Warner Music Group Corp.
Form 10-Q
May 14, 2013
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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, 2013

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

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 14, 2013 the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant s common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

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WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets

	March 31, 2013 (unaudited)	September 30, 2012 (audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 294	$ 302
Accounts receivable, less allowances of $54 and $63 million	328	398
Inventories	25	28
Royalty advances expected to be recouped within one year	119	116
Deferred tax assets	51	51
Other current assets	66	44
Total current assets	883	939
Royalty advances expected to be recouped after one year	147	142
Property, plant and equipment, net	138	152
Goodwill	1,384	1,380
Intangible assets subject to amortization, net	2,371	2,499
Intangible assets not subject to amortization	102	102
Other assets	83	64
Total assets	$ 5,108	$ 5,278
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 137	$ 156
Accrued royalties	993	997
Accrued liabilities	198	253
Accrued interest	76	89
Deferred revenue	145	101
Current portion of long-term debt	30	
Other current liabilities	9	10
Total current liabilities	1,588	1,606
Long-term debt	2,181	2,206
Deferred tax liabilities	343	375
Other noncurrent liabilities	141	147
Total liabilities	4,253	4,334
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 and 1,000 shares issued and outstanding)		
Additional paid-in capital	1,128	1,129
Accumulated deficit	(221)	(143)
Accumulated other comprehensive loss, net	(71)	(59)
Total Warner Music Group Corp. equity	836	927
Noncontrolling interest	19	17

Total equity	855	944
Total liabilities and equity	$ 5,108	$ 5,278

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
	(in millions)			
Revenues	$ 675	$ 623	$ 1,444	$ 1,398
Costs and expenses:				
Cost of revenues	(329)	(318)	(737)	(738)
Selling, general and administrative expenses (a)	(242)	(233)	(504)	(501)
Amortization of intangible assets	(47)	(50)	(95)	(98)
Total costs and expenses	(618)	(601)	(1,336)	(1,337)
Operating income	57	22	108	61
Loss on extinguishment of debt			(83)	
Interest expense, net	(49)	(56)	(102)	(113)
Other (expense) income, net	(4)	2	(9)	
Income (loss) before income taxes	4	(32)	(86)	(52)
Income tax (expense) benefit		(2)	11	(8)
Net income (loss)	4	(34)	(75)	(60)
Less: income attributable to noncontrolling interest	(2)	(2)	(3)	(2)
Net income (loss) attributable to Warner Music Group Corp.	$ 2	$ (36)	$ (78)	$ (62)
(a) Includes depreciation expense of:	$ (12)	$ (13)	$ (25)	$ (25)

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Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	**2012**	**2013**	**2012**
	(in millions)			
Net income (loss)	$ 4	$ (34)	$ (75)	$ (60)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(14)	6	(12)	(8)
Other comprehensive (loss) income, net of tax:	(14)	6	(12)	(8)
Total comprehensive loss	(10)	(28)	(87)	(68)
Less: comprehensive income attributable to noncontrolling interest	(2)	(2)	(3)	(2)
Comprehensive loss attributable to Warner Music Group Corp.	$ (12)	$ (30)	$ (90)	$ (70)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2013	2012
	(in millions)	
Cash flows from operating activities		
Net loss	$ (75)	$ (60)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	83	
Depreciation and amortization	120	123
Deferred income taxes	(12)	(9)
Non-cash interest expense (income)	6	(1)
Equity losses, including distributions	4	
Stock-based compensation	4	
Changes in operating assets and liabilities:		
Accounts receivable	64	76
Inventories	2	2
Royalty advances	(10)	21
Accounts payable and accrued liabilities	(74)	(41)
Royalty payables	12	26
Accrued interest	(13)	34
Deferred income	46	2
Other balance sheet changes	(32)	(27)
Net cash provided by operating activities	125	146
Cash flows from investing activities		
Investment and acquisition of businesses	(5)	(5)
Acquisition of publishing rights	(11)	(13)
Proceeds from the sale of music catalog		2
Capital expenditures	(13)	(13)
Net cash used in investing activities	(29)	(29)
Cash flows from financing activities		
Proceeds from draw down of the New Revolving Credit Facility	31	
Repayment of the New Revolving Credit Facility	(31)	
Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes	500	
Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes	227	
Proceeds from Acquisition Corp Term Loan Facility, net	594	
Repayment of Acquisition Corp 9.5% Senior Subordinated Notes	(1,250)	
Financing fees paid for early redemption of debt	(127)	
Deferred financing costs paid	(33)	
Amortization of Term Loan	(8)	
Distribution to noncontrolling interest holders		(2)
Net cash used in financing activities	(97)	(2)
Effect of exchange rate changes on cash and equivalents	(7)	3

Net (decrease) increase in cash and equivalents	(8)	118
Cash and equivalents at beginning of period	302	154
Cash and equivalents at end of period	$ 294	$ 272

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, 2012	**1,000**	**$ 0.001**	**$ 1,129**	**$ (143)**	**$ (59)**	**$ 927**	**$ 17**	**$ 944**
Net (loss) income				(78)		(78)	3	(75)
Deconsolidation of entity			(1)			(1)		(1)
Other comprehensive loss					(12)	(12)		(12)
Distribution to noncontrolling interests							(1)	(1)
Stock dividend	55							
Balance at March 31, 2013	**1,055**	**$ 0.001**	**$ 1,128**	**$ (221)**	**$ (71)**	**$ 836**	**$ 19**	**$ 855**

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, a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Merger Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger). 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.

On the Merger 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).

In connection with the Merger, the Company delisted its common stock from listing on the NYSE. The Company continues to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) in accordance with certain covenants contained in the instruments covering its outstanding indebtedness.

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

Recorded Music Operations

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

In the 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. 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. Internationally the Company engages in the same activities as in the U.S.: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, the Company also markets and distributes the records of those artists for whom the Company s U.S. record labels have international rights. In certain smaller markets, the Company 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 the Company provides resources to coordinate tours for the Company s artists and other artists.

Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (WEA Corp.), which markets and sells music and DVD products to retailers and wholesale distributors in the U.S., Alternative Distribution Alliance (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.

In addition to the Company s Recorded Music products being sold in physical retail outlets, 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 such as Apple s iTunes and Google Play, and are otherwise exploited by online subscription services such as Spotify, Rhapsody and Deezer, and Internet radio services such as Pandora and iHeart Radio.

The Company has integrated the sale of digital content into all aspects of its Recorded Music and Music Publishing businesses including Artist & Repertoire (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 at least the next several years and will provide new opportunities to successfully monetize its assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and 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.

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.

The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities will permit it to diversify revenue streams and capitalize on revenue opportunities in merchandising, fan clubs, sponsorship and touring. This will provide for improved long-term relationships with artists and allow the Company to more effectively connect artists and fans.

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 rights holders, the Company s Music Publishing business, Warner/Chappell Music, garners a share of the revenues generated from use of the song.

Warner/Chappell is headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Warner/Chappell 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. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. Since 2012, Warner/Chappell has been making an effort to build up its film and TV music business, with the acquisitions of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. The Company s production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, and is 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 notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2013.

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The consolidated balance sheet at September 30, 2012 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 fiscal year ended September 30, 2012 (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. All 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, 2013 and March 31, 2012 relate to the three-month periods ended March 29, 2013 and March 30, 2012, 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 that other than as described in Note 12, no additional disclosures are necessary.

New Accounting Pronouncements

During the first quarter of fiscal 2013, the Company adopted 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 operations and other comprehensive income. The Company simultaneously adopted 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. The adoption of these standard updates did not have a significant impact on the Company s financial statements, other than presentation.

During the first quarter of fiscal 2013, the Company adopted 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. The adoption of this standard update did not have an impact on the Company s financial statements.

During the first quarter of fiscal 2013, the Company adopted ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which provides entities with an option to perform a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. The adoption of this standard update did not have an impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to clarify which financial assets and financial liabilities are included within the scope of ASU 2011-11. These ASUs require additional quantitative and qualitative disclosures over financial instruments and derivative instruments that are offset on the balance sheet or subject to master netting arrangements. Both ASUs are effective for annual and interim reporting periods for fiscal years beginning on or after January 1, 2013. The adoption of these standards is not expected to have a significant impact on the Company s financial statements, other than presentation.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires entities to disclose, in one place, information about the amounts reclassified out of accumulated other comprehensive income by component. ASU 2013-02 is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2012. The adoption of this standard is not expected to have a significant impact on the Company s financial statements, other than disclosure.

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3. Accumulated Other 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 (in millions):

	Foreign Currency Translation Loss	Minimum Pension Liability	Deferred Gains On Derivative Financial Instruments (in millions)	Accumulated Other Comprehensive Loss
Balance at September 30, 2012	**$ (54)**	**$ (6)**	**$ 1**	**$ (59)**
Activity through March 31, 2013	(12)			(12)
Balance at March 31, 2013	**$ (66)**	**$ (6)**	**$ 1**	**$ (71)**

4. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the six months ended March 31, 2013 (in millions):

	Recorded Music	Music Publishing (in millions)	Total
Balance at September 30, 2012	**$ 916**	**$ 464**	**$ 1,380**
Acquisitions			
Dispositions			
Other adjustments	4		4
Balance at March 31, 2013	**$ 920**	**$ 464**	**$ 1,384**

The Company performs its annual goodwill impairment test in accordance with FASB ASC Topic 350, *Intangibles Goodwill and other* (ASC 350) during the fourth quarter of each fiscal year. The Company will 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 (in millions):

	March 31, 2013	September 30, 2012
	(in millions)	
Intangible assets subject to amortization:		
Recorded music catalog	$ 538	$ 547
Music publishing copyrights	1,494	1,508
Artist and songwriter contracts	651	667
Trademarks	7	7
	2,690	2,729
Accumulated amortization	(319)	(230)
Total net intangible assets subject to amortization	2,371	2,499
Intangible assets not subject to amortization:		
Trademarks and brands	102	102
Total net other intangible assets	$ 2,473	$ 2,601

5. Debt

Debt Capitalization

Long-term debt, including the current portion, consisted of the following (in millions):

	March 31, 2013	September 30, 2012
	(in millions)	
Old Revolving Credit Facility (a)	$	$
New Revolving Credit Facility (b)		
Term Loan Facility due 2018 Acquisition Corp (c)	587	
9.5% Senior Secured Notes due 2016 Acquisition Corp (d)		1,151
9.5% Senior Secured Notes due 2016 Acquisition Corp (e)		156
6.00% Senior Secured Notes due 2021 Acquisition Corp	500	
6.25% Senior Secured Notes due 2021 Acquisition Corp (f)	224	
11.5% Senior Notes due 2018 Acquisition Corp (g)	750	749
13.75% Senior Notes due 2019 Holdings	150	150
Total debt	$ 2,211	$ 2,206
Less: current portion	30	
Total long term debt	$ 2,181	$ 2,206

(a) Reflects $60 million of commitments under the Old Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at September 30, 2012. There were no loans outstanding under the Old Revolving Credit Facility as of September 30, 2012. The Old Revolving Credit Facility was retired in connection with the 2012 Refinancing and replaced with the New Revolving Credit Facility.

(b) Reflects $150 million of commitments under the New Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at March 31, 2013. There were no loans outstanding under the New Revolving Credit Facility as of March 31, 2013.

(c) Principal amount of $592 million less unamortized discount of $5 million. Of this amount, $30 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long term debt at March 31, 2013.

(d) Face amount of $1.1 billion plus unamortized premiums of $51 million at September 30, 2012. All outstanding amounts were repaid in full as part of the 2012 Refinancing.

(e) Face amount of $150 million plus unamortized premiums of $6 million at September 30, 2012. All outstanding amounts were repaid in full as part of the 2012 Refinancing.

(f) Face amount of 175 million. Amount above represents the dollar equivalent of such notes at March 31, 2013.

(g) Face amount of $765 million less unamortized discounts of $15 million and $16 million at March 31, 2013 and September 30, 2012, respectively.

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2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing (the 2012 Refinancing) of its then outstanding senior secured notes due 2016 (the Old Secured Notes). In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of Senior Secured Notes due 2021 and 175 million aggregate principal amount of Senior Secured Notes due 2021 (the New Secured Notes) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the Term Loan Facility) and a $150 million revolving credit facility (the New Revolving Credit Facility and, together with Term Loan Facility, the New Senior Credit Facilities). Acquisition Corp. is the borrower under the New Revolving Credit Facility (the Revolving Borrower) and under the Term Loan Facility (the Term Loan Borrower). The proceeds from the 2012 Refinancing, together with $101 million of the Company s available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company s previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the Old Secured Notes) as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million Revolving Credit Facility (the Old Revolving Credit Facility) in connection with the 2012 Refinancing, replacing it with the New Revolving Credit Facility. The Company also borrowed $31 million under the New Revolving Credit Facility as part of the 2012 Refinancing, which loans were repaid in full on December 3, 2012.

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

The Company recorded a loss on extinguishment of debt of approximately $83 million in the six months ended March 31, 2013, which represents the difference between the redemption payment and the carrying value of the debt at the refinancing date, which included the principal value of $1.250 billion, plus unamortized premiums of $55 million, less unamortized debt issuance costs of $11 million related to the Old Secured Notes.

Interest Rates

The loans under the Revolving Credit Agreement bear interest at Revolving Borrower s election at a rate equal to (i) the rate for deposits in the currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Revolving LIBOR Rate), plus 3.50% 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 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum, plus, in each case, 2.50% per annum.

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

The New Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The New Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the New Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

The loans under the Term Loan Credit Agreement bear interest at Term Loan Borrower s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR Rate), plus 4.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum, plus, in each case, 3.00% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.25%.

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

Customary fees will be payable in respect of the Term Loan Facility.

See also Financial Condition and Liquidity for a further discussion.

Scheduled Amortization of Term Loan

The Term Loans under the Term Loan Facility will amortize in equal quarterly installments in aggregate annual amounts equal to 5.00% of the original principal amount of the Term Loan Facility with the balance payable on maturity date of the Term Loans. The first quarterly installment was paid in the current three month period ended March 31, 2013.

Maturities of Credit Agreements

The Term Loan Facility matures on November 1, 2018. The New Revolving Credit Facility matures on November 1, 2017.

Maturities of Senior Notes

As of March 31, 2013, there are no scheduled maturities until 2018 ($765 million). Thereafter, $874 million is scheduled to mature.

Interest Expense

Total interest expense, net was $49 million and $56 million for the three months ended March 31, 2013 and March 31, 2012, respectively and $102 million and $113 million for the six months ended March 31, 2013 and March 31, 2012, respectively. The weighted-average interest rate of the Company s total debt was 8.3% and 10.5% for the three and six months ended March 31, 2013 and March 31, 2012, respectively.

6. Share-Based Compensation Plan

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

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (the Plan). Eligible individuals include any employee, consultant or officer of the Company or any of its affiliates, who is selected by the Company s compensation committee to participate in the Plan. Under the Plan, participants are allocated a specific portion of the Company s free cash flow to use to purchase the equivalent of Company stock through a purposely established LLC holding company. The Company s Board of Directors authorized the LLC (the LLC) to purchase up to 82.1918 shares of the Company s common stock pursuant to the Plan; there are currently 55 shares issued and outstanding to the LLC. The Company will allocate shares to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined and may grant unallocated shares under the Plan to certain members of current or future management.

At the time that annual free cash flow bonuses for such Plan year are determined, a participant shall be granted and credited an equal number of deferred equity units and related matching equity units based on their respective allocation. Deferred equity units granted under the Plan generally will vest between one and seven years and the redemption price will equal the fair market value of the Company s stock on the date of the settlement. Matching equity units granted under the Plan generally will vest between three and seven years and the redemption price will equal the excess, if any, of the then fair market value of one Company fractional share over the grant date fair value. All deferred and matching equity units will be settled in three installments in December 2018, 2019, and 2020. The deferred units will be settled at the participant s election for cash equal to the fair market value or one fractional company share. The matching units will be settled for cash equal to the redemption price. In December 2020, all outstanding shares become mandatorily redeemable at the then fair market value. Due to this mandatory redemption clause, the Company has classified the awards under the Plan as liability instruments. Dividend distributions, if any, are also paid out on vested units and are calculated on the same basis as the Company s common shares. The Company has applied a graded (tranche-by-tranche) attribution method and expenses deferred stock-based compensation on an accelerated basis over the vesting period of the share award.

The following is a summary of the Company s share awards for the quarter ended March 31, 2013:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Exercise Price	Matching Equity Units Weighted-Average Exercise Price	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at January 1, 2013			$	$	$	$

Granted	25	25	107.13	107.13	107.13	107.13
Vested						
Forfeited	(1)	(1)	107.13	107.13	107.13	107.13
Unvested units at March 31, 2013	**24**	**24**	**107.13**	**107.13**	**107.13**	**107.13**

The weighted-average grant date intrinsic value of share awards for the quarter ended March 31, 2013 was $107.13. There were no shares that vested in the period. There was no such activity in the comparable quarter last year.

Compensation Expense

The Company recognized non-cash compensation expense related to its stock-based compensation plan of $4 million for the quarter ended March 31, 2013. There was no such expense in the comparable quarter last year. Of the $4 million, $3 million related to awards for employees and $1 million related to awards for non-employees.

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In addition, as of March 31, 2013, the Company had approximately $22 million of unrecognized compensation costs related to its unvested share awards. The remaining weighted average period over which total compensation related to unvested awards is expected to be recognized is 2.25 years.

7. Commitments and Contingencies

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain, for the class of Internet Music purchasers. The parties have filed amended pleadings complying with the court s order, and the case is currently in discovery. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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 between February 2, 2012 and March 10, 2012. The lawsuits, which were brought by various recording artists, all allege that the Company has improperly calculated the royalties due to 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, including us. 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. In a June 1, 2012 Order, the Court consolidated the cases and appointed interim co-lead class counsel. Plaintiffs filed a consolidated, master complaint on August 21, 2012. All deadlines have been stayed until June 27, 2013 to allow for settlement of this dispute. If a settlement has not been reached by that date and if the parties agree that further settlement discussions would be fruitful, the parties can file a joint statement/stipulation seeking additional time for further settlement negotiations. In the alternative, the parties would file a joint statement/stipulation with the Court alerting the Court to the fact that settlement could not be reached and resetting a litigation schedule. Settlement discussions are ongoing. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company s brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company s results of operations for a given reporting period.

8. Derivative Financial Instruments

Foreign Currency Risk Management

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, including Euro denominated debt. 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 11.

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.

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. For hedges of financing transactions and other balance sheet items, hedge gains and losses are taken directly to the statement of operations where there is an equal and offsetting 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.

As of March 31, 2013, the Company had outstanding hedge contracts for the sale of $332 million and the purchase of $262 million of foreign currencies at fixed rates. As of March 31, 2013, the Company had $1 million of deferred gains in comprehensive loss related to foreign exchange hedging. As of September 30, 2012, the Company had outstanding hedge contracts for the sale of $349 million and the purchase of $21 million of foreign currencies at fixed rates. As of September 30, 2012, the Company had $1 million of deferred gains in comprehensive loss related to foreign exchange hedging.

