Warner Music Group Corp.
Form 10-Q
February 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 December 31, 2012

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

There is no public market for the Registrant s common stock. As of February 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 (Unaudited)

	December 31, 2012	September 30, 2012
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 189	$ 302
Accounts receivable, less allowances of $91 and $63 million	418	398
Inventories	27	28
Royalty advances expected to be recouped within one year	132	116
Deferred tax assets	51	51
Other current assets	52	44
Total current assets	869	939
Royalty advances expected to be recouped after one year	162	142
Property, plant and equipment, net	147	152
Goodwill	1,384	1,380
Intangible assets subject to amortization, net	2,453	2,499
Intangible assets not subject to amortization	102	102
Other assets	82	64
Total assets	$ 5,199	$ 5,278
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 149	$ 156
Accrued royalties	1,027	997
Accrued liabilities	215	258
Accrued interest	40	89
Deferred revenue	158	101
Current portion of long-term debt	30	
Other current liabilities	22	5
Total current liabilities	1,641	1,606
Long-term debt	2,195	2,206
Deferred tax liabilities	358	375
Other noncurrent liabilities	141	147
Total liabilities	4,335	4,334
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding)		
Additional paid-in capital	1,127	1,129
Accumulated deficit	(223)	(143)
Accumulated other comprehensive loss, net	(57)	(59)
Total Warner Music Group Corp. equity	847	927
Noncontrolling interest	17	17
Total equity	864	944

Total liabilities and equity	$ 5,199	$ 5,278

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
	(in millions)	
Revenues	$ 769	$ 775
Costs and expenses:		
Cost of revenues	(408)	(420)
Selling, general and administrative expenses (a)	(262)	(268)
Amortization of intangible assets	(48)	(48)
Total costs and expenses	(718)	(736)
Operating income	51	39
Loss on extinguishment of debt	(83)	
Interest expense, net	(53)	(57)
Other expense, net	(5)	(2)
Loss before income taxes	(90)	(20)
Income tax benefit (expense)	11	(6)
Net loss	(79)	(26)
Less: income attributable to noncontrolling interest	(1)	
Net loss attributable to Warner Music Group Corp.	$ (80)	$ (26)
(a) Includes depreciation expense of:	$ (13)	$ (12)

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Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
	(in millions)	
Net loss	$ (79)	$ (26)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	2	(14)
Deferred gains on derivative financial instruments		
Minimum pension liability		
Other comprehensive loss, net of tax:	2	(14)
Total comprehensive loss	(77)	(40)
Less: comprehensive income attributable to noncontrolling interest	(1)	
Comprehensive loss attributable to Warner Music Group Corp.	$ (78)	$ (40)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
	(in millions)	
Cash flows from operating activities		
Net loss	$ (79)	$ (26)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss on extinguishment of debt	83	
Depreciation and amortization	61	60
Deferred income taxes	(10)	(2)
Non-cash interest (income) expense	2	(1)
Changes in operating assets and liabilities:		
Accounts receivable	(23)	(42)
Inventories	1	
Royalty advances	(35)	(13)
Accounts payable and accrued liabilities	(53)	(25)
Royalty payables	32	66
Accrued interest	(49)	(23)
Deferred income	55	30
Other balance sheet changes	5	1
Net cash (used in) provided by operating activities	(10)	25
Cash flows from investing activities		
Acquisition of publishing rights	(8)	(7)
Proceeds from the sale of music catalog		2
Capital expenditures	(7)	(6)
Net cash used in investing activities	(15)	(11)
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	(30)	
Distribution to noncontrolling interest holder		(1)
Net cash used in financing activities	(86)	(1)
Effect of exchange rate changes on cash and equivalents	(2)	1
Net (decrease) increase in cash and equivalents	(113)	14
Cash and equivalents at beginning of period	302	154
Cash and equivalents at end of period	$ 189	$ 168

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				(80)		(80)	1	(79)
Deconsolidation of entity			(2)			(2)		(2)
Other comprehensive loss					2	2		2
Noncontrolling interests							(1)	(1)
Stock dividend	55							
Balance at December 31, 2012	**1,055**	**$ 0.001**	**$ 1,127**	**$ (223)**	**$ (57)**	**$ 847**	**$ 17**	**$ 864**

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

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). 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, the Company notified the New York Stock Exchange, Inc. (the NYSE) of its intent to remove the Company s common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company s common stock from the NYSE. On July 21, 2011, in accordance with the Company s request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company s common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On August 2, 2011 the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. Following such suspension, the Company continued to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing the Company s outstanding indebtedness. Additionally, the Company filed two exchange offer registration statements with the SEC in connection with the registration of the 11.50% Senior Unsecured Notes due 2018 issued by Acquisition Corp. (the Unsecured WMG Notes) and the 13.75% Senior Notes due 2019 issued by Holdings (the Holdings Notes) and the related guarantees by the Company, both of which became effective on March 16, 2012. As a result, the Company s obligations to file reports pursuant to Section 15(d) of the Exchange Act were reinstated until the end of our fiscal year ended September 30, 2012 and it has continued to file Exchange Act reports with the SEC 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.

