other Comprehensive Loss
Balance at September 30, 2011	**$ (35)**	**$ 1**	**$ 1**	**$ (33)**
Activity through March 31, 2012	(8)			(8)
Balance at March 31, 2012	**$ (43)**	**$ 1**	**$ 1**	**$ (41)**

4. Merger

As further described in Note 1, as a result of the Merger, effective as of July 20, 2011, the Company was acquired by Parent. Transaction costs of approximately $53 million were expensed as follows: $10 million and $43 million from July 20, 2011 to September 30, 2011 (Successor) and from October 1, 2010 to July 19, 2011 (Predecessor), respectively.

The Merger was accounted for in accordance with FASB ASC Topic 805, *Business Combinations*, using the acquisition method of accounting. The assets and liabilities of the Company, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 12 for additional information on fair value inputs). Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. The use of different estimates and judgments could yield materially different results.

The table below presents the consideration transferred and the final allocation of purchase price to the assets and liabilities acquired as a result of the Merger:

	(in millions)
Cash paid to acquire outstanding WMG shares	$ 1,228
Cash paid to settle equity awards	50
Total cash consideration	1,278
Less: Cash paid by WMG	(179)
Net Investment	1,099
WMG shares previously held by Parent	30
Total consideration to be allocated	$ 1,129

Fair Value of assets acquired and liabilities assumed:		
Cash	$	140
Accounts receivable		331
Inventory		28
Artist advances*		341
Property, plant and equipment		182
Intangible assets		2,879
Other assets*		117
Current liabilities*		(1,544)
Deferred income tax liabilities		(363)
Deferred revenue		(115)

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Other noncurrent liabilities*	(173)
Debt	(2,049)
Noncontrolling interests	(17)
Fair value of net assets acquired	(243)
Goodwill recorded*	1,372
Total consideration allocated	$ 1,129

* Amounts have been adjusted as a result of changes in the final purchase price allocation related to the Merger.
Goodwill is calculated as the excess of the consideration paid over the net assets recognized. The goodwill recorded as part of the Merger primarily reflects the expected value to be generated from the continued transition of the music industry and the expected resulting cost savings, as well as any intangible assets that do not qualify for separate recognition. Goodwill has been allocated to our reportable segments as follows: Recorded Music $908 million and Music Publishing $464 million.

The components of the intangible assets identified in the table above and the related useful lives, segregated by our reportable segments, are as follows:

	Value (in millions)	Useful Life
Recorded Music		
Trademarks/trade names	$ 51	Indefinite
Trademarks/trade names	7	7 years
Catalog	560	5-11 years
Artist contracts	520	8-12 years
Music Publishing		
Trademarks/trade names	$ 51	Indefinite
Copyrights	1,530	28 years
Songwriter contracts	160	29 years

5. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the six months ended March 31, 2012:

	Recorded Music	Music Publishing (in millions)	Total
Balance at September 30, 2011*	**$ 908**	**$ 464**	**$ 1,372**
Acquisitions	5		5
Dispositions			
Other adjustments	(1)		(1)
Balance at March 31, 2012	**$ 912**	**$ 464**	**$ 1,376**

* Amounts have been adjusted as a result of changes in the final purchase price allocation related to the Merger.

The Company performs its annual goodwill impairment test in accordance with ASC 350 during the fourth quarter of each fiscal year. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company s goodwill may not be recoverable. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

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Other Intangible Assets

Other intangible assets consist of the following:

	March 31, 2012	September 30, 2011
	(in millions)	
Intangible assets subject to amortization:		
Recorded music catalog (a)	$ 546	$ 551
Music publishing copyrights (a)	1,502	1,486
Artist and songwriter contracts (a)	667	672
Trademarks	7	7
	2,722	2,716
Accumulated amortization	(134)	(38)
Total net intangible assets subject to amortization	2,588	2,678
Intangible assets not subject to amortization:		
Trademarks and brands	102	102
Total net other intangible assets	$ 2,690	$ 2,780

(a) During the six months ended March 31, 2012, the Company finalized the allocation of intangible assets on a legal entity basis as of the Closing Date. As a result of the allocation to entities with foreign currencies, the September 30, 2011 balance sheet has been adjusted to reflect the foreign currency translation of these assets since the acquisition date. The aggregate adjustments included a decrease to intangible assets of approximately $40 million, a decrease to deferred income taxes of approximately $9 million and a decrease to Other Comprehensive Income of approximately $31 million, net of tax.

6. Debt

Debt Capitalization

Long-term debt consisted of the following:

	March 31, 2012	September 30, 2011
	(in millions)	
Revolving Credit Facility (a)	$	$
9.5% Existing Secured Notes due 2016 Acquisition Corp (b)	1,157	1,162
9.5% Secured WMG Notes due 2016 Acquisition Corp (c)	156	157
11.5% Unsecured WMG Notes due 2018 Acquisition Corp (d)	749	748
13.75% Holdings Notes due 2019 Holdings (e)	150	150
Total long term debt	$ 2,212	$ 2,217

(a) Reflects $60 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at March 31, 2012. There were no loans outstanding under the Revolving Credit Facility as of March 31, 2012.

(b)

9.5% Existing Secured Notes due 2016; face amount of $1.1 billion plus unamortized premiums of $57 million and $62 million at March 31, 2012 and September 30, 2011, respectively.

(c) 9.5% Secured WMG Notes due 2016; face amount of $150 million plus unamortized premiums of $6 million and $7 million at March 31, 2012 and September 30, 2011, respectively.

(d) 11.5% Unsecured WMG Notes due 2018; face amount of $765 million less unamortized discounts of $16 million and $17 million at March 31, 2012 and September 30, 2011, respectively.

(e) 13.75% Holdings Notes due 2019; face amount of $150 million.

Revolving Credit Facility

In connection with the Merger, Acquisition Corp. (Borrower) entered into a credit agreement for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the Revolving Credit Facility). The Revolving Credit Facility provides for a revolving credit facility in the amount of up to $60 million for general corporate purposes and includes a letter of credit sub-facility. The final maturity of the Revolving Credit Facility is July 19, 2016.

Interest Rates and Fees

Borrowings under the Revolving Credit Facility bear interest at Borrower s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (LIBOR rate), plus 4% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month LIBOR rate plus 1.0% per annum, plus, in each case, 3% per annum. The LIBOR rate shall be deemed to be not less than 1.5%. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.00% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.00% per annum above the amount that would apply to an alternative base rate loan.

The Credit Agreement bears a commitment fee on the unutilized portion equal to 0.50%, payable quarterly in arrears, based on the utilization of the Revolving Credit Facility. The Revolving Credit Facility bears customary letter of credit fees. WMG Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the Credit Agreement, in the amounts and at the times agreed between the relevant parties.

Guarantee; Security

Acquisition Corp. and certain of its domestic subsidiaries entered into a Subsidiary Guaranty, dated as of the Closing Date (the Subsidiary Guaranty) pursuant to which all obligations under the Credit Agreement are guaranteed by Acquisition Corp. s existing subsidiaries that guarantee the Existing Secured Notes and each other direct and indirect wholly owned U.S. subsidiary, other than certain excluded subsidiaries.

All obligations of the Borrower and each guarantor are secured by substantially all assets of the Borrower, Holdings and each subsidiary guarantor to the extent required under the security agreement securing the Existing Secured Notes and the Secured WMG Notes, including a perfected pledge of all the equity interests of the Borrower and of any subsidiary guarantor, mortgages on certain real property and certain intellectual property.

Covenants, Representations and Warranties

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants. There are no financial covenants included in the Revolving Credit Facility, other than a springing leverage ratio, which will be tested only when there are loans outstanding under the Revolving Credit Facility in excess of $5 million (excluding letters of credit).

Existing Secured Notes

Acquisition Corp. issued $1.1 billion aggregate principal amount of its 9.5% Senior Secured Notes due 2016 (the Existing Secured Notes) in 2009. The Existing Secured Notes were issued at 96.289% of their face value for total net proceeds of $1.059 billion, with an effective interest rate of 10.25%. The original issue discount (OID) was $41 million. The OID was equal to the difference between the stated principal amount and the issue price. Following the Merger, in accordance with the acquisition method of accounting described in Note 1, these notes were recorded at fair value. This resulted in the elimination of the predecessor discount and the establishment of a $65 million successor premium based on market data as of the closing date of the Merger. This premium will be amortized using the effective interest rate method and reported as a component within non-cash interest expense. The Existing Secured Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and December 15 of each year at a fixed rate of 9.5% per annum.

Prepayments of the Existing Secured Notes are allowed, subject to certain terms in the indenture governing the Existing Secured Notes, including the prepayment amount and the redemption price, which varies based on the timing of the prepayment. In addition, payment of accrued and unpaid interest also would be required at the time of any prepayment. In the event of a change in control, as defined in the indenture governing the Existing Secured Notes, each holder of the Existing Secured Notes may require Acquisition Corp. to repurchase some or all of its respective Existing Secured Notes at a purchase price equal to 101% plus accrued and unpaid interest.

Ranking and Guarantees

The Existing Secured Notes are senior secured obligations of Acquisition Corp. that rank senior in right of payment to Acquisition Corp. s subordinated indebtedness. The obligations under the Existing Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp. s existing direct or indirect wholly owned U.S. subsidiaries and any such subsidiaries that guarantee other indebtedness of Acquisition Corp. in the future. The Existing Secured Notes are not guaranteed by Holdings. All obligations under the Existing Secured Notes and the guarantees of those obligations are secured by first-priority liens, subject to permitted liens, in the assets of Holdings, Acquisition Corp., and the subsidiary guarantors that previously secured our senior secured credit facility, which consist of the shares of Acquisition Corp., Acquisition Corp. s assets and the assets of the subsidiary guarantors, except for certain excluded assets.

On December 8, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee, on a senior secured basis, the payments of Acquisition Corp. on the Existing Secured Notes.

Covenants, Representations and Warranties

The Existing Secured Notes contain customary representations and warranties and customary affirmative and negative covenants. The indenture for the Existing Secured Notes contains a number of covenants that, among other things limit (subject to

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certain exceptions), the ability of Acquisition Corp. and its restricted subsidiaries to (i) incur additional debt or issue certain preferred shares; (ii) pay dividends on or make distributions in respect of its capital stock or make other restricted payments (as defined in the indenture); (iii) make certain investments; (iv) sell certain assets; (v) create liens on certain debt; (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; (vii) sell or otherwise dispose of its Music Publishing business; (viii) enter into certain transactions with affiliates and (ix) designate its subsidiaries as unrestricted subsidiaries.

Secured WMG Notes

On the Closing Date, WM Finance Corp. issued $150 million aggregate principal amount of 9.5% Senior Secured Notes due 2016 (the Secured WMG Notes) pursuant to the Indenture, dated as of the Closing Date (as amended and supplemented, the Secured WMG Notes Indenture), between the WM Finance Corp. and Wells Fargo Bank, National Association as Trustee (the Trustee). Following the completion of the Merger, Acquisition Corp. and certain of its domestic subsidiaries (the Guarantors) entered into a Supplemental Indenture with the Trustee, pursuant to which (i) Acquisition Corp. became a party to the Indenture and assumed the obligations of the WM Finance Corp. under the Secured WMG Notes and (ii) each Guarantor became a party to the Secured WMG Notes Indenture and provided an unconditional guarantee on a senior secured basis of the obligations of Acquisition Corp. under the Secured WMG Notes.

The Secured WMG Notes were issued at 104.75% of their face value for total proceeds of $157 million, with an effective interest rate of 8.32%. The original issue premium (OIP) was $7 million, which is the difference between the stated principal amount and the issue price. The OIP will be amortized over the term of the Secured WMG Notes using the effective interest rate method and reported as an offset to non cash interest expense. In conjunction with this transaction, the Company incurred $15 million of financing costs which were deferred and will be amortized over the term of the Senior WMG Notes and included as a component within non-cash interest expense. The Secured WMG Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and Dec 15 at a fixed rate of 9.5%.

Prepayments of the Secured WMG Notes are allowed, subject to certain terms in the Secured WMG Notes Indenture, including the prepayment amount and the redemption price, which varies based on the timing of the prepayment. In addition, payment of accrued and unpaid interest also would be required at the time of any prepayment. Upon the occurrence of a change of control, which is defined in the Secured WMG Notes Indenture, each holder of the Secured WMG Notes has the right to require Acquisition Corp. to repurchase some or all of such holder s Secured WMG Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Ranking and Guarantees

The Secured WMG Notes are Acquisition Corp. s senior secured obligations and are secured on an equal and ratable basis with all future indebtedness secured with the same security arrangements as the Secured WMG Notes. The Secured WMG Notes rank senior in right of payment to Acquisition Corp. s subordinated indebtedness, including its existing senior notes; rank equally in right of payment with all of the Company s future senior indebtedness, including indebtedness under any future senior secured credit facility; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp. s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)).