Interest Rate Risk Management

The Company has $2.211 billion of debt outstanding at March 31, 2013, of which $587 million is variable rate debt. As such, the Company is exposed to changes in interest rates. The Company manages this exposure through the fixed-to-floating debt ratio; currently 73% of the Company s debt is at a fixed rate. In addition, at March 31, 2013, all of the Company s floating rate debt under our Term Loan Facility was subject to a LIBOR floor of 1.25%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed-rate debt until such time as the LIBOR rate moves higher than the floor.

In addition to the $587 million of variable rate debt, the Company also had $1.624 billion of fixed-rate debt. Based on the level of interest rates prevailing at March 31, 2013, the fair value of this fixed-rate debt was approximately $1.831 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 $13 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

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

9. 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 fiscal year ended September 30, 2012. 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 (in millions):

Three Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2013				

Revenues	$ 554	$ 127	$ (6)	$ 675
OIBDA	87	53	(24)	116
Depreciation of property, plant and equipment	(9)	(1)	(2)	(12)
Amortization of intangible assets	(32)	(15)		(47)
Operating income (loss)	$ 46	$ 37	$ (26)	$ 57
March 31, 2012				
Revenues	$ 499	$ 127	$ (3)	$ 623
OIBDA	49	53	(17)	85
Depreciation of property, plant and equipment	(7)	(2)	(4)	(13)
Amortization of intangible assets	(34)	(16)		(50)
Operating income (loss)	$ 8	$ 35	$ (21)	$ 22

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Six Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2013				
Revenues	$ 1,211	$ 243	$ (10)	$ 1,444
OIBDA	201	69	(42)	228
Depreciation of property, plant and equipment	(16)	(3)	(6)	(25)
Amortization of intangible assets	(65)	(30)		(95)
Operating income (loss)	$ 120	$ 36	$ (48)	$ 108
March 31, 2012				
Revenues	$ 1,158	$ 248	$ (8)	$ 1,398
OIBDA	153	69	(38)	184
Depreciation of property, plant and equipment	(15)	(3)	(7)	(25)
Amortization of intangible assets	(67)	(31)		(98)
Operating income (loss)	$ 71	$ 35	$ (45)	$ 61

10. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $110 million and $79 million during the six months ended March 31, 2013 and March 31, 2012, respectively. The increase in cash interest is due to timing of interest payments resulting from the refinancing of debt in the current period and the financing at the time of the Merger. The Company paid approximately $8 million and $24 million of income and withholding taxes, net of refunds, during the six months ended March 31, 2013 and March 31, 2012, respectively. The $24 million of cash tax payments during the six months ended March 31, 2012 includes $15 million of a payment relating to the settlement of an income tax audit in Germany. This payment was fully reimbursed to the Company by Time Warner 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.

11. 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, 2013 and September 30, 2012. Balances in other current and other non-current liabilities represent purchase obligations and contingent consideration related to our various acquisitions. 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 (expense) income, net, in the statement of operations.

	Fair Value Measurements as of March 31, 2013			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 8	$	$ 8
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (9)	$	$ (9)
Other Current Liabilities:				
Contractual Obligations (b)	$	$	$ (2)	$ (2)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (10)	$ (10)
Total	**$**	**$ (1)**	**$ (12)**	**$ (13)**

	Fair Value Measurements as of September 30, 2012			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$	$	$
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (5)	$	$ (5)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (11)	$ (11)
Total	**$**	**$ (5)**	**$ (11)**	**$ (16)**

(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.

(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. These amounts were mainly calculated using unobservable inputs such as future earnings performance of our various acquisitions and the expected timing of the payment. The change represents the increase in contingent consideration on a previous acquisition.

The majority of the Company s non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant, and equipment, are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that 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.

12. Subsequent Events

Debt Repayment

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility. Acquisition Corp. also issued an irrevocable notice of redemption relating to $50 million in aggregate principal amount of its currently outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its currently outstanding 6.250% Senior Secured Notes due 2021 (the Notes Redemption).

Term Loan Credit Agreement Amendment

On May 9, 2013, Acquisition Corp. entered into an incremental commitment amendment (the Term Loan Credit Agreement Amendment) to its existing Term Loan Credit Agreement, among Acquisition Corp., Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (as so amended, the Amended Term Loan Credit Agreement). The Amended Term Loan Credit Agreement provides for a $820 million delayed draw senior secured term loan facility (the Incremental Term Loan Facility) and the Term Loan Credit Agreement Amendment (i) effectuated a reduction of the applicable interest margin and the Term Loan LIBOR Rate floor for term loans outstanding on the date of the amendment and (ii) extends the maturity of term loans outstanding on the date of the amendment. The proceeds of the Incremental Term Loan Facility will be used to consummate the acquisition of the Parlophone Label Group from Universal Music Group (the Transaction), to pay fees, costs and expenses related to the Transaction and for general corporate purposes of Acquisition Corp. and its subsidiaries.

The rate at which the loans under the Amended Term Loan Credit Agreement bear interest is equal to, at Term Loan Borrower s election (i) the Term Loan LIBOR Rate plus 2.75% per annum or (ii) the Term Loan Base Rate plus 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%.

Loans outstanding under the Amended Term Loan Credit Agreement will amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of indebtedness outstanding under the Amended Term Loan Credit Agreement with the balance payable on the maturity date of the term loans. The first quarterly installment is scheduled to be paid on December 31, 2013. The loans outstanding under the Amended Term Loan Credit Agreement mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the Unsecured WMG Notes) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Revolving Credit Facility

Acquisition Corp. entered into an amendment, dated April 23, 2013 (the Revolving Credit Agreement Amendment) to the New Revolving Credit Facility. The Revolving Credit Agreement Amendment reduces the applicable interest rate margin under the New Revolving Credit Facility and increases flexibility under the New Revolving Credit Facility to make investments in non-guarantors so as to permit internal reorganizations and optimization of ownership structure in foreign subsidiaries. Effective as of May 9, 2013, the rate at which the loans under the Amended Revolving Credit Agreement bear interest is equal to, at Revolving Borrower s election (i) the Revolving LIBOR Rate plus 2.00% per annum or (ii) the Revolving Base Rate plus 1.00% per annum.

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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 the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 11.50% Senior Notes due 2018 (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 Company has revised its presentation for the Guarantor and Non-Guarantor Financial Information from what was filed in our Form 10-Q for March 31, 2012. The Company uses the equity method to account for its investment in its subsidiaries. The revised presentation reflects adjustments to certain equity, intercompany and investment balances primarily to properly reflect the impact of purchase accounting in the consolidating balance sheet. We have also revised the presentation of our statement of cash flows and reclassified the activity for our Parent Company from Operating Activities to Investing Activities and for our Guarantor subsidiaries from Operating Activities to Financing Activities. The principal elimination entries eliminate investments in subsidiaries and intercompany balances.

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 notes are guaranteed on a senior secured basis and the unsecured 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 Acquisition Corp. Notes and the credit agreements for the Acquisition Corp. New Senior Credit Facilities, 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, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets:									
Current assets:									
Cash and equivalents	$ 44	$ 94	$ 146	$	$ 284	$ 10	$	$	$ 294
Accounts receivable, net		165	163		328				328
Inventories		9	16		25				25
Royalty advances expected to be recouped within one year		75	44		119				119
Deferred tax assets		35	16		51				51
Other current assets		16	50		66				66
Total current assets	44	394	435		873	10			883
Royalty advances expected to be recouped after one year		93	54		147				147
Investments in and advances to (from) consolidated subsidiaries	3,020	789		(3,809)		978	836	(1,814)	
Property, plant and equipment, net		99	39		138				138
Goodwill		1,379	5		1,384				1,384
Intangible assets subject to amortization, net		1,041	1,330		2,371				2,371
Intangible assets not subject to amortization		75	27		102				102
Due (to) from parent companies		92	(92)						
Other assets	51	13	12	(1)	75	8			83
Total assets	$ 3,115	$ 3,975	$ 1,810	$ (3,810)	$ 5,090	$ 996	$ 836	$ (1,814)	$ 5,108
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$ 3	$ 82	$ 52	$	$ 137	$	$	$	$ 137
Accrued royalties		622	371		993				993
Accrued liabilities	1	84	113		198				198
Accrued interest	66				66	10			76
Deferred revenue		89	56		145				145
Current portion of long-term debt	30				30				30
Other current liabilities		15	(9)	3	9				9
Total current liabilities	100	892	583	3	1,578	10			1,588
Long-term debt	2,031				2,031	150			2,181
Deferred tax liabilities, net		147	196		343				343
Other noncurrent liabilities	6	45	90		141				141
Total liabilities	2,137	1,084	869	3	4,093	160			4,253

Total Warner Music Group Corp. equity (deficit)	978	2,891	922	(3,813)	978	836	836	(1,814)	836
Noncontrolling interest			19		19				19
Total equity (deficit)	978	2,891	941	(3,813)	997	836	836	(1,814)	855
Total liabilities and equity (deficit)	$ 3,115	$ 3,975	$ 1,810	$ (3,810)	$ 5,090	$ 996	$ 836	$ (1,814)	$ 5,108

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet

September 30, 2012

	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)				
Assets:									
Current assets:									
Cash and equivalents	$ 44	$ 105	$ 143	$	$ 292	$ 10	$	$	$ 302
Accounts receivable, net		158	240		398				398
Inventories		11	17		28				28
Royalty advances expected to be recouped within one year		67	49		116				116
Deferred tax assets		35	16		51				51
Other current assets	7	8	29		44				44
Total current assets	51	384	494		929	10			939
Royalty advances expected to be recouped after one year		82	60		142				142
Investments in and advances to (from) consolidated subsidiaries	3,133	621		(3,754)		1,070	926	(1,996)	
Property, plant and equipment, net		108	44		152				152
Goodwill		1,375	5		1,380				1,380
Intangible assets subject to amortization, net		1,097	1,402		2,499				2,499
Intangible assets not subject to amortization		75	27		102				102
Due from (to) parent companies		176	(176)						
Other assets	32	12	13		57	6	1		64
Total assets	$ 3,216	$ 3,930	$ 1,869	$ (3,754)	$ 5,261	$ 1,086	$ 927	$ (1,996)	$ 5,278
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$	$ 81	$ 75	$	$ 156	$	$	$	$ 156
Accrued royalties		591	406		997				997
Accrued liabilities		108	145		253				253
Accrued interest	79				79	10			89
Deferred revenue		63	38		101				101
Other current liabilities		14	(7)	3	10				10
Total current liabilities	79	857	657	3	1,596	10			1,606
Long-term debt	2,056				2,056	150			2,206
Deferred tax liabilities, net		159	216		375				375
Other noncurrent liabilities	11	47	81	8	147				147

Total liabilities	2,146	1,063	954	11	4,174	160			4,334
Total Warner Music Group Corp. equity (deficit)	1,070	2,867	898	(3,765)	1,070	926	927	(1,996)	927
Noncontrolling interest			17		17				17
Total equity (deficit)	1,070	2,867	915	(3,765)	1,087	926	927	(1,996)	944
Total liabilities and equity (deficit)	$ 3,216	$ 3,930	$ 1,869	$ (3,754)	$ 5,261	$ 1,086	$ 927	$ (1,996)	$ 5,278

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 351	$ 373	$ (49)	$ 675	$	$	$	$ 675
Costs and expenses:									
Cost of revenues		(168)	(205)	44	(329)				(329)
Selling, general and administrative expenses		(126)	(113)	(3)	(242)				(242)
Amortization of intangible assets		(28)	(19)		(47)				(47)
Total costs and expenses		(322)	(337)	41	(618)				(618)
Operating income		29	36	(8)	57				57
Interest expense, net	(42)	2	(4)		(44)	(5)			(49)
Equity gains (losses) from consolidated subsidiaries	56	(28)		(28)		7	2	(9)	
Other expense, net	(7)	5	(2)		(4)				(4)
(Loss) income before income taxes	7	8	30	(36)	9	2	2	(9)	4
Income tax benefit (expense)			1	(1)					
Net (loss) income	7	8	31	(37)	9	2	2	(9)	4
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ 7	$ 8	$ 29	$ (37)	$ 7	$ 2	$ 2	$ (9)	$ 2

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2012

	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	$ (63)	$ 623	$	$	$	$ 623
Costs and expenses:									
Cost of revenues		(163)	(211)	56	(318)				(318)
Selling, general and administrative expenses		(112)	(128)	7	(233)				(233)
Amortization of intangible assets		(46)	(4)		(50)				(50)
Total costs and expenses		(321)	(343)	63	(601)				(601)
Operating income		(9)	31		22				22
Interest expense, net	(49)	2	(4)		(51)	(5)			(56)
Equity gains (losses) from consolidated subsidiaries	21	(14)		(7)		(31)	(36)	67	
Other income (expense), net	(1)	(33)	36		2				2
(Loss) income before income taxes	(29)	(54)	63	(7)	(27)	(36)	(36)	67	(32)
Income tax (expense) benefit	(2)	(1)	1		(2)				(2)
Net (loss) income	(31)	(55)	64	(7)	(29)	(36)	(36)	67	(34)
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ (31)	$ (55)	$ 62	$ (7)	$ (31)	$ (36)	$ (36)	$ 67	$ (36)

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Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 695	$ 854	$ (105)	$ 1,444	$	$	$	$ 1,444
Costs and expenses:									
Cost of revenues		(330)	(500)	93	(737)				(737)
Selling, general and administrative expenses		(249)	(267)	12	(504)				(504)
Amortization of intangible assets		(58)	(37)		(95)				(95)
Total costs and expenses		(637)	(804)	105	(1,336)				(1,336)
Operating income		58	50		108				108
Loss on extinguishment of debt	(83)				(83)				(83)
Interest expense, net	(85)	3	(9)		(91)	(11)			(102)
Equity gains (losses) from consolidated subsidiaries	97	(45)		(52)		(67)	(78)	145	
Other expense, net	(7)		(2)		(9)				(9)
(Loss) income before income taxes	(78)	16	39	(52)	(75)	(78)	(78)	145	(86)
Income tax benefit (expense)	11	10		(10)	11				11
Net (loss) income	(67)	26	39	(62)	(64)	(78)	(78)	145	(75)
Less: loss attributable to noncontrolling interest			(3)		(3)				(3)
Net (loss) income attributable to Warner Music Group Corp.	$ (67)	$ 26	$ 36	$ (62)	$ (67)	$ (78)	$ (78)	$ 145	$ (78)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2012

	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	$ (116)	$ 1,398	$	$	$	$ 1,398
Costs and expenses:									
Cost of revenues		(328)	(514)	104	(738)				(738)
Selling, general and administrative expenses		(236)	(277)	12	(501)				(501)
Amortization of intangible assets		(61)	(37)		(98)				(98)
Total costs and expenses		(625)	(828)	116	(1,337)				(1,337)
Operating income		20	41		61				61
Interest expense, net	(98)	3	(7)		(102)	(11)			(113)
Equity gains (losses) from consolidated subsidiaries	55	(27)		(28)		(51)	(62)	113	
Other income (expense), net		(9)	9						
(Loss) income before income taxes	(43)	(13)	43	(28)	(41)	(62)	(62)	113	(52)
Income tax (expense) benefit	(8)	(8)	(1)	9	(8)				(8)
Net (loss) income	(51)	(21)	42	(19)	(49)	(62)	(62)	113	(60)
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ (51)	$ (21)	$ 40	$ (19)	$ (51)	$ (62)	$ (62)	$ 113	$ (62)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ 7	$ 8	$ 31	$ (37)	$ 9	$ 2	$ 2	$ (9)	$ 4
Other comprehensive loss, net of tax:									
Foreign currency translation adjustment	(14)		(14)	14	(14)				(14)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive loss, net of tax:	(14)		(14)	14	(14)				(14)
Total comprehensive (loss) income	(7)	8	17	(23)	(5)	2	2	(9)	(10)
Comprehensive income attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (7)	$ 8	$ 15	$ (23)	$ (7)	$ 2	$ 2	$ (9)	$ (12)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (31)	$ (55)	$ 64	$ (7)	$ (29)	$ (36)	$ (36)	$ 67	$ (34)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	6		6	(6)	6				6
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	6		6	(6)	6				6
Total comprehensive (loss) income	(25)	(55)	70	(13)	(23)	(36)	(36)	67	(28)
Comprehensive loss attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (25)	$ (55)	$ 68	$ (13)	$ (25)	$ (36)	$ (36)	$ 67	$ (30)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (67)	$ 26	$ 39	$ (62)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	(12)		(12)	12	(12)				(12)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	(12)		(12)	12	(12)				(12)
Total comprehensive (loss) income	(79)	26	27	(50)	(76)	(78)	(78)	145	(87)
Comprehensive loss attributable to noncontrolling interest			(3)		(3)				(3)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (79)	$ 26	$ 24	$ (50)	$ (79)	$ (78)	$ (78)	$ 145	$ (90)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (51)	$ (21)	$ 42	$ (19)	$ (49)	$ (62)	$ (62)	$ 113	$ (60)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	(8)		(8)	8	(8)				(8)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	(8)		(8)	8	(8)				(8)
Total comprehensive (loss) income	(59)	(21)	34	(11)	(57)	(62)	(62)	113	(68)
Comprehensive loss attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (59)	$ (21)	$ 32	$ (11)	$ (59)	$ (62)	$ (62)	$ 113	$ (70)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2013

	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
Cash flows from operating activities:									
Net (loss) income	$ (67)	$ 26	$ 39	$ (62)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Loss on extinguishment of debt	83				83				83
Depreciation and amortization		77	43		120				120
Deferred income taxes			(12)		(12)				(12)
Non-cash interest expense	5				5	1			6
Equity losses (gains)	(97)	49		52	4	67	78	(145)	4
Stock based compensation expense		4			4				4
Changes in operating assets and liabilities:									
Accounts receivable	(1)	(7)	72		64				64
Inventories		1	1		2				2
Royalty advances		(18)	8		(10)				(10)
Accounts payable and accrued liabilities		31	(121)	16	(74)				(74)
Royalty payables		30	(18)		12				12
Accrued interest	(13)				(13)				(13)
Deferred income		27	19		46				46
Other balance sheet changes	2	(14)	(14)	(6)	(32)				(32)
Net cash (used in) provided by operating activities	(88)	206	17		135	(10)			125
Cash flows from investing activities:									
Investments and acquisitions of businesses		(5)			(5)				(5)
Acquisition of publishing rights		(8)	(3)		(11)				(11)
Capital expenditures		(9)	(4)		(13)				(13)
Advances to issuer	195			(195)					
Net cash provided by (used in) investing activities	195	(22)	(7)	(195)	(29)				(29)
Cash flows from financing activities:									
Dividend by Acquisition Corp to Holdings Corp	(12)				(12)	12			
Change in due to (from) to issuer		(195)		195					
Proceeds from draw down of the New Revolving Credit Facility	31				31				31
Repayment of the New Revolving Credit Facility	(31)				(31)				(31)
Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes	500				500				500
	227				227				227

Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes									
Proceeds from Acquisition Corp Term Loan Facility, net	594				594				594
Repayment of Acquisition Corp 9.5% Senior Subordinated Notes	(1,250)				(1,250)				(1,250)
Financing fees paid for early redemption of debt	(127)				(127)				(127)
Deferred financing costs paid	(31)				(31)	(2)			(33)
Amortization of Term Loan	(8)				(8)				(8)
Net cash (used in) provided by financing activities	(107)	(195)		195	(107)	10			(97)
Effect of foreign currency exchange rate changes on cash			(7)		(7)				(7)
Net (decrease) increase in cash and equivalents		(11)	3		(8)				(8)
Cash and equivalents at beginning of period	44	105	143		292	10			302
Cash and equivalents at end of period	$ 44	$ 94	$ 146	$	$ 284	$ 10	$	$	$ 294