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

Outside the U.S., Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. 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 WEA Corp., which markets and sells music and DVD products to retailers and wholesale distributors in the U.S., ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

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

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

The Company is also diversifying its revenues beyond its traditional businesses by entering into artist services and 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 developed an artist services business to exploit this broader set of music-related rights and to participate more broadly in the monetization of the artist brands it helps create. In developing the Company s artist services business, the Company has both built and expanded in-house capabilities and expertise and has acquired a number of existing artist services companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, concert promotion, fan clubs, original programming and video entertainment.

The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities associated with the Company s artists and other artists will permit it to diversify revenue streams to better capitalize on the growth areas of the music industry and permit it to build stronger, long-term relationships with artists and more effectively connect artists and fans.

Music Publishing Operations

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

The Company s Music Publishing operations include Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel

and other Christian music. In January 2011, the Company acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd.,

Hallmark Entertainment and Disney Music Publishing. In July 2012, the Company announced that Warner/Chappell had acquired the master and publishing rights with respect to film music owned by Miramax Films, which contains the film scores and certain masters from numerous critically acclaimed films. 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 month period ended December 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2013.

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 December 31, 2012 and December 31, 2011 relate to the three-month periods ended December 28, 2012 and December 30, 2011, respectively. For convenience purposes, the Company continues to date its financial statements as of December 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 described in Note 11, 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 the 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

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 reporting periods 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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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.

3. Comprehensive (Loss) Income

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

	Foreign Currency Translation Loss	Minimum Pension Liability	Deferred Gains On Derivative Financial Instruments (in millions)	Accumulated Other Comprehensive (Loss)/Income
Balance at September 30, 2012	**$ (54)**	**$ (6)**	**$ 1**	**$ (59)**
Activity through December 31, 2012	2			2
Balance at December 31, 2012	**$ (52)**	**$ (6)**	**$ 1**	**$ (57)**

4. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the three months ended December 31, 2012 (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 December 31, 2012	**$ 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 may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company s goodwill may not be recoverable. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

Other Intangible Assets

Other intangible assets consist of the following (in millions):

	December 31, 2012	September 30, 2012
	(in millions)	
Intangible assets subject to amortization:		
Recorded music catalog	$ 544	$ 547
Music publishing copyrights	1,518	1,508
Artist and songwriter contracts	661	667
Trademarks	7	7
	2,730	2,729
Accumulated amortization	(277)	(230)
Total net intangible assets subject to amortization	2,453	2,499
Intangible assets not subject to amortization:		
Trademarks and brands	102	102
Total net other intangible assets	$ 2,555	$ 2,601

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5. Debt

Debt Capitalization

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

	December 31, 2012	September 30, 2012
	(in millions)	
Old Revolving Credit Facility (a)	$	$
New Revolving Credit Facility (b)		
Term Loan Facility due 2018 Acquisition Corp (c)	594	
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)	231	
11.5% Senior Notes due 2018 Acquisition Corp (g)	750	749
13.75% Senior Notes due 2019 Holdings	150	150
Total debt	$ 2,225	$ 2,206
Less: current portion	30	
Total long term debt	$ 2,195	$ 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 December 31, 2012. There were no loans outstanding under the New Revolving Credit Facility as of December 31, 2012.

(c) Face amount of $600 million less unamortized discount of $6 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 December 31, 2012.

(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 December 31, 2012.

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

2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing of its then outstanding Senior Secured Notes due 2016 (the 2012 Refinancing). 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). 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 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 three months ended December 31, 2012, 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 will be due March 31, 2013. $30 million is scheduled to be repaid in each of the successive five years, in quarterly installments, with $450 million payable thereafter.

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 December 31, 2012, there are no scheduled maturities until 2018 ($750 million). Thereafter, $881 million is scheduled to mature.

Interest Expense

Total interest expense, net was $53 million and $57 million for the three months ended December 31, 2012 and December 31, 2011, respectively. The weighted-average interest rate of the Company s total debt was 8.2% and 10.5% for the three months ended December 31, 2012 and December 31, 2011, respectively.

6. 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.

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 February 28, 2013 to allow for mediation 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. The parties participated in a mediation on January 3, 2013, and 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.

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) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. However, 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.

7. Derivative Financial Instruments

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

The Company enters into FX Contracts primarily to hedge its royalty payments and balance sheet items denominated in foreign currency, 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 10.

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

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

Interest Rate Risk Management

The Company has $2.225 billion of debt outstanding at December 31, 2012, of which $594 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 our debt is at a fixed rate.

In addition to the $594 million of variable rate debt, the Company also had $1.631 billion of fixed-rate debt. Based on the level of interest rates prevailing at December 31, 2012, the fair value of this fixed-rate debt was approximately $1.831 billion. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would increase or decrease the fair value of the fixed-rate debt by approximately $14 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate 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.

Foreign Currency Risk Management

Historically, the Company has used, and continues to use, foreign exchange forward contracts and foreign exchange options primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of

exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. In addition, the Company currently hedges foreign currency risk associated with financing transactions such as third-party and inter-company debt and other balance sheet items.

For royalty related hedges, the Company records foreign exchange contracts at fair value on its balance sheet and the related gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. 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 December 31, 2012, the Company had outstanding hedge contracts for the sale of $357 million and the purchase of $260 million of foreign currencies at fixed rates. As of December 31, 2012, 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.