The Secured WMG Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp. s existing direct or indirect wholly owned domestic subsidiaries and by any such subsidiaries that guarantee other indebtedness of Acquisition Corp. in the future.

On December 8, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee, on a senior secured basis, the payments of Acquisition Corp. on the Secured WMG Notes.

Covenants, Representations and Warranties

The Secured WMG Notes Indenture contains covenants limiting, among other things, Acquisition Corp. s ability and the ability of most of its subsidiaries to: incur additional debt or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens on certain debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; sell or otherwise dispose of its Music Publishing business; and enter into certain transactions with its affiliates.

Unsecured WMG Notes

On the Closing Date, the WM Finance Corp. issued $765 million aggregate principal amount of 11.5% Senior Unsecured Notes due 2018 (the Unsecured WMG Notes) pursuant to the Indenture, dated as of the Closing Date (as amended and supplemented, the Unsecured WMG Notes Indenture), between the WM Finance Corp. and Wells Fargo Bank, National Association as Trustee (the Trustee). Following the completion of the Merger, Acquisition Corp. and certain of its domestic subsidiaries (the Guarantors) entered into a Supplemental Indenture with the Trustee, pursuant to which (i) Acquisition Corp. became a party to the Indenture and assumed the obligations of WM Finance Corp. under the Unsecured WMG Notes and (ii) each Guarantor became a party to the Unsecured WMG Notes Indenture and provided an unconditional guarantee of the obligations of Acquisition Corp. under the Unsecured WMG Notes.

The Unsecured WMG Notes were issued at 97.673% of their face value for total proceeds of $747 million, with an effective interest rate of 12%. The OID was $17 million and will be amortized over the term of the Unsecured WMG Notes using the effective interest rate method and reported as non cash interest expense. In conjunction with this transaction, the Company incurred $26 million of financing costs which were deferred and will be amortized over the term of the Unsecured WMG Notes and included as a component within non-cash interest expense. The Unsecured WMG Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 at fixed rate of 11.5%.

Prepayments of the Unsecured WMG Notes are allowed, subject to certain terms in the Unsecured WMG Notes Indenture, including the prepayment amount and the redemption price, which varies based on the timing of the prepayment. In addition, payment of accrued and unpaid interest also would be required at the time of any prepayment. Upon the occurrence of certain events constituting a change of control, Acquisition Corp. is required to make an offer to repurchase all of Unsecured WMG Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest and special interest, if any to the repurchase date.

Ranking and Guarantees

The Unsecured WMG Notes and the related guarantees are Acquisition Corp. s and the guarantors general unsecured senior obligations and rank senior to all their future debt that is expressly subordinated in right of payment to the Unsecured WMG Notes. The Unsecured WMG Notes rank equally with all of Acquisition Corp. s existing and future liabilities that are not so subordinated, effectively subordinated to all of Acquisition Corp. s and the guarantors existing and future secured indebtedness to the extent of the assets securing that indebtedness, including the Secured WMG Notes, indebtedness under the Revolving Credit Facility and the Existing Secured Notes, and are structurally subordinated to all of the liabilities of Acquisition Corp. s subsidiaries that do not guarantee the Unsecured WMG Notes, to the extent of the assets of those subsidiaries.

The Unsecured WMG Notes are guaranteed, on a senior unsecured basis, by substantially all of Acquisition Corp. s subsidiaries that guarantee the Revolving Credit Facility, Existing Secured Notes and Secured WMG Notes.

On December 8, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee, on a senior unsecured basis, the payments of Acquisition Corp. on the Unsecured WMG Notes.

Covenants, Representations and Warranties

The Unsecured WMG Notes Indenture contains covenants that, among other things, limit Acquisition Corp. s ability and the ability of most of its subsidiaries to: incur additional debt or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to Acquisition Corp. or make certain other intercompany transfers; sell certain assets; create liens on certain debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

Exchange Offer

In connection with the issuance of the Unsecured WMG Notes, Acquisition Corp. entered into a registration rights agreement relating to the Unsecured WMG Notes, pursuant to which Acquisition Corp. agreed to use its commercially reasonable efforts to file, and did initially file on January 25, 2012, a registration statement with the SEC (as amended, the WMG Exchange Offer Registration Statement), to permit holders to exchange the Unsecured WMG Notes (the Old Unsecured WMG Notes) for registered notes with terms substantially identical to the Old Unsecured WMG Notes, except the exchange notes would not contain certain terms with respect to the payment of additional interest or transfer restrictions. On March 16, 2012, the WMG Exchange Offer Registration Statement was declared effective by the SEC, and Acquisition Corp. completed the exchange offer on April 25, 2012. On the settlement date, Acquisition Corp. accepted for exchange $708 million aggregate principal amount of Old Unsecured WMG Notes.

Senior Holdings Notes

On the Closing Date, the Initial Holdings Issuer issued $150 million aggregate principal amount of the 13.75% Senior Notes due 2019 (the Holdings Notes) pursuant to the Indenture, dated as of the Closing Date (as amended and supplemented, the Holdings Notes Indenture), between the Initial Holdings Issuer and Wells Fargo Bank, National Association as Trustee (the Trustee). Following the completion of the Merger, Holdings entered into a Supplemental Indenture with the Trustee, pursuant to which Holdings became a party to the Indenture and assumed the obligations of the Initial Holdings Issuer under the Holdings Notes.

The Holdings Notes were issued at 100% of their face value. In conjunction with this transaction, the Company incurred $8 million of financing costs which were deferred and will be amortized on over the term of the Holdings Notes and included as a component within non-cash interest expense. The Holdings Notes mature on October 1, 2019 and bear interest payable semi-annually on April 1 and October 1 at fixed rate of 13.75%.

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Prepayments of the Holdings Notes are allowed, subject to certain terms in the Holdings Notes Indenture, including the prepayment amount and the redemption price, which varies based on the timing of the prepayment. In addition, payment of accrued and unpaid interest also would be required at the time of any prepayment. Upon the occurrence of certain events constituting a change of control, Holdings is required to make an offer to repurchase all of the Holdings Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

Ranking and Guarantees

The Holdings Notes are Holdings general unsecured senior obligations and rank senior to all its future debt that is expressly subordinated in right of payment to the Holdings Notes. The Holdings Notes rank equally with all of Holdings existing and future liabilities that are not so subordinated, are structurally subordinated to all of the liabilities of Holdings subsidiaries, to the extent of the assets of those subsidiaries, and are effectively junior to the Secured WMG Notes, the Existing Secured Notes and indebtedness under the Revolving Credit Facility to the extent of the value of Holdings assets subject to liens securing such indebtedness.

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

Covenants, Representations and Warranties

The Holdings Notes Indenture contains covenants that, among other things, limit Holdings ability and the ability of most of its subsidiaries to: incur additional debt or issue certain preferred shares; create liens on certain debt; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to Holdings or make certain other intercompany transfers; sell certain assets; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates.

Exchange Offer

In connection with the issuance of the Holdings Notes, Holdings entered into a registration rights agreement relating to the Holdings Notes, pursuant to which Holdings agreed to use its commercially reasonable efforts to file, and did initially file on January 25, 2012, a registration statement with the SEC (as amended, the Holdings Exchange Offer Registration Statement), to permit holders to exchange the Holdings Notes (the Old Holdings Notes) for registered notes with terms substantially identical to the Old Holdings Notes, except the exchange notes would not contain certain terms with respect to the payment of additional interest or transfer restrictions. On March 16, 2012, the Holdings Exchange Offer Registration Statement was declared effective by the SEC, and Holdings completed the exchange offer on April 25, 2012. On the settlement date, Holdings accepted for exchange $81.475 million aggregate principal amount of Old Holdings Notes.

Maturities

As of March 31, 2012, there are no scheduled maturities of long-term debt until 2016 ($1.250 billion). Thereafter, $915 million is scheduled to mature. In addition, the final maturity of the Revolving Credit Facility is July 19, 2016.

Interest Expense

Total interest expense, net was $56 million and $47 million for the three months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor), respectively, and $113 million and $94 million for the six months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor), respectively. The weighted-average interest rate of the Company s total debt was 10.5% for the three and six months ended March 31, 2012 (Successor) and 8.9% for the three and six months ended March 31, 2011 (Predecessor).

7. Share-based Compensation

In connection with the Merger, the vesting of all outstanding unvested Predecessor options and certain unvested restricted stock awards was accelerated immediately prior to closing. As a result of the acceleration there were no outstanding equity awards of the Company as of July 20, 2011 and thereafter.

In total, the Company recognized non-cash compensation expense related to its stock-based compensation plans of $5 million and $7 million for the three and six months ended March 31, 2011 (Predecessor), respectively. As there were no outstanding equity awards subsequent to July 20, 2011 the Company did not recognize any non-cash compensation expense for the three and six months ended March 31, 2012.

8. Commitments and Contingencies

The Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, it continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including its brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on its results of operations for a given reporting period.

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain, for the class of Internet Music purchasers. The parties have filed amended pleadings complying with the court s order, and the case is proceeding into discovery, which is currently scheduled to be substantially completed by May 31, 2012. The parties are scheduled to confer at the end of August 2012 on a class certification briefing schedule, for a determination by the District Court as to whether class treatment is appropriate. The case will proceed into discovery, based on a schedule to be determined by the District Court. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management.

Music Download Putative Class Action Suits

Five putative class action lawsuits have been filed against the Company in Federal Court in the Northern District of California. The lawsuits, which were brought by various recording artists, all allege that the Company has improperly calculated the royalties due them for certain digital music sales under the terms of their recording contracts. The named plaintiffs purport to raise these claims on their own behalf and, as a putative class action, on behalf of other similarly situated artists. Plaintiffs base their claims on a previous ruling that held another recorded music company had breached the specific recording contracts at issue in that case through its payment of royalties for music downloads and ringtones. In the wake of that ruling, a number of recording artists have initiated suits seeking similar relief against all of the major record companies. Here too, plaintiffs seek to have the interpretation of the contracts in that prior case applied to their different and separate contracts.

On April 10, 2012, the Company filed a motion to dismiss various claims in one of the lawsuits, with the intention of filing similar motions in the remaining suits, on the various applicable response dates. Meanwhile, certain plaintiffs counsel moved to be appointed as interim lead counsel, and other plaintiffs counsel moved to consolidate the various actions. On April 23, 2012, the court issued an order setting out a more orderly process for dealing with the various cases. It set May 24, 2012 for a Case Management Conference for all five actions, and set the same day as the hearing date for the Plaintiffs various outstanding motions. In addition, the Court removed the Company s motion to dismiss from the calendar, with new dates to be set on or after May 24, 2012.

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No other dates have been set in the litigation. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management.

Final Settlement of Class Actions Related to the Merger

The Company awaits a decision on the application for approval by the Supreme Court for the State of New York of the previously disclosed settlement of the claims filed against, inter alia, the Company and its directors in 2011 on behalf of a class of the Company s shareholders in the action entitled Cournoyer v. Warner Music Group Corp. et al., Index No. 651367/2011 (the Cournoyer Action). The Cournoyer Action, as well as two related actions, were brought in connection with the Merger.

As previously disclosed, the settlement did not involve any monetary payment to the class of shareholders. Instead, the Company agreed to publicly disclose additional information about the Merger in a filing that it made with the SEC on June 13, 2011.

9. Derivative Financial Instruments

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

The Company enters into FX Contracts primarily to hedge its royalty payments and balance sheet items denominated in foreign currency. The Company applies hedge accounting to FX Contracts for cash flows related to royalty payments. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are recognized in Other Comprehensive Income (OCI) for unrealized items and recognized in earnings for realized items. The Company elects to not apply hedge accounting to foreign currency exposures related to balance sheet items. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are immediately recognized in earnings. Fair value is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 12.

Netting provisions are provided for in existing International Swap and Derivative Association Inc. (ISDA) agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company s consolidated balance sheets. The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

Interest Rate Risk Management

The Company has $2.212 billion of debt outstanding at March 31, 2012. Based on the level of interest rates prevailing at March 31, 2012, the fair value of this fixed-rate debt was approximately $2.351 billion. The fair value of the Company s debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would increase or decrease the fair value of the fixed-rate debt by approximately $14 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

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

Foreign Currency Risk Management

Historically, the Company has used, and continues to use, foreign exchange forward contracts and foreign exchange options primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. In addition, the Company currently hedges foreign currency risk associated with financing transactions such as third-party and inter-company debt and other balance sheet items.

For royalty related hedges, the Company records foreign exchange contracts at fair value on its balance sheet and the related gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income, and have been immaterial. For hedges of financing transactions and other balance sheet items, hedge gains and losses are taken directly to the statement of operations since there is an equal and offsetting statement of operations entry related to the underlying exposure. Gains and losses on foreign exchange contracts generally are included as a component of other income (expense), net, in the Company s consolidated statement of operations.