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2012

	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	(51)	(21)	42	(19)	$ (49)	$ (62)	$ (62)	$ 113	$ (60)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization		79	44		123				123
Deferred income taxes			(9)		(9)				(9)
Non-cash interest expense (income)	(1)				(1)				(1)
Equity losses (gains)	(55)	27	(1)	29		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		(35)	4	(10)	(41)				(41)
Royalty payables		29	(3)		26				26
Accrued interest	28				28	6			34
Deferred income		(7)	9		2				2
Other balance sheet changes	38	(27)	(39)		(28)	1			(27)
Net cash (used in) provided by operating activities	(33)	98	85		150	(4)			146
Cash flows from investing activities:									
Acquisition of publishing rights		(6)	(7)		(13)				(13)
Proceeds from the sale of music catalog		2			2				2
Advances to issuer	60			(60)					
Investments and acquisitions of businesses			(5)		(5)				(5)
Capital expenditures		(10)	(3)		(13)				(13)
Net cash provided by (used in) investing activities	60	(14)	(15)	(60)	(29)				(29)
Cash flows from financing activities:									
Dividend by Acquisition Corp. to Holdings Corp.		(10)			(10)	10			
Distribution to noncontrolling interest holder			(2)		(2)				(2)
Change in due to (from) to issuer		(60)		60					

Net cash (used in) provided by financing activities		(70)	(2)	60	(12)	10			(2)
Effect of foreign currency exchange rate changes on cash			3		3				3
Net (decrease) 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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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, 2013 (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 the consummation of the acquisition of the Parlophone Label Group from Universal Music Group (the Transaction), including any related financing and the realization of any benefits following the consummation of the Transaction, 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 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:

- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- downward pressure on our pricing and our profit margins and reductions in shelf space;
- our ability to identify, sign and retain artists and songwriters and the existence or absence of superstar releases;
- threats to our business associated with home copying and Internet downloading;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;

the diversity and quality of our album releases;

the impact of legitimate channels for digital distribution of our creative content;

our dependence on a limited number of online music stores, in particular Apple s iTunes Music Store, for the online sale of our music recordings and their ability to significantly influence the pricing structure for online music stores;

our involvement in intellectual property litigation;

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

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

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

the failure of regulators to approve the Transaction;

the risk that the Transaction may not be completed on the expected time table, or at all;

failure to realize expected synergies and other benefits contemplated by the Transaction;

disruption from the Transaction making it more difficult to maintain certain strategic relationships;

risks relating to recent or future ratings agency actions or downgrades as a result of the Transaction, or any associated financing;

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

significant fluctuations in our operations and cash flows from period to period;

our inability to compete successfully in the highly competitive markets in which we operate;

further consolidation of our industry and its impact on the competitive landscape of the music industry, specifically the acquisition of EMI s recorded music business by Universal Music Group and the acquisition of EMI s music publishing business by a consortium led by Sony Corporation of America;

trends, developments or other events in some foreign countries in which we operate;

local economic conditions in the countries in which we operate;

our failure to attract and retain our executive officers and other key personnel;

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

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

an impairment in the carrying value of goodwill or other intangible and long-lived assets;

unfavorable currency exchange rate fluctuations;

our failure to have full control and ability to direct the operations we conduct through joint ventures;

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

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

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

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

the impact of, and risks inherent in, acquisitions or business combinations;

risks inherent to our outsourcing of information technology infrastructure and certain finance and accounting functions;

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

the impact of our substantial leverage, including any increase associated with additional indebtedness to be incurred in connection with the Transaction, on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;

the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;

the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;

our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness;

the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;

risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;

risks relating to Access, which indirectly owns all of our outstanding capital stock, and controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile;

our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and part of Europe;

risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;

changes in law and government regulations; and

risks related to other factors discussed under Risk Factors in this Quarterly Report.

There may be other factors not presently known to us or which we currently consider to be immaterial that could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the factors described in the Risk Factors section of this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

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

INTRODUCTION

Warner Music Group Corp. (the Company) was formed on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (Holdings), which is the direct parent of WMG Acquisition Corp. (Acquisition Corp.). Acquisition Corp. is one of the world s major music-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, a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Merger Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger). 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.

On the Merger 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).

In connection with the Merger, the Company delisted its common stock from listing on the NYSE. We continue to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) in accordance with certain covenants contained in the instruments covering our outstanding indebtedness. 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.

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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 notes thereto 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, 2013 and March 31, 2012. 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, 2013 and March 31, 2012 as well as a discussion of our financial condition and liquidity as of March 31, 2013. 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.

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.

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 $7 million, $6 million and $1 million unfavorable impact of exchange rates on our Total, Recorded Music and Music Publishing revenue, in the three months ended March 31, 2013 compared to the prior-year quarter and the $15 million, $13 million and $2 million unfavorable impact of exchange rates on our Total, Recorded Music and Music Publishing revenues in the six months ended March 31, 2013 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 play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing albums and promoting artists and their products.

In the 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 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. 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.

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

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (WEA Corp.), which markets and sells music and DVD products to retailers and wholesale distributors in the U.S., Alternative Distribution Alliance (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.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers such as Apple s iTunes and Google Play, and are otherwise exploited by online subscription services such as Spotify, Rhapsody and Deezer, and Internet radio services such as Pandora and iHeart Radio.

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including Artist & Repertoire (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 at least the next several years and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and 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, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We 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 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.

We believe that entering into expanded-rights deals and enhancing our artist services capabilities will permit us to diversify revenue streams and capitalize on revenue opportunities in merchandising, fan clubs, sponsorship and touring. This will provide for improved long-term relationships with artists and allow us to more effectively connect artists and fans.

Recorded Music revenues are derived from four main sources:

- *Physical:* the rightsholder receives revenues with respect to sales of physical products such as CDs and DVDs;
- *Digital*: the rightsholder receives revenues with respect to online and mobile downloads, mobile ringtones or ringback tones and online and mobile streaming;
- *Artist services and expanded rights*: the rightsholder receives revenues with respect to artist services businesses and our participation in expanded rights associated with our artists, including sponsorship, fan club, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management; and
- *Licensing:* the rightsholder receives royalties or fees for the right to use 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 our artist services businesses;

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.

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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, Warner/Chappell Music, garners a share of the revenues generated from use of the song.

Warner/Chappell is headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Warner/Chappell 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, 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. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, and Disney Music Publishing. Since 2012, Warner/Chappell has been making an effort to build up its film and TV music business, with the acquisition of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. Our production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, and is collectively branded as Warner/Chappell Production Music.

Publishing revenues are derived from five main sources:

- *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;

- *Mechanical:* the licensor receives royalties with respect to compositions embodied in recordings sold in any physical format or configuration (*e.g.*, CDs and DVDs);

- *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 most 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 worldwide industry basis. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time the industry grew year-over-year in 13 years, and, according to the RIAA, the U.S. recorded music industry unit sales declined by only 0.9% in 2012, a marked improvement versus a decade of steep declines prior to 2011, sales continued to fall in other countries and the industry continues to be impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. 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.

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Severance Charges

We continue to monitor our business to determine when it is appropriate to take actions to further align our cost structure with industry trends. This resulted in severance charges of $1 million for the three months ended March 31, 2013, compared to $4 million for the three months ended March 31, 2012 and $6 million for the six months ended March 31, 2013, compared to $11 million during the six months ended March 31, 2012.

Additional Targeted Savings

As of the completion of the Merger on July 20, 2011, we 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. Through March 31, 2013 we had achieved a majority of the targeted cost-savings that we identified at the time of the Merger.

EMI Related Costs

We incurred certain costs, primarily representing professional fees, related to our participation in a sales process which resulted in the sale of EMI s recorded music and music publishing businesses, including the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies, and the subsequent sale of the Parlophone Label Group by Universal Music Group. These costs amounted to approximately $3 million for the three months ended March 31, 2013 and $1 million for the three months ended March 31, 2012, and were recorded in the consolidated statements of operations within general and administrative expense.

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 early stages of 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 and 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. 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, such as manufacturing, distribution, inventory and return costs. Partially eroding that benefit are certain digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, as well as increases in mechanical copyright royalties payable to music publishers which apply in the digital space. 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 expanded-rights 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. Artist services and expanded rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 8% of our total revenue during the six months ended March 31, 2013. Artist services and expanded rights 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 artist services and expanded rights 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.

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Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the Management Agreement), pursuant to which Access provides the Company and its subsidiaries, with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, pays 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 months ended March 31, 2013 and 2012, such costs incurred by the Company were approximately $2 million, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement. For the six months ended March 31, 2013 and 2012, such costs incurred by the Company were approximately $4 million, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, but excludes $1 million of expenses in each period reimbursed related to certain consultants with full time roles at the Company. Under the Management Agreement with Access, the Company is obligated to pay Access an aggregate annual fee equal to the greater of (i) the sum of (x) $6 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) as at such time and (ii) 1.5% of the EBITDA (as defined in the indenture governing the WMG Holdings Corp. 13.75% Senior Notes due 2019 as required by the Management Agreement) of the Company for the applicable fiscal year.

Debt Repayment

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility. On May 13, 2013, Acquisition Corp. issued an irrevocable notice of redemption relating to $50 million in aggregate principal amount of its currently outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its currently outstanding 6.250% Senior Secured Notes due 2021 (the Notes Redemption).

Recent Developments

Agreement to Acquire the Parlophone Label Group

On February 7, 2013, we announced that we had signed a definitive agreement to acquire the Parlophone Label Group from Universal Music Group, a division of Vivendi, for £487 million, or approximately $745 million (based on conversion of amounts from GBP to USD of 1:1.53 as of April 12, 2013), in an all-cash transaction. References to the Transaction include the transactions contemplated by the EMI France Agreement (as defined below) unless the context otherwise requires.

In connection with the Transaction, our wholly owned subsidiary, Warner Music Holdings Limited, together with certain other Company subsidiaries, as buyers, and Acquisition Corp., as guarantor, entered into a Share Purchase Agreement, dated as of February 6, 2013 (the PLG Agreement), with certain subsidiaries of Universal Music Group, relating to the purchase of the outstanding shares of capital stock of PLG Holdco Limited and related entities composing the Parlophone Label Group. Warner Music Holdings BV also entered into a put option (the Put Option) with EMI Music France Holdco Limited (the EMI France Seller) in respect of the outstanding shares of EMI Music France SAS (EMI France). Pursuant to the terms of the Put Option, the EMI France Seller will, upon satisfaction of conditions with respect to the workers council consultation process, exercise the put option and execute the sale and purchase agreement (the EMI France Agreement) (the form of which has been agreed) between the same parties to the Put Option to transfer the outstanding shares of EMI France to Warner Music Holdings BV (the EMI France Transaction). It is intended that the transactions contemplated by the EMI France Agreement shall be consummated in connection with the consummation of the transactions contemplated by the PLG Agreement.

In connection with the entry into the PLG Agreement, on February 6, 2013, EGH1 BV and Warner Music Holdings Limited entered into a separation agreement (the Separation Agreement) and a separation plan (the Separation Plan) setting forth the respective rights and obligations of the parties thereto with respect to the separation of Parlophone Label Group and its business from that of the Sellers (as defined in the PLG Agreement) and EMI. The Separation Agreement and the Separation Plan provide, among other things, for the cooperation of the parties thereto in the identification and allocation, both before and after the completion of the Transaction, of assets and liabilities properly attributable to the buyers or to the sellers, and set forth procedures for cooperation between the parties in complying with their respective audit, tax and other reporting obligations.

The Transaction is being undertaken by Universal Music Group in order to comply with divestiture conditions imposed by the European Commission in connection with the acquisition by Universal Music Group of the recorded music business of EMI in 2012.

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The Parlophone Label Group includes a broad range of some of the world s best-known recordings and classic and contemporary artists spanning a wide array of musical genres, as well as some of the industry s leading executive talent. The Parlophone Label Group is comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K. as well as EMI Classics and Virgin Classics (EMI Classics and Virgin Classics brand names are not included with the transaction), and EMI s recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. Its artist roster and catalog of recordings include, among many others, Air, Coldplay, Daft Punk, Danger Mouse, David Guetta, Deep Purple, Duran Duran, Edith Piaf, Gorillaz, Iron Maiden, Itzhak Perlman, Jethro Tull, Kate Bush, Kylie Minogue, Maria Callas, Pet Shop Boys, Pink Floyd, Radiohead, Shirley Bassey, Tina Turner and Tinie Tempah.

Consummation of the Transaction is subject to certain regulatory approvals and customary conditions, including, without limitation, approval of the Transaction by the European Commission pursuant to Council Regulation (EC) No. 139/2004, as amended, and the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. Consummation of the EMI France Transaction is subject to conclusion of the consultation process with the workers council (comite d entreprise) of EMI France. As of May 14, 2013, the parties have received the required approval of U.S., Brazilian and Austrian regulators.

The PLG Agreement provides that the buyers thereunder may assign to an entity under common control with the Company the PLG Agreement and all of their rights and obligations thereunder without the prior written consent of the seller under certain circumstances.

On May 9, 2013, Acquisition Corp. entered into an incremental commitment amendment (the Term Loan Credit Agreement Amendment) to its existing Term Loan Credit Agreement (as so amended, the Amended Term Loan Credit Agreement). Proceeds from indebtedness to be incurred under the Amended Term Loan Credit Agreement will be used to finance the Transaction. On May 9, 2013, Acquisition Corp. also effectuated a repricing of its outstanding term loans under its existing Term Loan Credit Agreement in connection with its entry into the Term Loan Credit Agreement Amendment. See Financial Condition and Liquidity Liquidity Term Loan Facility .

Revolving Credit Facility

On April 23, 2013, Acquisition Corp. entered into an amendment to its New Revolving Credit Facility (as defined below). See Financial Condition and Liquidity Liquidity Revolving Credit Facility .

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2013 Compared with Three Months Ended March 31, 2012

Consolidated Historical Results

Revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Revenue by Type				
Physical	$ 190	$ 170	$ 20	12%
Digital	262	222	40	18%
Total Physical and Digital	452	392	60	15%
Artist services and expanded rights	50	60	(10)	-17%
Licensing	52	47	5	11%
Total Recorded Music	**554**	**499**	**55**	**11%**
Performance	48	46	2	4%
Mechanical	27	32	(5)	-16%
Synchronization	27	32	(5)	-16%
Digital	21	14	7	50%
Other	4	3	1	33%
Total Music Publishing	**127**	**127**		
Intersegment eliminations	(6)	(3)	(3)	100%
Total Revenue	**$ 675**	**$ 623**	**$ 52**	**8%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 249	$ 207	$ 42	20%
U.S. Music Publishing	56	54	2	4%
Total U.S.	**305**	**261**	**44**	**17%**
International Recorded Music	305	292	13	5%
International Music Publishing	71	73	(2)	-3%
Total International	**376**	**365**	**11**	**3%**
Intersegment eliminations	(6)	(3)	(3)	100%
Total Revenue	**$ 675**	**$ 623**	**$ 52**	**8%**

Total Revenue

Total revenues increased by $52 million, or 8%, to $675 million for the three months ended March 31, 2013 from $623 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 81% and 19% of total revenues for the three months ended March 31, 2013, respectively, compared to 80% and 20% for the three months ended March 31, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 45% and 55% of total revenues, respectively, for the three months ended March 31, 2013 compared to 42% and 58% for the three months ended March 31, 2012, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total revenues increased $59 million, or 10%, for the three months ended March 31, 2013.

Total digital revenues after intersegment eliminations increased by $46 million, or 20%, to $281 million for the three months ended March 31, 2013 from $235 million for the three months ended March 31, 2012. Total digital revenues represented 42% and 38% of consolidated revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2013 were comprised of U.S. revenues of $157 million and international revenues of $126 million, or 55% and 45% of total digital revenues, 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.

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Recorded Music revenues increased by $55 million to $554 million for the three months ended March 31, 2013 from $499 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music revenues represented 81% and 80% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Recorded Music revenues were $249 million and $207 million, or 45% and 41% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $305 million and $292 million, or 55% and 59% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected a strong release schedule in the current-year quarter as compared with the prior-year quarter. Despite the ongoing transition from physical to digital sales, physical revenues increased as a result of a strong release schedule with several albums that were more heavily weighted towards physical sales including Josh Groban s All That Echos and Blake Shelton s Based on a True Story . Digital revenues also continued to grow, up $40 million or 18% for the quarter. This increase was driven by particularly strong download growth of $31 million and continued growth in streaming and subscription services of $15 million, offset by declines in mobile revenues of $6 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to both new releases, as well as continued success from prior-quarter releases with strong digital demand, such as those from Bruno Mars and fun. In addition, licensing revenues increased $5 million, or 11%, to $52 million for the three months ended March 31, 2013, due primarily to timing. Artist services and expanded-rights revenue declined primarily due to a decrease in concert promotion revenue resulting from a strong European touring schedule in the prior-year quarter which was not duplicated in the current-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $61 million, or 12%.

Overall, Music Publishing revenue remained flat, primarily due to the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by continued growth in digital revenue and an increase in performance revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $2 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $3 million and streaming and subscription services of $5 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues increased by $1 million, or 1%.

Revenue by Geographical Location

U.S. revenues increased by $44 million, to $305 million for the three months ended March 31, 2013 from $261 million for the three months ended March 31, 2012. The increase in U.S. Recorded Music revenues reflected the strong release schedule in the current quarter, leading to an increase in physical revenues of $14 million despite the continued decline in demand for physical product. U.S. Recorded Music digital revenues increased $22 million as a result of the continued growth in digital download revenue of $23 million and in streaming and subscription service revenue of $3 million, due to the increased availability of and demand for digital formats. U.S. artist services and expanded-rights revenue decreased slightly by $2 million due to a decline in merchandise revenues on managed tours. U.S. Music Publishing revenues increased $2 million due to digital revenue growth of $4 million which more than offset declines in synchronization revenue of $3 million.

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International revenues increased by $11 million, or 3%, to $376 million for the three months ended March 31, 2013 from $365 million for the three months ended March 31, 2012. The overall increase in international Recorded Music revenues was driven primarily by the increase in digital revenue of $18 million which was partially offset by a decline of $8 million in artist services and expanded rights revenue. The increase in digital revenue was mainly attributable to continued success from prior quarter releases with strong digital demand. International artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in Italy and France in the prior-year quarter which was not duplicated in the current-year quarter. International Music Publishing revenues decreased $2 million due to the decline in mechanical revenue of $5 million, which was partially offset by $3 million of continued digital revenue growth. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $18 million or 5%, for the three months ended March 31, 2013.

Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 216	$ 211	$ 5	2%
Product costs	113	107	6	6%
Total cost of revenues	**$ 329**	**$ 318**	**$ 11**	**4%**

Our cost of revenues increased by $11 million, or 4%, to $329 million for the three months ended March 31, 2013 from $318 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, cost of revenues were 49% and 51% for the three months ended March 31, 2013 and March 31, 2012, respectively.