8. 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)		
December 31, 2012				
Revenues	$ 657	$ 116	$ (4)	$ 769
OIBDA	114	16	(18)	112
Depreciation of property, plant and equipment	(7)	(2)	(4)	(13)
Amortization of intangible assets	(33)	(15)		(48)
Operating income (loss)	$ 74	$ (1)	$ (22)	$ 51
December 31, 2011				
Revenues	$ 659	$ 121	$ (5)	$ 775
OIBDA	104	16	(21)	99
Depreciation of property, plant and equipment	(8)	(1)	(3)	(12)
Amortization of intangible assets	(33)	(15)		(48)
Operating income (loss)	$ 63	$	$ (24)	$ 39

9. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $100 million and $79 million during the three months ended December 31, 2012 and December 31, 2011, 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 $5 million and $20 million of income and withholding taxes, net of refunds, during the three months ended December 31, 2012 and December 31, 2011, respectively. The $20 million of cash tax payments during the 3 months ended December 31, 2011 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. (the 2004 Acquisition Agreement).

10. 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 December 31, 2012 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 income, net in the statement of operations.

	Fair Value Measurements as of December 31, 2012			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 2	$	$ 2
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (4)	$	$ (4)
Other Current Liabilities:				
Contractual Obligations (b)	$	$	$ (6)	$ (6)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (10)	$ (10)

	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)

(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.

11. Subsequent Events

Acquisition of Parlophone Label Group

On February 7, 2013, the Company announced that it had signed a definitive agreement to acquire the Parlophone Label Group from Universal Music Group, a division of Vivendi, for £487 million, or approximately $765 million, in an all-cash transaction (the Transaction). References below to the Transaction include the transactions contemplated by the EMI France Agreement unless the context otherwise requires.

In connection with the Transaction, a wholly owned subsidiary, Warner Music Holdings Limited, together with certain other Company subsidiaries, as buyers, and WMG 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.

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.

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 as well as 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.

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.

The Company has obtained commitments to finance the Transaction through an incremental term loan facility under its existing Term Loan Credit Agreement. The commitments are subject to customary conditions, including the execution and delivery of customary documentation.

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 the13.75% 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 2012, 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 December 31, 2011. 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)

December 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Assets:									
Current assets:									
Cash and equivalents	$	$ 44	$ 145	$	$ 189	$	$	$	$ 189
Accounts receivable, net		171	247		418				418
Inventories		10	17		27				27
Royalty advances expected to be recouped within one year		78	54		132				132
Deferred tax assets		35	16		51				51
Other current assets		10	42		52				52
Total current assets		348	521		869				869
Royalty advances expected to be recouped after one year		96	66		162				162
Investments in and advances to (from) consolidated subsidiaries	3,066	708		(3,774)		994	847	(1,841)	
Property, plant and equipment, net		103	44		147				147
Goodwill		1,379	5		1,384				1,384
Intangible assets subject to amortization, net		1,068	1,385		2,453				2,453
Intangible assets not subject to amortization		75	27		102				102
Due (to) from parent companies		112	(112)						
Other assets	51	11	12		74	8			82
Total assets	$ 3,117	$ 3,900	$ 1,948	$ (3,774)	$ 5,191	$ 1,002	$ 847	$ (1,841)	$ 5,199
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$	$ 84	$ 65	$	$ 149	$	$	$	$ 149
Accrued royalties		554	473		1,027				1,027
Accrued liabilities	2	77	136		215				215
Accrued interest	35				35	5			40
Deferred revenue		103	55		158				158
Current portion of long-term debt	30				30				30
Other current liabilities		11	5	6	22				22
Total current liabilities	67	829	734	6	1,636	5			1,641
Long-term debt	2,045				2,045	150			2,195
Deferred tax liabilities, net		146	212		358				358
Other noncurrent liabilities	11	42	78	10	141				141

Total liabilities	2,123	1,017	1,024	16	4,180	155			4,335
Total Warner Music Group Corp. equity (deficit)	994	2,883	907	(3,790)	994	847	847	(1,841)	847
Noncontrolling interest			17		17				17
Total equity (deficit)	994	2,883	924	(3,790)	1,011	847	847	(1,841)	864
Total liabilities and equity (deficit)	$ 3,117	$ 3,900	$ 1,948	$ (3,774)	$ 5,191	$ 1,002	$ 847	$ (1,841)	$ 5,199

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		113	145		258				258
Accrued interest	79				79	10			89
Deferred revenue		63	38		101				101
Other current liabilities		9	(7)	3	5				5
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

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended December 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Revenues	$	$ 344	$ 481	$ (56)	$ 769	$	$	$	$ 769
Costs and expenses:									
Cost of revenues		(162)	(295)	49	(408)				(408)
Selling, general and administrative expenses		(123)	(154)	15	(262)				(262)
Amortization of intangible assets		(30)	(18)		(48)				(48)
Total costs and expenses		(315)	(467)	64	(718)				(718)
Operating income		29	14	8	51				51
Loss on extinguishment of debt	(83)				(83)				(83)
Interest expense, net	(43)	1	(5)		(47)	(6)			(53)
Equity gains (losses) from consolidated subsidiaries	41	(17)		(24)		(74)	(80)	154	
Other expense, net		(5)			(5)				(5)
(Loss) income before income taxes	(85)	8	9	(16)	(84)	(80)	(80)	154	(90)
Income tax benefit (expense)	11	10	(1)	(9)	11				11
Net (loss) income	(74)	18	8	(25)	(73)	(80)	(80)	154	(79)
Less: loss attributable to noncontrolling interest			(1)		(1)				(1)
Net (loss) income attributable to Warner Music Group Corp.	$ (74)	$ 18	$ 7	$ (25)	$ (74)	$ (80)	$ (80)	$ 154	$ (80)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended December 31, 2011