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As of March 31, 2012, the Company had outstanding hedge contracts for the sale of $263 million and the purchase of $15 million of foreign currencies at fixed rates. As of March 31, 2012, there was no material impact to the Company s comprehensive loss related to foreign exchange hedging. As of September 30, 2011, the Company had outstanding hedge contracts for the sale of $211 million and the purchase of $37 million of foreign currencies at fixed rates. As of September 30, 2011, the Company had $3 million of deferred losses in comprehensive loss related to foreign exchange hedging.

10. Segment Information

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

The accounting policies of the Company s business segments are the same as those described in the summary of significant accounting policies included in the Company s Annual Report on Form 10-K for the twelve months ended September 30, 2011. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While inter-company transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, therefore, do not themselves impact the consolidated results. Segment information consists of the following:

Three Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2012 (Successor)				
Revenues	$ 503	$ 128	$ (3)	$ 628
OIBDA	48	54	(17)	85
Depreciation expense	(7)	(2)	(4)	(13)
Amortization expense	(34)	(16)		(50)
Operating income (loss)	$ 7	$ 36	$ (21)	$ 22
March 31, 2011 (Predecessor)				
Revenues	$ 552	$ 137	$ (5)	$ 684
OIBDA	54	50	(22)	82
Depreciation expense	(7)	(1)	(3)	(11)
Amortization expense	(37)	(18)		(55)
Operating income (loss)	$ 10	$ 31	$ (25)	$ 16

Six Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2012 (Successor)				
Revenues	$ 1,164	$ 251	$ (8)	$ 1,407
OIBDA	150	72	(38)	184
Depreciation expense	(15)	(3)	(7)	(25)
Amortization expense	(67)	(31)		(98)
Operating income (loss)	$ 68	$ 38	$ (45)	$ 61

March 31, 2011 (Predecessor)				
Revenues	$ 1,214	$ 257	$ (9)	$ 1,462
OIBDA	144	68	(40)	172
Depreciation expense	(13)	(2)	(5)	(20)
Amortization expense	(74)	(35)		(109)
Operating income (loss)	$ 57	$ 31	$ (45)	$ 43

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11. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $79 million and $88 million during the six months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor), respectively. The Company paid approximately $24 million and $10 million of income and withholding taxes, net of refunds, during the six months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor), respectively. The $24 million of cash tax payments during the six months ended March 31, 2012 (Successor) includes a $15 million payment relating to the settlement of an income tax audit in Germany. This payment was fully reimbursed to the Company by Time Warner Inc. under the terms of the 2004 acquisition of substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc.

12. Fair Value Measurements

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

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

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

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

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

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company s financial instruments that are required to be measured at fair value as of March 31, 2012 and September 30, 2011. Derivatives not designated as hedging instruments represent the balances in other current assets and other current liabilities below and the gains and losses on these financial instruments are included as a component of other income, net in the statement of operations.

	Fair Value Measurements as of March 31, 2012			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 1	$	$ 1
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (3)	$	$ (3)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (13)	$ (13)

	Fair Value Measurements as of September 30, 2011			
	(Level 1)	(Level 2)	(Level 3)	Total

	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 9	$	$ 9
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (3)	$	$ (3)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (13)	$ (13)

(a) The fair value of the foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

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

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

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the Holdings Notes). In addition, Acquisition Corp. has issued and outstanding two separate series of 9.5% Senior Secured Notes due 2016 (the Secured WMG Notes and the Existing Secured Notes and together the Secured WMG Notes) and the 11.5% Senior Unsecured Notes due 2018 (the Unsecured WMG Notes) (together, the Acquisition Corp. Notes).

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

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

The Company and Holdings are holding companies that conduct substantially all of their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from their subsidiaries is restricted by the indentures for the Existing Secured Notes, the Secured WMG Notes, the Unsecured WMG Notes and the Acquisition Corp. Revolving Credit Facility, and, with respect to the Company, the indenture for the Holdings Notes.

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Assets:									
Current assets:									
Cash and equivalents	$ 44	$ 75	$ 143	$	$ 262	$ 10	$	$	$ 272
Accounts receivable, net		147	159		306				306
Inventories		10	17		27				27
Royalty advances expected to be recouped within one year		75	54		129				129
Deferred tax assets		38	16		54				54
Other current assets		5	45		50				50
Total current assets	44	350	434		828	10			838
Royalty advances expected to be recouped after one year		92	66		158				158
Investments in and advances to (from) consolidated subsidiaries	3,288	641		(3,929)		1,061	1,311	(2,372)	
Property, plant and equipment, net		128	44		172				172
Goodwill		1,371	5		1,376				1,376
Intangible assets subject to amortization, net		1,119	1,469		2,588				2,588
Intangible assets not subject to amortization		92	10		102				102
Due (to) from parent companies	(1,319)	(2,025)	(649)	3,916	(77)	393	(316)		
Other assets	37	14	12		63	7			70
Total assets	$ 2,050	$ 1,782	$ 1,391	$ (13)	$ 5,210	$ 1,471	$ 995	$ (2,372)	$ 5,304

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	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Liabilities and (Deficit) Equity:									
Current liabilities:									
Accounts payable	$	$ 85	$ 58	$	$ 143	$	$	$	$ 143
Accrued royalties		615	389		1,004				1,004
Accrued liabilities		84	118		202				202
Accrued interest	79				79	10			89
Deferred revenue		39	63		102				102
Other current liabilities		3			3				3
Total current liabilities	79	826	628		1,533	10			1,543
Long-term debt	2,062				2,062	150			2,212
Deferred tax liabilities		169	232		401				401
Other noncurrent liabilities	12	46	71	7	136				136
Total liabilities	2,153	1,041	931	7	4,132	160			4,292
Total Warner Music Group Corp. (deficit) equity	(103)	741	443	(20)	1,061	1,311	995	(2,372)	995
Noncontrolling interest			17		17				17
Total (deficit) equity	(103)	741	460	(20)	1,078	1,311	995	(2,372)	1,012
Total liabilities and (deficit) equity	$ 2,050	$ 1,782	$ 1,391	$ (13)	$ 5,210	$ 1,471	$ 995	$ (2,372)	$ 5,304

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

September 30, 2011

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Assets:									
Current assets:									
Cash and equivalents	$ 17	$ 61	$ 72	$	$ 150	$ 4	$	$	$ 154
Accounts receivable, net	9	178	198		385				385
Inventories		11	18		29				29
Royalty advances expected to be recouped within one year		80	55		135				135
Deferred tax assets		38	16		54				54
Other current assets		23	22		45				45
Total current assets	26	391	381		798	4			802
Royalty advances expected to be recouped after one year		106	67		173				173
Investments in and advances to (from) consolidated subsidiaries	3,203	419		(3,622)		1,130	1,371	(2,501)	
Property, plant and equipment, net		136	46		182				182
Goodwill		1,372			1,372				1,372
Intangible assets subject to amortization, net		1,252	1,426		2,678				2,678
Intangible assets not subject to amortization		92	10		102				102
Due (to) from parent companies	(1,200)	(1,951)	(556)	3,630	(77)	383	(306)		
Other assets	40	9	14		63	8			71
Total assets	$ 2,069	$ 1,826	$ 1,388	$ 8	$ 5,291	$ 1,525	$ 1,065	$ (2,501)	$ 5,380

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	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Liabilities and (Deficit) Equity:									
Current liabilities:									
Accounts payable	$	$ 88	$ 77	$	$ 165	$	$	$	$ 165
Accrued royalties		586	388		974				974
Accrued liabilities		98	119		217				217
Accrued interest	51				51	4			55
Deferred revenue		46	55		101				101
Other current liabilities		7	3		10				10
Total current liabilities	51	825	642		1,518	4			1,522
Long-term debt	2,067				2,067	150			2,217
Deferred tax liabilities		169	242		411				411
Other noncurrent liabilities	6	60	76	6	148				148
Total liabilities	2,124	1,054	960	6	4,144	154			4,298
Total Warner Music Group Corp. (deficit) equity	(55)	772	411	2	1,130	1,371	1,065	(2,501)	1,065
Noncontrolling interest			17		17				17
Total (deficit) equity	(55)	772	428	2	1,147	1,371	1,065	(2,501)	1,082
Total liabilities and (deficit) equity	$ 2,069	$ 1,826	$ 1,388	$ 8	$ 5,291	$ 1,525	$ 1,065	$ (2,501)	$ 5,380

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2012 (Successor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
				(in millions)					
Revenues	$	$ 312	$ 374	$ (58)	$ 628	$	$	$	$ 628
Costs and expenses:									
Cost of revenues		(163)	(211)	51	(323)				(323)
Selling, general and administrative expenses		(112)	(128)	7	(233)				(233)
Amortization expense		(46)	(4)		(50)				(50)
Total costs and expenses		(321)	(343)	58	(606)				(606)
Operating (loss) income		(9)	31		22				22
Interest (expense) income, net	(49)	2	(4)		(51)	(5)			(56)
Equity gains (losses) from consolidated subsidiaries	23	(14)		(9)		(31)	(36)	67	
Other (expense) income, net	(1)	(33)	36		2				2
(Loss) income before income taxes	(27)	(54)	63	(9)	(27)	(36)	(36)	67	(32)
Income tax (expense) benefit	(2)	(1)	1		(2)				(2)
Net (loss) income	(29)	(55)	64	(9)	(29)	(36)	(36)	67	(34)
Less: income attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp	$ (29)	$ (55)	$ 62	$ (9)	$ (31)	$ (36)	$ (36)	$ 67	$ (36)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2011 (Predecessor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 334	$ 395	$ (45)	$ 684	$	$	$	$ 684
Costs and expenses:									
Cost of revenues		(170)	(229)	40	(359)				(359)
Selling, general and administrative expenses		(94)	(159)	1	(252)				(252)
Transaction costs		(2)			(2)				(2)
Amortization expense		(33)	(22)		(55)				(55)
Total costs and expenses		(299)	(410)	41	(668)				(668)
Operating income (loss)		35	(15)	(4)	16				16
Interest (expense) income, net	(39)	1	(3)		(41)	(6)			(47)
Equity gains (losses) from consolidated subsidiaries	16	(23)		7		(32)	(38)	70	
Other (expense) income, net	(1)	1	(1)		(1)				(1)
(Loss) income before income taxes	(24)	14	(19)	3	(26)	(38)	(38)	70	(32)
Income tax (expense) benefit	(7)	(7)	(3)	10	(7)				(7)
Net (loss) income	(31)	7	(22)	13	(33)	(38)	(38)	70	(39)
Less: loss attributable to noncontrolling interest			$ 1		1				1
Net (loss) income attributable to Warner Music Group Corp	$ (31)	$ 7	$ (21)	$ 13	$ (32)	$ (38)	$ (38)	$ 70	$ (38)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2012 (Successor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 645	$ 869	$ (107)	$ 1,407	$	$	$	$ 1,407
Costs and expenses:									
Cost of revenues		(328)	(514)	95	(747)				(747)
Selling, general and administrative expenses		(236)	(277)	12	(501)				(501)
Amortization expense		(61)	(37)		(98)				(98)
Total costs and expenses		(625)	(828)	107	(1,346)				(1,346)
Operating income		20	41		61				61
Interest (expense) income, net	(98)	3	(7)		(102)	(11)			(113)
Equity gains (losses) from consolidated subsidiaries	58	(27)		(31)		(51)	(62)	113	
Other (expense) income, net		(9)	9						
(Loss) income before income taxes	(40)	(13)	43	(31)	(41)	(62)	(62)	113	(52)
Income tax (expense) benefit	(8)	(8)	(1)	9	(8)				(8)
Net (loss) income	(48)	(21)	42	(22)	(49)	(62)	(62)	113	(60)
Less: income attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp	$ (48)	$ (21)	$ 40	$ (22)	$ (51)	$ (62)	$ (62)	$ 113	$ (62)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2011 (Predecessor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 642	$ 910	$ (90)	$ 1,462	$	$	$	$ 1,462
Costs and expenses:									
Cost of revenues		(317)	(553)	80	(790)				(790)
Selling, general and administrative expenses		(183)	(347)	12	(518)				(518)
Transaction costs		(2)			(2)				(2)
Amortization expense		(65)	(44)		(109)				(109)
Total costs and expenses		(567)	(944)	92	(1,419)				(1,419)
Operating income (loss)		75	(34)	2	43				43
Interest (expense) income, net	(78)	2	(6)		(82)	(12)			(94)
Equity gains (losses) from consolidated subsidiaries	43	(26)		(17)		(43)	(55)	98	
Other income (expense), net		2	(3)		(1)				(1)
(Loss) income before income taxes	(35)	53	(43)	(15)	(40)	(55)	(55)	98	(52)
Income tax (expense) benefit	(4)	(6)	(5)	11	(4)		(1)		(5)
Net (loss) income	(39)	47	(48)	(4)	(44)	(55)	(56)	98	(57)
Less: loss attributable to noncontrolling interest			1		1				1
Net (loss) income attributable to Warner Music Group Corp	$ (39)	$ 47	$ (47)	$ (4)	$ (43)	$ (55)	$ (56)	$ 98	$ (56)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2012 (Successor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities:									
Net (loss) income	$ (48)	$ (21)	$ 42	$ (22)	$ (49)	$ (62)	$ (62)	$ 113	$ (60)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization expense		79	44		123				123
Deferred income taxes			(9)		(9)				(9)
Non-cash interest expense	(1)				(1)				(1)
Non-cash, share-based compensation expense									
Equity (gains) losses from consolidated subsidiaries	(58)	27	(1)	32		51	62	(113)	
Changes in operating assets and liabilities:									
Accounts receivable	8	32	36		76				76
Inventories		1	1		2				2
Royalty advances		20	1		21				21
Accounts payable and accrued liabilities	60	(106)	(14)	(2)	(62)				(62)
Royalties payable		29	(3)		26				26
Accrued interest	28				28	6			34
Other balance sheet changes	38	(23)	(12)	(8)	(5)	1			(4)