Artist and repertoire costs increased by $5 million to $216 million for the three months ended March 31, 2013 from $211 million for the three months ended March 31, 2012. The increase in artist and repertoire costs were driven by increased revenues for the current-year quarter and the timing of our artist and repertoire spend. Artist and repertoire costs as a percentage of revenues decreased from 34% for three months ended March 31, 2012 to 32% for three months ended March 31, 2013.

Product costs increased by $6 million, or 6%, to $113 million for the three months ended March 31, 2013 from $107 million for the three months ended March 31, 2012 primarily as a result of the increase in both physical and digital revenue offset by a decrease in artist services and expanded rights revenues. Costs associated with our artist services and expanded rights business are primarily recorded as a component of product costs and tend to yield lower margins than our physical and digital revenue. Product costs as a percentage of revenues remained flat at 17% for both the three months ended March 31, 2013 and March 31, 2012 due to the revenue mix.

Selling, general and administrative expenses

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 131	$ 130	$ 1	1%
Selling and marketing expense	99	90	9	10%
Distribution expense	12	13	(1)	-8%
Total selling, general and administrative expense	**$ 242**	**$ 233**	**$ 9**	**4%**

(1) Includes depreciation expense of $12 million and $13 million for the three months ended March 31, 2013 and March 31, 2012, respectively.

Total selling, general and administrative expense increased by $9 million, or 4%, to $242 million for the three months ended March 31, 2013 from $233 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses were 36% and 37% for the three months ended March 31, 2013 and March 31, 2012, respectively.

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General and administrative expenses slightly increased by $1 million, or 1%, to $131 million for the three months ended March 31, 2013 from $130 million for the three months ended March 31, 2012. The increase in general and administrative expense was driven by higher variable compensation in the current period including stock-based compensation expense, partially offset by lower severance charges in the current period. Expressed as a percentage of revenues, general and administrative expenses decreased from 21% for the three months ended March 31, 2012 to 19% for the three months ended March 31, 2013.

Selling and marketing expense increased by $9 million, or 10%, to $99 million for the three months ended March 31, 2013 from $90 million for the three months ended March 31, 2012, primarily related to higher variable marketing expense related to current quarter releases. Expressed as a percentage of revenues, selling and marketing expense increased from 14% for the three months ended March 31, 2012 to 15% for the three months ended March 31, 2013.

Distribution expense slightly decreased by $1 million, or 8%, to $12 million for the three months ended March 31, 2013 from $13 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the three months ended March 31, 2013 and March 31, 2012.

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 (in millions):

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 116	$ 85	$ 31	37%
Depreciation expense	(12)	(13)	1	-8%
Amortization expense	(47)	(50)	3	-6%
Operating income	**57**	**22**	**35**	**159%**
Interest expense, net	(49)	(56)	7	-13%
Other (expense) income, net	(4)	2	(6)	-300%
Income (loss) before income taxes	**4**	**(32)**	**36**	**-113%**
Income tax expense		(2)	2	-100%
Net income (loss)	**4**	**(34)**	**38**	**-112%**
Less: income attributable to noncontrolling interest	(2)	(2)		
Net income (loss) attributable to Warner Music Group Corp.	**$ 2**	**$ (36)**	**$ 38**	**106%**

OIBDA

Our OIBDA increased by $31 million, or 37%, to $116 million for the three months ended March 31, 2013 as compared to $85 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, total OIBDA margin increased from 14% for the three months ended March 31, 2012 to 17% for the three months ended March 31, 2013. Our OIBDA increase was primarily driven by higher revenues, the continuing shift from physical to digital sales, and the decrease in costs as a percentage of revenue for artist and repertoire costs and selling, general and administrative expense.

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

Depreciation expense

Our depreciation expense decreased by $1 million, or 8%, to $12 million for the three months ended March 31, 2013 as compared to $13 million for the three months ended March 31, 2012.

Amortization expense

Amortization expense decreased by $3 million, or 6%, to $47 million for the three months ended March 31, 2013 as compared to $50 million for the three months ended March 31, 2012 primarily due to exchange rate fluctuations.

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Operating income

Our operating income increased by $35 million, or 159%, to $57 million for the three months ended March 31, 2013 as compared to operating income of $22 million for the three months ended March 31, 2012. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in depreciation and amortization expense noted above.

Interest expense, net

Our interest expense, net, decreased by $7 million, or 13%, to $49 million for the three months ended March 31, 2013 as compared to $56 million for the three months ended March 31, 2012. The decrease was primarily driven by the refinancing of our senior secured debt on November 1, 2012. Our new debt obligations have lower comparable interest rates than the debt obligations outstanding in the prior-year quarter. See Financial Condition and Liquidity for more information.

Other (expense) income, net

Other (expense) income, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, Euro denominated debt, and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We did not incur any significant income tax expense for the three months ended March 31, 2013 as compared to $2 million for the three months ended March 31, 2012.

Net income (loss)

Our net loss decreased by $38 million, to net income of $4 million for the three months ended March 31, 2013 as compared to a net loss of $34 million for the three months ended March 31, 2012. The decrease was primarily driven by the increase in operating income noted above as well as the decreases in interest expense and income tax expense.

Noncontrolling interest

Net income attributable to noncontrolling interest was $2 million for both the three months ended March 31, 2013 and March 31, 2012.

Business Segment Results

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Recorded Music				
Revenue	$ 554	$ 499	$ 55	11%
OIBDA	87	49	38	78%
Operating income	$ 46	$ 8	$ 38	475%
Music Publishing				
Revenue	$ 127	$ 127	$	
OIBDA	53	53		
Operating income	$ 37	$ 35	$ 2	6%
Corporate expenses and eliminations				
Revenue	$ (6)	$ (3)	$ (3)	100%
OIBDA	(24)	(17)	(7)	41%
Operating loss	$ (26)	$ (21)	$ (5)	24%

Total				
Revenue	$ 675	$ 623	$ 52	8%
OIBDA	116	85	31	37%
Operating income	$ 57	$ 22	$ 35	159%

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Recorded Music

Revenues

Recorded Music revenues increased by $55 million to $554 million for the three months ended March 31, 2013 from $499 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music revenues represented 81% and 80% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Recorded Music revenues were $249 million and $207 million, or 45% and 41% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $305 million and $292 million, 55% and 59% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected a strong release schedule in the current-year quarter as compared with the prior-year quarter. Despite the ongoing transition from physical to digital sales, physical revenues increased as a result of a strong release schedule with several albums that were more heavily weighted towards physical sales including Josh Groban s All That Echos and Blake Shelton s Based on a True Story . Digital revenues continued to grow, up $40 million or 18% for the quarter. This increase was driven by particularly strong download growth of $31 million and continued growth in streaming and subscription services of $15 million, offset by declines in mobile revenues of $6 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to both new releases, as well as continued success from prior quarter releases with strong digital demand, such as those from Bruno Mars and fun. In addition, licensing revenues increased $5 million, or 11%, to $52 million for the three months ended March 31, 2013, due primarily to timing. Artist services and expanded rights revenue declined primarily due to a decrease in concert promotion revenue resulting from a strong European touring schedule in the prior-year quarter which was not duplicated in the current-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $61 million, or 12%.

Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 164	$ 155	$ 9	6%
Product costs	113	107	6	6%
Total cost of revenues	**$ 277**	**$ 262**	**$ 15**	**6%**

Recorded Music cost of revenues increased $15 million, or 6%, to $277 million for the three months ended March 31, 2013 from $262 million for the three months ended March 31, 2012. The increase in artist and repertoire costs were driven by increased revenues for the current-year quarter and the timing of our artist and repertoire spend. The increase in product costs was due to the increase in physical sales, offset by lower spend on artist services and expanded rights due to revenue declines. Costs associated with our artist services and expanded rights business are primarily recorded as a component of product costs and tend to yield lower margins than our physical and digital revenue. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased from 53% for the three months ended March 31, 2012 to 50% for the three months ended March 31, 2013.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 89	$ 94	$ (5)	-5%
Selling and marketing expense	98	88	10	11%

Distribution expense	12	13	(1)	-8%
Total selling, general and administrative expense	**$ 199**	**$ 195**	**$ 4**	**2%**

(1) Includes depreciation expense of $9 million and $7 million for the three months ended March 31, 2013 and March 31, 2012, respectively.

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Recorded Music selling, general and administrative expense increased $4 million, or 2%, to $199 million for the three months ended March 31, 2013 from $195 million for the three months ended March 31, 2012. This increase was primarily due to an increase in selling and marketing expense offset by a decrease in general and administrative expense. The increase in selling and marketing expense increased in line with the increase in revenues and was largely the result of higher variable marketing increases related to current quarter releases. The increase in general and administrative expense was driven by higher variable compensation in the current period partially offset by lower severance charges in the current period. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased from 39% for the three months ended March 31, 2012 to 36% for the three months ended March 31, 2013.

OIBDA and Operating Income

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

	For the Three Months Ended March 31,		2013 vs. 2012	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 87	$ 49	$ 38	78%
Depreciation and amortization	(41)	(41)		
Operating income	**$ 46**	**$ 8**	**$ 38**	**475%**

Recorded Music OIBDA increased by $38 million, or 78%, to $87 million for the three months ended March 31, 2013 compared to $49 million for the three months ended March 31, 2012. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 16% for the three months ended March 31, 2013 from 10% for the three months ended March 31, 2012. Our Recorded Music OIBDA increase was driven by higher revenues, the continuing shift from physical to digital sales, and the decrease in costs as a percentage of revenue for product costs and selling, general and administrative expense.

Recorded Music operating income increased by $38 million, due to the increase in OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues remained flat at $127 million for both the three months ended March 31, 2013 and March 31, 2012. Prior to intersegment eliminations, Music Publishing revenues represented 19% and 20% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Music Publishing revenues were $56 million and $54 million, or 44% and 43% of Music Publishing revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Music Publishing revenues were $71 million and $73 million, or 56% and 57% of Music Publishing revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

Overall, Music Publishing revenue remained flat, primarily due to the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by continued growth in digital revenue and an increase in performance revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $2 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $3 million and streaming and subscription services of $5 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues increased by $1 million, or 1%.

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Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 58	$ 59	$ (1)	-2%
Total cost of revenues	**$ 58**	**$ 59**	**$ (1)**	**-2%**

Music Publishing cost of revenues slightly decreased $1 million, or 2%, to $58 million for the three months ended March 31, 2013, from $59 million for the three months ended March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues remained flat at 46% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 17	$ 16	$ 1	6%
Selling and marketing expenses		1	(1)	-100%
Total selling, general and administrative expense	**$ 17**	**$ 17**	**$**	

(1) Includes depreciation expense of $1 million and $2 million for the three months ended March 31, 2013 and March 31, 2012, respectively.
Music Publishing selling, general and administrative expense remained flat at $17 million for both the three months ended March 31, 2013 and March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 13% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

OIBDA and Operating Income

Music Publishing operating income included the following (in millions):

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 53	$ 53	$	
Depreciation and amortization	(16)	(18)	2	-11%
Operating income	**$ 37**	**$ 35**	**$ 2**	**6%**

Music Publishing OIBDA remained flat at $53 million for both the three months ended March 31, 2013 and March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA remained flat at 42% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

Music Publishing operating income increased $2 million due to a $2 million decrease in depreciation and amortization expense and flat OIBDA.

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Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations increased from $17 million for the three months ended March 31, 2012 to $24 million for the three months ended March 31, 2013, primarily as a result of higher variable compensation including stock-based compensation expense in the current period partially offset by lower severance.

Our operating loss from corporate expenses and eliminations increased from $21 million for the three months ended March 31, 2012 to $26 million for the three months ended March 31, 2013 due to the decrease in OIBDA noted above and the decrease in depreciation and amortization expense.

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Six Months Ended March 31, 2013 Compared with Six Months Ended March 31, 2012

Consolidated Historical Results

Revenues

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

	For the Six Months Ended March 31, 2013	For the Six Months Ended March 31, 2012	2013 vs. 2012 $ Change	2013 vs. 2012 % Change
Revenue by Type				
Physical	$ 490	$ 511	$ (21)	-4%
Digital	499	427	72	17%
Total Physical and Digital	989	938	51	5%
Artist services and expanded rights	110	120	(10)	-8%
Licensing	112	100	12	12%
Total Recorded Music	**1,211**	**1,158**	**53**	**5%**
Performance	95	94	1	1%
Mechanical	53	65	(12)	-19%
Synchronization	49	55	(6)	-11%
Digital	40	29	11	38%
Other	6	5	1	20%
Total Music Publishing	**243**	**248**	**(5)**	**-2%**
Intersegment eliminations	(10)	(8)	(2)	25%
Total Revenue	**$ 1,444**	**$ 1,398**	**$ 46**	**3%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 508	$ 463	$ 45	10%
U.S. Music Publishing	91	93	(2)	-2%
Total U.S.	**599**	**556**	**43**	**8%**
International Recorded Music	703	695	8	1%
International Music Publishing	152	155	(3)	-2%
Total International	**855**	**850**	**5**	**1%**
Intersegment eliminations	(10)	(8)	(2)	25%
Total Revenue	**$ 1,444**	**$ 1,398**	**$ 46**	**3%**

Total Revenue

Total revenues increased by $46 million to $1.444 billion for the six months ended March 31, 2013 from $1.398 billion for the six months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of revenues for the six months ended March 31, 2013 and 82% and 18% of total revenues for the six months ended March 31, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 41% and 59% of total revenues for the six months ended March 31, 2013 and 40% and 60% of total revenues for the six months ended March 31, 2012, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total revenues increased by $61 million, or 4%.

Total digital revenues after intersegment eliminations increased by $82 million, or 18%, to $536 million for the six months ended March 31, 2013 from $454 million for the six months ended March 31, 2012. Total digital revenues represented 37% and 33% of consolidated revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2013 were comprised of U.S. revenues of $296 million and international revenues of $243 million, or 55% and 45% of total digital revenues, 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.

Recorded Music revenues increased by $53 million to $1.211 billion for the six months ended March 31, 2013 from $1.158 billion for the six months ended March 31, 2012. U.S. Recorded Music revenues were $508 million and $463 million, or 42% and 40% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $703 million and $695 million, or 58% and 60% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected the continued decline in physical sales which was more than offset by growth in digital and licensing revenue. The decrease in physical sales was primarily driven by the comparatively strong holiday release schedule in the prior year, which included the initial release of Michael Bublé s Christmas , the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan and more heavily weighted towards physical sales. Digital revenues continued to grow, up $72 million or 17% in the current period. This increase was driven by equally strong growth in both downloads which increased $40 million and in streaming and subscription services which also increased $40 million, offset by the decline in mobile revenue of $8 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-period releases such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior-year releases with strong digital demand such as releases from Flo Rida and fun. Licensing revenues increased $12 million, or 12%, due to timing. In addition, artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong European touring schedule in the prior period which was not duplicated in the current period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $66 million, or 6%.

Music Publishing revenues decreased by $5 million, or 2%, to $243 million for the six months ended March 31, 2013 from $248 million for the six months ended March 31, 2012. U.S. Music Publishing revenues were $91 million and $93 million, or 37% and 38%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Music Publishing revenues were $152 million and $155 million, or 63% and 62%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by the increase in digital revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $4 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $5 million and streaming and subscription services of $6 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $3 million, or 1%.

Revenue by Geographical Location

The increase in U.S. revenues reflected the growth in Recorded Music digital revenues and licensing revenues slightly offset by a decline in Music Publishing revenues. U.S. Recorded Music digital revenues increased $35 million as a result of the continued growth in digital download revenue of $25 million and in streaming and subscription service revenue of $17 million, due to the increased availability and demand of digital formats including the introduction of new cloud and locker services, offset by a decline in mobile revenue of $7 million. U.S. licensing revenues increased $11 million due to timing. Music Publishing revenues decreased $2 million due to declines in mechanical revenue of $6 million and synchronization revenue of $4 million which was partially offset by digital revenue growth of $8 million. U.S. artist services and expanded rights revenue remained flat.

The increase in international revenues was driven primarily by the increase in digital revenue which was partially offset by a decrease in physical revenue and artist services and expanded rights revenue. The increase in Recorded Music digital revenue was attributable to both current-period releases and continued success from prior-period releases with strong digital demand. The decrease in Recorded Music physical revenue was primarily due to the comparatively strong holiday release schedule in the prior year. International artist services and expanded rights revenue declined $10 million primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in Italy and France in the prior period which was not duplicated in the current period. International Music Publishing revenues decreased due to the decline in mechanical revenue of $6 million, which was partially offset by continued digital revenue growth of $3 million. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $20 million or 2% for the three months ended March 31, 2013.

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Cost of revenues

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
Artist and repertoire costs	$ 482	$ 490	$ (8)	-2%
Product costs	255	248	7	3%
Total cost of revenues	**$ 737**	**$ 738**	**$ (1)**	

Our cost of revenues slightly decreased by $1 million to $737 million for the six months ended March 31, 2013 from $738 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, cost of revenues were 51% and 53% for the six months ended March 31, 2013 and March 31, 2012, respectively.

Artist and repertoire costs decreased by $8 million, or 2%, to $482 million for the six months ended March 31, 2013 from $490 million for the six months ended March 31, 2012. The decrease in artist and repertoire costs were driven by the timing of our artist and repertoire spend. Artist and repertoire costs as a percentage of revenues decreased to 33% for the six months ended March 31, 2013 from 35% for the six months ended March 31, 2012.

Product costs increased $7 million, or 3%, to $255 million for the six months ended March 31, 2013 from $248 million for the six months ended March 31, 2012, primarily as a result of the increase in revenue offset by the decrease in artist services and expanded rights revenues. Costs associated with our artist services and expanded rights businesses tend to yield lower margins than our physical and digital revenue. Product costs as a percentage of revenues remained flat at 18% for the six months ended March 31, 2013 and the six months ended March 31, 2012.

Selling, general and administrative expenses

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
General and administrative expense (1)	$ 259	$ 276	$ (17)	-6%
Selling and marketing expense	216	196	20	10%
Distribution expense	29	29		
Total selling, general and administrative expense	**$ 504**	**$ 501**	**$ 3**	**1%**

(1) Includes depreciation expense of $25 million for the six months ended March 31, 2013 and March 31, 2012.

Total selling, general and administrative expense increased by $3 million, or 1%, to $504 million for the six months ended March 31, 2013 from $501 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 35% for the six months ended March 31, 2013 from 36% for the six months ended March 31, 2012.

General and administrative expenses decreased by $17 million, or 6%, to $259 million for the six months ended March 31, 2013 from $276 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, general and administrative expenses decreased to 18% for the six months ended March 31, 2013 from 20% for the six months ended March 31, 2012. The decrease in general and administrative expense was due to continued cost-management efforts, lower severance charges and lower variable compensation.

Selling and marketing expense increased by $20 million, or 10%, to $216 million for the six months ended March 31, 2013 from $196 million for the six months ended March 31, 2012, primarily related to higher variable marketing expense related to current-period releases. Expressed as a percentage of revenues, selling and marketing expense increased to 15% for the six months ended March 31, 2013 from 14% for the six months ended March 31, 2012, primarily as a result of the strong sales performance of Michael Bublé s Christmas in the prior-period, which had a lower proportionate marketing spend.