	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	$	$ 333	$ 495	$ (53)	$ 775	$	$	$	$ 775
Costs and expenses:									
Cost of revenues		(165)	(303)	48	(420)				(420)
Selling, general and administrative expenses		(124)	(149)	5	(268)				(268)
Amortization of intangible assets		(15)	(33)		(48)				(48)
Total costs and expenses		(304)	(485)	53	(736)				(736)
Operating income		29	10		39				39
Interest expense, net	(49)	1	(3)		(51)	(6)			(57)
Equity gains (losses) from consolidated subsidiaries	34	(13)		(21)		(20)	(26)	46	
Other income (expense), net	1	24	(27)		(2)				(2)
(Loss) income before income taxes	(14)	41	(20)	(21)	(14)	(26)	(26)	46	(20)
Income tax (expense) benefit	(6)	(7)	(2)	9	(6)				(6)
Net (loss) income	(20)	34	(22)	(12)	(20)	(26)	(26)	46	(26)
Less: loss attributable to noncontrolling interest									
Net (loss) income attributable to Warner Music Group Corp.	$ (20)	$ 34	$ (22)	$ (12)	$ (20)	$ (26)	$ (26)	$ 46	$ (26)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended December 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	$ (74)	$ 18	$ 8	$ (25)	$ (73)	$ (80)	$ (80)	$ 154	$ (79)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment			2		2				2
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:			2		2				2
Total comprehensive (loss) income	(74)	18	10	(25)	(71)	(80)	(80)	154	(77)
Comprehensive loss attributable to noncontrolling interest			(1)		(1)				(1)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (74)	$ 18	$ 9	$ (25)	$ (72)	$ (80)	$ (80)	$ 154	$ (78)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended December 31, 2011

	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	$ (20)	$ 34	$ (22)	$ (12)	$ (20)	$ (26)	$ (26)	$ 46	$ (26)
Other comprehensive loss, net of tax:									
Foreign currency translation adjustment			(14)		(14)				(14)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive loss, net of tax:			(14)		(14)				(14)
Total comprehensive (loss) income	(20)	34	(36)	(12)	(34)	(26)	(26)	46	(40)
Comprehensive income attributable to noncontrolling interest									
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (20)	$ 34	$ (36)	$ (12)	$ (34)	$ (26)	$ (26)	$ 46	$ (40)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Three Months Ended December 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Cash flows from operating activities:									
Net (loss) income	$ (74)	$ 18	$ 8	$ (25)	$ (73)	$ (80)	$ (80)	$ 154	$ (79)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Loss on extinguishment of debt	83				83				83
Depreciation and amortization		39	22		61				61
Deferred income taxes			(10)		(10)				(10)
Non-cash interest expense	2				2				2
Equity (gains) losses from consolidated subsidiaries	(41)	17		24		74	80	(154)	
Changes in operating assets and liabilities:									
Accounts receivable		(14)	(9)		(23)				(23)
Inventories		1			1				1
Royalty advances		(25)	(10)		(35)				(35)
Accounts payable and accrued liabilities		29	(80)	(2)	(53)				(53)
Royalty payables		(36)	68		32				32
Accrued interest	(44)				(44)	(5)			(49)
Deferred income		40	15		55				55
Other balance sheet changes	11	(14)	5	3	5				5
Net cash (used in) provided by operating activities	(63)	55	9		1	(11)			(10)
Cash flows from investing activities:									
Acquisition of publishing rights		(6)	(2)		(8)				(8)
Proceeds from the sale of music catalog									
Advances to issuer	106			(106)					
Capital expenditures		(4)	(3)		(7)				(7)
Net cash provided by (used in) investing activities	106	(10)	(5)	(106)	(15)				(15)
Cash flows from financing activities:									
Dividend by Acquisition Corp to Holdings Corp	(2)				(2)	2			

Change in due (from) to issuer		(106)		106					
Proceeds from draw down of the Revolving Credit Facility	31				31				31
Repayment of the Revolving Credit Facility	(31)				(31)				(31)
Proceeds from issuance of Acquisition Corp 6.0% Senior Secured Notes	500				500				500
Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes	227				227				227
Proceeds from Acquisition Corp Term Loan Facility	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)
Financing costs paid	(29)				(29)	(1)			(30)
Net cash (used in) provided by financing activities	(87)	(106)		106	(87)	1			(86)
Effect of foreign currency exchange rate changes on cash			(2)		(2)				(2)
Net (decrease) increase in cash and equivalents	(44)	(61)	2		(103)	(10)			(113)
Cash and equivalents at beginning of period	44	105	143		292	10			302
Cash and equivalents at end of period	$	$ 44	$ 145	$	$ 189	$	$	$	$ 189

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Three Months Ended December 31, 2011

