Warner Music Group Corp.
Form 10-Q
May 10, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of May 4, 2011, the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 155,754,133.

Table of Contents

WARNER MUSIC GROUP CORP.

INDEX

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	March 31, 2011	September 30, 2010
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 319	$ 439
Accounts receivable, less allowances of $88 and $111 million	337	434
Inventories	31	37
Royalty advances expected to be recouped within one year	168	143
Deferred tax assets	30	30
Other current assets	54	46
Total current assets	939	1,129
Royalty advances expected to be recouped after one year	207	189
Property, plant and equipment, net	123	121
Goodwill	1,084	1,057
Intangible assets subject to amortization, net	1,103	1,119
Intangible assets not subject to amortization	100	100
Other assets	61	64
Total assets	$ 3,617	$ 3,779
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 151	$ 206
Accrued royalties	1,041	1,034
Accrued liabilities	221	314
Accrued interest	60	59
Deferred revenue	116	100
Other current liabilities		8
Total current liabilities	1,589	1,721
Long-term debt	1,951	1,945
Deferred tax liabilities	166	169
Other noncurrent liabilities	165	155
Total liabilities	3,871	3,990
Commitments and Contingencies (See Note 9)		
Deficit:		
Common stock ($0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding)		
Additional paid-in capital	618	611
Accumulated deficit	(985)	(929)
Accumulated other comprehensive income, net	63	53
Total Warner Music Group Corp. shareholders deficit	(304)	(265)
Noncontrolling interest	50	54

Total deficit	(254)		(211)
Total liabilities and deficit	$ 3,617	$	3,779

See accompanying notes.

3

Table of Contents

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(in millions, except per share data)			
Revenues	$ 682	$ 666	$ 1,471	$ 1,586
Costs and expenses:				
Cost of revenues	(357)	(329)	(799)	(846)
Selling, general and administrative expenses (a)	(254)	(259)	(520)	(559)
Amortization of intangible assets	(55)	(54)	(109)	(110)
Total costs and expenses	(666)	(642)	(1,428)	(1,515)
Operating income	16	24	43	71
Interest expense, net	(47)	(46)	(94)	(97)
Other expense, net	(1)	(4)	(1)	(3)
Loss before income taxes	(32)	(26)	(52)	(29)
Income tax expense	(7)	(2)	(5)	(15)
Net loss	(39)	(28)	(57)	(44)
Less: loss attributable to noncontrolling interest	1	3	1	2
Net loss attributable to Warner Music Group Corp.	$ (38)	$ (25)	$ (56)	$ (42)
Net loss per common share attributable to Warner Music Group Corp.:				
Basic	$ (0.25)	$ (0.17)	$ (0.37)	$ (0.28)
Diluted	$ (0.25)	$ (0.17)	$ (0.37)	$ (0.28)
Weighted average common shares:				
Basic	150.5	149.6	150.2	149.6
Diluted	150.5	149.6	150.2	149.6
(a) Includes depreciation expense of:	$ (11)	$ (9)	$ (20)	$ (18)

See accompanying notes.

Table of Contents

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(in millions)	
Cash flows from operating activities		
Net loss	$ (57)	$ (44)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	129	128
Deferred income taxes	(8)	(6)
Impairment of cost-method investment		1
Non-cash interest expense	6	14
Non-cash stock-based compensation expense	7	5
Other non-cash items	(1)	1
Changes in operating assets and liabilities:		
Accounts receivable	105	136
Inventories	7	6
Royalty advances	(35)	4
Accounts payable and accrued liabilities	(170)	(191)
Accrued interest	1	2
Other balance sheet changes	9	(5)
Net cash (used in) provided by operating activities	(7)	51
Cash flows from investing activities		
Investments and acquisitions of businesses	(57)	(6)
Acquisition of publishing rights	(47)	(29)
Proceeds from the sale of investments		9
Capital expenditures	(22)	(15)
Net cash used in investing activities	(126)	(41)
Cash flows from financing activities		
Distribution to noncontrolling interest holder	(1)	(2)
Net cash used in financing activities	(1)	(2)
Effect of exchange rate changes on cash and equivalents	14	(9)
Net decrease in cash and equivalents	(120)	(1)
Cash and equivalents at beginning of period	439	384
Cash and equivalents at end of period	$ 319	$ 383

See accompanying notes.

Table of Contents

Warner Music Group Corp.

Consolidated Statement of Deficit (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Warner Music Group Corp. Shareholders Deficit	Noncontrolling Interests	Total Equity (Deficit)
			(in millions, except number of common shares)					
Balance at September 30, 2010	154,950,776	$ 0.001	$ 611	$ (929)	$ 53	$ (265)	$ 54	$ (211)
Comprehensive loss:								
Net loss				(56)		(56)	(1)	(57)
Foreign currency translation adjustment					9	9		9
Deferred gains on derivative financial instruments					1	1		1
Total comprehensive loss						(46)	(1)	(47)
Noncontrolling interests of acquired businesses							(3)	(3)
Stock based compensation	44,963		7			7		7
Exercises of stock options	168,651							
Balance at March 31, 2011	155,164,390	$ 0.001	$ 618	$ (985)	$ 63	$ (304)	$ 50	$ (254)

See accompanying notes.

Table of Contents

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the Company or Parent) was formed by a private equity consortium of investors (the Investor Group) 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 and the successor to substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc. (Time Warner). Effective March 1, 2004, Acquisition Corp. acquired such interests from Time Warner for approximately $2.6 billion (the Acquisition). The original Investor Group included affiliates of Thomas H. Lee Partners (THL), affiliates of Bain Capital Investors, LLC (Bain), affiliates of Providence Equity Partners, Inc. (Providence) and Music Capital Partners, L.P. (Music Capital). Music Capital s partnership agreement required that the Music Capital partnership dissolve and commence winding up by the second anniversary of the Company s May 2005 initial public offering. As a result, on May 7, 2007, Music Capital made a pro rata distribution of all shares of common stock of the Company held by it to its partners. The shares held by Music Capital had been subject to a stockholders agreement among Music Capital, THL, Bain and Providence and certain other parties. As a result of the distribution, the shares distributed by Music Capital ceased to be subject to the voting and other provisions of the stockholders agreement and Music Capital was no longer part of the Investor Group subject to the stockholders agreement.

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

Recorded Music Operations

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

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

In the U.S., Recorded Music operations are conducted principally through the Company s major record labels Warner Bros. Records and The Atlantic Records Group. The Company s Recorded Music operations also include Rhino, a division that specializes in marketing the Company s music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. Rhino has also become the Company s primary licensing division focused on acquiring broader licensing rights from certain catalog artists. For example, the Company has an exclusive license with The Grateful Dead to manage the band s intellectual property and a 50% interest in Frank Sinatra Enterprises, an entity that administers licenses for use of Frank Sinatra s name and likeness and manages all aspects of his music, film and stage content. The Company also conducts its Recorded Music operations through a collection of additional record labels, including, among others, Asylum, Cordless, 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 Warner Music International (WMI) and its various subsidiaries, affiliates and non-affiliated licensees. WMI engages in the same activities as the Company s U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom the Company s U.S. record labels have international rights. In certain smaller markets, WMI licenses to unaffiliated third-party record labels the right to distribute its records. The Company s international artist services operations also include a network of concert promoters through which WMI provides resources to coordinate tours for the Company s artists and other artists.

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

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 the CD and digital formats. In the U.S., WEA Corp., ADA and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to record stores, mass merchants and other retailers. The Company s recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint. 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 of its distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. The Company works side by side with its mobile and online partners to test new concepts. The Company believes existing and new digital businesses will be a significant source of growth for the next several years and will provide new opportunities to monetize its assets and create new revenue streams. As a music-based content company, the Company has assets that go beyond its recorded music and music publishing catalogs, such as its music video library, which it has begun to monetize through digital channels. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is in the relatively early stages of growth, proportions may change as the roll out of new technologies continues. As an owner of musical content, the Company believes it is well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of its assets.

Music Publishing Operations

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

The Company s Music Publishing operations include Warner/Chappell, its global Music Publishing company, headquartered in New York with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. In January 2011, the Company acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, Disney Music Publishing and Turner Music Publishing. In 2007, the Company entered the production music library business with the acquisition of Non-Stop Music. The Company has subsequently continued to expand its production music operations with the acquisitions of V The Production Library in 2009 and Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music in 2010.

2. Basis of Presentation

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011.

The consolidated balance sheet at September 30, 2010 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, 2010 (File No. 001-32502).