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Distribution expense remained flat at $29 for the six months ended March 31, 2013 and the six months ended March 31, 2012. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the six months ended March 31, 2013 and March 31, 2012.

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 (in millions):

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 228	$ 184	$ 44	24%
Depreciation expense	(25)	(25)		
Amortization expense	(95)	(98)	3	-3%
Operating income	**108**	**61**	**47**	**77%**
Loss on extinguishment of debt	(83)		(83)	
Interest expense, net	(102)	(113)	11	-10%
Other expense, net	(9)		(9)	
Loss before income taxes	**(86)**	**(52)**	**(34)**	**65%**
Income tax benefit (expense)	11	(8)	19	-238%
Net loss	**(75)**	**(60)**	**(15)**	**25%**
Less: income attributable to noncontrolling interest	(3)	(2)	(1)	50%
Net loss attributable to Warner Music Group Corp.	**$ (78)**	**$ (62)**	**$ (16)**	**26%**

OIBDA

Our OIBDA increased by $44 million, or 24%, to $228 million for the six months ended March 31, 2013 as compared to $184 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, total OIBDA margin increased to 16% for the six months ended March 31, 2013, from 13% for the six months ended March 31, 2012. Our OIBDA increase was primarily driven by increased digital revenues, the continuing shift from physical to digital sales, previously announced cost-savings initiatives, lower severance charges and lower variable compensation expense, partially offset by an increase in variable marketing spend.

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

Depreciation expense

Our depreciation expense remained flat at $25 million for the six months ended March 31, 2013 and the six months ended March 31, 2012.

Amortization expense

Amortization expense decreased by $3 million, or 3%, to $95 million for the six months ended March 31, 2013 as compared to $98 million for the six months ended March 31, 2012 primarily due to favorable exchange rate fluctuations.

Operating income

Our operating income increased $47 million, or 77%, to $108 million, for the six months ended March 31, 2013 as compared to operating income of $61 million for the six months ended March 31, 2012. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in amortization expense noted above.

Loss on extinguishment of debt

On November 1, 2013, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. As a result, for the six months ended March 31, 2013, we recorded an $83 million loss on extinguishment of debt representing the difference between the redemption payment and the carrying value of the debt as of the refinancing date.

Interest expense, net

Our interest expense, net, decreased $11 million, or 10%, to $102 million for the six months ended March 31, 2013 as compared to $113 million for the six months ended March 31, 2012. The decrease was primarily driven by the refinancing of our senior secured debt on November 1, 2012. Our new debt obligations have lower comparable interest rates than the debt obligations outstanding in the prior period.

See Financial Condition and Liquidity for more information.

Other expense, net

Other expense, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, Euro denominated debt and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax benefit (expense)

We incurred income tax benefit of $11 million for the six months ended March 31, 2013 as compared to an expense of $8 million for the six months ended March 31, 2012. The decrease in income tax expense primarily relates to the increase in pretax loss largely resulting from the loss on extinguishment of debt in the U.S. for which we were able to recognize a tax benefit.

Net loss

Our net loss increased by $15 million, to a net loss of $75 million for the six months ended March 31, 2013 as compared to a net loss of $60 million for the six months ended March 31, 2012. The increase was driven by the loss on extinguishment of debt, partially offset by the income tax benefit, the decrease in interest expense and the increase in operating income noted above.

Noncontrolling interest

Net income attributable to noncontrolling interest was $3 million for the six months ended March 31, 2013 and $2 million for the six months ended March 31, 2012.

Business Segment Results

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
Recorded Music				
Revenue	$ 1,211	$ 1,158	$ 53	5%
OIBDA	201	153	48	31%
Operating income	$ 120	$ 71	$ 49	69%
Music Publishing				
Revenue	$ 243	$ 248	$ (5)	-2%
OIBDA	69	69		
Operating income	$ 36	$ 35	$ 1	3%
Corporate expenses and eliminations				
Revenue	$ (10)	$ (8)	$ (2)	25%
OIBDA	(42)	(38)	(4)	11%
Operating loss	$ (48)	$ (45)	$ (3)	7%
Total				
Revenue	$ 1,444	$ 1,398	$ 46	3%
OIBDA	228	184	44	24%
Operating income	$ 108	$ 61	$ 47	77%

Recorded Music

Revenues

Recorded Music revenues increased by $53 million to $1.211 billion for the six months ended March 31, 2013 from $1.158 billion for the six months ended March 31, 2012. U.S. Recorded Music revenues were $508 million and $463 million, or 42% and 40% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $703 million and $695 million, or 58% and 60% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected the continued decline in physical sales which was more than offset by growth in digital and licensing revenue. The decrease in physical sales was primarily driven by the comparatively strong holiday release schedule in the prior year, which included the initial release of Michael Bublé s Christmas , the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan more heavily weighted towards physical sales. Digital revenues continued to grow, up $72 million or 17% in the current period. This increase was driven by equally strong growth in both downloads which increased $40 million and in streaming and subscription services which also increased $40 million, offset by the decline in mobile revenue of $8 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-period releases such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior-year releases with strong digital demand such as releases from Flo Rida and fun. Licensing revenues increased $12 million, or 12%, due to timing. In addition, artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong European touring schedule in the prior period which was not duplicated in the current period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $66 million, or 6%.

Cost of revenues

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

For the Six Months Ended March 31,		2013 vs. 2012	
2013	2012	$ Change	% Change

Artist and repertoire costs	$ 347	$ 351	$ (4)	-1%
Product costs	255	248	7	3%
Total cost of revenues	**$ 602**	**$ 599**	**$ 3**	**1%**

Recorded Music cost of revenues increased $3 million, or 1%, for the six months ended March 31, 2013. The decrease in artist and repertoire costs was driven by the timing of our artist and repertoire spend. The increase in product costs was primarily as a result of the increase in revenue in the current period. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 50% for the six months ended March 31, 2013 from 52% for the six months ended March 31, 2012.

Selling, general and administrative expense

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 182	$ 199	$ (17)	-9%
Selling and marketing expense	213	193	20	10%
Distribution expense	29	29		
Total selling, general and administrative expense	**$ 424**	**$ 421**	**$ 3**	**1%**

(1) Includes depreciation expense of $16 million and $15 million for the six months ended March 31, 2013 and March 31, 2012, respectively.

Recorded Music selling, general and administrative expense increased $3 million, or 1%, for the six months ended March 31, 2013. This increase was due to an increase in selling and marketing expense partially offset by a decrease in general and administrative expense. The increase in selling and marketing expense was primarily the result of variable marketing increases related to current-period releases compared to the prior-period releases including Michael Bublé s Christmas album which had comparatively low marketing spend. The decrease in general and administrative expense was driven primarily by lower variable compensation, lower severance expense in the current period and continued cost-management efforts. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased to 35% for the six months ended March 31, 2013 from 36% for the six months ended March 31, 2012.

OIBDA and Operating Income

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 201	$ 153	$ 48	31%
Depreciation and amortization	(81)	(82)	1	1%
Operating income	**$ 120**	**$ 71**	**$ 49**	**69%**

Recorded Music OIBDA increased by $48 million, or 31%, to $201 million for the six months ended March 31, 2013 compared to $153 million for the six months ended March 31, 2012. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 17% for the six months ended March 31, 2013 from 13% for the six months ended March 31, 2012. Our Recorded Music OIBDA increase was primarily driven by higher revenues, the continuing shift from physical to digital sales and the decrease in costs as a percentage of revenue for artist and repertoire costs and selling, general and administrative expense.

Recorded Music operating income increased by $49 million, due primarily to the increase in OIBDA noted above and a decrease of $1 million in depreciation and amortization expense.

Music Publishing

Revenues

Music Publishing revenues decreased by $5 million, or 2%, to $243 million for the six months ended March 31, 2013 from $248 million for the six months ended March 31, 2012. U.S. Music Publishing revenues were $91 million and $93 million, or 37% and 38%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Music Publishing revenues were $152 million and $155 million, or 63% and 62%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by the increase in digital revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $4 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $5 million and streaming and subscription services of $6 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $3 million, or 1%.

Cost of revenues

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 145	$ 147	$ (2)	-1%
Total cost of revenues	**$ 145**	**$ 147**	**$ (2)**	**-1%**

Music Publishing cost of revenues decreased $2 million, or 1%, to $145 million for the six months ended March 31, 2013, from $147 million for the six months ended March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues increased to 60% for the six months ended March 31, 2013 from 59% for the six months ended March 31, 2012, primarily due to higher U.S. artist and repertoire overhead.

Selling, general and administrative expense

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 32	$ 34	$ (2)	-6%
Selling and marketing expense		1	(1)	-100%
Total selling, general and administrative expense	**$ 32**	**$ 35**	**$ (3)**	**-9%**

(1) Includes depreciation expense of $3 million for both the six months ended March 31, 2013 and March 31, 2012.

Music Publishing selling, general and administrative expense decreased $3 million, to $32 million for the six months ended March 31, 2013 from $35 million for the six months ended March 31, 2012, primarily due to lower variable compensation and severance expense recorded within general and administrative expense. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense decreased to 13% for the six months ended March 31, 2013 from 14% for the six months ended March 31, 2012.

OIBDA and Operating Income

Music Publishing operating income included the following (in millions):

2013 vs. 2012

	For the Six Months Ended March 31,			
	2013	2012	$ Change	% Change
OIBDA	$ 69	$ 69	$	
Depreciation and amortization	(33)	(34)	1	-3%
Operating income	**$ 36**	**$ 35**	**$ 1**	**3%**

Music Publishing OIBDA remained flat at $69 million for the six months ended March 31, 2013 and the six months ending March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin remained flat at 28% for the six months ended March 31, 2013 and the six months ended March 31, 2012.

Music Publishing operating income increased by $1 million due to a $1 million decrease in depreciation and amortization expense and flat OIBDA.

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Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations increased to $42 million for the six months ended March 31, 2013 from $38 million for the six months ended March 31, 2012, primarily as a result of higher variable compensation including stock-based compensation expense in the current period partially offset by lower severance.

Our operating loss from corporate expenses and eliminations increased from $48 million for the six months ended March 31, 2012 to $45 million for the six months ended March 31, 2012 due to the decrease in OIBDA noted above and the decrease in depreciation and amortization expense.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At March 31, 2013, we had $2.211 billion of debt, $294 million of cash and equivalents (net debt of $1.917 billion, defined as total debt less cash and equivalents and short-term investments) and $836 million in Warner Music Group Corp. equity. This compares to $2.206 billion of debt, $302 million of cash and equivalents (net debt of $1.904 billion, defined as total debt less cash and equivalents and short-term investments) and $927 million in Warner Music Group Corp. equity at September 30, 2012. Net debt increased by $13 million as a result of (i) an $8 million decrease in cash and equivalents and (ii) a $5 million increase in long-term debt.

The $91 million decrease in Warner Music Group Corp. equity during the six months ended March 31, 2013 was due to $78 million of net loss and foreign currency exchange movements of $12 million for the six months ended March 31, 2013.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the six months ended March 31, 2013 and March 31, 2012 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is comprised of the following (in millions):

	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Cash (used in) provided by:		
Operating activities	$ 125	$ 146
Investing activities	(29)	(29)
Financing activities	(97)	(2)

Operating Activities

Cash provided by operating activities was $125 million for the six months ended March 31, 2013 as compared with cash provided by operating activities of $146 million for the six months ended March 31, 2012. The $21 million decrease in cash provided by operations related to the variable timing of our working capital requirements, which include the timing of sales and collections in the period, the timing of artist and repertoire spend compared to the prior period and higher variable compensation payments in the current year than in the prior year, offset by a decrease in cash paid for severance, improvement in operating income and advances related to new cloud and locker services. In addition, our cash interest paid increased to $110 million for the six months ended March 31, 2013 as compared with $79 million for the six months ended March 31, 2012 due to timing of interest payments resulting from the refinancing of debt in the current period and the financing at the time of the Merger.

Investing Activities

Cash used in investing activities was $29 million for both the six months ended March 31, 2013 and March 31, 2012. For the six months ended March 31, 2013, the $29 million of cash used in investing consisted of $11 million to acquire music publishing rights, $13 million for capital expenditures and $5 million to acquire businesses. For the six months ended March 31, 2012, the $29 million of cash used in investing consisted of $13 million to acquire music publishing rights, $13 million for capital expenditures and $5 million to acquire businesses, partially offset by $2 million received for the sale of a recorded music catalog.

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Financing Activities

Cash used in financing activities of $97 million for the six months ended March 31, 2013 consisted of the repayment of $1.250 billion of Existing Secured Notes due 2016, proceeds from the issuance of New Senior Secured Notes of $727 million, proceeds from the Term Loan Facility of $594 million, $127 million of consent fees, $33 million of deferred financing costs paid related to the refinancing and amortization of $8 million of the Term Loan Facility. Cash used in financing activities of $2 million for the six months ended March 31, 2012 represented distributions to our noncontrolling interest holders.

Liquidity

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

As of March 31, 2013, our long-term debt, including the current portion, was as follows (in millions):

New Revolving Credit Facility (a)	
Term Loan Facility due 2018 Acquisition Corp (b)	587
6.00% Senior Secured Notes due 2021 Acquisition Corp	500
6.25% Senior Secured Notes due 2021 Acquisition Corp (c)	224
11.5% Senior Notes due 2018 Acquisition Corp (d)	750
13.75% Senior Notes due 2019 Holdings	150
Total long term debt	$ 2,211

(a) Reflects $150 million of commitments under the New Revolving Credit Facility, less letters of credit outstanding of approximately $1 million. There were no loans outstanding under the New Revolving Credit Facility as of March 31, 2013.
(b) Principal amount of $592 million less unamortized discount of $5 million. Of this amount, $30 million, representing the scheduled amortization of the Term Loans, was included in the current portion of long term debt at March 31, 2013.
(c) Face amount of 175 million. Amount above represents the dollar equivalent of such notes at March 31, 2013.
(d) Face amount of $765 million less unamortized discount of $15 million at March 31, 2013.

<u>New Revolving Credit Facility</u>

On November 1, 2012 (the 2012 Refinancing Closing Date), Acquisition Corp. entered into a credit agreement (the Revolving Credit Agreement) for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the New Revolving Credit Facility).

General

Acquisition Corp. is the borrower (the Revolving Borrower) under the New Revolving Credit Facility. The New Revolving Credit Facility provides for a revolving credit facility in the amount of up to $150,000,000 (the Commitments) and includes a $50,000,000 letter of credit sub-facility. Amounts are available under the New Revolving Credit Facility in U.S. dollars, euros or pounds Sterling. The New Revolving Credit Facility permits loans for general corporate purposes. The New Revolving Credit Facility may also be utilized to issue letters of credit on or after the 2012 Refinancing Closing Date.

The final maturity of the New Revolving Credit Facility is November 1, 2017.

Interest Rates and Fees

The loans under the Revolving Credit Agreement bear interest at Revolving Borrower s election at a rate equal to (i) the rate for deposits in the currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Revolving LIBOR Rate), plus 3.50% 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 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum, plus, in each case (Revolving Base Rate), 2.50% per annum.

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

The New Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The New Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the New Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

Prepayments

If, at any time, the aggregate amount of outstanding loans (including letters of credit outstanding thereunder) exceeds the Commitments, prepayments of the loans (and after giving effect to such prepayment the cash collateralization of letters of credit) will be required in an amount equal to such excess. The application of proceeds from mandatory prepayments shall not reduce the aggregate amount of then effective commitments under the New Revolving Credit Facility and amounts prepaid may be reborrowed, subject to then effective commitments under the New Revolving Credit Facility.

Voluntary reductions of the unutilized portion of the Commitments and prepayments of borrowings under the New Revolving Credit Facility are permitted at any time, in minimum principal amounts as set forth in the New Revolving Credit Facility, without premium or penalty, subject to reimbursement of the lenders redeployment costs actually incurred in the case of a prepayment of LIBOR-based borrowings other than on the last day of the relevant interest period.

Ranking

The indebtedness incurred under the New Revolving Credit Facility constitutes senior secured obligations of the Revolving Borrower, which are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the New Revolving Credit Facility. Indebtedness incurred under the New Revolving Credit Facility ranks senior in right of payment to the Revolving Borrower s subordinated indebtedness; ranks equally in right of payment with all of the Revolving Borrower s existing and future senior indebtedness, including indebtedness under the Term Loan Credit Agreement (as defined below), the New Secured Notes and any future senior secured credit facility; is effectively senior to the Revolving Borrower s unsecured senior indebtedness, including its existing unsecured notes, to the extent of the value of the collateral securing the New Revolving Credit Facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Revolving Borrower s non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Revolving Borrower or one of its Subsidiary Guarantors (as defined below)).

Guarantee

Certain of the domestic subsidiaries of Acquisition Corp. entered into a Subsidiary Guaranty, dated as of the 2012 Refinancing Closing Date (the Revolving Subsidiary Guaranty), pursuant to which all obligations under the New Revolving Credit Facility are guaranteed by Acquisition Corp. s existing subsidiaries that guarantee the New Secured Notes and each other direct and indirect wholly-owned U.S. subsidiary, other than certain excluded subsidiaries (collectively, the Subsidiary Guarantors).

Covenants, Representations and Warranties

The New Revolving Credit Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on dividends on, and redemptions and purchases of, equity interests and other restricted payments, limitations on prepayments, redemptions and repurchases of certain debt, limitations on liens, limitations on loans and investments, limitations on debt, guarantees and hedging arrangements, limitations on mergers, acquisitions and asset sales, limitations on transactions with affiliates, limitations on changes in business conducted by the Revolving Borrower and its subsidiaries, limitations on restrictions on ability of subsidiaries to pay dividends or make distributions and limitations on amendments of subordinated debt and unsecured bonds. The negative covenants are subject to customary and other specified exceptions.

There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio, which will be tested only when there are loans outstanding under the Revolving Credit Facility in excess of $30,000,000 (excluding (i) letters of credit that have been cash collateralized and (ii) undrawn outstanding letters of credit that have not been cash collateralized not exceeding $20,000,000).

Events of Default

Events of default under the Revolving Credit Agreement are limited to nonpayment of principal, interest or other amounts, violation of covenants, incorrectness of representations and warranties in any material respect, cross default and cross acceleration of certain material debt, bankruptcy, material judgments, ERISA events, actual or asserted invalidities of the Revolving Credit Agreement, guarantees or security documents and a change of control, in each case subject to customary notice and grace period provisions.

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Amendment

Acquisition Corp. entered into an amendment, dated April 23, 2013 (the Revolving Credit Agreement Amendment) to the Revolving Credit Agreement. The Revolving Credit Agreement Amendment reduces the applicable interest rate margin under the Revolving Credit Agreement and increases flexibility under the Revolving Credit Agreement to make investments in non-guarantors so as to permit internal reorganizations and optimization of ownership structure in foreign subsidiaries. Effective as of May 9, 2013, the rate at which the loans under the Amended Revolving Credit Agreement bear interest is equal to, at Revolving Borrower s election (i) the Revolving LIBOR Rate plus 2.00% per annum or (ii) the Revolving Base Rate plus 1.00% per annum.

Term Loan Facility

On the 2012 Refinancing Closing Date, Acquisition Corp. entered into a credit agreement (the Term Loan Credit Agreement) for a senior secured term loan credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the Term Loan Facility and, together with the New Revolving Credit Facility, the New Senior Credit Facilities).