	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	$ (20)	$ 34	$ (22)	$ (12)	$ (20)	$ (26)	$ (26)	$ 46	$ (26)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization		23	37		60				60
Deferred income taxes			(2)		(2)				(2)
Non-cash interest expense	(1)				(1)				(1)
Equity losses (gains) from consolidated subsidiaries	(34)	13		21		20	26	(46)	
Changes in operating assets and liabilities:									
Accounts receivable	15	5	(62)		(42)				(42)
Inventories									
Royalty advances		12	(25)		(13)				(13)
Accounts payable and accrued liabilities		(75)	59	(9)	(25)				(25)
Royalty payables		(24)	90		66				66
Accrued interest	(23)				(23)				(23)
Deferred income		20	10		30				30
Other balance sheet changes		24	(25)		(1)	2			1
Net cash (used in) provided by operating activities	(63)	32	60		29	(4)			25
Cash flows from investing activities:									
Acquisition of publishing rights		(2)	(5)		(7)				(7)
Proceeds from the sale of music catalog		2			2				2
Advances to issuer	46			(46)					
Capital expenditures		(4)	(2)		(6)				(6)
Net cash provided by (used in) investing activities	46	(4)	(7)	(46)	(11)				(11)
Cash flows from financing activities:									
Distribution to noncontrolling interest holder			(1)		(1)				(1)
Change in due (from) to issuer		(46)		46					

Net cash (used in) provided by financing activities		(46)	(1)	46	(1)				(1)
Effect of foreign currency exchange rate changes on cash			1		1				1
Net (decrease) increase in cash and equivalents	(17)	(18)	53		18	(4)			14
Cash and equivalents at beginning of period	17	61	72		150	4			154
Cash and equivalents at end of period	$	$ 43	$ 125	$	$ 168	$	$	$	$ 168

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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 December 31, 2012 (the Quarterly Report).

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar te Such statements include, among others, statements regarding the consummation of the Transaction (as defined below), 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 announcement of the Transaction;

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

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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).

On the Merger Closing Date, the Company notified the New York Stock Exchange, Inc. (the NYSE) of its intent to remove the Company s common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company s common stock from the NYSE. On July 21, 2011, in accordance with the Company s request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company s common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On August 2, 2011, the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. Following such suspension, the Company continued to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing the Company s outstanding indebtedness. Additionally, we filed two exchange offer registration statements with the SEC in connection with the registration of our 11.50% Senior Unsecured Notes due 2018 issued by Acquisition Corp. (the Unsecured WMG Notes) and our 13.75% Senior Notes due 2019 issued by Holdings (the Holdings Notes) and the related guarantees by the Company, both of which became effective on March 16, 2012. As a result, our obligations to file reports pursuant to Section 15(d) of the Exchange Act were reinstated until the end of our fiscal year ended September 30, 2012 and we have continued to file Exchange Act reports with the SEC 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.

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

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

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

Financial condition and liquidity. This section provides an analysis of our cash flows for the three months ended December 30, 2012 and December 31, 2011 as well as a discussion of our financial condition and liquidity as of December 31, 2012. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

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 $8 million, $7 million and $1 million unfavorable impact of exchange rates on our Total, Recorded Music, and Music Publishing revenue, in the three months ended December 31, 2012 compared to the prior-year quarter. 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.

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. Rhino has also become our primary licensing division focused on acquiring broader licensing rights from certain catalog artists. For example, we have a 50% interest in Frank Sinatra Enterprises, an entity that administers licenses for use of Frank Sinatra s name and likeness and manages all aspects of his music, film and stage content. We also conduct our Recorded Music operations through a collection of additional record labels, including, among others, Asylum, East West, Elektra, Nonesuch, Reprise, Roadrunner, Rykodisc, Sire and Word.

Outside the U.S., our Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. 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 WEA Corp., which markets and sells music and DVD products to retailers and wholesale distributors in the U.S., ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

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. After an artist has entered into a contract with one of our record labels, a master recording of the artist s

music is created. The recording is then replicated for sale to consumers primarily in CD and digital formats. In the U.S., WEA Corp., ADA and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to record stores, mass merchants and other retailers. Our recorded music products are also sold in physical form to online

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physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and online subscription services like Spotify, Rhapsody and Deezer, and Internet radio services like Pandora and iHeart Radio. In the case of expanded-rights deals where we acquire broader rights in a recording artist s career, we may provide more comprehensive career support and actively develop new opportunities for an artist through touring, fan clubs, merchandising and sponsorships, among other areas. We believe expanded-rights deals create a better partnership with our artists, which allows us to work together more closely with them to create and sustain artistic and commercial success.

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. Our new media executives work closely with A&R departments to make sure that while a record is being made, digital assets are also created with all distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. We also work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for at least the next several years and will provide new opportunities to successfully monetize our assets and create new revenue streams. As a music-based content company, we have assets that go beyond our recorded music and music publishing catalogs, such as our music video library, which we have begun to monetize through digital channels. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is 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 artist services and expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, we provide services to and participate in artists activities outside the traditional recorded music business. We have developed an artist services business to exploit this broader set of music-related rights and to participate more broadly in the monetization of the artist brands we help create. In developing our artist services business, we have both built and expanded in-house capabilities and expertise and have acquired a number of existing artist services companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, concert promotion, fan clubs, original programming and video entertainment.

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

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.