Table of Contents

Basis of Consolidation

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

The Company maintains a 52-53 week fiscal year ending on the Friday nearest to each reporting date. As such, all references to March 31, 2011 and 2010 relate to the three-month periods March 25, 2011 and March 26, 2010, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31.

The Company has performed a review of all subsequent events through the date the financial statements were issued, and has deemed that other than as described in footnote 14, no additional disclosures are necessary.

New Accounting Pronouncements

In June 2009, the FASB issued FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167) (codified under ASC Topic 810, *Consolidation*), which amends the consolidation guidance for variable interest entities. The amendments include: (1) the elimination of the exemption from consolidation for qualifying special purpose entities, (2) a new approach for determining the primary beneficiary of a VIE, which requires that the primary beneficiary have 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 and (3) the requirement to continually reassess who should consolidate a variable-interest entity. FAS 167 is effective for the beginning of an entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Company has adopted the new standard, effective October 1, 2010, on a prospective basis, which did not have a material impact on its financial statements.

3. Comprehensive (Loss) Income

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

	Foreign Currency Translation Gain (Losses)	Minimum Pension Liability Adjustment	Derivative Financial Instruments Gain (Losses)	Accumulated Other Comprehensive Income
		(in millions)		
Balance at September 30, 2010	**$ 58**	**$ (3)**	**$ (2)**	**$ 53**
Activity through March 31, 2011	9		1	10
Balance at March 31, 2011	**$ 67**	**$ (3)**	**$ (1)**	**$ 63**

4. Net (Loss) Income Per Common Share

The Company computes net (loss) income per common share in accordance with FASB ASC Topic 260, *Earnings per Share* (ASC 260). Under the provisions of ASC 260, basic net (loss) income per common share is computed by dividing the net (loss) income applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Diluted net (loss) income per common share adjusts basic net (loss) income per common share for the effects of stock options, warrants and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

9

Table of Contents

The following table sets forth the computation of basic and diluted net (loss) income per common share (in millions, except per share amounts):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Numerator:				
Basic and diluted net loss per common share:				
Net loss attributable to Warner Music Group Corp.	$ (38)	$ (25)	$ (56)	$ (42)
Denominator:				
Weighted average common shares outstanding for basic calculation (a)	150.5	149.6	150.2	149.6
Dilutive effect of options and restricted stock				
Weighted average common outstanding shares for diluted calculation	150.5	149.6	150.2	149.6
Net loss per common share attributable to Warner Music Group Corp. basic	$ (0.25)	$ (0.17)	$ (0.37)	$ (0.28)
Net loss per common share attributable to Warner Music Group Corp. diluted	$ (0.25)	$ (0.17)	$ (0.37)	$ (0.28)

(a) The denominator excludes the effect of unvested common shares subject to repurchase or cancellation.

The calculation of diluted net loss per share excludes the following weighted average number of stock options and restricted stock because to include them in the calculation would be anti-dilutive:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Stock options	12.3	13.6	11.6	13.6
Restricted stock	0.6		0.3	

Table of Contents

5. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the three months ended March 31, 2011 (in millions):

	Recorded Music	Music Publishing	Total
Balance at September 30, 2010	**$ 463**	**$ 594**	**$ 1,057**
Acquisitions	14	7	21
Dispositions			
Other (b)	6		6
Balance at March 31, 2011	**$ 483**	**$ 601**	**$ 1,084**

Intangible Assets

Intangible assets consist of the following (in millions):

	September 30, 2010	Acquisitions (a)	Other (b)	March 31, 2011
Intangible assets subject to amortization:				
Recorded music catalog	$ 1,376		5	$ 1,381
Music publishing copyrights	976	68	19	1,063
Artist contracts	79		1	80
Trademarks	31			31
Other intangible assets	9			9
	2,471	68	25	2,564
Accumulated amortization	(1,352)			(1,461)
Total net intangible assets subject to amortization	1,119			1,103
Intangible assets not subject to amortization:				
Trademarks and brands	100			100
Total net other intangible assets	$ 1,219			$ 1,203

(a) The acquisition of music publishing copyrights for the six months ended March 31, 2011 primarily includes Southside Independent Music Publishing and 615 Music.

(b) Other represents foreign currency translation adjustments.

6. Restructuring Costs

Acquisition-Related Restructuring Costs

In connection with the Acquisition that was effective as of March 1, 2004, the Company reviewed its operations and implemented several plans to restructure its operations. As part of these restructuring plans, the Company recorded a restructuring liability during 2004, which included costs to exit and consolidate certain activities of the Company, costs to exit certain leased facilities and operations such as international distribution operations, costs to terminate employees and costs to terminate certain artist, songwriter, co-publisher and other contracts. Such liabilities were recognized as part of the cost of the Acquisition. As of March 31, 2011, the Company had approximately $17 million of liabilities outstanding primarily related to long-term lease obligations for vacated facilities, which are expected to be settled by 2019 and $42 million of liabilities outstanding primarily related to revaluations of artist and other contracts.

Table of Contents

7. Debt

The Company s long-term debt consists of (in millions):

	March 31, 2011	September 30, 2010
9.5% Senior Secured Notes due 2016 Acquisition Corp (a)	$ 1,067	$ 1,065
7.375% U.S. dollar-denominated Senior Subordinated Notes due 2014 Acquisition Corp.	465	465
8.125% Sterling-denominated Senior Subordinated Notes due 2014 Acquisition Corp. (b)	161	157
9.5% Senior Discount Notes due 2014 Holdings	258	258
Total long term debt	$ 1,951	$ 1,945

(a) 9.5% Senior Secured Notes due 2016; face amount of $1.1 billion less unamortized discount of $33 million at March 31, 2011 and $35 million at September 30, 2010.

(b) Change represents the impact of foreign currency exchange rates on the carrying value of the £100 million Sterling-denominated notes.

Restricted Net Assets

The Company is a holding company with no independent operations or assets other than through its interests in its subsidiaries, such as Holdings and Acquisition Corp. Accordingly, the ability of the Company to obtain funds from its subsidiaries is restricted by the indenture for the Acquisition Corp. Senior Secured Notes, the indenture for the Acquisition Corp. Senior Subordinated Notes, and the indenture for the Holdings Senior Discount Notes.

8. Stock-based Compensation

The following table represents the expense recorded by the Company with respect to its stock-based awards for the three and six months ended March 31, 2011 and 2010 (in millions):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Recorded Music	$ 3	$ 1	$ 4	$ 3
Music Publishing				
Corporate expenses	2	1	3	2
Total	$ 5	$ 2	$ 7	$ 5

During the six months ended March 31, 2011, the Company awarded 44,963 shares of restricted stock and 1,910,000 stock options to its employees. During the six months ended March 31, 2010 the Company awarded 35,309 shares of restricted stock and 185,000 stock options to its employees.

9. 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 whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§ 340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served the Company with a request for information in the form of a Civil Investigative Demand as to whether its activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. Both investigations have now been closed. Subsequent to the announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads were filed and were later consolidated for pre-trial proceedings 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. All defendants, including the Company, filed a motion to dismiss the consolidated amended complaint on July 30, 2007. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including the Company. On November 20, 2008, plaintiffs filed a Notice of Appeal from the order of the District Court to the Circuit Court for the Second Circuit. Oral argument took place before the Second Circuit Court of Appeals on September 21, 2009.

Table of Contents

On January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings. On January 27, 2010, all defendants, including the Company, filed a petition for rehearing en banc with the Second Circuit. On March 26, 2010, the Second Circuit denied the petition for rehearing en banc. On August 20, 2010 all defendants including the Company, filed a petition for Certiorari before the Supreme Court. The petition was rejected on January 10, 2011. The case is now with the trial court. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Any litigation the Company may become involved in as a result of the inquiries of the Attorney General and Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

In addition to the matter discussed above, the Company is involved in other litigation arising in the normal course of business. Management does not believe that any legal proceedings pending against the Company will have, individually, or in the aggregate, a material adverse effect on its business. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. Regardless of the outcome, litigation can have an adverse impact on the Company, including its brand value, because of defense costs, diversion of management resources and other factors.

10. Derivative Financial Instruments

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

The Company enters into FX Contracts primarily to hedge its royalty payments and balance sheet items denominated in foreign currency. The Company applies hedge accounting to FX Contracts for cash flows related to royalty payments. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are recognized in Other Comprehensive Income (OCI) for unrealized items and recognized in earnings for realized items. The Company elects to not apply hedge accounting to foreign currency exposures related to balance sheet items. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are immediately recognized in earnings. Fair value is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs). Refer to Note 13.