General

Acquisition Corp. is the borrower (the Term Loan Borrower) under the Term Loan Facility. The Term Loan Facility provides for term loans thereunder (the Term Loans) in an amount of up to $600,000,000. The Term Loan Facility also permits the Term Loan Borrower to add one or more incremental term loan facilities of up to $300,000,000 plus a certain amount depending on a senior secured indebtedness to EBITDA ratio included in the Term Loan Facility (subject to the conditions set forth therein).

The Term Loan Facility will mature on November 1, 2018.

Interest Rates and Fees

The loans under the Term Loan Credit Agreement bear interest at Term Loan Borrower s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR Rate), plus 4.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum (Term Loan Base Rate), plus, in each case, 3.00% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.25%.

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

Customary fees will be payable in respect of the Term Loan Facility.

Scheduled Amortization

The Term Loans under the Term Loan Facility will amortize in equal quarterly installments in aggregate annual amounts equal to 5.00% of the original principal amount of the Term Loan Facility with the balance payable on maturity date of the Term Loans; provided further that the individual applicable lenders may agree to extend the maturity of their Term Loans upon the Term Loan Borrower s request and without the consent of any other applicable lender. The first quarterly installment was paid March 28, 2013.

Prepayments

The Term Loans may be prepaid without premium or penalty, except that, if such Term Loans are prepaid on or prior to the first anniversary of the 2012 Refinancing Closing Date pursuant to a Repricing Transaction (as defined in the Term Loan Credit Agreement), a 1.00% prepayment premium will apply.

Subject to certain exceptions, the Term Loan Facility will be subject to mandatory prepayment in an amount equal to:

(i) 100% of the net proceeds (other than those that are used to purchase certain assets or to repay certain other indebtedness) of certain asset sales and certain insurance recovery events;

(ii) 100% of the net proceeds (other than those that are used to repay certain other indebtedness) of indebtedness for borrowed money (other than indebtedness incurred in compliance with the debt covenant of the Term Loan Facility); and

(iii) 50% of the annual excess cash flow for any fiscal year (as reduced by the repayment of certain indebtedness), such percentage to decrease to 25% and 0% depending on the attainment of certain senior secured debt to EBITDA ratio targets.

In addition, in the event of certain events that constitute a Change of Control (as defined in the Term Loan Credit Agreement), Acquisition Corp. may offer to prepay the Term Loans at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the repayment date.

Ranking

The indebtedness incurred under the Term Loan Facility constitutes senior secured obligations of the Term Loan Borrower, which are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the Term Loan Facility. Indebtedness incurred under the Term Loan Facility ranks senior in right of payment to the Term Loan Borrower s subordinated indebtedness; ranks equally in right of payment with all of the Term Loan Borrower s existing and future senior indebtedness, including indebtedness under the New Revolving Credit Agreement, the New Secured Notes and any future senior secured credit facility; is effectively senior to the Term Loan Borrower s unsecured senior indebtedness, including its existing unsecured notes, to the extent of the value of the collateral securing the Term Loan Facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Term Loan Borrower s non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Term Loan Borrower or one of its Subsidiary Guarantors).

Guarantee

The Subsidiary Guarantors entered into a Guarantee Agreement, dated as of the 2012 Refinancing Closing Date (the Term Loan Guarantee Agreement), pursuant to which all obligations under the Term Loan Facility are guaranteed by the Subsidiary Guarantors.

Covenants, Representations and Warranties

The Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The Term Loan Facility contains negative covenants limiting, among other things, Acquisition Corp. s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; repurchase or repay certain indebtedness following a change of control; and enter into certain transactions with its affiliates.

Events of Default

Events of default under the Term Loan Credit Agreement are limited to nonpayment of principal, interest or other amounts, violation of covenants, incorrectness of representations and warranties in any material respect, cross default and cross acceleration of certain material debt, bankruptcy, material judgments, ERISA events, actual or asserted invalidities of the security documents and a change of control (subject to the Term Loan Borrower s ability to make an offer to prepay the Term Loans), in each case subject to customary notice and grace period provisions.

Term Loan Credit Agreement Amendment

On May 9, 2013, Acquisition Corp. entered into the Term Loan Credit Agreement Amendment to the Term Loan Credit Agreement, among Acquisition Corp., Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto. The Amended Term Loan Credit Agreement provides for a $820 million delayed draw senior secured term loan facility (the Incremental Term Loan Facility) and the Term Loan Credit Agreement Amendment (i) effectuated a reduction of the applicable interest margin and the Term Loan LIBOR Rate floor for term loans outstanding on the date of the amendment and (ii) extends the maturity of term loans outstanding on the date of the amendment. The proceeds of the Incremental Term Loan Facility will be used to consummate the Transaction, to pay fees, costs and expenses related to the Transaction and for general corporate purposes of Acquisition Corp. and its subsidiaries.

The rate at which the loans under the Amended Term Loan Credit Agreement bear interest is equal to, at Term Loan Borrower s election (i) the Term Loan LIBOR Rate plus 2.75% per annum or (ii) the Term Loan Base Rate plus 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%.

Loans outstanding under the Amended Term Loan Credit Agreement will amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of indebtedness outstanding under the Amended Term Loan Credit Agreement with the balance payable on the maturity date of the term loans. The first quarterly installment is scheduled to be paid on December 31, 2013. The loans outstanding under the Amended Term Loan Credit Agreement mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the Unsecured WMG Notes) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

New Secured Notes

On the 2012 Refinancing Closing Date, Acquisition Corp. issued (i) $500 million in aggregate principal amount of its 6.000% Senior Secured Notes due 2021 (the Dollar Notes) and (ii) 175 million in aggregate principal amount of its 6.250% Senior Secured Notes due 2021 (the Euro Notes and, together with the Dollar Notes, the New Secured Notes or the Notes) under the Indenture, dated as of November 1, 2012 (the Base Indenture), among the Issuer, the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent and Wells Fargo Bank, National Association, as Trustee (the Trustee), as supplemented by the First Supplemental Indenture, dated as of November 1, 2012 (the Euro Supplemental Indenture), among Acquisition Corp., the guarantors party thereto and the Trustee, in the case of the Euro Notes, and the Second Supplemental Indenture, dated as of November 1, 2012, among the Issuer, the guarantors party thereto and the Trustee, in the case of the Dollar Notes (the Dollar Supplemental Indenture and, the Base Indenture, together with the Euro Supplemental Indenture or the Dollar Supplemental Indenture, as applicable, the Indenture).

Interest on the Dollar Notes will accrue at the rate of 6.000% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

Interest on the Euro Notes will accrue at the rate of 6.250% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

Ranking

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

Guarantees

The Notes are fully and unconditionally guaranteed on a senior secured basis by each of the Issuer s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of the Issuer under the New Senior Credit Facilities, subject to customary exceptions. Such subsidiary guarantors are collectively referred to herein as the subsidiary guarantors, and such subsidiary guarantees are collectively referred to herein as the subsidiary guarantees. Each subsidiary guarantee is a senior secured obligation of such subsidiary guarantor and is secured on an equal and ratable basis with all existing and future obligations of such subsidiary guarantor that are secured with the same security arrangements as the guarantee of the Notes (including the subsidiary guarantor s guarantee of obligations under the New Senior Credit Facilities). Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively senior to the subsidiary guarantor s existing unsecured obligations, including the subsidiary guarantor s guarantee of Acquisition Corp. s existing senior unsecured notes, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor s existing and future senior obligations, including the subsidiary guarantor s guarantee of obligations under the New Senior Credit Facilities; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to the Issuer or one of its subsidiary guarantors). Any subsidiary guarantee of the Notes may be released in certain circumstances.

Optional Redemption

Dollar Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Dollar Notes (including the aggregate principal amount of any additional securities constituting Dollar Notes) issued under the Indenture, at its option, at a redemption price equal to 106.000% of the principal amount of the Dollar Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Dollar Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp. s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp. s direct or indirect parent; *provided* that:

(1) at least 50% of the aggregate principal amount of Dollar Notes originally issued under the Indenture (including the aggregate principal amount of any additional securities constituting Dollar Notes issued under the Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Dollar Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Dollar Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after January 15, 2016, Acquisition Corp. may redeem all or a part of the Dollar Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the Dollar Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

Year	Percentage
2016	104.500%

2017	103.000%
2018	101.500%
2019 and thereafter	100.000%

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Dollar Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Euro Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Euro Notes (including the aggregate principal amount of any additional securities constituting Euro Notes) issued under the Indenture, at its option, at a redemption price equal to 106.250% of the principal amount of the Euro Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Euro Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp. s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp. s direct or indirect parent; *provided* that:

(1) at least 50% of the aggregate principal amount of Euro Notes originally issued under the Indenture (including the aggregate principal amount of any additional securities constituting Euro Notes) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Euro Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of the Issuer, at a redemption price equal to 100% of the principal amount of the Euro Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after January 15, 2016, Acquisition Corp. may redeem all or a part of the Euro Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the Euro Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

Year	Percentage
2016	104.688%
2017	103.125%
2018	101.563%
2019 and thereafter	100.000%

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Euro Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

Upon the occurrence of a change of control, which is defined in the Base Indenture, each holder of the Notes has the right to require Acquisition Corp. to repurchase some or all of such holder s Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

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

Events of Default

The Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on Notes to become or to be declared due and payable.

Unsecured WMG Notes

On the Merger Closing Date, the Initial OpCo Issuer issued $765 million aggregate principal amount of the Unsecured WMG Notes pursuant to the Indenture, dated as of the Merger Closing Date (as amended and supplemented, the Unsecured WMG Notes Indenture), between the Initial OpCo Issuer and Wells Fargo Bank, National Association as trustee (the Trustee). Following the completion of the OpCo Merger on the Merger Closing Date, Acquisition Corp. and certain of its domestic subsidiaries (the

Guarantors) entered into a Supplemental Indenture, dated as of the Merger Closing Date (the Unsecured WMG Notes First Supplemental Indenture), with the Trustee, pursuant to which (i) Acquisition Corp. became a party to the indenture and assumed the obligations of the Initial OpCo Issuer 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 net proceeds of $747 million, with an effective interest rate of 12%. The original issue discount (OID) was $17 million. The OID is the difference between the stated principal amount and the issue price. The OID will be amortized over the term of the Unsecured WMG Notes using the effective interest rate method and reported as 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 of each year at fixed rate of 11.50% per annum.

Ranking

The Unsecured WMG Notes are Acquisition Corp. s general unsecured senior obligations. The Unsecured WMG Notes rank senior in right of payment to Acquisition Corp. s existing and future subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp. s existing and future senior indebtedness, including the New Secured Notes and indebtedness under the New Senior Credit Facilities are effectively subordinated to all of Acquisition Corp. s existing and future secured indebtedness, including the New Secured Notes and indebtedness under the New Senior Credit Facilities, to the extent of the assets securing such indebtedness; and are structurally subordinated to all existing and future indebtedness and other liabilities of any of Acquisition Corp. s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)), to the extent of the assets of such subsidiaries.

Guarantees

The Unsecured WMG Notes are fully and unconditionally guaranteed on a senior unsecured basis by each of Acquisition Corp. s existing direct or indirect wholly owned domestic subsidiaries, except for certain excluded subsidiaries, and by any such subsidiaries that guarantee other indebtedness of Acquisition Corp. in the future. Such subsidiary guarantors are collectively referred to herein as the subsidiary guarantors, and such subsidiary guarantees are collectively referred to herein as the subsidiary guarantees. Each subsidiary guarantee ranks senior in right of payment to all existing and future subordinated obligations of such subsidiary guarantor; ranks equally in right of payment with all of such subsidiary guarantor s existing and future senior indebtedness, including such subsidiary guarantor s guarantee of the Existing Secured Notes, indebtedness under the Revolving Credit Facility and the Secured WMG Notes; is effectively subordinated to all of such subsidiary guarantor s existing and future secured indebtedness, including such subsidiary guarantor s guarantee of the Existing Secured Notes, indebtedness under the Revolving Credit Facility and the Secured WMG Notes, to the extent of the assets securing such indebtedness; and is structurally subordinated to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of such subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors), to the extent of the assets of such subsidiary. Any subsidiary guarantee of the Unsecured WMG Notes may be released in certain circumstances. The Unsecured WMG Notes are not guaranteed by Holdings.

Optional Redemption

Acquisition Corp. may redeem the Unsecured WMG Notes, in whole or in part, at any time prior to October 1, 2014, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Unsecured WMG Notes to be redeemed to the applicable redemption date. On or after October 1, 2014, Acquisition Corp. may redeem all or a part of the Unsecured WMG Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Unsecured WMG Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 1 of the years indicated below:

Year	Percentage
2014	108.625%
2015	105.750%
2016	102.875%
2017 and thereafter	100.000%

In addition, at any time (which may be more than once) before October 1, 2014, Acquisition Corp. may redeem up to 35% of the aggregate principal amount of the Unsecured WMG Notes with the net cash proceeds of certain equity offerings at a redemption price of 111.50%, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date; provided that: (1) at least 50% of the aggregate principal amount of Unsecured WMG Notes originally issued under the Unsecured WMG Notes Indenture remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

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Change of Control

Upon the occurrence of certain events constituting a change of control, Acquisition Corp. is required to make an offer to repurchase all of 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.

Covenants

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 securing certain debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

Events of Default

Events of default under the Unsecured WMG Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Unsecured WMG Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt, certain bankruptcy and insolvency events, material judgment defaults, and actual or asserted invalidity of a guarantee of a significant subsidiary subject to customary notice and grace period provisions. The occurrence of an event of default would permit or require the principal of and accrued interest on the Unsecured WMG Notes to become or to be declared due and payable.

Holdings Notes

On the Merger Closing Date, the Initial Holdings Issuer issued $150 million aggregate principal amount of 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 Holdings Merger on the Closing Date, Holdings entered into a Supplemental Indenture, dated as of the Closing Date (the Holdings Notes First 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. The Holdings Notes mature on October 1, 2019 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 13.75% per annum.

Ranking

The Holdings Notes are Holdings general unsecured senior obligations. The Holdings Notes rank senior in right of payment to Holdings existing and future subordinated indebtedness; rank equally in right of payment with all of Holdings existing and future senior indebtedness; are effectively subordinated to the Existing Secured Notes, the indebtedness under the Revolving Credit Facility, and the Secured WMG Notes, to the extent of assets of Holdings securing such indebtedness; are effectively subordinated to all of Holdings existing and future secured indebtedness, to the extent of the assets securing such indebtedness; and are structurally subordinated to all existing and future indebtedness and other liabilities of any of Holdings non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)), Existing Secured Notes, the indebtedness under the Revolving Credit Facility, the Secured WMG Notes, and the Unsecured WMG Notes, to the extent of the assets of such subsidiaries.

Guarantee

The Holdings Notes are not guaranteed by any of its subsidiaries.

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Optional Redemption

Holdings may redeem the Holdings Notes, in whole or in part, at any time prior to October 1, 2015, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Secured WMG Notes to be redeemed to the applicable redemption date.

On or after October 1, 2015, Holdings may redeem all or a part of the Holdings Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Holdings Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 1 of the years indicated below:

Year	Percentage
2015	106.875%
2016	103.438%
2017 and thereafter	100.000%

In addition, at any time (which may be more than once) before October 1, 2015, Holdings may redeem up to 35% of the aggregate principal amount of the Holdings Notes with the net cash proceeds of certain equity offerings at a redemption price of 113.75%, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date; provided that: (1) at least 50% of the aggregate principal amount of Holdings Notes originally issued under the Holdings Notes Indenture remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

Change of Control

Upon the occurrence of certain events constituting a change of control, Holdings is required to make an offer to repurchase all of the Holdings Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to the repurchase date.

Covenants

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

Events of Default

Events of default under the Holdings Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Holdings Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt, certain bankruptcy and insolvency events, and material judgment defaults, subject to customary notice and grace period provisions. The occurrence of an event of default would permit or require the principal of and accrued interest on the Holdings Notes to become or to be declared due and payable.

Guarantees

Guarantee of Holdings Notes

On August 2, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee (the Holdings Notes Guarantee), on a senior unsecured basis, the payments of Holdings on the Holdings Notes.

Guarantee of Acquisition Corp. Notes

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

Guarantee of New Secured Notes

On November 16, 2012, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee (the New Secured Notes Guarantee), on a senior secured basis, the payments of Acquisition Corp. on the New Secured Notes.

Additional Consents Related To Our Notes

On March 4, 2013, we entered into supplemental indentures to the indentures governing all of our outstanding notes, as applicable, after the requisite consents with respect to the applicable consent solicitations were received. The supplemental indentures amended the applicable indentures to permit us to provide certain Specified Information (as defined in the applicable supplemental indenture) with respect to the future consummation of the proposed acquisition of the Parlophone Label Group from Universal Music Group in satisfaction of the financial reporting covenants in the indentures governing our outstanding notes.

On October 22, 2012, we commenced consent solicitations relating to the outstanding unsecured WMG Notes and Holdings Notes. We entered into supplemental indentures to the indentures governing the Unsecured WMG Notes and the Holdings Notes, as applicable, after the requisite consents with respect to the applicable consent solicitations were received. The supplemental indentures amended the applicable indentures to permit us to incur additional secured indebtedness under certain circumstances.

Covenant Compliance

See Liquidity above for a description of the covenants governing our indebtedness. The Company was in compliance with its covenants under its outstanding notes, New Revolving Credit Facility and Term Loan Credit Facility as of March 31, 2013.

Our New Revolving Credit Facility contains a springing leverage ratio that is tied to a ratio based on Consolidated EBITDA, which is defined under the Credit Agreement governing the New Revolving Credit Facility. Consolidated EBITDA differs from the term EBITDA as it is commonly used. For example, the definition of Consolidated EBITDA, in addition to adjusting net income to exclude interest expense, income taxes, and depreciation and amortization, also adjusts net income by excluding items or expenses not typically excluded in the calculation of EBITDA such as, among other items, (1) the amount of any restructuring charges or reserves; (2) any non-cash charges (including any impairment charges); (3) any net loss resulting from hedging currency exchange risks; (4) the amount of management, monitoring, consulting and advisory fees paid to Access under the management agreement (as defined in the Credit Agreement); (5) business optimization expenses (including consolidation initiatives, severance costs and other costs relating to initiatives aimed at profitability improvement) and (6) stock-based compensation expense and also includes an add-back for certain projected cost-savings and synergies. The indentures governing our notes and our Term Loan Credit Facility use financial measures called Consolidated EBITDA or EBITDA that have the same definition as Consolidated EBITDA as defined under the Credit Agreement governing the New Revolving Credit Facility.

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

Consolidated EBITDA as presented below is not a measure of the performance of our business and should not be used by investors as an indicator of performance for any future period. Further, our debt instruments require that it be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four-quarter period or any complete fiscal year.