Music Publishing Operations

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

Our music publishing operations include Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. In January 2011, we acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, and Disney Music Publishing. In July 2012, we announced that Warner/Chappell had acquired the master and publishing rights with respect to film music owned by Miramax Films, which contains the film scores and certain masters from numerous critically acclaimed films. 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 U.S. industry-wide track-equivalent album sales rose in 2011 for the first time since 2004, sales declined 2% on the same basis in 2012 and album sales continued to fall in other countries, such as the U.K., as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a significant portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

Severance Charges

We continue to take actions to further align our cost structure with industry trends. We recorded severance charges of $7 million and $5 million for the three months ended December 31, 2011 and December 31, 2012, respectively.

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 December 31, 2012 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 and the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies. These costs amounted to approximately $3 million for the three months ended December 31, 2011 and were immaterial for the three months ended December 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. While 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 three months ended December 31, 2012, we believe this revenue is likely to continue to grow and represent a larger proportion of our revenue over time. 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.

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 December 31, 2012 and December 31, 2011, 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, but excludes $1 million of expenses in each period reimbursed related to certain consultants with full time roles at the Company.

Recent Developments

Acquisition of 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 $765 million, in an all-cash transaction (the Transaction). References below to the Transaction include the transactions contemplated by the EMI France Agreement 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 WMG 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 sets 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.

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 as well as 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.

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.

We have obtained commitments to finance the Transaction through an incremental term loan facility under our existing Term Loan Credit Agreement. The commitments are subject to customary conditions, including the execution and delivery of customary documentation.

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RESULTS OF OPERATIONS

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

Consolidated Historical Results

Revenues

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

	For the Three Months Ended December 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
Revenue by Type				
Physical	$ 300	$ 341	$ (41)	-12%
Digital	237	205	32	16%
Total Physical and Digital	537	546	(9)	-2%
Artist services and expanded rights	60	60		
Licensing	60	53	7	13%
Total Recorded Music	**657**	**659**	**(2)**	
Performance	47	48	(1)	-2%
Mechanical	26	33	(7)	-21%
Synchronization	22	23	(1)	-4%
Digital	19	15	4	27%
Other	2	2		
Total Music Publishing	**116**	**121**	(5)	-4%
Intersegment eliminations	(4)	(5)	1	-20%
Total Revenue	**$ 769**	**$ 775**	**$ (6)**	-1%
Revenue by Geographical Location				
U.S. Recorded Music	$ 259	$ 256	$ 3	1%
U.S. Music Publishing	35	39	(4)	-10%
Total U.S.	**294**	**295**	**(1)**	
International Recorded Music	398	403	(5)	-1%
International Music Publishing	81	82	(1)	-1%
Total International	**479**	**485**	**(6)**	**-1%**
Intersegment eliminations	(4)	(5)	1	-20%
Total Revenue	**$ 769**	**$ 775**	**$ (6)**	-1%

Total Revenue

Total revenues decreased by $6 million, or 1%, to $769 million for the three months ended December 31, 2012 from $775 million for the three months ended December 31, 2011. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 85% and 15% of total revenues for the three months ended December 31, 2012, respectively, compared to 84% and 16% for the three months ended December 31, 2011, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 38% and 62% of total revenues, respectively, for both the three months ended December 31, 2012 and the three months ended December 31, 2011. Excluding the

unfavorable impact of foreign currency exchange rates, total revenues increased $2 million, or less than 1%, for the three months ended December 31, 2012.

Total digital revenues after intersegment eliminations increased by $36 million, or 16%, to $255 million for the three months ended December 31, 2012 from $219 million for the three months ended December 31, 2011. Total digital revenues represented 33% and 28% of consolidated revenues for the three months ended December 31, 2012 and December 31, 2011, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2012 were comprised of U.S. revenues of $139 million and international revenues of $117 million, or 54% and 46% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2011 were comprised of U.S. revenues of $122 million and international revenues of $98 million, or 55% and 45% of total digital revenues, respectively.

Recorded Music revenues decreased by $2 million to $657 million for the three months ended December 31, 2012 from $659 million for the three months ended December 31, 2011. Prior to intersegment eliminations, Recorded Music revenues represented 85% and 84% of consolidated revenues, for the three months ended December 31, 2012 and December 31, 2011, respectively. U.S. Recorded Music revenues were $259 million and $256 million, or 39% of consolidated Recorded Music revenues for the three months ended December 31, 2012 and December 31, 2011, respectively. International Recorded Music revenues were $398 million and $403

million, or 61% of consolidated Recorded Music revenues for the three months ended December 31, 2012 and December 31, 2011, respectively.

The overall decrease in Recorded Music revenue reflected the continued decline in physical sales which was largely 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 a physical centric release. Despite the decline in physical sales, digital revenues continued to grow, up $32 million or 16% for the quarter. This increase was driven by particularly strong growth in streaming and subscription services and downloads. The increases in digital was attributable to both new releases, such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior year releases with strong digital demand, such as releases by Flo Rida and fun. In addition, licensing revenues increased $7 million, or 13%, to $60 million for the three months ended December 31, 2012, due primarily to strong international broadcast revenues in the U.K. and Asia Pacific. Artist services and expanded rights revenue remained flat. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $5 million, or 1%.