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

11. Segment Information

As discussed more fully in Note 1, based on the nature of its products and services, the Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing. 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, 2010. 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
March 31, 2011				
Revenues	$ 550	$ 137	$ (5)	$ 682

OIBDA	54	50	(22)	82
Depreciation of property, plant and equipment	(7)	(1)	(3)	(11)
Amortization of intangible assets	(37)	(18)		(55)
Operating income (loss)	$ 10	$ 31	$ (25)	$ 16
March 31, 2010				
Revenues	$ 538	$ 134	$ (6)	$ 666
OIBDA	49	61	(23)	87
Depreciation of property, plant and equipment	(6)	(1)	(2)	(9)
Amortization of intangible assets	(37)	(17)		(54)

Table of Contents

Three Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
Operating income (loss)	$ 6	$ 43	$ (25)	$ 24

Six Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
March 31, 2011				
Revenues	$ 1,223	$ 257	$ (9)	$ 1,471
OIBDA	144	68	(40)	172
Depreciation of property, plant and equipment	(13)	(2)	(5)	(20)
Amortization of intangible assets	(74)	(35)		(109)
Operating income (loss)	$ 57	$ 31	$ (45)	$ 43
March 31, 2010				
Revenues	$ 1,323	$ 275	$ (12)	$ 1,586
OIBDA	162	83	(46)	199
Depreciation of property, plant and equipment	(12)	(2)	(4)	(18)
Amortization of intangible assets	(76)	(34)		(110)
Operating income (loss)	$ 74	$ 47	$ (50)	$ 71

12. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $88 million and $81 million during the six months ended March 31, 2011 and 2010, respectively. The Company paid approximately $18 million and $21 million of income and withholding taxes during the six months ended March 31, 2011 and 2010, respectively. The Company received $8 million and $6 million of income tax refunds during the six months ended March 31, 2011 and 2010, respectively.

13. Fair Value Measurements

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

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

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

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

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

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company s financial instruments that are required to be measured at fair value as of March 31, 2011. Derivatives not designated as hedging instruments primarily represent the balances below and the gains and losses on these financial instruments are included as other income of approximately $1 million in the statement of operations. Derivatives designated as hedging instruments as of March 31, 2011 are not material to the Company s financial statements.

Table of Contents

	Fair Value Measurements as of March 31, 2011 (Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 1	$	$ 1
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (2)	$	$ (2)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (12)	$ (12)

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

(b) This represents purchase obligations and contingent consideration related to our various acquisitions. This is based on a discounted cash flow (DCF) approach and it is adjusted to fair value on a recurring basis.

The majority of the Company s non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant, and equipment, are not required to be remeasured to at 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.

Fair Value of Debt

Based on the level of interest rates prevailing at March 31, 2011, the fair value of the Company s fixed-rate debt exceeded the carrying value by approximately $108 million. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and generally are not recognized for financial reporting purposes unless the debt is retired prior to its maturity.

14. Subsequent Events

Entry into Agreement to Sell the Company

On May 6, 2011 the Company entered into an Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), with Airplanes Music LLC, a Delaware limited liability company (Airplanes), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Airplanes (Merger Sub and, together with Airplanes, the Acquiring Parties). The Acquiring Parties are affiliated with Access Industries, Inc.

The Merger Agreement provides for, upon the terms and subject to the conditions in the Merger Agreement, the merger of Merger Sub with and into the Company with the Company surviving as a wholly-owned subsidiary of Airplanes (the Merger).

Pursuant to the Merger Agreement, at the effective time of 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 the Acquiring Parties or their respective affiliates or by any stockholders who are entitled to and who properly exercise appraisal rights under Delaware law), will be cancelled and will be converted automatically into the right to receive $8.25 in cash, without interest. The closing of the Merger is subject to customary conditions, including the approval by the holders of a majority of the outstanding shares of the Company s common stock entitled to vote on the Merger and certain regulatory approvals. It is anticipated that the transaction will be completed in the third calendar quarter of this year. For additional details regarding the Merger Agreement, please see our Current Report on Form 8-K, dated May 9, 2011, filed with the SEC.

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the Holdings Senior Discount Notes due 2014. The Holdings Senior Discount Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. The following consolidating financial statements are presented for the information of the holders of the Holdings Senior Discount Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the guarantor of the Holdings Senior Discount Notes, (ii) Holdings, which is the issuer of the Holdings Senior Discount 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 subsidiaries are presented under the equity method of accounting.

The Company and Holdings are holding companies that conduct substantially all their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from its subsidiaries is restricted by the indentures for the Acquisition Corp. Senior Secured Notes due 2016 and the Acquisition Corp. Senior Subordinated Notes due 2014, and, with respect to the Company, the indenture for the Holdings Senior Discount Notes.

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

March 31, 2011

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Warner Music Group Corp. Consolidated
Assets:					
Current assets:					
Cash and equivalents	$ 164	$	$ 155	$	$ 319
Accounts receivable, net			337		337
Inventories			31		31
Royalty advances expected to be recouped within one year			168		168
Deferred tax assets			30		30
Other current assets			54		54
Total current assets	164		775		939
Royalty advances expected to be recouped after one year			207		207
Investments in and advances to (from) consolidated subsidiaries	(491)	(200)		691	
Property, plant and equipment, net			123		123
Goodwill			1,084		1,084
Intangible assets subject to amortization, net			1,103		1,103
Intangible assets not subject to amortization			100		100
Other assets	23	(26)	64		61
Total assets	$ (304)	$ (226)	$ 3,456	$ 691	$ 3,617
Liabilities and Deficit:					
Current liabilities:					
Accounts payable	$	$	$ 151	$	$ 151
Accrued royalties			1,041		1,041
Accrued liabilities			221		221
Accrued interest		7	53		60
Deferred revenue			116		116
Other current liabilities					
Total current liabilities		7	1,582		1,589
Long-term debt		258	1,693		1,951
Deferred tax liabilities, net			166		166
Other noncurrent liabilities			165		165
Total liabilities		265	3,606		3,871
Total Warner Music Group Corp. shareholders deficit	(304)	(491)	(200)	691	(304)

Noncontrolling interest			50		50
Total deficit	(304)	(491)	(150)	691	(254)
Total liabilities and deficit	$ (304)	$ (226)	$ 3,456	$ 691	$ 3,617

17

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

September 30, 2010

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Warner Music Group Corp. Consolidated
Assets:					
Current assets:					
Cash and equivalents	$ 176	$	$ 263	$	$ 439
Accounts receivable, net			434		434
Inventories			37		37
Royalty advances expected to be recouped within one year			143		143
Deferred tax assets			30		30
Other current assets			46		46
Total current assets	176		953		1,129
Royalty advances expected to be recouped after one year			189		189
Investments in and advances to (from) consolidated subsidiaries	(454)	(174)		628	
Property, plant and equipment, net			121		121
Goodwill			1,057		1,057
Intangible assets subject to amortization, net			1,119		1,119
Intangible assets not subject to amortization			100		100
Other assets	14	(15)	65		64
Total assets	$ (264)	$ (189)	$ 3,604	$ 628	$ 3,779
Liabilities and Deficit:					
Current liabilities:					
Accounts payable	$	$	$ 206	$	$ 206
Accrued royalties			1,034		1,034
Accrued liabilities			314		314
Accrued interest		7	52		59
Deferred revenue			100		100
Other current liabilities			8		8
Total current liabilities		7	1,714		1,721
Long-term debt		258	1,687		1,945
Deferred tax liabilities, net			169		169
Other noncurrent liabilities	1		154		155
Total liabilities	1	265	3,724		3,990
Total Warner Music Group Corp. shareholders deficit	(265)	(454)	(174)	628	(265)

Noncontrolling interest			54		54
Total deficit	(265)	(454)	(120)	628	(211)
Total liabilities and deficit	$ (264)	$ (189)	$ 3,604	$ 628	$ 3,779

18

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2011 and 2010

	Three months ended March 31, 2011				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Warner Music Group Corp. Consolidated
Revenues	$	$	$ 682	$	$ 682
Costs and expenses:					
Cost of revenues			(357)		(357)
Selling, general and administrative expenses			(254)		(254)
Amortization of intangible assets			(55)		(55)
Total costs and expenses			(666)		(666)
Operating income			16		16
Interest expense, net		(6)	(41)		(47)
Equity (losses) gains from consolidated subsidiaries	(38)	(32)		70	
Other expense, net			(1)		(1)
Loss before income taxes	(38)	(38)	(26)	70	(32)
Income tax expense			(7)		(7)
Net loss	(38)	(38)	(33)	70	(39)
Less: loss attributable to noncontrolling interest			1		1
Net loss attributable to Warner Music Group Corp.	$ (38)	$ (38)	$ (32)	$ 70	$ (38)