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	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net cash provided by (used in) operating activities	27	38	85		150	(4)			146
Cash flows from investing activities:									
Investments and acquisitions of businesses			(5)		(5)				(5)
Acquisition of publishing rights		(6)	(7)		(13)				(13)
Proceeds from the sale of music catalog		2			2				2
Capital expenditures		(10)	(3)		(13)				(13)
Net cash used in investing activities		(14)	(15)		(29)				(29)
Cash flows from financing activities:									
Dividend by Acquisition Corp. to Holdings Corp.		(10)			(10)	10			
Distributions to noncontrolling interest holders			(2)		(2)				(2)
Net cash (used in) provided by financing activities		(10)	(2)		(12)	10			(2)
Effect of foreign currency exchange rate changes on cash			3		3				3
Net increase in cash and equivalents	27	14	71		112	6			118
Cash and equivalents at beginning of period	17	61	72		150	4			154
Cash and equivalents at end of period	$ 44	$ 75	$ 143	$	$ 262	$ 10	$	$	$ 272

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2011 (Predecessor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities:									
Net (loss) income	$ (39)	$ 47	$ (48)	$ (4)	$ (44)	$ (55)	$ (56)	$ 98	$ (57)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization expense		79	50		129				129
Deferred income taxes			(8)		(8)				(8)
Non-cash interest expense	6				6				6
Non-cash, share-based compensation expense		7			7				7
Equity (gains) losses from consolidated subsidiaries	(43)	26		17		43	55	(98)	
Other non-cash items		(1)			(1)				(1)
Changes in operating assets and liabilities:									
Accounts receivable	(1)	33	73		105				105
Inventories		3	4		7				7
Royalty advances		(25)	(10)		(35)				(35)
Accounts payable and accrued liabilities	75	(209)	(11)	(9)	(154)				(154)
Royalties payable		20	(36)		(16)				(16)
Accrued interest	1				1				1
Other balance sheet changes	1	4	7	(4)	8	12	(11)		9

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	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net cash (used in) provided by operating activities		(16)	21		5		(12)		(7)
Cash flows from investing activities:									
Investments and acquisitions of businesses			(57)		(57)				(57)
Acquisition of publishing rights		(33)	(14)		(47)				(47)
Capital expenditures		(16)	(6)		(22)				(22)
Net cash used in investing activities		(49)	(77)		(126)				(126)
Cash flows from financing activities:									
Distributions to noncontrolling interest holders			(1)		(1)				(1)
Net cash used in financing activities			(1)		(1)				(1)
Effect of foreign currency exchange rate changes on cash			14		14				14
Net decrease in cash and equivalents		(65)	(43)		(108)		(12)		(120)
Cash and equivalents at beginning of period		135	128		263		176		439
Cash and equivalents at end of period	$	$ 70	$ 85	$	$ 155	$	$ 164	$	$ 319

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 (the Quarterly Report).

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar te Such statements include, among others, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry s efforts to combat piracy on the industry, our intention to pay dividends or repurchase our outstanding notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, the impact on the competitive landscape of the music industry from the announced sale of EMI s recorded music and music publishing businesses, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

- litigation in respect of the Merger;
- reduced access to capital markets as the result of the delisting of the our common stock on the New York Stock Exchange following consummation of the Merger;
- the impact of our substantial leverage, including the increase associated with additional indebtedness incurred in connection with the Merger and the transactions related to the Merger, on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- our ability to achieve expected or targeted cost savings following consummation of the Merger;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;

the threat posed to our business by piracy of music by means of home CD-R activity, Internet peer-to-peer filesharing and sideloading of unauthorized content;

the significant threat posed to our business and the music industry by organized industrial piracy;

the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;

the diversity and quality of our portfolio of songwriters;

the diversity and quality of our album releases;

significant fluctuations in our results of operations and cash flows due to the nature of our business;

our involvement in intellectual property litigation;

the possible downward pressure on our pricing and profit margins;

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our ability to continue to enforce our intellectual property rights in digital environments;

the ability to develop a successful business model applicable to a digital environment and to enter into expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music business;

the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;

risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;

the impact of legitimate music distribution on the Internet or the introduction of other new music distribution formats;

the reliance on a limited number of online music stores and their ability to significantly influence the pricing structure for online music stores;

the impact of rate regulations on our Recorded Music and Music Publishing businesses;

the impact of rates on other income streams that may be set by arbitration proceedings on our business;

the impact an impairment in the carrying value of goodwill or other intangible and long-lived assets could have on our operating results and shareholders deficit;

risks associated with the fluctuations in foreign currency exchange rates;

our ability and the ability of our joint venture partners to operate our existing joint ventures satisfactorily;

the enactment of legislation limiting the terms by which an individual can be bound under a personal services contract;

potential loss of catalog if it is determined that recording artists have a right to recapture recordings under the U.S. Copyright Act;

changes in law and government regulations;

trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);

the growth of other products that compete for the disposable income of consumers;

the impact on the competitive landscape of the music industry from the announced sale of EMI s recorded music and music publishing businesses;

risks inherent in relying on one supplier for manufacturing, packaging and distribution services in North America and parts of Europe;

risks inherent in our acquiring or investing in other businesses including our ability to successfully manage new businesses that we may acquire as we diversify revenue streams within the music industry;

the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost savings;

the fact that we are outsourcing certain back-office functions, such as IT infrastructure and development and certain finance and accounting functions, which will make us more dependent upon third parties;

the possibility that our owner s interests will conflict with ours or yours; and

failure to attract and retain key personnel.

There may be other factors not presently known to us or which we currently consider to be immaterial that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We disclaim any duty to publicly update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

INTRODUCTION

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

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger).

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On the Closing Date, in connection with the Merger, each outstanding share of common stock of the Company (other than any shares owned by the Company or its wholly owned subsidiaries, or by Parent and its affiliates, or by any stockholders who were entitled to and who properly exercised appraisal rights under Delaware law, and shares of unvested restricted stock granted under the Company s equity plan) was cancelled and converted automatically into the right to receive $8.25 in cash, without interest and less applicable withholding taxes (collectively, the Merger Consideration).

On the Closing Date, the Company notified the New York Stock Exchange, Inc. (the NYSE) of its intent to remove the Company s common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company s common stock from the NYSE. On July 21, 2011, in accordance with the Company s request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company s common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On August 2, 2011, the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. The Company has continued to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing the Company s outstanding indebtedness. Additionally, the Company filed two exchange offer registration statements with the SEC in connection with the registration of its guarantee of the 11.50% Senior Notes due 2018 issued by Acquisition Corp. and the 13.75% Senior Notes due 2019 issued by Holdings, both of which became effective on March 16, 2012. As a result, the Company is currently required to file reports pursuant to Section 15(d) of the Exchange Act. The Company has included condensed consolidating financial information as a condition to omitting separate financial statements for Acquisition Corp. and Holdings under Section 15(d) of the Exchange Act as permitted by Rule 3-10 of Regulation S-X.

Parent funded the Merger Consideration through cash on hand at the Company at closing, equity financing obtained from Parent and debt financing obtained from third party lenders.

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

Management s discussion and analysis of results of operations and financial condition (MD&A) is provided as a supplement to the unaudited financial statements and footnotes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

Overview. This section provides a general description of our business, as well as recent developments that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.

Results of operations. This section provides an analysis of our results of operations for the three and six months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor). This analysis is presented on both a consolidated and segment basis.

Financial condition and liquidity. This section provides an analysis of our cash flows for the six months ended March 31, 2012 (Successor) and March 31, 2011 (Predecessor) as well as a discussion of our financial condition and liquidity as of March 31, 2012. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

Overall Operating Results

In accordance with United States Generally Accepted Accounting Principles (GAAP), we have separated our historical financial results for the three and six months ended March 31, 2012 (Successor) and for the three and six months ended March 31, 2011 (Predecessor). Successor and Predecessor periods are presented on different bases and are, therefore, not comparable.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets, non-cash amortization of intangible assets and non-cash impairment charges to reduce the carrying value of goodwill and intangible assets (which we refer to as OIBDA). We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses, including the ability to provide cash flows to service debt. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income, net loss attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with U.S. GAAP. In addition, our definition of OIBDA may differ from similarly titled measures used by other companies. A reconciliation of consolidated historical OIBDA to operating income and net income (loss) attributable to Warner Music Group Corp. is provided in our Results of Operations.

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See Factors Affecting Results of Operations and Financial Condition and Results of Operations below for further discussion of these items.

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year results using current-year foreign currency exchange rates. However, a limitation of the use of the constant-currency results as a performance measure is that it does not reflect the impact of exchange rates on our revenue, including, for example, the $6 million, $4 million, and $1 million unfavorable impacts of exchange rates on our Total, Recorded Music, and Music Publishing Revenues, respectively, in the three months ended March 31, 2012 compared to the prior-year quarter and the $1 million unfavorable impact of exchange rates on our Total and Music Publishing Revenues in the six months ended March 31, 2012 compared to the prior-year period. We generally refer to such amounts calculated on a constant-currency basis as excluding the impact of foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

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

Recorded Music Operations

Our Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists.

We are also diversifying our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, we provide services to and participate in artists activities outside the traditional recorded music business. We have built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands we help create. In developing our artist services business, we have both built and expanded in-house capabilities and expertise and have acquired a number of existing artist services companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, concert promotion, fan club, original programming and video entertainment.

We believe that entering into expanded-rights deals and enhancing our artist services capabilities will permit us to diversify revenue streams to better capitalize on the growth areas of the music industry and permit us to build stronger long-term relationships with artists and more effectively connect artists and fans.

In the U.S., our Recorded Music operations are conducted principally through our major record labels Warner Bros. Records and the Atlantic Records Group. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations and re-issuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. Rhino has also become our primary licensing division focused on acquiring broader licensing rights from certain catalog recording artists. For example, we have an exclusive license with The Grateful Dead to manage the band s intellectual property and in November 2007 we acquired a 50% interest in Frank Sinatra Enterprises, an entity that administers licenses for use of Frank Sinatra s name and likeness and manages all aspects of his music, film and stage content. We also conduct our Recorded Music operations through a collection of additional record labels, including, among others, Asylum, East West, Elektra, Nonesuch, Reprise, Roadrunner, Rykodisc, Sire and Word.

Outside the U.S., our Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees, which we sometimes refer to collectively as Warner Music International, or WMI. WMI engages in the same activities as our U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom our domestic record labels have international rights. In certain smaller markets, WMI licenses to unaffiliated third-party record labels the right to distribute its records. Our international artist services operations also include a network of concert promoters through which WMI provides resources to coordinate tours.

Our Recorded Music distribution operations include: WEA Corp., which markets and sells music and DVD products to retailers and wholesale distributors in the U.S.; ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally; an 80% interest in Word Entertainment, which specializes in the distribution of music products in the Christian retail marketplace; and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

We play an integral role in virtually all aspects of the music value chain from discovering and developing talent to producing albums and promoting artists and their products. After an artist has entered into a contract with one of our record labels, a master recording of the artist s music is created. The recording is then replicated for sale to consumers primarily in CD and digital formats. In the U.S., WEA Corp., ADA and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to record stores, mass merchants and other retailers. Our recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint. We also sell recorded music products through other digital distribution channels such as streaming and subscription services. In the case of expanded-rights deals where we acquire broader rights in a recording artist s career, we may provide more comprehensive career support and actively develop new opportunities for an artist through touring, fan clubs, merchandising and sponsorships, among other areas. We believe expanded-rights deals create a better partnership with our artists, which allows us to work together more closely with them to create and sustain artistic and commercial success.