Music Publishing revenues decreased by $5 million, or 4%, to $116 million for the three months ended December 31, 2012 from $121 million for the three months ended December 31, 2011. Prior to intersegment eliminations, Music Publishing revenues represented 15% and 16% of consolidated revenues, for the three months ended December 31, 2012 and December 31, 2011, respectively. U.S. Music Publishing revenues were $35 million and $39 million, or 30% and 32% of Music Publishing revenues for the three months ended December 31, 2012 and December 31, 2011, respectively. International Music Publishing revenues were $81 million and $82 million, or 70% and 68% of Music Publishing revenues for the three months ended December 31, 2012 and December 31, 2011, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical 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 increase in digital revenue reflected continued growth in digital downloads and streaming and subscription services. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $4 million, or 3%.

Revenue by Geographical Location

U.S. revenues decreased by $1 million, to $294 million for the three months ended December 31, 2012 from $295 million for the three months ended December 31, 2011. The overall decrease in U.S. revenues reflected the physical decline offset by digital growth. The decline in U.S. physical sales was due to a combination of continued decline in demand for physical product as well as the comparatively strong holiday release schedule in the prior year, with the initial release of Michael Bublé s Christmas . U.S. digital revenues increased as a result of the continued growth in digital download, streaming and subscription service revenue, due to the increased availability and demand of digital formats including the introduction of new cloud and locker services. In addition, U.S. artist services and expanded rights revenue increased mainly due to higher merchandise revenues on managed tours.

International revenues decreased by $6 million, or 1%, to $479 million for the three months ended December 31, 2012 from $485 million for the three months ended December 31, 2011. The overall decrease in international revenues were driven primarily by a decrease in physical and artist services and expanded rights revenue offset by an increase in digital revenue. The decrease was driven by declines in our European concert promotion business which reflected the timing and composition of touring schedules in the current period as compared with the prior-year quarter and the ongoing impact of the transition from physical to digital sales in the recorded music industry. This was partially offset by an increase in digital revenue, primarily as a result of continued growth in global downloads and streaming and subscription services. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $2 million or less than 1%, for the three months ended December 31, 2012.

Cost of revenues

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

	For the Three Months Ended December 31,		2012 vs. 2011	
	2012	2011	$ Change	% Change
Artist and repertoire costs	$ 266	$ 279	$ (13)	-5%
Product costs	142	141	1	1%

Total cost of revenues	**$ 408**	**$ 420**	**$ (12)**	**-3%**

Our cost of revenues decreased by $12 million, or 3%, to $408 million for the three months ended December 31, 2012 from $420 million for the three months ended December 31, 2011. Expressed as a percentage of revenues, cost of revenues were 53% and 54% for the three months ended December 31, 2012 and December 31, 2011, respectively.

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Artist and repertoire costs decreased by $13 million to $266 million for the three months ended December 31, 2012 from $279 million for the three months ended December 31, 2011. Artist and repertoire costs as a percentage of revenues decreased from 36% for three months ended December 31, 2011 to 35% for three months ended December 31, 2012 due primarily to the timing of the spend.

Product costs increased slightly by $1 million, or 1%, to $142 million for the three months ended December 31, 2012 from $141 million for the three months ended December 31, 2011. Despite the decline in physical sales, our artist services and expanded rights revenues remained flat. 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 18% for the three months ended December 31, 2011 and the three months ended December 31, 2012 due primarily to 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 December 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
General and administrative expense (1)	$ 128	$ 146	$ (18)	-12%
Selling and marketing expense	117	106	11	10%
Distribution expense	17	16	1	6%
Total selling, general and administrative expense	**$ 262**	**$ 268**	**$ (6)**	**-2%**

(1) Includes depreciation expense of $13 million and $12 million for the three months ended December 31, 2012 and December 31, 2011, respectively.

Total selling, general and administrative expense decreased by $6 million, or 2%, to $262 million for the three months ended December 31, 2012 from $268 million for the three months ended December 31, 2011. Expressed as a percentage of revenues, selling, general and administrative expenses were 34% and 35% for the three months ended December 31, 2012 and December 31, 2011, respectively.

General and administrative expenses decreased by $18 million, or 12%, to $128 million for the three months ended December 31, 2012 from $146 million for the three months ended December 31, 2011. Expressed as a percentage of revenues, general and administrative expenses decreased from 19% for the three months ended December 31, 2011 to 17% for the three months ended December 31, 2012. The decrease in general and administrative expense was driven primarily by lower variable compensation expense, lower severance charges in the current period, continued cost management efforts, as well as higher professional fees incurred in the prior year in connection with the EMI sale and subsequent regulatory proceedings.

Selling and marketing expense increased by $11 million, or 10%, to $117 million for the three months ended December 31, 2012 from $106 million for the three months ended December 31, 2011, 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 December 31, 2011 to 15% for the three months ended December 31, 2012, primarily due to the prior year quarter release of Michael Bublé s Christmas album which had comparatively low marketing spend.

Distribution expense increased by $1 million, or 6%, to $17 million for the three months ended December 31, 2012 from $16 million for the three months ended December 31, 2011. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the three months ended December 31, 2012 and December 31, 2011.