The following is a reconciliation of net income (loss), which is a GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Consolidated Funded Indebtedness to Consolidated EBITDA ratio, which we refer to as the leverage ratio, under our Revolving Credit Agreement for the most recently ended four fiscal quarters ended March 31, 2013. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratios):

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		Twelve Months Ended March 31, 2013
Net Loss	**$**	**(105)**
Income tax expense		(20)
Interest expense, net		191
Depreciation and amortization		242
Restructuring costs (a)		39
Net hedging and foreign exchange losses (b)		8
Management fees (c)		8
Transaction costs (d)		14
Business optimization expenses (e)		9
Proforma savings (f)		12
Loss on extinguishment of debt (g)		83
Equity based compensation expense (h)		4
Other non-cash charges (i)		3
Consolidated EBITDA	**$**	**488**
Pro forma impact of specified transactions (j)		3
Adjusted Consolidated EBITDA	**$**	**491**
Consolidated Funded Indebtedness, less cash (k)	**$**	**1,955**
Leverage Ratio (l)		**3.98x**

(a) Reflects severance costs and other restructuring related expenses.
(b) Reflects net losses from hedging activities and realized losses due to foreign exchange.
(c) Reflects management fees paid to Access, including an annual fee and related expenses (excludes expenses reimbursed related to certain consultants with full-time roles at the Company).
(d) Reflects costs mainly related to the Company s participation in the EMI sale process, including the subsequent regulatory review.
(e) Reflects primarily costs associated with IT systems updates.
(f) Reflects net cost-savings and synergies projected to result from actions taken or expected to be taken no later than twelve months after the end of such period (calculated on a pro forma basis as though such cost-savings and synergies had been realized on the first day of the period for which Consolidated EBITDA is being determined), net of the amount of actual benefits realized during such period from such actions during the twelve months ended March 31, 2013. Pro forma savings reflected in the table above reflect a portion of the previously announced additional targeted savings of $50-$65 million following the Merger as well as other cost-savings and synergies.
(g) Reflects loss incurred on the early extinguishment of our debt incurred as part of the November 2012 refinancing.
(h) Reflects compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(i) Reflects all non-cash charges not included in other items above, including but not limited to impairment and purchase accounting charges.
(j) Reflects the impact of the Company s purchase of music publishing assets, as if the specified transaction had occurred on the first day of the March 31, 2013 measurement period.
(k) Reflects (i) the principal balance of external debt at Acquisition Corp of approximately $2.1 billion, plus (ii) the annualized daily revolver borrowings of approximately $3 million, plus (iii) contractual obligations of deferred purchase price of $2 million, plus (iv) contingent consideration related to acquisitions of $12 million, minus (v) the amount of cash and cash equivalents of the Company as of March 31, 2013 not exceeding $150 million (which, as of March 31, 2013, resulted in an adjustment of $150 million).
(l) Reflects the ratio of Consolidated Funded Indebtedness, less the amount of cash and equivalents of the Company as of March 31, 2013 not exceeding $150 million, to Consolidated EBITDA as of the twelve months ended March 31, 2013. If the outstanding aggregate principal amount of borrowings under our New Revolving Credit Facility is greater than $30 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our New Revolving Credit Facility is 6.00x as of the end of any fiscal quarter in fiscal 2013. The Company s New Revolving Credit Facility does not impose any leverage ratio restrictions on the Company when the aggregate principal amount of borrowings under the New Revolving Credit Facility is less than $30 million at the end of a fiscal quarter.

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Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued industry-wide decline of CD sales. We or any of our affiliates may also, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to prepay outstanding debt or repurchase the 13.75% Senior Notes due 2019 issued by Holdings (the Holdings Notes), our New Secured Notes, or the Unsecured WMG Notes in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our New Senior Credit Facilities, Holdings Notes, New Secured Notes, or Unsecured WMG Notes with existing cash and/or with funds provided from additional borrowings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 14 to our audited consolidated financial statements for the twelve months ended September 30, 2012, we are exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of March 31, 2013, other than as described below, there have been no material changes to the Company s exposure to market risk since September 30, 2012.

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We use foreign exchange contracts, primarily to hedge the risk that unremitted or future royalties and license fees owed to our 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. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on our major currencies, which include the British pound sterling, euro, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. As of March 31, 2013, the Company had outstanding hedge contracts for the sale of $332 million and the purchase of $262 million of foreign currencies at fixed rates. Subsequent to March 31, 2013, certain of our foreign exchange contracts expired and were renewed with new foreign exchange contracts with similar features.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at March 31, 2013, assuming a hypothetical 10% depreciation of the U.S dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates, the fair value of the foreign exchange forward contracts would have decreased by $7 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

ITEM 4. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended (the Certifications) are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) (Disclosure Controls) and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) (Internal Controls) referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The Securities and Exchange Commission s rules define disclosure controls and procedures as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Securities and Exchange Commission s rules define internal control over financial reporting as a process designed by, or under the supervision of, a public company s principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, including the principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on our management s evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our Internal Controls over financial reporting or other factors during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served 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. However, on January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings and on January 10, 2011, the Supreme Court denied the defendants petition for Certiorari.

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain, for the class of Internet Music purchasers. The parties have filed amended pleadings complying with the court s order, and the case is currently in discovery. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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 between February 2, 2012 and March 10, 2012. The lawsuits, which were brought by various recording artists, all allege that the Company has improperly calculated the royalties due to 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 including us. 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. In a June 1, 2012 Order, the Court consolidated the cases and appointed interim co-lead class counsel. Plaintiffs filed a consolidated, master complaint on August 21, 2012. All deadlines have been stayed until June 27, 2013 to allow for settlement of this dispute. If a settlement has not been reached by that date and if the parties agree that further settlement discussions would be fruitful, the parties can file a joint statement/stipulation seeking additional time for further settlement negotiations. In the alternative, the parties would file a joint statement/stipulation with the Court alerting the Court to the fact that settlement could not be reached and resetting a litigation schedule. Settlement discussions are ongoing. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Other Matters

In addition to the matters discussed above, we are 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, we establish an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, we cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, we continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on us, including our brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on our results of operations for a given reporting period.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, certain risk factors should be considered carefully in evaluating our business. The risks and uncertainties described below may not be the only ones facing us. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer.

Risks Related to our Business

The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations.

The industry began experiencing negative growth rates in 1999 on a global basis and the worldwide recorded music market has contracted considerably since then. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may have all contributed to the decline in the recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended. 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. However, new formats for selling recorded music product have been created, including the legal downloading of digital music and the distribution of music on mobile devices and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are beginning to offset declines in physical sales and represent a growing area of our Recorded Music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, ticketing and artist management. As our expansion into these new areas is recent, we cannot determine how our expansion into these new areas will impact our business. Despite the increase in digital sales, artist services revenues and expanded-rights revenues, revenues from these sources have yet to fully offset declining physical sales on a worldwide industry basis and it is too soon to determine the impact that sales of music through new channels might have on the industry or when the decline in physical sales might be offset by the increase in digital sales and Artist Services and Expanded Rights Recorded Music revenue. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time the industry grew year-over-year in 13 years, and, according to the RIAA, the U.S. recorded music industry unit sales declined by only 0.9% in 2012, a marked improvement versus a decade of steep declines prior to 2011, sales continued to fall in other countries, and the industry continues to be impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats.

There may be downward pressure on our pricing and our profit margins and reductions in shelf space.

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, price competition from the sale of motion pictures in Blu-Ray/DVD-Video format and videogames, the negotiating leverage of mass merchandisers, big-box retailers and distributors of digital music, the increased costs of doing business with mass merchandisers and big-box retailers as a result of complying with operating procedures that are unique to their needs and any changes in costs associated with new digital formats. In addition, we are currently dependent on a small number of leading online music stores, which allows them to significantly influence the prices we can charge in connection with the distribution of digital music. Over the course of the last decade, U.S. mass-market and other stores share of U.S. physical music sales has continued to grow. While we cannot predict how future competition will impact music retailers, as the music industry continues to transform it is possible that the share of music sales by mass-market retailers such as Wal-Mart and Target and online music stores such as Apple s iTunes will continue to grow as a result of the decline of specialty music retailers, which could further increase their negotiating leverage. During the past several years, many specialty music retailers have gone out of business. The declining number of specialty music retailers may not only put pressure on profit margins, but could also impact catalog sales as mass-market retailers generally sell top chart albums only, with a limited range of back catalog. See We are substantially dependent on a limited number of online music stores, in particular Apple s iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores.

Our prospects and financial results may be adversely affected if we fail to identify, sign and retain artists and songwriters and by the existence or absence of superstar releases and by local economic conditions in the countries in which we operate.

We are dependent on identifying, signing and retaining recording artists with long-term potential, whose debut albums are well received on release, whose subsequent albums are anticipated by consumers and whose music will continue to generate sales as part of our catalog for years to come. The competition among record companies for such talent is intense. Competition among record companies to sell records is also intense and the marketing expenditures necessary to compete have increased as well. We are also dependent on signing and retaining songwriters who will write the hit songs of today and the classics of tomorrow. Our competitive position is dependent on our continuing ability to attract and develop artists whose work can achieve a high degree of public acceptance. Our financial results may be adversely affected if we are unable to identify, sign and retain such artists under terms that are economically attractive to us. Our financial results may also be affected by the existence or absence of superstar artist releases during a particular period. Some music industry observers believe that the number of superstar acts with long-term appeal, both in terms of catalog sales and future releases, has declined in recent years. Additionally, our financial results are generally affected by the worldwide economic and retail environment, as well as the appeal of our Recorded Music catalog and our Music Publishing library.

We may have difficulty addressing the threats to our business associated with home copying and Internet downloading.

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, burned CDs and MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to the IFPI s 2009 Digital Music Report. Separately, research reported by IFPI/Nielsen in IFPI s Digital Music Report 2012 indicates that more than a quarter of Internet users globally (28%) access unauthorized digital services on a monthly basis. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to certain risks from behaviors such as sideloading of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal filesharing has a substantial negative impact on music sales. We are working to control this problem in a variety of ways including further litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by establishing legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to content industries, including the music sector. A 2011 study by Frontier Economics cited by IFPI, estimates that digitally pirated music, movies and software is valued at $30 billion to $75 billion. In addition, a 2010 economic study conducted by Tera Consultants in Europe found that if left unabated, digital piracy could result in an estimated loss of 240 billion Euros in retail revenues for the creative industries including music in Europe over the period from 2008 to 2015. Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales and put pressure on the price of legitimate sales. They have had, and may continue to have, an adverse effect on our business.

Legitimate channels for digital distribution of our creative content are a recent development, and their impact on our business is unclear and may be adverse.

We have positioned ourselves to take advantage of online and mobile technology as a sales distribution channel and believe that the continued development of legitimate channels for digital music distribution holds promise for us in the future. Digital revenue streams of all kinds are important to offset continued declining revenue from physical CD sales industry-wide over time. However, legitimate channels for digital distribution are a fairly recent development and we cannot predict their impact on our business. In digital formats, certain costs associated with physical products such as manufacturing, distribution, inventory and return costs do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers that only apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, we believe it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. However, we cannot be sure that we will generally continue to achieve higher margins from digital sales. Any legitimate digital distribution channel that does develop may result in lower or less profitable sales for us than comparable

physical sales. In addition, the transition to greater sales through digital channels introduces uncertainty regarding the potential impact of the unbundling of the album on our business. It remains unclear how consumer behavior will continue to change when customers are faced with more opportunities to purchase only favorite tracks from a given album rather than the entire album. In addition, if piracy continues unabated and legitimate digital distribution channels fail to gain consumer acceptance, our results of operations could be harmed. Furthermore, as new distribution channels continue to develop, we may have to implement systems to process royalties on new revenue streams for potential future distribution channels that are not currently known. These new distribution channels could also result in increases in the number of transactions that we need to process. If we are not able to successfully expand our processing capability or introduce technology to allow us to determine and pay royalty amounts due on these new types of transactions in a timely manner, we may experience processing delays or reduced accuracy as we increase the volume of our digital sales, which could have a negative effect on our relationships with artists and brand identity.

We are substantially dependent on a limited number of online music stores, in particular Apple s iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores.

We derive an increasing portion of our revenues from sales of music through digital distribution channels. We are currently dependent on a small number of leading online music stores that sell consumers digital music. Currently, the largest U.S. online music store, iTunes, typically charges U.S. consumers prices ranging from $0.69 to $1.29 per single-track download. We have limited ability to increase our wholesale prices to digital service providers for digital downloads as Apple s iTunes controls 65% 75% of the legitimate digital music track download business in the U.S. according to third-party estimates. If Apple s iTunes were to adopt a lower pricing model or if there were structural change to other download pricing models, we may receive substantially less per download for our music, which could cause a material reduction in our revenues, unless it is offset by a corresponding increase in the number of downloads. Additionally, Apple s iTunes and other online music stores at present accept and make available for sale all the recordings that we and other distributors deliver to them. However, if online stores in the future decide to limit the types or amount of music they will accept from music-based content owners like us, our revenues could be significantly reduced.

Our involvement in intellectual property litigation could adversely affect our business.

Our business is highly dependent upon intellectual property, an area that has encountered increased litigation in recent years. If we are alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management, regardless of the merits of the claim. There can be no assurance that we would prevail in any such litigation. If we were to lose a litigation relating to intellectual property, we could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect our business.

Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period.

Our net sales, operating income and profitability, like those of other companies in the music business, are largely affected by the number and quality of albums that we release or that include musical compositions published by us, timing of our release schedule and, more importantly, the consumer demand for these releases. We also make advance payments to recording artists and songwriters, which impact our operating cash flows. The timing of album releases and advance payments is largely based on business and other considerations and is made without regard to the impact of the timing of the release on our financial results. We report results of operations quarterly and our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments, which may result in significant fluctuations from period to period.

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We may be unable to compete successfully in the highly competitive markets in which we operate and we may suffer reduced profits as a result.

The industries in which we operate are highly competitive, have experienced ongoing consolidation among major music companies, and are based on consumer preferences and are rapidly changing. Additionally, they require substantial human and capital resources. We compete with other recorded music companies and music publishers to identify and sign new recording artists and songwriters who subsequently achieve long-term success and to renew agreements with established artists and songwriters. In addition, our competitors may from time to time reduce their prices in an effort to expand market share and introduce new services, or improve the quality of their products or services. We may lose business if we are unable to sign successful recording artists or songwriters or to match the prices or the quality of products and services, offered by our competitors. Our Recorded Music business competes not only with other recorded music companies, but also with the recorded music efforts of live events companies and recording artists who may choose to distribute their own works. Our Music Publishing business competes not only with other music publishing companies, but also with songwriters who publish their own works. Our Recorded Music business is to a large extent dependent on technological developments, including access to and selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. For example, our Recorded Music business may be further adversely affected by technological developments that facilitate the piracy of music, such as Internet peer-to-peer filesharing and CD-R activity, by an inability to enforce our intellectual property rights in digital environments and by a failure to develop successful business models applicable to a digital environment. The Recorded Music business also faces competition from other forms of entertainment and leisure activities, such as cable and satellite television, pre-recorded films on DVD, the Internet and computer and videogames.

Consolidation in our industry may materially and adversely affect our ability to compete.

On September 28, 2012, Universal announced that it had closed its acquisition of EMI s recorded music division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the first and fourth-largest record companies to increase the size of Universal, which was already the world s largest record company.

On June 29, 2012 Sony Corporation of America (an affiliate of Sony/ATV), in conjunction with the Estate of Michael Jackson, Mubadala Development Company PJSC, Jynwel Capital Limited, the Blackstone Group s GSO Capital Partners LP and David Geffen announced that it had closed its acquisition of EMI s music publishing division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the second and fourth-largest music publishing companies to create the world s largest music publishing company.

There are currently pending, and may in the future be additional, mergers and acquisitions and changes in our industry, including those in which we are currently participating and may in the future participate and those that may be undertaken by others. Universal s acquisition of the recorded music division of EMI and Sony s acquisition of the music publishing division of EMI, as well as any further industry consolidation, have and will continue to substantially alter the competitive landscape, and could materially and adversely affecting our ability to compete, our business and results of operations, and result in changes to our corporate or business strategy. We regularly assess and explore our strategic position and ways to enhance our competitiveness, including the possibilities for our acquisition of strategic assets sold by competitors in our industry, or our participation in merger activity with other industry participants.

Our business operations in some foreign countries subject us to trends, developments or other events which may affect us adversely.

We are a global company with strong local presences, which have become increasingly important as the popularity of music originating from a country s own language and culture has increased in recent years. Our mix of national and international recording artists and songwriters provides a significant degree of diversification for our music portfolio. However, our creative content does not necessarily enjoy universal appeal. As a result, our results can be affected not only by general industry trends, but also by trends, developments or other events in individual countries, including:

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;

fluctuations in interest and foreign exchange rates;

differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;

varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;

exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;

difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;

tariffs, duties, export controls and other trade barriers;

longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;

recessionary trends, inflation and instability of the financial markets;

higher interest rates; and

political instability.

We may not be able to insure or hedge against these risks, and we may not be able to ensure compliance with all of the applicable regulations without incurring additional costs. Furthermore, financing may not be available in countries with less than investment-grade sovereign credit ratings. As a result, it may be difficult to create or maintain profit-making operations in developing countries.

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future other country-specific trends, developments or other events will not have such a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress sales in any given market and prompt promotional or other actions that affect our margins.

Our business may be adversely affected by competitive market conditions and we may not be able to execute our business strategy.

We expect to increase revenues and cash flow through a business strategy which requires us, among other things, to continue to maximize the value of our music assets, to significantly reduce costs to maximize flexibility and adjust to new realities of the market, to continue to act to contain digital piracy and to diversify our revenue streams into growing segments of the music business by entering into expanded-rights deals with recording artists and by operating our artist services businesses and to capitalize on digital distribution and emerging technologies.

Each of these initiatives requires sustained management focus, organization and coordination over significant periods of time. Each of these initiatives also requires success in building relationships with third parties and in anticipating and keeping up with technological developments and consumer preferences and may involve the implementation of new business models or distribution platforms. The results of our strategy and the success of our implementation of this strategy will not be known for some time in the future. If we are unable to implement our strategy successfully or properly react to changes in market conditions, our financial condition, results of operations and cash flows could be adversely affected.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

Our success depends, in part, upon the continuing contributions of our executive officers, however, there is no guarantee that they will not leave. Some of our executive officers have employments agreements. We do not have an employment agreement with our CEO and certain of our other executive officers have at-will employment letters. Our CEO and each of our executive officers who have at-will employment letters have elected to participate in the Warner Music Group Corp. Senior Management Cash Flow Plan, and the at-will employment letters were a condition to their participation in the Plan. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects.

A significant portion of our Music Publishing revenues is subject to rate regulation either by government entities or by local third-party collection societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability.

Mechanical royalties and performance royalties are the two largest sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the U.S., mechanical royalty rates are set pursuant to an administrative rate-setting process under the U.S. Copyright Act unless rates are determined through voluntary industry negotiations and performance royalty rates are set by performing rights societies and subject to challenge by performing rights licensees. Outside the U.S., mechanical and performance royalty rates are typically negotiated on an industry-wide basis. The mechanical and performance royalty rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical royalty rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our Recorded Music business receives in the U.S. for, among other sources of income and potential income, webcasting and satellite radio are set by an administrative process under the U.S. Copyright Act unless rates are determined through voluntary industry negotiations. It is important as sales shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. If the rates for Recorded Music income sources that are established through legally prescribed rate-setting processes are set too low, it could have a material adverse impact on our Recorded Music business or our business prospects.

An impairment in the carrying value of goodwill or other intangible and long-lived assets could negatively affect our operating results and equity.