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. Our new media executives work closely with A&R departments to make sure that while a record is being made, digital assets are also created with all distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. We also work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for the next several years and will provide new opportunities to monetize our assets and create new revenue streams. As a music-based content company, we have assets that go beyond our recorded music and music publishing catalogs, such as our music video library, which we have begun to monetize through digital channels. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is still in the relatively early stages of growth, proportions may change as the roll out of new technologies continues. As an owner of musical content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

Recorded Music revenues are derived from three main sources:

- *Physical and other*: the rightsholder receives revenues with respect to sales of physical products such as CDs and DVDs. We are also diversifying our revenues beyond sales of physical products and receive other revenues from our artist services business and our participation in expanded rights associated with our artists and other artists, including sponsorship, fan club, artist websites, merchandising, touring, ticketing and artist and brand management;
- *Digital*: the rightsholder receives revenues with respect to online and mobile downloads, mobile ringtones or ringback tones and online and mobile streaming; and
- *Licensing:* the rightsholder receives royalties or fees for the right to use the sound recording in combination with visual images such as in films or television programs, television commercials and videogames.

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

- *Royalty costs and artist and repertoire costs* the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions, (ii) signing and developing artists, (iii) creating master recordings in the studio and (iv) creating artwork for album covers and liner notes;
- *Product costs* the costs to manufacture, package and distribute product to wholesale and retail distribution outlets as well as those principal costs related to expanded rights;
- *Selling and marketing costs* the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and

General and administrative costs the costs associated with general overhead and other administrative costs.

Music Publishing Operations

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

Our music publishing operations include Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. In January 2011, the Company acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark

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Entertainment, Disney Music Publishing and Turner Music Publishing. In 2007, we entered the production music library business with the acquisition of Non-Stop Music and further expanded our production music operations with the acquisitions of Groove Addicts Production Music Library and Carlin Recorded Music Library in 2010 and 615 Music in 2011, collectively branded as Warner/Chappell Production Music.

Publishing revenues are derived from five main sources:

- *Mechanical:* the licensor receives royalties with respect to compositions embodied in recordings sold in any physical format or configuration (*e.g.*, CDs and DVDs);
- *Performance:* the licensor receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, live performance at a concert or other venue (*e.g.*, arena concerts, nightclubs), online and mobile streaming and performance of music in staged theatrical productions;
- *Synchronization:* the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise;
- *Digital:* the licensor receives royalties or fees with respect to online and mobile downloads, mobile ringtones and online and mobile streaming; and
- *Other:* the licensor receives royalties for use in sheet music.

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

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

Factors Affecting Results of Operations and Financial Condition

Market Factors

Since 1999, the recorded music industry has been unstable and the worldwide market has contracted considerably, which has adversely affected our operating results. The industry-wide decline can be attributed primarily to digital piracy. Other drivers of this decline are the bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space, and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. While CD sales still generate a significant portion of the recorded music revenues, CD sales continue to decline industry-wide and we expect that trend to continue. While new formats for selling recorded music product have been created, including the legal downloading of digital music using the Internet and the distribution of music on mobile devices, revenue streams from these new formats have not yet reached a level where they fully offset the declines in CD sales on a world-wide industry basis. While U.S. industry-wide track-equivalent album sales rose in 2011 for the first time since 2004, album sales continued to fall in other countries, such as the U.K., as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a significant portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

Share-Based Compensation

In connection with the Merger, the vesting of all outstanding unvested Predecessor options and certain unvested restricted stock awards was accelerated immediately prior to closing. As a result of the acceleration there were no outstanding equity awards of the Company as of July 20, 2011 and thereafter.

In total, the Company recognized non-cash compensation expense related to its stock-based compensation plans of $5 million for the three months ended March 31, 2011 and $7 million for the six months ended March 31, 2011. As there were no outstanding equity awards subsequent to July 20, 2011, the company did not recognize any non-cash compensation expense for the three and six months ended March 31, 2012.

Severance Charges

During the six months ended March 31, 2012, we took additional actions to further align our cost structure with industry trends. This resulted in severance charges of $4 million for the three months ended March 31, 2012, compared to $7 million for the three months ended March 31, 2011 and $11 million for the six months ended March 31, 2012, compared to $18 million during the six months ended March 31, 2011.

Additional Targeted Savings

As of the completion of our Merger on July 20, 2011, we have targeted cost savings over the next nine fiscal quarters following completion of the Merger of $50 million to $65 million based on identified cost saving initiatives and opportunities, including targeted savings expected to be realized as a result of no longer having publicly traded equity, reduced expenses related to finance, legal and information technology and reduced expenses related to certain planned corporate restructuring initiatives. While a portion of these initiatives and opportunities have been implemented, there can be no assurances that additional cost savings will be achieved in full or at all.

Expanding Business Models to Offset Declines in Physical Sales

Digital Sales

A key part of our strategy to offset declines in physical sales is to expand digital sales. New digital models have enabled us to find additional ways to generate revenues from our music content. In the transition from physical to digital sales, overall sales have decreased as the increases in digital sales have not yet met or exceeded the decrease in physical sales. Part of the reason for this gap is the shift in consumer purchasing patterns made possible from new digital models. In the digital space, consumers are now presented with the opportunity to not only purchase entire albums, but to unbundle albums and purchase only favorite tracks as single-track downloads. While to date, sales of online and mobile downloads have constituted the majority of our digital Recorded Music and Music Publishing revenue, that may change over time as new digital models, such as access models (models that typically bundle the purchase of a mobile device with access to music) and streaming subscription services, continue to develop. In the aggregate, we believe that growth in revenue from new digital models has the potential to offset physical declines and drive overall future revenue growth. In the digital space, certain costs associated with physical products, such as manufacturing, distribution, inventory and return costs, do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers which apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, we believe it is reasonable to expect that digital margins will generally be higher than physical margins as a result of the elimination of certain costs associated with physical products. As consumer purchasing patterns change over time and new digital models are launched, we may see fluctuations in contribution margin depending on the overall sales mix.

Expanded-Rights Deals

We have also been seeking to expand our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have been signing recording artists to expanded-rights deals for the last several years. Under these expanded-rights deals, we participate in the recording artist s revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. We believe that additional revenue from these revenue streams will help to offset declines in physical revenue over time. As we have generally signed newer artists to these deals, increased non-traditional revenue from these deals is expected to come several years after these deals have been signed as the artists become more successful and are able to generate revenue other than from recorded music sales. While non-traditional Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 9% of our total revenue during the six months ended March 31, 2012, we believe this revenue should continue to grow and represent a larger proportion of our revenue over time. Non-traditional revenue will fluctuate from period to period depending upon touring schedules, among other things. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various non-traditional Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from touring under our expanded-rights deals typically flows straight through to net income with little cost. Revenue from our management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from Recorded Music and Music Publishing.

The Merger

Pursuant to the Merger Agreement, on the Closing Date, Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent.

On the Closing Date, in connection with the Merger, each outstanding share of common stock of the Company (other than any shares owned by the Company or its wholly owned subsidiaries, or by Parent and its affiliates, or by any stockholders who were entitled to and who properly exercised appraisal rights under Delaware law, and shares of unvested restricted stock granted under the Company s equity plan) was cancelled and converted automatically into the right to receive the Merger Consideration.

Equity contributions totaling $1.1 billion from Parent, together with (i) the proceeds from the sale of (a) $150 million aggregate principal amount of 9.5% Senior Secured Notes due 2016 (the Secured WMG Notes) initially issued by WM Finance Corp., (the Initial OpCo Issuer), (b) $765 million aggregate principal amount of 11.5% Senior Notes due 2018 initially issued by the Initial

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OpCo Issuer, (the Unsecured WMG Notes) and (c) $150 million aggregate principal amount of 13.75% Senior Notes due 2019 (the Holdings Notes and together with the Secured WMG Notes and the Unsecured WMG Notes, the Notes) initially issued by WM Holdings Finance Corp., (the Initial Holdings Issuer) and (ii) cash on hand at the Company, were used, among other things, to finance the aggregate Merger Consideration, to make payments in satisfaction of other equity-based interests in the Company under the Merger Agreement, to repay certain of the Company s existing indebtedness and to pay related transaction fees and expenses. On the Closing Date (i) Acquisition Corp. became the obligor under the Secured WMG Notes and the Unsecured WMG Notes as a result of the merger of Initial OpCo Issuer with and into Acquisition Corp. (the OpCo Merger) and (ii) Holdings became the obligor under the Holdings Notes as a result of the merger of Initial Holdings Issuer with and into Holdings (the Holdings Merger). On the Closing Date, the Company also entered into, but did not draw under, a new $60 million revolving credit facility.

In connection with the Merger, the Company also refinanced certain of its existing consolidated indebtedness, including (i) the repurchase and redemption by Holdings of its approximately $258 million in fully accreted principal amount outstanding 9.5% Senior Discount Notes due 2014 (the Existing Holdings Notes), and the satisfaction and discharge of the related indenture and (ii) the repurchase and redemption by Acquisition Corp. of its $465 million in aggregate principal amount outstanding 7 3/8% Dollar-denominated Senior Subordinated Notes due 2014 and £100 million in aggregate principal amount of its outstanding 8 1/8% Sterling-denominated Senior Subordinated Notes due 2014 (the Existing Acquisition Corp. Notes and together with the Existing Holdings Notes, the Existing Notes), and the satisfaction and discharge of the related indenture, and payment of related tender offer or call premiums and accrued interest on the Existing Notes.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Closing Date (the Management Agreement), pursuant to which Access will provide the Company and its subsidiaries, with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. For the three and six months ended March 31, 2012, such costs incurred by the Company were approximately $2 million and $4 million, respectively.

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2012 Compared with Three Months Ended March 31, 2011

Consolidated Historical Results

Revenues

Our revenues were composed of the following amounts:

	Successor	Predecessor	2012 vs. 2011	
	For the Three Months Ended March 31,			
	2012	2011	$ Change	% Change
		(in millions)		
Revenue by Type				
Physical and other	$ 229	$ 287	$ (58)	-20%
Digital	222	205	17	8%
Licensing	52	60	(8)	-13%
Total Recorded Music	**503**	**552**	**(49)**	**-9%**
Mechanical	32	34	(2)	-6%
Performance	47	50	(3)	-6%
Synchronization	32	31	1	3%
Digital	14	17	(3)	-18%
Other	3	5	(2)	-40%
Total Music Publishing	**128**	**137**	**(9)**	**-7%**
Intersegment elimination	(3)	(5)	2	-40%
Total Revenue	**$ 628**	**$ 684**	**$ (56)**	**-8%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 211	$ 254	$ (43)	-17%
U.S. Publishing	55	61	(6)	-10%
Total U.S.	**266**	**315**	**(49)**	**-16%**
International Recorded Music	292	298	(6)	-2%
International Publishing	73	76	(3)	-4%
Total International	**365**	**374**	**(9)**	**-2%**
Intersegment eliminations	(3)	(5)	2	-40%
Total Revenue	**$ 628**	**$ 684**	**$ (56)**	**-8%**

Total Revenue

Total revenues decreased by $56 million to $628 million for the three months ended March 31, 2012 from $684 million for the three months ended March 31, 2011. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 80% and 20% of total revenues for both the three months ended March 31, 2012 and March 31, 2011. Prior to intersegment eliminations, U.S. and international revenues represented 42% and 58% of total revenues for the three months ended March 31, 2012 and 46% and 54% of total revenues for the three months ended March 31, 2011. Excluding the unfavorable impact of foreign currency exchange rates, total revenues decreased $50 million, or 7%.

Total digital revenues after intersegment eliminations increased by $15 million, or 7%, to $235 million for the three months ended March 31, 2012 from $220 million for the three months ended March 31, 2011. Total digital revenues represented 37% and 32% of consolidated revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2012 were comprised of U.S. revenues of $131 million and international revenues of $105 million, or 56% and 44% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2011 were comprised of U.S. revenues of $134 million and international revenues of $88 million, or 60% and 40% of total digital revenues, respectively.

Recorded Music revenues decreased by $49 million, or 9%, to $503 million for the three months ended March 31, 2012 from $552 million for the three months both ended March 31, 2011. U.S. Recorded Music revenues were $211 million and $254 million, or 42% and 46% of consolidated Recorded Music revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. International Recorded Music revenues were $292 million and $298 million, or 58% and 54% of consolidated Recorded Music revenues for the three months ended March 31, 2012 and March 31, 2011, respectively.

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This performance reflected a light release schedule in the current-year quarter as compared with the prior-year quarter in addition to the continuing decline of physical sales. Licensing revenues decreased $8 million, or 13%, due primarily to timing. Partially offsetting these results were increases in digital revenue of $17 million, or 8%, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. In addition, merchandising revenues increased from expanded-rights deals in the U.S. and Japan in the current-year quarter as compared with the prior-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues decreased by $45 million, or 8%.

Music Publishing revenues decreased by $9 million, or 7%, to $128 million for the three months ended March 31, 2012 from $137 million for the three months ended March 31, 2011. U.S. Music Publishing revenues were $55 million and $61 million, or 43% and 45% of Music Publishing revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. International Music Publishing revenues were $73 million and $76 million, or 57% and 55% of Music Publishing revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total music publishing revenues decreased by $8 million, or 6%.