	Three months ended March 31, 2010				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Warner Music Group Corp. Consolidated
Revenues	$	$	$ 666	$	$ 666
Costs and expenses:					
Cost of revenues			(329)		(329)
Selling, general and administrative expenses			(259)		(259)
Amortization of intangible assets			(54)		(54)
Total costs and expenses			(642)		(642)
Operating income			24		24
Interest expense, net		(6)	(40)		(46)

Equity (losses) gains from consolidated subsidiaries	(25)	(19)		44	
Other expense, net			(4)		(4)
Loss before income taxes	(25)	(25)	(20)	44	(26)
Income tax expense			(2)		(2)
Net loss	(25)	(25)	(22)	44	(28)
Less: loss attributable to noncontrolling interest			3		3
Net loss attributable to Warner Music Group Corp.	$ (25)	$ (25)	$ (19)	$ 44	$ (25)

19

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2011 and 2010

	Six months ended March 31, 2011				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 1,471	$	$ 1,471
Costs and expenses:					
Cost of revenues			(799)		(799)
Selling, general and administrative expenses			(520)		(520)
Amortization of intangible assets			(109)		(109)
Total costs and expenses			(1,428)		(1,428)
Operating income			43		43
Interest expense, net		(12)	(82)		(94)
Equity (losses) gains from consolidated subsidiaries	(55)	(43)		98	
Other expense, net			(1)		(1)
Loss before income taxes	(55)	(55)	(40)	98	(52)
Income tax expense	(1)		(4)		(5)
Net loss	(56)	(55)	(44)	98	(57)
Less: loss attributable to noncontrolling interest			1		1
Net loss attributable to Warner Music Group Corp.	$ (56)	$ (55)	$ (43)	$ 98	$ (56)

	Six months ended March 31, 2010				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 1,586	$	$ 1,586
Costs and expenses:					
Cost of revenues			(846)		(846)
Selling, general and administrative expenses			(559)		(559)
Amortization of intangible assets			(110)		(110)
Total costs and expenses			(1,515)		(1,515)
Operating income			71		71
Interest expense, net		(12)	(85)		(97)
Equity (losses) gains from consolidated subsidiaries	(42)	(30)		72	
Other expense, net			(3)		(3)

Loss before income taxes	(42)	(42)	(17)	72	(29)
Income tax expense			(15)		(15)
Net loss	(42)	(42)	(32)	72	(44)
Less: loss attributable to noncontrolling interest			2		2
Net loss attributable to Warner Music Group Corp.	$ (42)	$ (42)	$ (30)	$ 72	$ (42)

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2011

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Warner Music Group Corp. Consolidated
Cash flows from operating activities					
Net (loss) income	$ (56)	$ (55)	$ (44)	$ 98	$ (57)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization			129		129
Deferred income taxes			(8)		(8)
Non-cash interest expense			6		6
Non-cash, stock-based compensation expense			7		7
Equity losses (gains) from consolidated subsidiaries	55	43		(98)	
Other non-cash items			(1)		(1)
Changes in operating assets and liabilities:					
Accounts receivable			105		105
Inventories			7		7
Royalty advances			(35)		(35)
Accounts payable and accrued liabilities			(170)		(170)
Accrued interest			1		1
Other balance sheet changes	(11)	12	8		9
Net cash (used in) provided by operating activities	(12)		5		(7)
Cash flows from investing activities					
Investments and acquisitions of businesses			(57)		(57)
Acquisition of publishing rights			(47)		(47)
Capital expenditures			(22)		(22)
Net cash used in investing activities			(126)		(126)
Cash flows from financing activities					
Distribution to noncontrolling interest holder			(1)		(1)
Net cash used in financing activities			(1)		(1)
Effect of exchange rate changes on cash and equivalents			14		14
Net decrease in cash and equivalents	(12)		(108)		(120)
Cash and equivalents at beginning of period	176		263		439
Cash and equivalents at end of period	$ 164	$	$ 155	$	$ 319

Table of Contents

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2010

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp. (in millions)	Eliminations	Consolidated
Cash flows from operating activities					
Net (loss) income	$ (44)	$ (44)	$ (32)	$ 76	$ (44)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization			128		128
Deferred income taxes			(6)		(6)
Impairment of cost-method investment			1		1
Non-cash interest expense		5	9		14
Non-cash stock-based compensation expense			5		5
Equity losses (gains) from consolidated subsidiaries	44	32		(76)	
Other non-cash items			1		1
Changes in operating assets and liabilities:					
Accounts receivable			136		136
Inventories			6		6
Royalty advances			4		4
Accounts payable and accrued liabilities			(191)		(191)
Accrued interest		7	(5)		2
Other balance sheet changes			(5)		(5)
Net cash provided by operating activities			51		51
Cash flows from investing activities					
Investments and acquisitions of businesses			(6)		(6)
Acquisition of publishing rights			(29)		(29)
Proceeds from the sale of investments			9		9
Capital expenditures			(15)		(15)
Net cash used in investing activities			(41)		(41)
Cash flows from financing activities					
Distribution to noncontrolling interest holder			(2)		(2)
Net cash used in financing activities			(2)		(2)
Effect of foreign currency exchange rate changes on cash			(9)		(9)
Net decrease in cash and equivalents			(1)		(1)
Cash and equivalents at beginning of period	188		196		384
Cash and equivalents at end of period	$ 188	$	$ 195	$	$ 383

22

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011 (the Quarterly Report).

We maintain an Internet site at www.wmg.com. We use our website as a channel of distribution for material company information. Financial and other material information regarding the Company is routinely posted on and accessible at *http://investors.wmg.com*. In addition, you may automatically receive email alerts and other information about the Company by enrolling your email by visiting the email alerts section at *http://investors.wmg.com*. We make available on our website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K as soon as practicable after we electronically file such reports with the Securities and Exchange Commission (the SEC). Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this Quarterly Report.

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar te
Such statements include, among others, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry s efforts to combat piracy on the industry, our intention to pay dividends or repurchase our outstanding notes or common stock in open market purchases, privately or otherwise, 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 impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;
- the threat posed to our business by piracy of music by means of home CD-R activity, Internet peer-to-peer file-sharing and sideloading of unauthorized content;
- the significant threat posed to our business and the music industry by organized industrial piracy;

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

the diversity and quality of our portfolio of songwriters;

the diversity and quality of our album releases;

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

our involvement in intellectual property litigation;

the possible downward pressure on our pricing and profit margins;

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

Table of Contents

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

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

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

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

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

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

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

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

risks associated with the fluctuations in foreign currency exchange rates;

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

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

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

changes in law and government regulations;

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

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

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

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

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

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

that changes to our information technology infrastructure to harmonize our systems and processes may fail to operate as designed and intended;

the possibility that our owners interests will conflict with ours or yours;

failure to attract and retain key personnel; and

risks and uncertainties, including the satisfaction of specified conditions, associated with the consummation of the proposed merger with Airplanes Music LLC and Airplanes Merger Sub, Inc.

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

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

INTRODUCTION

Warner Music Group Corp. was formed by the Investor Group on November 21, 2003. The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Acquisition Corp. is one of the world s major music-based content companies and the successor to substantially all of the interests of the recorded music and music publishing businesses of Time Warner. Effective March 1, 2004, Acquisition Corp acquired such interests from Time Warner for approximately $2.6 billion. The original Investor Group included THL, Bain, Providence and Music Capital. Music Capital s partnership agreement required that the Music Capital partnership dissolve and commence winding up by the second anniversary of the Company s May 2005 initial public offering. As a result, on May 7, 2007, Music Capital made a pro rata distribution of all shares of common stock of the Company held by it to its partners. The shares held by Music Capital had been subject to a stockholders agreement among Music Capital, THL, Bain and Providence and certain other parties. As a result of the distribution, the shares distributed by Music Capital ceased to be subject to

24

Table of Contents

the voting and other provisions of the stockholders agreement and Music Capital was no longer part of the Investor Group subject to the stockholders agreement.

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

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

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

- *Results of operations.* This section provides an analysis of our results of operations for the three and six months ended March 31, 2011 and 2010. This analysis is presented on both a consolidated and segment basis.

- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the six months ended March 31, 2011 and 2010, as well as a discussion of our financial condition and liquidity as of March 31, 2011. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of our 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 income (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. We generally refer to such amounts calculated on a constant-currency basis as excluding the impact of foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

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

Recorded Music Operations

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

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

Table of Contents

expanded-rights deals and enhancing our artist services capabilities with respect to our 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.

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 recording artists. For example, we have an exclusive license with The Grateful Dead to manage the band s intellectual property and a 50% interest in Frank Sinatra Enterprises, an entity that administers licenses for use of Frank Sinatra s name and likeness and manages all aspects of his music, film and stage content. We also conduct our Recorded Music operations through a collection of additional record labels, including, among others, Asylum, Cordless, 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 WMI and its various subsidiaries, affiliates and non-affiliated licensees. WMI engages in the same activities as our U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom our U.S. record labels have international rights. In certain smaller markets, WMI licenses to unaffiliated third-party record labels the right to distribute its records. Our international artist services operations also include a network of concert promoters through which WMI provides 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 Entertainment, which specializes in the distribution of music products in the Christian retail marketplace; and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

We play an integral role in virtually all aspects of the 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 the CD and digital formats. In the U.S., WEA Corp., ADA and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to record stores, mass merchants and other retailers. Our recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint. 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 better partnerships with our artists, which allow us and our artists to work together more closely 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 of our distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. We work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for the next several years and will provide new opportunities to monetize our assets and create new revenue streams. As a music-based content company, we have assets that go beyond our recorded music and music publishing catalogs, such as our music video library, which we have begun to monetize through digital channels. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is still in the relatively early stages of growth, proportions may change as the roll out of new technologies continues. As an owner of musical content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

Recorded Music revenues are derived from three main sources:

Physical and other: the rightsholder receives revenues with respect to sales of physical products such as CDs and DVDs. We are also diversifying our revenues beyond sales of physical products and receive other revenues from our artist services business and our participation in expanded rights associated with our artists and other artists, including sponsorship, fan club, artist websites, merchandising, touring, ticketing and artist and brand management;

Digital: the rightsholder receives revenues with respect to online and mobile downloads, mobile ringtones or ringback tones and online and mobile streaming; and

Licensing: the rightsholder receives royalties or fees for the right to use the sound recording in combination with visual images such as in films or television programs, television commercials and videogames.

Table of Contents

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

Royalty costs and artist and repertoire costs the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions, (ii) signing and developing artists, (iii) creating master recordings in the studio and (iv) creating artwork for album covers and liner notes;

Product costs the costs to manufacture, package and distribute product to wholesale and retail distribution outlets as well as those principal costs related to expanded rights;

Selling and marketing costs the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and

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

Music Publishing Operations

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

Our Music Publishing operations include Warner/Chappell, our global Music Publishing company headquartered in New York with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. In January 2011, the Company acquired Southside Independent Music Publishing, a leading independent music publishing company, further adding to its catalog. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, Disney Music Publishing and Turner Music Publishing. In 2007, we entered the production music library business with the acquisition of Non-Stop Music. We have subsequently continued to expand our production music operations with the acquisitions of V The Production Library in 2009 and Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music in 2010.

Publishing revenues are derived from five main sources:

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

Performance: the licensor receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, live performance at a concert or other venue (*e.g.*, arena concerts, nightclubs), online and mobile streaming and performance of music in staged theatrical productions;

Synchronization: the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise;

Digital: the licensor receives royalties or fees with respect to online and mobile downloads, mobile ringtones and online and mobile streaming; and

Other: the licensor receives royalties for use in sheet music.

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

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

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

Factors Affecting Results of Operations and Financial Condition

Market Factors

Since 1999, the recorded music industry has been unstable and the worldwide market has contracted considerably, which has adversely affected our operating results. The industry-wide decline can be attributed primarily to digital piracy. Other drivers of this decline are the bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space, and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. While CD sales still generate 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. 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

During the six months ended March 31, 2011 we took additional actions to further align our cost structure with industry trends. This resulted in severance charges of $18 million for the six months ended March 31, 2011, compared to $11 million for the six months ended March 31, 2010.

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 subscription services, continue to develop. In the aggregate, we believe that growth in revenue from new digital models has the potential to offset physical declines and drive overall future revenue growth. In the digital space, certain costs associated with physical products, such as manufacturing, distribution, inventory and return costs, do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers which apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, we believe it is reasonable to expect that digital margins will generally be higher than physical margins as a result of the elimination of certain costs associated with physical products. As consumer purchasing patterns change over time and new digital models are launched, we may see fluctuations in contribution margin depending on the overall sales mix.

Expanded-Rights Deals

We have also been seeking to expand our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have been signing recording artists to expanded-rights deals for the last several years. Under these expanded-rights deals, we participate in the recording artist s revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. We believe that additional revenue from these revenue streams will help to offset declines in physical revenue over time. As we have generally signed newer artists to these deals, increased non-traditional revenue from these deals is expected to come several years after these deals have been signed as the artists become more successful and are able to generate revenue other than from recorded music sales. While non-traditional Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, was less than 10% of our total revenue in fiscal 2010, we believe this revenue should continue to grow and represent a larger proportion of our revenue over time. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various non-traditional Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from touring under our expanded-rights deals typically flows straight through to net income with little incremental 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.

Table of Contents

RESULTS OF OPERATIONS

Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010

Consolidated Historical Results

Revenues

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

	For the Three Months Ended March 31, 2011	2010	*2011 vs. 2010* $ Change	% Change
Revenue by Type				
Physical and other	$ 286	$ 294	$ (8)	-3%
Digital	205	192	13	7%
Licensing	59	52	7	13%
Total Recorded Music	**550**	**538**	**12**	**2%**
Mechanical	34	40	(6)	-15%
Performance	50	55	(5)	-9%
Synchronization	31	24	7	29%
Digital	17	13	4	31%
Other	5	2	3	
Total Music Publishing	**137**	**134**	**3**	**2%**
Intersegment elimination	(5)	(6)	1	-17%
Total Revenue	**$ 682**	**$ 666**	**$ 16**	**2%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 254	$ 253	$ 1	
U.S. Publishing	61	54	7	13%
Total U.S.	**315**	**307**	**8**	**3%**
International Recorded Music	296	285	11	4%
International Publishing	76	80	(4)	-5%
Total International	**372**	**365**	**7**	**2%**
Intersegment eliminations	(5)	(6)	1	-17%
Total Revenue	**$ 682**	**$ 666**	**$ 16**	**2%**

Total Revenue

Total revenues increased by $16 million, or 2%, to $682 million for the three months ended March 31, 2011 from $666 million for the three months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 80% and 20% of total revenues for the three months ended March 31, 2011 and 2010, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 46% and 54% of total revenues for the three months ended March 31, 2011 and 2010. Excluding the favorable impact of foreign currency exchange rates, total revenues increased $11 million, or 2%.

Total digital revenues after intersegment eliminations increased by $18 million, or 9%, to $220 million for the three months ended March 31, 2011 from $202 million for the three months ended March 31, 2010. Total digital revenues represented 32% and 30% of consolidated revenues for the three months ended March 31, 2011 and 2010, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2011 were comprised of U.S. revenues of $134 million and international revenues of $88 million, or 60% and 40% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2010 were comprised of U.S. revenues of $130 million and international revenues of $75 million, or 63% and 37% of total digital revenues, respectively.

Recorded Music revenues increased by $12 million, or 2%, to $550 million for the three months ended March 31, 2011 from $538 million for the three months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 80% of consolidated revenues, for the three months ended March 31, 2011 and 2010. U.S. Recorded Music revenues were $254 million and $253 million, or 46% and 47% of Recorded Music revenues for the three months ended March 31, 2011 and 2010, respectively. International Recorded Music revenues were $296 million and $285 million, or 54% and 53% of consolidated Recorded Music revenues for the three months ended March 31, 2011 and 2010, respectively. The growth reflected increases in digital revenue, licensing revenue and revenue from our European concert promotion businesses, partially offset by declines in physical sales. The increase in digital revenue was driven by the growth in digital downloads in the U.S. and internationally and emerging digital revenue streams such as Spotify and YouTube, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. Licensing revenue growth was driven primarily by increases in the licensing of our recorded music assets in film, television and compilations. The increases in our European concert promotion business reflected a stronger touring schedule, mostly in France and Italy, as compared with the prior year quarter. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $6 million, or 1%.