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 December 31,		2012 vs. 2011	
	2012	2011	$ Change	% Change
OIBDA	$ 112	$ 99	$ 13	13%
Depreciation expense	(13)	(12)	(1)	8%
Amortization expense	(48)	(48)		%
Operating income	**51**	**39**	**12**	**31%**
Loss on extinguishment of debt	(83)		(83)	%
Interest expense, net	(53)	(57)	4	-7%
Other expense, net	(5)	(2)	(3)	150%
Loss before income taxes	**(90)**	**(20)**	**(70)**	**350%**
Income tax benefit (expense)	11	(6)	17	-283%
Net loss	**(79)**	**(26)**	**(53)**	**204%**
Less: income attributable to noncontrolling interest	(1)		(1)	
Net loss attributable to Warner Music Group Corp.	**$ (80)**	**$ (26)**	**$ (54)**	**208%**

OIBDA

Our OIBDA increased by $13 million, or 13%, to $112 million for the three months ended December 31, 2012 as compared to $99 million for the three months ended December 31, 2011. Expressed as a percentage of revenues, total OIBDA margin increased from 13% for the three months ended December 31, 2011 to 15% for the three months ended December 31, 2012. Our OIBDA increase was primarily driven by the decreased artist and repertoire costs, lower severance charges, lower variable compensation and decreased professional fees primarily related to the prior period costs incurred in connection with the sale of EMI and subsequent regulatory proceedings, offset by increases in selling and marketing expense.

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

Depreciation expense

Our depreciation expense increased by $1 million, or 8%, to $13 million for the three months ended December 31, 2012 as compared to $12 million for the three months ended December 31, 2011 primarily due to recently completed capital projects.

Amortization expense

Amortization expense remained flat at $48 million for both the three months ended December 31, 2012 and December 31, 2011.

Operating income

Our operating income increased by $12 million, or 31%, to $51 million for the three months ended December 31, 2012 as compared to operating income of $39 million for the three months ended December 31, 2011. The increase in operating income was primarily a result of the increase in OIBDA.

Loss on extinguishment of debt

On November 1, 2012, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. As a result, for the three months ended December 31, 2012, 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 by $4 million, or 7%, to $53 million for the three months ended December 31, 2012 as compared to $57 million for the three months ended December 31, 2011. The decrease was driven by the refinancing of our Senior

Secured debt on November 1, 2012. Our new debt obligations have lower comparable interest rates. 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, and Euro denominated debt, offset by equity in earnings on our share of net income on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax benefit (expense)

We incurred income tax benefit of $11 million for the three months ended December 31, 2012 as compared to expense of $6 million for the three months ended December 31, 2011. The decrease in income tax expense results 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 $54 million, to a net loss of $80 million for the three months ended December 31, 2012 as compared to a net loss of $26 million for the three months ended December 31, 2011. The increase was driven by the loss on the extinguishment of debt of $83 million, partially offset by the income tax benefit, the decrease in interest expense and the increase in operating income noted above.

Business Segment Results

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

	For the Three Months Ended December 31,		*2012 vs. 2011*	
	2012	2011	$ Change	% Change
Recorded Music				
Revenue	$ 657	$ 659	$ (2)	%
OIBDA	114	104	10	10%
Operating income	$ 74	$ 63	$ 11	17%
Music Publishing				
Revenue	$ 116	$ 121	$ (5)	-4%
OIBDA	16	16		%
Operating loss	$ (1)	$	$ (1)	%
Corporate expenses and eliminations				
Revenue	$ (4)	$ (5)	$ 1	-20%
OIBDA	(18)	(21)	3	-14%
Operating loss	$ (22)	$ (24)	$ 2	-8%
Total				
Revenue	$ 769	$ 775	$ (6)	-1%
OIBDA	112	99	13	13%
Operating income	$ 51	$ 39	$ 12	31%

Recorded Music

Revenues

Recorded Music revenues decreased by $2 million to $657 million for the three months ended December 31, 2012 from $659 million for the three months ended December 31, 2011. Prior to intersegment eliminations, Recorded Music revenues represented 85% and 84% of consolidated revenues, for the three months ended December 31, 2012 and December 31, 2011, respectively. U.S. Recorded Music revenues were $259 million and $256 million, or 39% of consolidated Recorded Music revenues for the three months ended December 31, 2012 and December 31, 2011, respectively. International Recorded Music revenues were $398 million and $403 million, or 61% of consolidated Recorded Music revenues for the three months ended December 31, 2012 and December 31, 2011, respectively.

The overall decrease in Recorded Music revenue reflected the continued decline in physical sales which was largely offset by growth in digital and licensing revenue. The decrease in physical sales was primarily driven by the comparatively strong holiday

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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 a physical centric release. Despite the decline in physical sales, digital revenues continued to grow, up $32 million or 16% for the quarter. This increase was driven by particularly strong growth in streaming and subscription services and downloads. The increases in digital was attributable to both new releases, such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior year releases with strong digital demand, such as releases by Flo Rida and fun. In addition, licensing revenues increased $7 million, or 13%, to $60 million for the three months ended December 31, 2012, due primarily to strong international broadcast revenues in the U.K. and Asia Pacific. Artist services and expanded rights revenue remained flat. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $5 million, or 1%.

Cost of revenues

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

	For the Three Months Ended December 31,		*2012 vs. 2011*	
	2012	**2011**	**$ Change**	**% Change**
Artist and repertoire costs	$ 183	$ 196	$ (13)	-7%
Product costs	142	141	1	1%