The decrease in Music Publishing revenue was driven primarily by decreases in performance revenue, digital revenue and mechanical revenue, partially offset by an increase in synchronization revenue. The decrease in performance revenue was driven primarily by a reduction in U.S. radio license fees, partially offset by a stronger advertising market, strong chart positions as well as recent acquisitions. The decrease in digital revenue was primarily driven by a one-time settlement in the prior-year quarter and timing of collections. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry. The increase in synchronization revenue reflected strength in advertising-related revenue partially offset by falloffs in other areas including videogames.

Revenue by Geographical Location

U.S. revenues decreased by $49 million, or 16%, to $266 million for the three months ended March 31, 2012 from $315 million for the three months ended March 31, 2011. The overall decrease in revenue from the U.S. Recorded Music business reflected a light release schedule in the current-year quarter as compared with the prior-year quarter in addition to the continuing decline of physical sales. The overall decrease in revenue from the U.S. Music Publishing business reflected a reduction in U.S. collections, a one-time digital settlement in the prior-year quarter and the ongoing impact of the transition from physical to digital sales in the recorded music industry.

International revenues decreased by $9 million, or 2%, to $365 million for the three months ended March 31, 2012 from $374 million for the three months ended March 31, 2011. The overall decrease in international revenue was driven primarily by the ongoing impact of the transition from physical to digital sales in the recorded music industry, partially offset by an increase in digital revenue, primarily as a result of continued growth in global downloads. In addition, merchandising and touring revenue increases from expanded-rights deals in Japan and Italy were partially offset by lower touring revenue in France. Revenue decline in the U.K. reflected a light release schedule in the current-year quarter as compared with the prior-year quarter as well as the ongoing impact of the transition from physical to digital sales. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues decreased $4 million or 1%.

Cost of revenues

Our cost of revenues is composed of the following amounts:

	Successor	Predecessor		
	For the Three Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
Artist and repertoire costs	$ 197	$ 223	$ (26)	-12%
Product costs	107	117	(10)	-9%
Licensing costs	19	19		
Total cost of revenues	**$ 323**	**$ 359**	**$ (36)**	**-10%**

Our cost of revenues decreased by $36 million, or 10%, to $323 million for the three months ended March 31, 2012 from $359 million for the three months ended March 31, 2011. Expressed as a percentage of revenues, cost of revenues decreased to 51% for the three months ended March 31, 2012 from 52% for the three months ended March 31, 2011.

Artist and repertoire costs decreased by $26 million to $197 million for the three months ended March 31, 2012 from $223 million for the three months ended March 31, 2011. The decrease in artist and repertoire costs were driven by decreased revenues for the current-year quarter, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract. Artist and repertoire costs as a percentage of revenues decreased to 31% for three months ended March 31, 2012 from 33% and for three months ended March 31, 2011 due primarily to changes in revenue mix and the cost-recovery benefit noted above.

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Product costs decreased $10 million, or 9%, to $107 million for the three months ended March 31, 2012 from $117 million for the three months ended March 31, 2011, primarily as a result of the decrease in product costs resulting from lower physical revenue in the current-year quarter. Product costs as a percentage of revenues remained flat at 17% for both the three months ended March 31, 2012 and March 31, 2011.

Licensing costs remained flat at $19 million for the three months ended March 31, 2012 and March 31, 2011. Licensing costs as a percentage of licensing revenues increased to 37% for the three months ended March 31, 2012 from 32% for the three months ended March 31, 2011, primarily as a result of changes in revenue mix.

Selling, general and administrative expenses

Our selling, general and administrative expense is composed of the following amounts:

	Successor	Predecessor		
	For the Three Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011** (in millions)	**$ Change**	**% Change**
General and administrative expense (1)	$ 130	$ 142	$ (12)	-8%
Selling and marketing expense	90	96	(6)	-6%
Distribution expense	13	14	(1)	-7%
Total selling, general and administrative expense	**$ 233**	**$ 252**	**$ (19)**	**-8%**

(1) Includes depreciation expense of $13 million and $11 million for the three months ended March 31, 2012 and March 31, 2011, respectively.

Total selling, general and administrative expense decreased by $19 million, or 8%, to $233 million for the three months ended March 31, 2012 from $252 million for the three months ended March 31, 2011. Expressed as a percentage of revenues, selling, general and administrative expenses remained flat at 37% for both the three months ended March 31, 2012 and March 31, 2011.

General and administrative expenses decreased by $12 million, or 8%, to $130 million for the three months ended March 31, 2012 from $142 million for the three months ended March 31, 2011. Expressed as a percentage of revenues, general and administrative expenses remained flat at 21% for both the three months ended March 31, 2012 and March 31, 2011. The decrease in general and administrative expense was driven primarily by lower severance charges of $4 million in the current-year quarter, continued cost management efforts in the current-year quarter and prior-year quarter charges of $5 million for share-based compensation expense, partially offset by fees associated with our Management Agreement and an increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger.

Selling and marketing expense decreased by $6 million, or 6%, to $90 million for the three months ended March 31, 2012 from $96 million for the three months ended March 31, 2011, primarily related to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense remained flat at 14% for both the three months ended March 31, 2012 and March 31, 2011.

Distribution expense decreased by $1 million, to $13 million for the three months ended March 31, 2012 from $14 million for the three months ended March 31, 2011. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the three months ended March 31, 2012 and March 31, 2011.

Transaction costs

Transaction costs of $2 million for the three months ended March 31, 2011 were incurred in connection with the consummation of the Merger. These costs included advisory, accounting, legal and other professional fees.

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Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Loss Attributable to Warner Music Group Corp.

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles OIBDA to operating income, and further provides the components from operating income to net loss attributable to Warner Music Group Corp. for purposes of the discussion that follows:

	Successor	Predecessor		
	For the Three Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
OIBDA	$ 85	$ 82	$ 3	4%
Depreciation expense	(13)	(11)	(2)	18%
Amortization expense	(50)	(55)	5	-9%
Operating income	**22**	**16**	**6**	**38%**
Interest expense, net	(56)	(47)	(9)	19%
Other income (expense), net	2	(1)	3	
Loss before income taxes	**(32)**	**(32)**		
Income tax expense	(2)	(7)	5	-71%
Net loss	**(34)**	**(39)**	**5**	**-13%**
Less: (income) loss attributable to noncontrolling interest	(2)	1	(3)	
Net loss attributable to Warner Music Group Corp.	**$ (36)**	**$ (38)**	**$ 2**	**-5%**

OIBDA

Our OIBDA increased by $3 million, or 4%, to $85 million for the three months ended March 31, 2012 as compared to $82 million for the three months ended March 31, 2011. Expressed as a percentage of revenues, total OIBDA margin increased to 14%, for the three months ended March 31, 2012, from 12%, for the three months ended March 31, 2011. Our OIBDA margin increase was driven by previously announced cost savings initiatives, lower severance charges, a cost-recovery benefit related to the early termination of an artist contract and the prior-year quarter charges for share-based compensation expense. In addition, our Music Publishing business has improved its OIBDA margin as a result of a disciplined A&R investment and acquisition strategy focused on higher margin assets. These margin improvements were partially offset by fees associated with our Management Agreement.

See Business Segment Results presented hereinafter for a discussion of OIBDA by business segment.

Depreciation expense

Our depreciation expense increased by $2 million, or 18%, to $13 million for the three months ended March 31, 2012 as compared to $11 million for the three months ended March 31, 2011, primarily due to recently completed capital projects and purchase price accounting recorded in connection with the Merger.

Amortization expense

Amortization expense decreased by $5 million, or 9%, to $50 million for the three months ended March 31, 2012 as compared to $55 million for the three months ended March 31, 2011. The decrease was primarily related to purchase price accounting recorded in connection with the Merger that resulted in longer useful lives of our intangible assets.

Operating income

Our operating income increased $6 million, or 38%, to $22 million, for the three months ended March 31, 2012 as compared to $16 million for the three months ended March 31, 2011. The increase in operating income was primarily a result of the increase in OIBDA and a decrease in amortization expense, partially offset by the increase in depreciation expense noted above.

Interest expense, net

Our interest expense, net, increased $9 million, or 19%, to $56 million for the three months ended March 31, 2012 as compared to $47 million for the three months ended March 31, 2011. The increase was driven by our new debt obligations which were issued with higher interest rates.

The total principal amount and weighted-average interest rate of the Company s long-term debt as of and for the three months ended March 31, 2012 were $2.165 billion and 10.5%, respectively. The total principal amounts and weighted-average interest rates of the Company s long-term debt as of and for the three months ended March 31, 2011 were $1.984 billion and 8.9%, respectively.

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See Financial Condition and Liquidity for more information.

Other income (expense), net

Other income (expense) net for the three months ended March 31, 2012 and March 31, 2011 included net hedging gains on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, offset by equity in earnings on our share of net income on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We incurred income tax expense of $2 million for the three months ended March 31, 2012 as compared to an expense of $7 million for the three months ended March 31, 2011. The decrease in income tax expense relates to a decrease in foreign earnings subject to tax in certain jurisdictions and a one-time tax benefit related to a change in the statutory tax rate in Japan.

We are currently under examination by various taxing authorities. We expect that $6 million of the total accrual of uncertain tax positions, which is $13 million as of March 31, 2012, will be paid during the next twelve months.

Net loss

Our net loss decreased by $5 million, to $34 million for the three months ended March 31, 2012 as compared to $39 million for the three months ended March 31, 2011. The decrease in net loss was driven by an increase in operating income, other income (expense), net and lower income tax expense, partially offset by an increase in interest expense noted above.

Noncontrolling interest

Net income attributable to noncontrolling interest for the three months ended March 31, 2012 was $2 million and net loss attributable to noncontrolling interest for the three months ended March 31, 2011 was $1 million.

Business Segment Results

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

	Successor	Predecessor		
	For the Three Months Ended March 31,		***2012 vs. 2011***	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
Recorded Music				
Revenue	$ 503	$ 552	$ (49)	-9%
OIBDA	48	54	(6)	-11%
Operating income	$ 7	$ 10	$ (3)	-30%
Music Publishing				
Revenue	$ 128	$ 137	$ (9)	-7%
OIBDA	54	50	4	8%
Operating income	$ 36	$ 31	$ 5	16%
Corporate expenses and eliminations				
Revenue	$ (3)	$ (5)	$ 2	-40%
OIBDA	(17)	(22)	5	-23%
Operating loss	$ (21)	$ (25)	$ 4	-16%
Total				
Revenue	$ 628	$ 684	$ (56)	-8%
OIBDA	85	82	3	4%

Operating income	$ 22	$ 16	$ 6	38%

Recorded Music

Revenues

Recorded Music revenues decreased by $49 million, or 9%, to $503 million for the three months ended March 31, 2012 from $552 million for the three months ended March 31, 2011. Prior to intersegment eliminations, Recorded Music revenues represented 80% of consolidated revenues for the three months ended March 31, 2012 and March 31, 2011. U.S. Recorded Music revenues were $211 million and $254 million, or 42% and 46% of consolidated Recorded Music revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. International Recorded Music revenues were $292 million and $298 million, or 58% and 54% of consolidated Recorded Music revenues for the three months ended March 31, 2012 and March 31, 2011, respectively.

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This performance reflected a light release schedule in the current-year quarter as compared with the prior-year quarter in addition to the continuing decline of physical sales. Licensing revenues decreased $8 million, or 14%, due primarily to timing. Partially offsetting these results were increases in digital revenue of $17 million, or 8%, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. In addition, merchandising revenues increased from expanded-rights deals in the U.S. and Japan in the current-year quarter as compared with the prior-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues decreased by $45 million, or 8%.

Cost of revenues

Recorded Music cost of revenues is composed of the following amounts:

	Successor	Predecessor		
	For the Three Months Ended March 31,		2012 vs. 2011	
	2012	2011	$ Change	% Change
		(in millions)		
Artist and repertoire costs	$ 141	$ 161	$ (20)	-12%
Product costs	107	117	(10)	-9%
Licensing costs	19	19		
Total cost of revenues	**$ 267**	**$ 297**	**$ (30)**	**-10%**

Recorded Music cost of revenues decreased $30 million, or 10%, to $267 million for the three months ended March 31, 2012 from $297 million for the three months ended March 31, 2011. The decrease in artist and repertoire costs were driven by decreased revenues for the current-year quarter, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract. The decrease in product costs was primarily as a result of the decrease in physical revenue. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 53% for the three months ended March 31, 2012 from 54% for the three months ended March 31, 2011, due primarily to the cost-recovery benefit noted above.