Music Publishing revenues increased by $3 million, or 2%, to $137 million for the three months ended March 31, 2011 from $134 million for the three months ended March 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 20% of consolidated revenues, for the three months ended March 31, 2011 and 2010. U.S. Music Publishing revenues were $61 million and $54 million, or 45% and 40% of Music Publishing revenues for the three months ended March 31, 2011 and 2010, respectively. International Music Publishing revenues were $76 million and $80 million, or 55% and 60% of Music Publishing revenues for the three months ended March 31, 2011 and 2010, respectively.

The growth in Music Publishing revenue was driven primarily by increases in synchronization revenue, digital revenue and other revenue, partially offset by expected decreases in mechanical revenue and performance revenue. Synchronization revenue results reflected the improvement of the U.S. advertising market. The increase in digital revenue reflected growth in global digital downloads and certain streaming services. Other music publishing revenue increased primarily as a result of higher print revenue in the U.S. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry and the timing of cash collections. Performance revenue declined primarily as a result of our decision not to renew a low margin administrative deal in the prior year.

Revenue by Geographical Location

U.S. revenues increased by $8 million, or 3%, to $315 million for the three months ended March 31, 2011 from $307 million for the three months ended March 31, 2010. The overall increase in the U.S. Recorded Music business reflected growth in digital downloads and increases in licensing our recorded music assets in film, television and compilations. The increase was partially offset by the continued decline in mobile revenue primarily related to lower ringtone demand and declines in physical sales in the recorded music industry. The overall increase in the U.S. Music Publishing business was driven primarily by increases in synchronization revenue, digital revenue and other revenue, partially offset by the expected decreases in mechanical revenue and performance revenue.

International revenues increased by $7 million, or 2%, to $372 million for the three months ended March 31, 2011 from $365 million for the three months ended March 31, 2010. Excluding the favorable impact of foreign currency exchange rates, total international revenues increased $1 million. The overall increase in the international Recorded Music business reflected growth in global digital downloads and emerging digital streaming services such as Spotify and YouTube and success from our European concert promotion business which reflected a stronger touring schedule, mostly in France and Italy, as compared with the prior year quarter. Revenue growth in France, Canada, Italy and certain Asia-Pacific countries was partially offset by declines in Japan, the U.K. and other parts of Europe. The overall decrease in the international Music Publishing business was driven by the expected decreases in mechanical revenue and performance revenue, partially offset by the increase in digital download revenue and revenue from certain streaming services.

Cost of revenues

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

	For the Three Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
Artist and repertoire costs	$ 223	$ 205	$ 18	9%
Product costs	115	106	9	8%
Licensing costs	19	18	1	6%
Total cost of revenues	**$ 357**	**$ 329**	**$ 28**	**9%**

Our cost of revenues increased by $28 million, or 9%, to $357 million for the three months ended March 31, 2011 from $329 million for the three months ended March 31, 2010. Expressed as a percentage of revenues, cost of revenues were 52% for the three months ended March 31, 2011 and 49% for the three months ended March 31, 2010.

Artist and repertoire costs increased by $18 million, or 9%, to $223 million for the three months ended March 31, 2011 from $205 million for the three months ended March 31, 2010. Expressed as a percentage of revenues, artist and repertoire costs increased from 31% for the three months ended March 31, 2010 to 33% in the three months ended March 31, 2011. The increase in artist and repertoire costs was primarily driven by the increase in revenue in the current-year quarter as well as the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts in our Recorded Music business and an adjustment in royalty reserves in our Music Publishing business.

Table of Contents

Product costs increased by $9 million, or 8%, to $115 million for the three months ended March 31, 2011 from $106 million for the three months ended March 31, 2010. The increase in product costs was driven by higher non-traditional recorded music business costs related to the increase in revenue from our European concert promotion businesses, partially offset by effective supply chain management and the continuing change in mix from physical to digital sales. Expressed as a percentage of revenues, product costs increased from 16% for the three months ended March 31, 2010 to 17% in the three months ended March 31, 2011.

Licensing costs increased $1 million, or 6%, to $19 million for the three months ended March 31, 2011 from $18 million for the three months ended March 31, 2010. Licensing costs as a percentage of licensing revenues decreased from 35% for the three months ended March 31, 2010 to 32% for the three months ended March 31, 2011, primarily as a result of changes in revenue mix.

Selling, general and administrative expenses

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

	For the Three Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
General and administrative expense (1)	$ 144	$ 138	$ 6	4%
Selling and marketing expense	96	105	(9)	-9%
Distribution expense	14	16	(2)	-13%
Total selling, general and administrative expense	**$ 254**	**$ 259**	**$ (5)**	**-2%**

(1) Includes depreciation expense of $11 million and $9 million for the three months ended March 31, 2011 and 2010, respectively.

Total selling, general and administrative expense decreased by $5 million, or 2%, to $254 million for the three months ended March 31, 2011 from $259 million for the three months ended March 31, 2010. Expressed as a percentage of revenues, selling, general and administrative expenses decreased from 39% for the three months ended March 31, 2010 to 37% for the three months ended March 31, 2011.

General and administrative expenses increased by $6 million, or 4%, to $144 million for the three months ended March 31, 2011 from $138 million for the three months ended March 31, 2010. Expressed as a percentage of revenues, general and administrative expenses remained flat at 21% for the three months ended March 31, 2011 and 2010. The increase was primarily driven by an increase in stock compensation expense of $3 million related to the modifications of existing restricted stock award agreements and professional fees.

Selling and marketing expense decreased by $9 million, or 9%, to $96 million for the three months ended March 31, 2011 from $105 million for the three months ended March 31, 2010, primarily related to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense decreased from 16% for the three months ended March 31, 2010 to 14% for the three months ended March 31, 2011.

Distribution expense decreased by $2 million, or 13%, to $14 million for the three months ended March 31, 2011 from $16 million for the three months ended March 31, 2010. The decrease in distribution expense was driven by the ongoing transition from physical to digital sales. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the three months ended March 31, 2011 and 2010.

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):

2011 vs. 2010

	For the Three Months Ended March 31, 2011	2010	$ Change	% Change
OIBDA	$ 82	$ 87	$ (5)	-6%
Depreciation expense	(11)	(9)	(2)	22%
Amortization expense	(55)	(54)	(1)	2%
Operating income	**16**	**24**	**(8)**	**-33%**
Interest expense, net	(47)	(46)	(1)	2%
Other expense, net	(1)	(4)	3	-75%
Loss before income taxes	**(32)**	**(26)**	**(6)**	**23%**

Table of Contents

	For the Three Months Ended March 31, 2011	2010	2011 vs. 2010 $ Change	% Change
Income tax expense	(7)	(2)	(5)	
Net loss	**(39)**	**(28)**	**(11)**	**39%**
Less: loss attributable to noncontrolling interest	1	3	(2)	-67%
Net loss attributable to Warner Music Group Corp.	**$ (38)**	**$ (25)**	**$ (13)**	**52%**

OIBDA

Our OIBDA decreased by $5 million to $82 million for the three months ended March 31, 2011 as compared to $87 million for the three months ended March 31, 2010. Expressed as a percentage of revenues, total OIBDA margin decreased from 13%, for the three months ended March 31, 2010, to 12% for the three months ended March 31, 2011. Our OIBDA decrease was primarily driven by the increase in stock compensation expense related to the modifications of existing restricted stock award agreements and the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts in our Recorded Music business and an adjustment in royalty reserves in our Music Publishing business, partially offset by the decrease in selling and marketing expense noted above.

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

Depreciation expense

Our depreciation expense increased from $9 million, for the three months ended March 31, 2010, to $11 million for the three months ended March 31, 2011, primarily related to recently completed capital projects.

Amortization expense

Amortization expense increased from $54 million, for the three months ended March 31, 2010, to $55 million for the three months ended March 31, 2011. The increase primarily related to additional amortization associated with recent acquisitions of certain recorded music catalog assets.

Operating income

Our operating income decreased $8 million to $16 million, for the three months ended March 31, 2011 as compared to operating income of $24 million for the three months ended March 31, 2010. The decrease in operating income was primarily a result of the decrease in OIBDA, as well as the increase in amortization and depreciation expense noted above.

Interest expense, net

Our interest expense, net, increased $1 million, or 2%, to $47 million for the three months ended March 31, 2011 as compared to $46 million for the three months ended March 31, 2010. The increase was primarily driven by changes in foreign currency exchange rates related to our sterling denominated notes.

See Financial Condition and Liquidity for more information.