On March 31, 2013, we had $1.384 billion of goodwill and $102 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (ASC) Topic 350, Intangibles Goodwill and other (ASC 350) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units carrying value if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets, and trends in the music industry. The Company performed an annual assessment of the recoverability of its goodwill and indefinite-lived intangibles at September 30, 2012, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders equity could be adversely affected.

We also had $2.371 billion of definite-lived intangible assets as of March 31, 2013. Financial Accounting Standards Board (FASB) ASC Topic 360-10-35, (ASC 360-10-35) requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders equity.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, approximately 55% and 59% of our revenues related to operations in foreign territories for the three and six months ended March 31, 2013, respectively. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of March 31, 2013, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

We may not have full control and ability to direct the operations we conduct through joint ventures.

We currently have interests in a number of joint ventures and may in the future enter into further joint ventures as a means of conducting our business. In addition, we structure certain of our relationships with recording artists and songwriters as joint ventures. We may not be able to fully control the operations and the assets of our joint ventures, and we may not be able to make major decisions or may not be able to take timely actions with respect to our joint ventures unless our joint venture partners agree.

The enactment of legislation limiting the terms by which an individual can be bound under a personal services contract could impair our ability to retain the services of key artists.

California Labor Code Section 2855 (Section 2855) limits the duration of time any individual can be bound under a contract for personal services to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation was introduced in New York in 2009 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of seven years which term could be reduced to three years if the artist was not represented in the negotiation and execution of such contracts by qualified counsel experienced with entertainment industry law and practices. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially affect our results of operations and financial position.

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We face a potential loss of catalog to the extent that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act.

The U.S. Copyright Act provides authors (or their heirs) a right to terminate U.S. licenses or assignments of rights in their copyrighted works in certain circumstances. This right does not apply to works that are works made for hire. Since the effective date of U.S. federal copyright protection for sound recordings (February 15, 1972), virtually all of our agreements with recording artists provide that such recording artists render services under a work-made-for-hire relationship. A termination right exists under the U.S. Copyright Act for U.S. rights in musical compositions that are not works made for hire. If any of our commercially available sound recordings were determined not to be works made for hire, then the recording artists (or their heirs) could have the right to terminate the U.S. federal copyright rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of release of a recording under a post-1977 license or assignment (or, in the case of a pre-1978 grant in a pre-1978 recording, generally during a five-year period starting at the end of 56 years from the date of copyright). A termination of U.S. federal copyright rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) can terminate our U.S. rights in musical compositions. However, we believe the effect of those terminations is already reflected in the financial results of our Music Publishing business.

If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions.

We have in the past considered and will continue, from time to time, to consider, opportunistic strategic transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in businesses that are similar or complementary to ours. Any such strategic combination, including the Transaction, could be material, be difficult to implement, disrupt our business or change our business profile significantly.

Any future strategic transaction, including the Transaction, could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- potential loss of recording artists or songwriters from our rosters;
- difficulty integrating the acquired businesses or segregating assets to be disposed of;
- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;
- reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain anti-trust approval; and
- changing our business profile in ways that could have unintended consequences.

If we enter into significant strategic transactions in the future, including the Transaction, related accounting charges may affect our financial condition and results of operations, particularly in the case of any acquisitions. In addition, the financing of any significant acquisition may result in changes in our capital structure, including the incurrence of additional indebtedness. Conversely, any material disposition could reduce our indebtedness or require the amendment or refinancing of our outstanding indebtedness or a portion thereof. We may not be successful in addressing these risks or any other problems encountered in connection with any strategic transactions. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures or enter into any business combination, including the Transaction, that they will be completed in a timely manner, or at all, that they will be structured or financed in a way that will enhance our creditworthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions, including those contemplated by the Transaction. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our company as a whole.

We have outsourced our information technology infrastructure and certain finance and accounting functions and may outsource other back-office functions, which will make us more dependent upon third parties.

In an effort to make our information technology, or IT, more efficient and increase our IT capabilities and reduce potential disruptions, as well as generate cost-savings, we signed a contract during fiscal year 2009 with a third-party service provider to outsource a significant portion of our IT infrastructure functions. This outsourcing initiative was a component of our ongoing strategy to monitor our costs and to seek additional cost-savings. As a result, we rely on third parties to ensure that our IT needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over IT processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our supplier. In addition, in an effort to make our finance and accounting functions more efficient, as well as generate cost-savings, we signed a contract during fiscal year 2009 with a third-party service provider to outsource certain finance and accounting functions. A failure of our service providers to perform services in a satisfactory manner may have a significant adverse effect on our business. We may outsource other back-office functions in the future, which would increase our reliance on third parties.

Additionally, we are currently in the process of implementing substantial changes to our IT system. We may not be able to successfully implement these systems in an effective manner. In addition, we may incur significant increases in costs and encounter extensive delays in the implementation and rollout of our new IT system. If there are technological impediments, unforeseen complications, errors or breakdowns in implementing this new core operating system or if this new core operating system does not meet the requirements of our customers, our business, financial condition, results of operations or customer perceptions may be adversely affected.

We have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost-savings.

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations. Following the 2004 acquisition of substantially all of the interests of the recorded music and music publishing business of Time Warner, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. We continue to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed cost structure to minimize any impact. In connection with the Merger we targeted \$50 million to \$65 million in cost-savings and as of March 31, 2013 we had achieved a majority of these targeted cost-savings and have since identified further cost-savings opportunities. While most of these initiatives and opportunities have been implemented as of March 31, 2013, there can be no assurances that additional cost-savings will be achieved in full or at all. In addition, we recently announced that as the Parlophone Label Group has meaningful operational overlap with the Company, the Company currently believes there are potential cost synergies of approximately \$70 million. If the Transaction is consummated, there can be no assurances that these cost-savings will be achieved in full or at all.

We cannot be certain that we will not be required to implement further restructuring activities, make additions or other changes to our management or workforce based on other cost reduction measures or changes in the markets and industry in which we compete. Our inability to structure our operations based on evolving market conditions could impact our business. Restructuring activities can create unanticipated consequences and negative impacts on the business, and we cannot be sure that any future restructuring efforts will be successful or generate expected cost-savings.

Access, which indirectly owns all of our outstanding capital stock, controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile.

As a result of the Merger, affiliates of Access indirectly own all of our common stock, and the actions that Access undertakes as our sole ultimate shareholder may differ from or adversely affect the interests of debt holders. Because Access ultimately controls our voting shares and those of all of our subsidiaries, it has the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as to elect our directors and those of our subsidiaries, to change our management and to approve any other changes to our operations. In addition, Access sets the compensation for Stephen Cooper, our chief executive officer, pursuant to an arrangement between Mr. Cooper and Access, and we reimburse Access for any compensation paid to our chief executive officer pursuant to the Management Agreement. Access also provides us with financial, investment banking, management, advisory and other services pursuant to the Management Agreement, for which we pay Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. Access also has the power to direct us to engage in strategic transactions, with or involving other companies in our industry, including acquisitions, combinations or dispositions, and the acquisition of certain assets that are currently or will soon be available for purchase, and any such transaction could be material. Any such transaction would carry the risks set forth above under If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions.

Additionally, Access is in the business of making investments in companies and is actively seeking to acquire interests in businesses that operate in our industry and may compete, directly or indirectly, with us. Access may also pursue acquisition opportunities that may be complementary to our business, which could have the effect of making such acquisition opportunities unavailable to us. Access could elect to cause us to enter into business combinations or other transactions with any business or businesses in our industry that Access may acquire or control, or we could become part of a group of companies organized under the ultimate common control of Access that may be operated in a manner different from the manner in which we have historically operated. Any such business combination transaction could require that we or such group of companies incur additional indebtedness, and could also require us or any acquired business to make divestitures of assets necessary or desirable to obtain regulatory approval for such transaction. The amounts of such additional indebtedness, and the size of any such divestitures, could be material. Access may also from time to time purchase outstanding debt securities that we issued and could also subsequently sell any such debt securities. Any such purchase or sale may affect the value of, trading price or liquidity of our debt securities.

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Finally, because neither we nor our parent company have any securities listed on a securities exchange, we are not subject to certain of the corporate governance requirements of any securities exchange, including any requirement to have any independent directors.

Our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and part of Europe could have an adverse impact on our ability to meet our manufacturing, packaging and physical distribution requirements.

Cinram International Inc. and its affiliates (collectively, Cinram) have been our primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and Central Europe. In April 2012, in connection with its earnings report, Cinram described certain events and conditions that indicated the existence of a material uncertainty that may have cast significant doubt about Cinram s ability to continue as a going concern, including the breach of certain of the financial covenants in its senior credit agreements. Subsequently, in connection with a previously announced strategic process, in June 2012, Cinram announced that it would sell its core business in North America and Europe to the Najafi Companies. The sale of Cinram s North American assets closed in August 2012 and the sale of Cinram s European operations closed in January 2013. Any future inability of Cinram to continue to provide services due to financial distress, refinancing issues or otherwise could also require us to switch to substitute suppliers of these services for more services than currently planned.

As Cinram continues to be our primary supplier of manufacturing and distribution services in the U.S., Canada and part of Europe, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram s continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, or were unable to otherwise continue to provide services, we may have difficulty satisfying our commitments to our wholesale and retail customers in the short term until we more fully transitioned to an alternate provider, which could have an adverse impact on our revenues.

Evolving regulations concerning data privacy may result in increased regulation and different industry standards, which could increase the costs of operations or limit our activities.

We engage in a wide array of online activities and are thus subject to a broad range of related laws and regulations including, for example, those relating to privacy, consumer protection, data retention and data protection, online behavioral advertising, geo-location tracking, text messaging, e-mail advertising, mobile advertising, content regulation, defamation, age verification, the protection of children online, social media and other Internet, mobile and online-related prohibitions and restrictions. The regulatory framework for privacy and data security issues worldwide has become increasingly burdensome and complex, and is likely to continue to be so for the foreseeable future. Practices regarding the collection, use, storage, transmission, security and disclosure of personal information by companies operating over the Internet and mobile platforms are receiving ever-increasing public scrutiny. The U.S. government, including Congress, the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for even greater regulation for the collection of information concerning consumer behavior on the Internet and mobile platforms, including regulation aimed at restricting certain targeted advertising practices, the use of location data and disclosures of privacy practices in the online and mobile environments, including with respect to online and mobile applications State governments are engaged in similar legislative and regulatory activities. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which is likely to result in a greater compliance burden for companies with consumers in Europe. Globally, many government and consumer agencies have also called for new regulation and changes in industry practices.

In October 2012, one of our subsidiaries entered into a settlement to settle certain Federal Trade Commission charges that it violated the Children s Online Privacy Protection Act (COPPA) by improperly collecting personal information from children under 13 without their parents consent. While our subsidiary neither admitted nor denied the agency s allegations, the settlement imposed a $1 million civil penalty, barred future violations of COPPA, and required that our subsidiary delete information collected in violation of the COPPA, among other requirements.

The Federal Trade Commission has also proposed revisions to COPPA, that could, if adopted, create greater compliance burdens on us. COPPA imposes a number of obligations, such as obtaining parental permission, on website operators to the extent they collect certain information from children who are under 13 years of age. The proposed changes would broaden the applicability of COPPA, including the types of information that would be subject to these regulations, and could apply to information that we or our clients intend to collect through mobile devices or apps that is not currently subject to COPPA.

In addition, our business, including our ability to operate and expand internationally, could be adversely affected if laws or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry

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practices regarding the collection, use or disclosure of customer data, or regarding the manner in which the express or implied consent of consumers for such collection, use and disclosure is obtained. Such changes may require us to modify our operations, possibly in a material manner, and may limit our ability to develop new products, services, mechanisms, platforms and features that make use of data regarding our customers and potential customers.

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors, security information breaches through cybersecurity attacks or otherwise could damage our reputation with customers, employees and vendors, and we could incur substantial additional costs and become subject to litigation. Moreover, even if we or our service providers maintain such security, such breaches remain a possibility due to the fact that no data security system is immune from attacks or other incidents.

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, we may be vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks or otherwise which are rapidly evolving and sophisticated) that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

We increasingly rely on third-party data storage providers, including cloud storage solution providers, resulting in less direct control over our data. Such third parties may also be vulnerable to security breaches and compromised security systems, which could adversely affect our reputation.

Risks Related to our Leverage

Our substantial leverage on a consolidated basis could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our indebtedness.

We are highly leveraged. As of March 31, 2013, our total consolidated indebtedness, including the current portion, was $2.211 billion. In addition, we would have been able to borrow up to $150 million under our New Revolving Credit Facility (not giving effect to letters of credit outstanding of approximately $1 million).

Our high degree of leverage could have important consequences for our investors. For example, it may:

- make it more difficult for us to make payments on our indebtedness;
- increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility;
- expose us to the risk of increased interest rates because any borrowings we make under the New Senior Credit Facilities will bear interest at variable rates;
- require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses;

- limit our ability to refinance existing indebtedness on favorable terms or at all or borrow additional funds in the future for, among other things, working capital, acquisitions or debt service requirements;

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- place us at a competitive disadvantage compared to competitors that have less indebtedness; and

- limit our ability to borrow additional funds that may be needed to operate and expand our business.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the indentures governing our outstanding notes as well as under the New Senior Credit Facilities. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

The indentures that govern our notes and the New Senior Credit Facilities contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Those covenants include restrictions on our ability to, among other things, incur more indebtedness, pay dividends, redeem stock or make other distributions, make investments, create liens, transfer or sell assets, merge or consolidate and enter into certain transactions with our affiliates. Our failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of all of our indebtedness. See also Our debt agreements contain restrictions that limit our flexibility in operating our business.

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We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Acquisition Corp. will rely on its subsidiaries to make payments on its borrowings. If these subsidiaries do not dividend funds to Acquisition Corp. in an amount sufficient to make such payments, if necessary in the future, Acquisition Corp. may default under the indentures or credit facilities governing its borrowings, which would result in all such borrowings becoming due and payable. In addition, Holdings, our immediate subsidiary, will rely on our indirect subsidiary Acquisition Corp. and its subsidiaries to make payments on its borrowings. If Acquisition Corp. does not dividend funds to Holdings in an amount sufficient to make such payments, if necessary in the future, Holdings may default under the indenture governing its borrowings, which would result in all such notes becoming due and payable.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The indentures governing our outstanding notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability, Holdings ability and the ability of our restricted subsidiaries to, among other things:

- incur additional debt or issue certain preferred shares;
- create liens on certain debt;
- pay dividends on or make distributions in respect of our capital stock or make investments or other restricted payments;
- sell certain assets;
- create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make certain other intercompany transfers;
- enter into certain transactions with our affiliates; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

In addition, the credit agreements governing the Term Loan Facility and New Revolving Credit Facility contain a number of covenants that limit our ability, Holdings ability and the ability of our restricted subsidiaries to:

- pay dividends on, and redeem and purchase, equity interests;
- make other restricted payments;

- make prepayments on, redeem or repurchase certain debt;
- incur certain liens;
- make certain loans and investments;
- incur certain additional debt;
- enter into guarantees and hedging arrangements;
- enter into mergers, acquisitions and asset sales;
- enter into transactions with affiliates;
- change the business we and our subsidiaries conduct;
- restrict the ability of our subsidiaries to pay dividends or make distributions;
- amend the terms of subordinated debt and unsecured bonds; and
- make certain capital expenditures.

Our ability to borrow additional amounts under the New Senior Credit Facilities will depend upon satisfaction of these covenants. Events beyond our control can affect our ability to meet these covenants.

Our failure to comply with obligations under the instruments governing their indebtedness may result in an event of default under such instruments. We cannot be certain that we will have funds available to remedy these defaults. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

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All of these restrictions could affect our ability to operate our business or may limit our ability to take advantage of potential business opportunities as they arise.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments in recording artists and songwriters, capital expenditures or dividends, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indentures governing our outstanding notes restrict our ability to dispose of assets and use the proceeds from dispositions. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

Despite our indebtedness levels, we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness.

We may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The indentures governing our outstanding notes and the credit agreements governing the Term Loan Facility and New Revolving Credit Facility will not fully prohibit us, Holdings or our subsidiaries from incurring additional indebtedness under certain circumstances. If we, Holdings or our subsidiaries are in compliance with certain incurrence ratios set forth in such indentures, we, Holdings or our subsidiaries may be able to incur substantial additional indebtedness, which may increase the risks created by our current substantial indebtedness.

We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control.

Our ability to make scheduled payments on, or to refinance our obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on our future operating performance and on economic, financial, competitive, legislative and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost-savings and operating improvements will be realized or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our obligations under our indebtedness or to fund our other needs. To satisfy our obligations under our indebtedness and to fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital.

Any future lowering of our ratings may make it more difficult or more expensive for us to obtain additional debt financing. Therefore, although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 9, 2013, Edgar Bronfman, Jr. resigned from his position as a member of the Board of Directors of Warner Music Group Corp. At the time of his resignation, the Company awarded Mr. Bronfman a cash payment of approximately $1.3 million in recognition of his service as a Director of the Company, including his service during the process resulting in signing a definitive agreement to acquire the Parlophone Label Group from Universal Music Group.

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ITEM 6. EXHIBITS

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit No.	Description
4.1	Fourth Supplemental Indenture, dated as of March 4, 2013, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 11.50% Senior Notes due 2018. (1)
4.2	Fourth Supplemental Indenture, dated as of March 4, 2013, between WMG Holdings Corp. and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75% Senior Notes due 2019. (1)
4.3	Third Supplemental Indenture, dated as of March 4, 2013, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 6.000% Senior Secured Notes due 2021 and the 6.250% Senior Secured Notes due 2021. (1)
10.1	First Amendment to Credit Agreement, dated as of April 23, 2013 among WMG Acquisition Corp., the lenders party thereto and Credit Suisse AG, as Administrative Agent relating to a revolving credit facility.*
10.2	Incremental Commitment Amendment, dated as of May 9, 2013, by and among WMG Acquisition Corp., the other Loan Parties (as defined therein), WMG Holdings Corp., and the several banks and financial institutions parties thereto as Lenders and the Administrative Agent, as defined therein.*
10.3	Commitment Letter, dated as of February 6, 2013, by and among Credit Suisse AG, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, UBS Loan Finance LLC, UBS Securities LLC, Macquarie Capital (USA) Inc., MIHI LLC, Nomura Securities International, Inc. and Nomura International PLC.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.1	Financial statements from the Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended March 31, 2013, filed on May 14, 2013, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Equity Deficit and (v) Notes to Consolidated Interim Audited Financial Statements***

* Filed herewith.

** This certification will be treated as accompanying this Quarterly Report on Form 10-Q and not filed as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject the liability of Section 18 of the Securities Exchange Act of 1934, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

*** Furnished herewith pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is submitted and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections

(1) Incorporated by reference to Warner Music Group Corp. s Current Report on Form 8-K filed on March 5, 2013 (File No. 001-32502).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 14, 2013

WARNER MUSIC GROUP CORP.

By:	/s/ STEPHEN COOPER
Name:	**Stephen Cooper**
Title:	**Chief Executive Officer**
	(Principal Executive Officer)
By:	/s/ BRIAN ROBERTS
Name:	**Brian Roberts**
Title:	**Chief Financial Officer**
	(Principal Financial Officer
	and Principal Accounting Officer)