Selling, general and administrative expense

Recorded Music selling, general and administrative expense is composed of the following amounts:

	Successor	Predecessor		
	For the Three Months Ended March 31,		2012 vs. 2011	
	2012	2011	$ Change	% Change
		(in millions)		
General and administrative expense (1)	$ 94	$ 100	$ (6)	-6%
Selling and marketing expense	88	94	(6)	-6%
Distribution expense	13	14	(1)	-7%
Total selling, general and administrative expense	**$ 195**	**$ 208**	**$ (13)**	**-6%**

(1) Includes depreciation expense of $7 million for the three months ended March 31, 2012 and March 31, 2011.

Recorded Music selling, general and administrative expense decreased $13 million, or 6%, to $195 million for the three months ended March 31, 2012 from $208 million for the three months ended March 31, 2011. The decrease in general and administrative expense was driven primarily by continued cost management efforts in the current-year quarter and prior-year quarter charges for share-based compensation expense of $3 million. The decrease in selling and marketing expense was primarily related to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense increased to 39% for the three months ended March 31, 2012 from 38% for the three months ended March 31, 2011.

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OIBDA and Operating Income

Recorded Music operating income included the following:

	Successor	Predecessor		
	For the Three Months Ended March 31,		2012 vs. 2011	
	2012	2011	$ Change	% Change
		(in millions)		
OIBDA	$ 48	$ 54	$ (6)	-11%
Depreciation and amortization expense	(41)	(44)	3	-7%
Operating income	**$ 7**	**$ 10**	**$ (3)**	**-30%**

Recorded Music OIBDA decreased by $6 million, or 11%, to $48 million for the three months ended March 31, 2012 compared to $54 million for the three months ended March 31, 2011. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin remained flat at 10% for both the three months ended March 31, 2012 and March 31, 2011. Our Recorded Music OIBDA decrease was primarily driven by the decrease in revenues, partially offset by continued cost management efforts in the current-year quarter, a cost-recovery benefit related to the early termination of an artist contract and the prior-year quarter charges for share-based compensation expense.

Recorded Music operating income decreased by $3 million, due to the decrease in OIBDA noted above, partially offset by a decrease in amortization expense primarily related to purchase price accounting recorded in connection with the Merger that resulted in longer useful lives of intangible assets.

Music Publishing

Revenues

Music Publishing revenues decreased by $9 million, or 7%, to $128 million for the three months ended March 31, 2012 from $137 million for the three months ended March 31, 2011. Prior to intersegment eliminations, Music Publishing revenues represented 20% of consolidated revenues for the three months ended March 31, 2012 and March 31, 2011. U.S. Music Publishing revenues were $55 million and $61 million, or 43% and 45% of Music Publishing revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. International Music Publishing revenues were $73 million and $76 million, or 57% and 55% of Music Publishing revenues for the three months ended March 31, 2012 and March 31, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total music publishing revenues decreased by $8 million, or 6%.

The decrease in Music Publishing revenue was driven primarily by decreases in performance revenue, digital revenue and mechanical revenue, partially offset by an increase in synchronization revenue. The decrease in performance revenue was driven primarily by a reduction in U.S. radio license fees, partially offset by a stronger advertising market, strong chart positions as well as recent acquisitions. The decrease in digital revenue was primarily driven by a one-time settlement in the prior-year quarter and timing of collections. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry. The increase in synchronization revenue reflected strength in advertising-related revenue partially offset by falloffs in other areas including videogames.

Cost of revenues

Music Publishing cost of revenues is composed of the following amounts:

Successor	Predecessor		
For the Three Months Ended March 31,		2012 vs. 2011	
2012	2011	$ Change	% Change

		(in millions)		
Artist and repertoire costs	$ 59	$ 67	$ (8)	-12%
Total cost of revenues	**$ 59**	**$ 67**	**$ (8)**	**-12%**

Music Publishing cost of revenues decreased $8 million, or 12%, to $59 million for the three months ended March 31, 2012, from $67 million for the three months ended March 31, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 46% for the three months ended March 31, 2012 from 49% for the three months ended March 31, 2011, primarily as a result of a disciplined A&R investment and acquisition strategy focused on higher margin assets.

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Selling, general and administrative expense

Music Publishing selling, general and administrative expense is comprised of the following amounts:

	Successor	Predecessor		
	For the Three Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
General and administrative expense (1)	$ 16	$ 21	$ (5)	-24%
Selling and marketing expense	1		1	
Total selling, general and administrative expense	**$ 17**	**$ 21**	**$ (4)**	**-19%**

(1) Includes depreciation expense of $2 million and $1 million for the three months ended March 31, 2012 and March 31, 2011, respectively.

Music Publishing selling, general and administrative expense decreased to $17 million for the three months ended March 31, 2012 as compared with $21 million for the three months ended March 31, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense decreased to 13% for the three months ended March 31, 2012 from 15% for the three months ended March 31, 2011. The decrease was driven by $3 million of lower severance charges taken during the current-year quarter as well as the realization of cost savings from management initiatives taken in prior periods.

OIBDA and Operating Income

Music Publishing operating income included the following:

	Successor	Predecessor		
	For the Three Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
OIBDA	$ 54	$ 50	$ 4	8%
Depreciation and amortization expense	(18)	(19)	1	-5%
Operating income	**$ 36**	**$ 31**	**$ 5**	**16%**

Music Publishing OIBDA increased by $4 million, or 8%, to $54 million for the three months ended March 31, 2012 from $50 million for the three months ended March 31, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 42% for the three months ended March 31, 2012 from 36% for the three months ended March 31, 2011. The increase in OIBDA margin was a result of a disciplined A&R investment and acquisition strategy focused on higher margin assets and lower severance charges.

Music Publishing operating income increased by $5 million due primarily to the increase in OIBDA noted above and a decrease in amortization expense driven by the extended useful lives of certain intangible assets recorded in connection with the Merger.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased to $17 million for the three months ended March 31, 2012 from $22 million for the three months ended March 31, 2011, primarily as a result of previously announced cost savings initiatives and prior-year quarter charges for share-based compensation expense, partially offset by fees associated with our Management Agreement.

Our operating loss from corporate expenses and eliminations decreased to $21 million for the three months ended March 31, 2012 from $25 million for the three months ended March 31, 2011 due primarily to the decrease in OIBDA loss noted above.

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Six Months Ended March 31, 2012 Compared with Six Months Ended March 31, 2011

Consolidated Historical Results

Revenues

Our revenues were composed of the following amounts:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	2011 (in millions)	$ Change	% Change
Revenue by Type				
Physical and other	$ 628	$ 709	$ (81)	-11%
Digital	427	383	44	11%
Licensing	109	122	(13)	-11%
Total Recorded Music	**1,164**	**1,214**	**(50)**	**-4%**
Mechanical	65	73	(8)	-11%
Performance	95	94	1	1%
Synchronization	56	55	1	2%
Digital	29	28	1	4%
Other	6	7	(1)	-14%
Total Music Publishing	**251**	**257**	**(6)**	**-2%**
Intersegment elimination	(8)	(9)	1	-11%
Total Revenue	**$ 1,407**	**$ 1,462**	**$ (55)**	**-4%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 469	$ 503	$ (34)	-7%
U.S. Publishing	96	100	(4)	-4%
Total U.S.	**565**	**603**	**(38)**	**-6%**
International Recorded Music	695	711	(16)	-2%
International Publishing	155	157	(2)	-1%
Total International	**850**	**868**	**(18)**	**-2%**
Intersegment eliminations	(8)	(9)	1	-11%
Total Revenue	**$ 1,407**	**$ 1,462**	**$ (55)**	**-4%**

Total Revenue

Total revenues decreased by $55 million to $1.407 billion for the six months ended March 31, 2012 from $1.462 billion for the six months ended March 31, 2011. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of total revenues for both the six months ended March 31, 2012 and March 31, 2011, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 40% and 60% of total revenues for the six months ended March 31, 2012 and 41% and 59% of total revenues for the six months ended March 31, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total revenues decreased by $54 million, or 4%.

Total digital revenues after intersegment eliminations increased by $47 million, or 12%, to $454 million for the six months ended March 31, 2012 from $407 million for the six months ended March 31, 2011. Total digital revenues represented 32% and 28% of consolidated revenues for the six months ended March 31, 2012 and March 31, 2011, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2012 were comprised of U.S. revenues of $253 million and international revenues of $203 million, or 55% and 45% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2011 were comprised of U.S. revenues of $236 million and international revenues of $175 million, or 57% and 43% of total digital revenues, respectively.

Recorded Music revenues decreased by $50 million to $1.164 billion for the six months ended March 31, 2012 from $1.214 billion for the six months ended March 31, 2011. U.S. Recorded Music revenues were $469 million and $503 million, or 40% and 41% of consolidated Recorded Music revenues for the six months ended March 31, 2012 and March 31, 2011, respectively. International Recorded Music revenues were $695 million and $711 million, or 60% and 59% of consolidated Recorded Music revenues for the six months ended March 31, 2012 and March 31, 2011, respectively.

This performance reflected a light post-holiday release schedule in the current period partially offset by a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé s Christmas. The success of this release helped offset the continued decline of physical sales. In addition, the decline in

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revenues from our European concert promotion business reflected the timing and composition of touring schedules in the current period as compared with the prior-year period. Licensing revenues decreased $13 million, or 11%, due primarily to timing. Digital revenues increased by $44 million, or 11%, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand.

Music Publishing revenues decreased by $6 million, or 2%, to $251 million for the six months ended March 31, 2012 from $257 million for the six months ended March 31, 2011. U.S. Music Publishing revenues were $96 million and $100 million, or 38% and 39% of Music Publishing revenues for the six months ended March 31, 2012 and March 31, 2011, respectively. International Music Publishing revenues were $155 million and $157 million, or 62% and 61% of Music Publishing revenues for the six months ended March 31, 2012 and March 31, 2011, respectively.

The decrease in Music Publishing revenue was driven primarily by a decrease in mechanical revenue, partially offset by slight increases in performance revenue, digital revenue and synchronization revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry. The increase in performance revenue was driven by a stronger advertising market, strong chart positions as well as recent acquisitions, partially offset by a reduction in U.S. radio license fees. The increase in digital revenue reflected growth in global digital downloads, partially offset by a one-time settlement in the prior-year quarter and timing of collections. The increase in synchronization revenue reflected strength in advertising-related revenue partially offset by falloffs in other areas including videogames.

Revenue by Geographical Location

U.S. revenues decreased by $38 million, or 6%, to $565 million for the six months ended March 31, 2012 from $603 million for the six months ended March 31, 2011. The overall decrease in the U.S. Recorded Music business reflected a light post-holiday release schedule in the current period partially offset by a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé s Christmas. The success of this release helped offset the continued decline of physical sales. The increase in digital revenues were driven by growth in digital downloads and the continued success of streaming services, partially offset by the continued decline in mobile revenue primarily related to lower ringtone demand.

International revenues decreased by $18 million, or 2%, to $850 million for the six months ended March 31, 2012 from $868 million for the six months ended March 31, 2011. The performance reflected the success of Michael Bublé s Christmas which was released in the current period and an increase in digital revenue, primarily as a result of continued growth in global downloads and streaming, offset by declines in our European concert promotion business, which reflected the timing and composition of touring schedules in the current period as compared with the prior-year quarter and the ongoing impact of the transition from physical to digital sales in the recorded music industry. Revenue growth in Germany, Italy and Japan was more than offset by declines in France and UK.

Cost of revenues

Our cost of revenues is composed of the following amounts:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
		(in millions)		
Artist and repertoire costs	$ 458	$ 485	$ (27)	-6%
Product costs	248	267	(19)	-7%
Licensing costs	41	38	3	8%
Total cost of revenues	**$ 747**	**$ 790**	**$ (43)**	**-5%**

Our cost of revenues decreased by $43 million, or 5%, to $747 million for the six months ended March 31, 2012 from $790 million for the six months ended March 31, 2011. Expressed as a percentage of revenues, cost of revenues were 53% and 54% for the six months ended March 31, 2012 and March 31, 2011, respectively.

Artist and repertoire costs decreased by $27 million, or 6%, to $458 million for the six months ended March 31, 2012 from $485 million for the six months ended March 31, 2011. The decrease in artist and repertoire costs were driven by the decrease in revenue, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract. Artist and repertoire costs as a percentage of revenues remained flat at 33% for both the six months ended March 31, 2012 and March 31, 2011.

Product costs decreased $19 million, or 7%, to $248 million for the six months ended March 31, 2012 from $267 million for the six months ended March 31, 2011, primarily as a result of lower non-traditional recorded music business costs related to the decrease in revenue from our European concert promotion businesses and a decrease in product costs resulting from lower physical revenue in the current-year quarter. Costs associated with our non-traditional recorded music businesses are primarily recorded as a component of product costs. Product costs as a percentage of revenues remained flat at 18% for both the six months ended March 31, 2012 and March 31, 2011.