Other expense, net

Other expense for the three months ended March 31, 2011 and 2010 included net hedging gains on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, offset by equity in earnings on our share of net income on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We provided income tax expense of $7 million for the three months ended March 31, 2011 as compared to an expense of $2 million for the three months ended March 31, 2010. The increase in income tax expense was primarily due to an increase in foreign earnings subject to tax in certain jurisdictions during the three months ended March 31, 2011.

Net loss

Our net loss increased by $11 million, to a net loss of $39 million for the three months ended March 31, 2011 as compared to net loss of $28 million for the three months ended March 31, 2010. The increase was a result of decreased OIBDA and the increase in income tax expense.

Table of Contents

Noncontrolling interests

The loss attributable to noncontrolling interests was $1 million and $3 million for the three months ended March 31, 2011 and 2010, respectively.

Business Segment Results

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

	For the Three Months Ended March 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
Recorded Music				
Revenue	$ 550	$ 538	$ 12	2%
OIBDA	54	49	5	10%
Operating income	$ 10	$ 6	4	67%
Music Publishing				
Revenue	$ 137	$ 134	$ 3	2%
OIBDA	50	61	(11)	-18%
Operating income	$ 31	$ 43	$ (12)	-28%
Corporate expenses and eliminations				
Revenue	$ (5)	$ (6)	$ 1	17%
OIBDA	(22)	(23)	1	4%
Operating loss	$ (25)	$ (25)	$	
Total				
Revenue	$ 682	$ 666	$ 16	2%
OIBDA	82	87	(5)	-6%
Operating income	$ 16	$ 24	$ (8)	-33%

Recorded Music

Revenues

Recorded Music revenues increased by $12 million, or 2%, to $550 million for the three months ended March 31, 2011 from $538 million for the three months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 80% of consolidated revenues, for the three months ended March 31, 2011 and 2010. U.S. Recorded Music revenues were $254 million and $253 million, or 46% and 47% of Recorded Music revenues for the three months ended March 31, 2011 and 2010, respectively. International Recorded Music revenues were $296 million and $285 million, or 54% and 53% of consolidated Recorded Music revenues for the three months ended March 31, 2011 and 2010, respectively. The growth reflected increases in digital revenue, licensing revenue and revenue from our European concert promotion businesses, partially offset by the declines in physical sales. The increase in digital revenue was driven by the growth in digital downloads in the U.S. and International and emerging digital revenue streams such as Spotify and YouTube, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. Licensing revenue growth was driven primarily by increases in the licensing of our recorded music assets in film, television and compilations. The increases in our European concert promotion business reflected a stronger touring schedule, mostly in France and Italy, as compared with the prior year quarter. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $6 million, or 1%.

Cost of revenues

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

	For the Three Months Ended March 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change

Artist and repertoire costs	$ 161	$ 154	$ 7	5%
Product costs	115	106	9	8%
Licensing costs	19	18	1	6%
Total cost of revenues	**$ 295**	**$ 278**	**$ 17**	**6%**

33

Table of Contents

Recorded Music cost of revenues increased $17 million, or 6%, for the three months ended March 31, 2011. The increase in artist and repertoire costs was primarily driven by the increase in revenue in the current-year quarter as well as the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts. The increase in product costs was driven by higher non-traditional recorded music business costs related to the increase in revenue from our European concert promotion businesses, partially offset by effective supply chain management and the continuing change in mix from physical to digital sales. The increase in licensing costs was driven primarily by the increase in licensing revenue and changes in revenue mix. Expressed as a percentage of Recorded Music revenues, cost of revenues increased from 52% for the three months ended March 31, 2010, to 54% for the three months ended March 31, 2010.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
General and administrative expense (1)	$ 100	$ 98	$ 2	2%
Selling and marketing expense	94	103	(9)	-9%
Distribution expense	14	16	(2)	-13%
Total selling, general and administrative expense	**$ 208**	**$ 217**	**$ (9)**	**-4%**

(1) Includes depreciation expense of $7 million and $6 million for the three months ended March 31, 2011 and 2010, respectively.
Recorded Music selling, general and administrative expense decreased $9 million, for the three months ended March 31, 2011. The decrease in selling and marketing expense was primarily the result of our efforts to better align selling and marketing expenses with revenues earned, the timing of our releases and the effect of continued cost-management efforts. The increase in general and administrative expenses was primarily driven by an increase in stock compensation expense of $3 million related to the modification of existing restricted stock award agreements. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased from 40% for the three months ended March 31, 2010 to 38% for the three months ended March 31, 2011.

OIBDA and Operating Income

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

	For the Three Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
OIBDA	$ 54	$ 49	$ 5	10%
Depreciation and amortization	(44)	(43)	(1)	2%
Operating income	**$ 10**	**$ 6**	**$ 4**	**67%**

Recorded Music OIBDA increased by $5 million, or 10%, to $54 million for the three months ended March 31, 2011 compared to $49 million for the three months ended March 31, 2010. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 10% for the three months ended March 31, 2011 from 9% for the three months ended March 31, 2010. Our Recorded Music OIBDA increase was primarily driven by the increase in revenues, the realization of cost savings from management initiatives taken in prior periods and the decrease in artist and repertoire costs, product costs and selling and marketing expense noted above, partially offset by the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts.

Recorded Music operating income increased by $4 million, due primarily to the increase in OIBDA noted above.

Table of Contents

Music Publishing

Revenues

Music Publishing revenues increased by $3 million, or 2%, to $137 million for the three months ended March 31, 2011 from $134 million for the three months ended March 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 20% of consolidated revenues for the three months ended March 31, 2011 and 2010. U.S. Music Publishing revenues were $61 million and $54 million, or 45% and 40% of Music Publishing revenues for the three months ended March 31, 2011 and 2010, respectively. International Music Publishing revenues were $76 million and $80 million, or 55% and 60% of Music Publishing revenues for the three months ended March 31, 2011 and 2010, respectively.

The growth in Music Publishing revenue was driven primarily by increases in synchronization revenue, digital revenue and other revenue, partially offset by expected decreases in mechanical revenue and performance revenue. Synchronization revenue results reflected the improvement of the U.S. advertising market. The increase in digital revenue reflected growth in global digital downloads and certain streaming services. Other music publishing revenue increased primarily as a result of higher print revenue in the U.S. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry and the timing of cash collections. Performance revenue declined primarily as a result of our decision not to renew a low margin administrative deal in the prior year.

Cost of revenues

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

	For the Three Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
Artist and repertoire costs	$ 67	$ 58	$ 9	16%
Total cost of revenues	**$ 67**	**$ 58**	**$ 9**	**16%**

Music Publishing cost of revenues increased $9 million, or 16%, to $67 million for the three months ended March 31, 2011, from $58 million for the three months ended March 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues increased to 49% for the three months ended March 31, 2011 from 43% for the three months ended March 31, 2010. The increase was driven by a combination of higher revenue and the timing of artist and repertoire spend in the current-year quarter as well as an adjustment to royalty reserves in the prior-year quarter.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
General and administrative expense (1)	$ 21	$ 16	$ 5	31%
Total selling, general and administrative expense	**$ 21**	**$ 16**	**$ 5**	**31%**

(1) Includes depreciation expense of $1 million for the three months ended March 31, 2011 and 2010.

Music Publishing selling, general and administrative expense increased to $21 million for the three months ended March 31, 2011 as compared with $16 million for the three months ended March 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 15% for the three months ended March 31, 2011 from 12% for the three months ended March 31, 2010, primarily as a result of an increase in severance charges taken during the current-year quarter as compared to the prior-year quarter as well as overhead and closing costs associated with recent production music acquisitions, partially offset by realization of cost savings from management initiatives taken in prior periods.

Table of Contents

OIBDA and Operating Income

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

	For the Three Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
OIBDA	$ 50	$ 61	$ (11)	-18%
Depreciation and amortization	(19)	(18)	(1)	6%
Operating income	**$ 31**	**$ 43**	**$ (12)**	**-28%**

36

Table of Contents

Music Publishing OIBDA decreased $11 million to $50 million for the three months ended March 31, 2011 from $61 million for the three months ended March 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin was 36% and 46% for the three months ended March 31, 2011 and 2010, respectively. The decrease in OIBDA was due primarily to a combination the timing of artist and repertoire spend in the current-year quarter, an increase in severance charges taken during the current-year quarter compared to the prior-year quarter, overhead and closing costs associated with recent production music acquisitions and an adjustment to royalty reserves in the prior-year quarter, partially offset by an increase in revenue.