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Licensing costs increased by $3 million, or 8%, to $41 million for the six months ended March 31, 2012 from $38 million for the six months ended March 31, 2011. Licensing costs as a percentage of licensing revenues increased to 38% for the six months ended March 31, 2012 from 31% for the six months ended March 31, 2011, primarily as a result of changes in revenue mix.

Selling, general and administrative expenses

Our selling, general and administrative expense is composed of the following amounts:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
	(in millions)			
General and administrative expense (1)	$ 276	$ 276	$	
Selling and marketing expense	196	212	(16)	-8%
Distribution expense	29	30	(1)	-3%
Total selling, general and administrative expense	**$ 501**	**$ 518**	**$ (17)**	**-3%**

(1) Includes depreciation expense of $25 million and $20 million for the six months ended March 31, 2012 and March 31, 2011, respectively.

Total selling, general and administrative expense decreased by $17 million, or 3%, to $501 million for the six months ended March 31, 2012 from $518 million for the six months ended March 31, 2011. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 36% for the six months ended March 31, 2012 from 35% for the six months ended March 31, 2011.

General and administrative expenses remained flat at $276 million for both the six months ended March 31, 2012 and March 31, 2011. Expressed as a percentage of revenues, general and administrative expenses increased to 20% for the six months ended March 31, 2012 from 19% for the six months ended March 31, 2011. Decreases in general and administrative expense due to previously announced cost savings initiatives, lower severance charges of $6 million in the current period and prior-year quarter charges of $7 million for share-based compensation expense were offset by $4 million of fees associated with our Management Agreement, higher variable compensation expense, a $3 million increase in professional fees incurred in connection with our bid to acquire EMI and a $5 million increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger.

Selling and marketing expense decreased by $16 million, or 8%, to $196 million for the six months ended March 31, 2012 from $212 million for the six months ended March 31, 2011, primarily related to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense decreased to 14% for the six months ended March 31, 2012 from 15% for the six months ended March 31, 2011, primarily as a result of the strong sales performance of Michael Bublé s Christmas, which had a lower proportionate marketing spend.

Distribution expense decreased by $1 million, or 3%, to $29 million for the six months ended March 31, 2012 from $30 million for the six months ended March 31, 2011. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the six months ended March 31, 2012 and March 31, 2011.

Transaction costs

Transaction costs of $2 million for the six months ended March 31, 2011 were incurred in connection with the consummation of the Merger. These costs included advisory, accounting, legal and other professional fees.

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Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Loss Attributable to Warner Music Group Corp.

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles OIBDA to operating income, and further provides the components from operating income to net loss attributable to Warner Music Group Corp. for purposes of the discussion that follows:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
		(in millions)		
OIBDA	$ 184	$ 172	$ 12	7%
Depreciation expense	(25)	(20)	(5)	25%
Amortization expense	(98)	(109)	11	-10%
Operating income	**61**	**43**	**18**	**42%**
Interest expense, net	(113)	(94)	(19)	20%
Other expense, net		(1)	1	-100%
Loss before income taxes	**(52)**	**(52)**		
Income tax expense	(8)	(5)	(3)	60%
Net loss	**(60)**	**(57)**	**(3)**	**5%**
Less: (income) loss attributable to noncontrolling interest	(2)	1	(3)	
Net loss attributable to Warner Music Group Corp.	**$ (62)**	**$ (56)**	**$ (6)**	**11%**

OIBDA

Our OIBDA increased by $12 million, or 7%, to $184 million for the six months ended March 31, 2012 as compared to $172 million for the six months ended March 31, 2011. Expressed as a percentage of revenues, total OIBDA margin increased to 13% for the six months ended March 31, 2012, from 12% for the six months ended March 31, 2011. Our OIBDA increase was primarily driven by strong sales performance of Michael Bublé s Christmas, which increased overall margin due to reductions in proportionate marketing spend, previously announced cost savings initiatives, lower severance charges, a cost-recovery benefit related to the early termination of an artist contract and prior-year period charges for share-based compensation expense, partially offset by an increase in variable compensation expense, an increase in professional fees incurred in connection with our bid to acquire EMI and fees of $4 million associated with our Management Agreement. In addition, our Music Publishing business has improved its OIBDA margin as a result of a disciplined A&R investment and acquisition strategy focused on higher margin assets.

See Business Segment Results presented hereinafter for a discussion of OIBDA by business segment.

Depreciation expense

Our depreciation expense increased by $5 million, or 25%, to $25 million for the six months ended March 31, 2012 as compared to $20 million for the six months ended March 31, 2011, primarily due to recently completed capital projects and purchase price accounting recorded in connection with the Merger.

Amortization expense

Amortization expense decreased by $11 million, or 10%, to $98 million for the six months ended March 31, 2012 as compared to $109 million for the six months ended March 31, 2011. The decrease was primarily related to purchase price accounting recorded in connection with the Merger that resulted in longer useful lives.

Operating income

Our operating income increased $18 million, or 42%, to $61 million, for the six months ended March 31, 2012 as compared to operating income of $43 million for the six months ended March 31, 2011. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in amortization expense, partially offset by the increase in depreciation expense noted above.

Interest expense, net

Our interest expense, net, increased $19 million, or 20%, to $113 million for the six months ended March 31, 2012 as compared to $94 million for the six months ended March 31, 2011. The increase was driven by our new debt obligations which were issued with higher interest rates.

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The total principal amount and weighted-average interest rate of the Company s long-term debt as of and for the six months ended March 31, 2012 were $2.165 billion and 10.5%, respectively. The total principal amounts and weighted-average interest rates of the Company s long-term debt as of and for the six months ended March 31, 2011 were $1.984 billion and 8.9%, respectively.

See Financial Condition and Liquidity for more information.

Other expense, net

Other expense, net for the six months ended March 31, 2012 and March 31, 2011 included net hedging gains on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, offset by equity in earnings on our share of net income on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We incurred income tax expense of $8 million for the six months ended March 31, 2012 as compared to an expense of $5 million for the six months ended March 31, 2011. The increase in income tax expense primarily relates to an increase in foreign earnings subject to tax in certain jurisdictions.

We are currently under examination by various taxing authorities. We expect that $6 million of the total accrual of uncertain tax positions, which is $13 million as of March 31, 2012, will be paid during the next twelve months.

Net loss

Our net loss increased by $3 million, to a net loss of $60 million for the six months ended March 31, 2012 as compared to a net loss of $57 million for the six months ended March 31, 2011. The increase was driven by increases in interest expense and income tax expense, partially offset by an increase in operating income noted above.

Noncontrolling interest

Net income attributable to noncontrolling interest for the six months ended March 31, 2012 was $2 million and net loss attributable to noncontrolling interest for the six months ended March 31, 2011 was $1 million.

Business Segment Results

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

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
		(in millions)		
Recorded Music				
Revenue	$ 1,164	$ 1,214	$ (50)	-4%
OIBDA	150	144	6	4%
Operating income	$ 68	$ 57	$ 11	19%
Music Publishing				
Revenue	$ 251	$ 257	$ (6)	-2%
OIBDA	72	68	4	6%
Operating income	$ 38	$ 31	$ 7	23%
Corporate expenses and eliminations				
Revenue	$ (8)	$ (9)	$ 1	-11%
OIBDA	(38)	(40)	2	-5%

Operating loss	$ (45)	$ (45)	$	
Total				
Revenue	$ 1,407	$ 1,462	$ (55)	-4%
OIBDA	184	172	12	7%
Operating income	$ 61	$ 43	$ 18	42%

Recorded Music

Revenues

Recorded Music revenues decreased by $50 million to $1.164 billion for the six months ended March 31, 2012 from $1.214 billion for the six months ended March 31, 2011. Prior to intersegment eliminations, Recorded Music revenues represented 83% of consolidated revenues for the six months ended March 31, 2012 and March 31, 2011. U.S. Recorded Music revenues were $469 million and $503 million, or 40% and 41% of consolidated Recorded Music revenues for the six months ended March 31, 2012 and March 31, 2011, respectively. International Recorded Music revenues were $695 million and $711 million, or 60% and 59% of consolidated Recorded Music revenues for the six months ended March 31, 2012 and March 31, 2011, respectively.

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This performance reflected a light post-holiday release schedule in the current period partially offset by a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé s Christmas. The success of this release helped offset the continued decline of physical sales. In addition, the decline in revenues from our European concert promotion business reflected the timing and composition of touring schedules in the current period as compared with the prior-year period. Licensing revenues decreased $13 million, or 11%, due primarily to timing. Digital revenues increased by $44 million, or 11%, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand.

Cost of revenues

Recorded Music cost of revenues is composed of the following amounts:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
	(in millions)			
Artist and repertoire costs	$ 319	$ 338	$ (19)	-6%
Product costs	248	268	(20)	-7%
Licensing costs	41	38	3	8%
Total cost of revenues	**$ 608**	**$ 644**	**$ (36)**	**-6%**

Recorded Music cost of revenues decreased $36 million, or 6%, for the six months ended March 31, 2012. The decrease in artist and repertoire costs was driven by the decrease in revenue for the current period, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract. The decrease in product costs was primarily as a result of the decrease in product costs resulting from lower physical revenue in the current-year quarter and lower non-traditional recorded music business costs related to the decrease in revenue from our European concert promotion businesses. Costs associated with our non-traditional recorded music businesses are primarily recorded as a component of product costs. Expressed as a percentage of Recorded Music revenues, cost of revenues were 52% and 53% for the six months ended March 31, 2012 and March 31, 2011, respectively.

Selling, general and administrative expense

Recorded Music selling, general and administrative expense is composed of the following amounts:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
	(in millions)			
General and administrative expense (1)	$ 199	$ 200	$ (1)	-1%
Selling and marketing expense	193	209	(16)	-8%
Distribution expense	29	30	(1)	-3%
Total selling, general and administrative expense	**$ 421**	**$ 439**	**$ (18)**	**-4%**

(1) Includes depreciation expense of $15 million and $13 million for the six months ended March 31, 2012 and March 31, 2011, respectively.

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Recorded Music selling, general and administrative expense decreased $18 million, for the six months ended March 31, 2012. The decrease in selling and marketing expense was primarily the result of our efforts to better align selling and marketing expenses with revenues earned and continued cost-management efforts. The decrease in general and administrative expense was driven by previously announced cost savings initiatives, lower severance charges of $5 million in the current period and prior-year charges for share-based compensation expense, partially offset by higher variable compensation expense and an increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense remained flat at 36% for both the six months ended March 31, 2012 and March 31, 2011.

OIBDA and Operating Income

Recorded Music operating income included the following:

	Successor	Predecessor		
	For the Six Months Ended March 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
		(in millions)		
OIBDA	$ 150	$ 144	$ 6	4%
Depreciation and amortization expense	(82)	(87)	5	-6%
Operating income	**$ 68**	**$ 57**	**$ 11**	**19%**

Recorded Music OIBDA increased by $6 million, or 4%, to $150 million for the six months ended March 31, 2012 compared to $144 million for the six months ended March 31, 2011. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 13% for the six months ended March 31, 2012 from 12% for the six months ended March 31, 2011. Our Recorded Music OIBDA increase was primarily driven by the strong sales performance of Michael Bublé s Christmas, which increased overall margin due to reductions in proportionate marketing spend, previously announced cost savings initiatives, decreases in selling and marketing expense, a cost recovery benefit related to the early termination of an artist contract and lower severance charges, partially offset by an increase in variable compensation expense.

Recorded Music operating income increased by $11 million, due primarily to the increase in OIBDA noted above and a decrease in amortization expense driven by the extended useful lives of certain intangible assets recorded in connection with the Merger, partially offset by an increase in depreciation expense.

Music Publishing

Revenues

Music Publishing revenues decreased by $6 million, or 2%, to $251 million for the six months ended March 31, 2012 from $257 million for the six months ended March 31, 2011. Prior to intersegment eliminations, Music Publishing revenues represented 17% of consolidated revenues for the six months ended March 31, 2012 and March 31, 2011. U.S. Music Publishing revenues were $96 million and $100 million, or 38% and 39% of Music Publishing revenues for the six months ended March 31, 2012 and March 31, 2011, respectively. International Music Publishing revenues were $155 million and $157 million, or 62% and 61% of Music Publishing revenues for the six months ended March 31, 2012 and March 31, 2011, respectively.

The decrease in Music Publishing revenue was driven primarily by a decrease in mechanical revenue, partially offset by slight increases in performance revenue, digital revenue and synchronization revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry. The increase in performance revenue was driven by a stronger advertising market, strong chart positions as well as recent acquisitions, partially offset by a reduction in U.S. radio license fees. The increase in digital revenue reflected growth in global digital downloads, partially offset by a one-time settlement in the prior-year quarter and timing of collections. The increase in synchronization revenue reflected strength in advertising-related revenue partially offset by falloffs in other areas including videogames.

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Cost of revenues

Music Publishing cost of revenues is composed of the following amounts:

	Successor	Predecessor	
	For the Six Months Ended March 31,		*2012 vs*