Music Publishing operating income decreased by $12 million due to the decrease in OIBDA noted above.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased from $23 million for the three months ended March 31, 2010 to $22 million for the three months ended March 31, 2011, primarily as a result of the realization of cost savings from management initiatives taken in prior periods.

Our operating loss from corporate expenses and eliminations remained flat at $25 million for the three months ended March 31, 2011 and 2010.

Table of Contents

RESULTS OF OPERATIONS

Six Months Ended March 31, 2011 Compared with Six Months Ended March 31, 2010

Consolidated Historical Results

Revenues

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
Revenue by Type				
Physical and other	$ 706	$ 842	$ (136)	-16%
Digital	383	366	17	5%
Licensing	134	115	19	17%
Total Recorded Music	**1,223**	**1,323**	**(100)**	**-8%**
Mechanical	73	87	(14)	-16%
Performance	94	105	(11)	-10%
Synchronization	55	49	6	12%
Digital	28	28		
Other	7	6	1	17%
Total Music Publishing	**257**	**275**	**(18)**	**-7%**
Intersegment elimination	(9)	(12)	3	-25%
Total Revenue	**$ 1,471**	**$ 1,586**	**$ (115)**	-7%
Revenue by Geographical Location				
U.S. Recorded Music	$ 515	$ 539	$ (24)	-4%
U.S. Publishing	100	101	(1)	-1%
Total U.S.	**615**	**640**	**(25)**	**-4%**
International Recorded Music	708	784	(76)	-10%
International Publishing	157	174	(17)	-10%
Total International	**865**	**958**	**(93)**	**-10%**
Intersegment eliminations	(9)	(12)	3	-25%
Total Revenue	**$ 1,471**	**$ 1,586**	**$ (115)**	**-7%**

Total Revenue

Total revenues decreased by $115 million, or 7%, to $1.471 billion for the six months ended March 31, 2011 from $1.586 billion for the six months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of total revenues for the six months ended March 31, 2011 and 2010, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 42% and 58% of total revenues for the six months ended March 31, 2011, respectively, compared to 40% and 60% for the six months ended March 31, 2010, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total revenues decreased $98 million, or 6%.

Total digital revenues after intersegment eliminations increased by $19 million, or 5%, to $407 million for the six months ended March 31, 2011 from $388 million for the six months ended March 31, 2010. Total digital revenues represented 28% and 24% of consolidated revenues for the six months ended March 31, 2011 and 2010. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2011 were comprised of U.S. revenues of $236 million and international revenues of $175 million, or 57% and 43% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2010 were comprised of U.S. revenues of $240 million and international revenues of $154 million, or 61% and 39% of total digital revenues, respectively.

Recorded Music revenues decreased by $100 million, or 8%, to $1.223 billion for the six months ended March 31, 2011 from $1.323 billion for the six months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 83% of consolidated revenues, for the six months ended March 31, 2011 and 2010. U.S. Recorded Music revenues were $515 million and $539 million, or 42% and 41% of Recorded Music revenues for the six months ended March 31, 2011 and 2010, respectively. International Recorded Music revenues were $708 million and $784 million, or 58% and 59% of consolidated Recorded Music revenues for the six months ended March 31, 2011 and 2010, respectively. This performance reflected a competitive holiday release schedule and declines in physical sales, partially offset by increases in digital revenue, licensing revenue and revenue from our

European concert promotion businesses. The increases in digital revenue have not yet fully offset the decline in physical revenue. Digital revenues increased by $17 million, or 5%, for the six months ended March 31, 2011, driven by the growth in digital downloads in the U.S. and International and emerging new digital revenue streams such as Spotify and YouTube, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. Licensing revenues increased $19 million, or 17%, to $134 million for the six months ended March 31, 2011, driven primarily by increases in licensing our recorded music assets in film and television as well as compilations. The increases in our European concert promotion business reflected a stronger touring schedule, mostly in France and Italy. In addition, revenue from expanded-rights deals in the U.S. increased as a result of merchandising revenue associated with certain domestic artists. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues decreased by $88 million, or 7%.

Music Publishing revenues decreased by $18 million, or 7%, to $257 million for the six months ended March 31, 2011 from $275 million for the six months ended March 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 17% of consolidated revenues for the six months ended March 31, 2011 and 2010. U.S. Music Publishing revenues were $100 million and $101 million, or 39% and 37% of Music Publishing revenues for the six months ended March 31, 2011 and 2010, respectively. International Music Publishing revenues were $157 million and $174 million, or 61% and 63% of Music Publishing revenues for the six months ended March 31, 2011 and 2010, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $14 million, or 5%, for the six months ended March 31, 2011.

The decrease in Music Publishing revenues was driven primarily by expected decreases in mechanical revenue and performance revenue, partially offset by an increase in synchronization revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry, the timing of cash collections and an interim reduction in royalty rates related to radio performances in the U.S. Performance revenue declined primarily as a result of our decision not to renew a low margin administrative deal in the prior year. Synchronization revenue results reflected the improvement of the U.S. advertising market.

Revenue by Geographical Location

U.S. revenues decreased by $25 million, or 4%, to $615 million for the six months ended March 31, 2011 from $640 million for the six months ended March 31, 2010. The overall decline in the U.S. Recorded Music business reflected a competitive holiday release schedule, declines in physical sales in the recorded music industry and declines in mobile revenues primarily related to lower ringtone demand, partially offset by increases in digital revenue, licensing revenue and revenue from expanded-right deals with certain domestic artists. The U.S. Music Publishing business decreased slightly by $1 million, or 1%.

International revenues decreased by $93 million, or 10%, to $865 million for the six months ended March 31, 2011 from $958 million for the six months ended March 31, 2010. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues decreased $77 million or 8%. Revenue growth in certain Asia-Pacific countries was more than offset by weakness in the rest of the world. An increase in digital revenue, primarily as a result of continued growth in global downloads and emerging digital streaming services and revenue from our European concert promotion businesses was more than offset by contracting demand for physical product, which reflected a competitive holiday release schedule as well as the ongoing impact of the transition from physical to digital sales in the recorded music industry.

Cost of revenues

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
Artist and repertoire costs	$ 485	$ 496	$ (11)	-2%
Product costs	264	312	(48)	-15%
Licensing costs	50	38	12	32%
Total cost of revenues	**$ 799**	**$ 846**	**$ (47)**	**-6%**

Our cost of revenues decreased by $47 million, or 6%, to $799 million for the six months ended March 31, 2011 from $846 million for the six months ended March 31, 2010. Expressed as a percentage of revenues, cost of revenues were 54% and 53% for the six months ended March 31, 2011 and 2010, respectively.

Artist and repertoire costs decreased by $11 million, or 2%, to $485 million for the six months ended March 31, 2011 from $496 million for the six months ended March 31, 2010. The decrease in artist and repertoire costs was primarily driven by decreased revenues for the current-year period. Artist and repertoire costs increased as a percentage of revenues from 31% for the six months ended March 31, 2010 to 33% in the six months ended March 31, 2011 as a result of the prior-year impact of a cost-recovery benefit related to the termination of certain artist contracts in our Recorded Music business and an adjustment in royalty reserves in our Music Publishing business.

Table of Contents

Product costs decreased as a percentage of revenues from 20% for the six months ended March 31, 2010 to 18% in the six months ended March 31, 2011, primarily as a result of the continuing change in mix from the sale of physical products to digital products and effective supply chain management, partially offset by higher non-traditional recorded music business costs related to the increase in revenue from our European concert promotion businesses.

Licensing costs increased $12 million, or 32%, to $50 million for the six months ended March 31, 2011 from $38 million for the six months ended March 31, 2010, primarily as a result of the increase in licensing revenues. Licensing costs as a percentage of licensing revenues increased from 33% for the six months ended March 31, 2010 to 37% for the six months ended March 31, 2011, primarily as a result of changes in revenue mix.

Selling, general and administrative expenses

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
General and administrative expense (1)	$ 278	$ 285	$ (7)	-2%
Selling and marketing expense	212	239	(27)	-11%
Distribution expense	30	35	(5)	-14%
Total selling, general and administrative expense	**$ 520**	**$ 559**	**$ (39)**	**-7%**

(1) Includes depreciation expense of $20 million and $18 million for the six months ended March 31, 2011 and 2010, respectively.

Total selling, general and administrative expense decreased by $39 million, or 7%, to $520 million for the six months ended March 31, 2011 from $559 million for the six months ended March 31, 2010. Expressed as a percentage of revenues, selling, general and administrative expenses remained flat at 35% for the six months ended March 31, 2011 and 2010.

General and administrative expenses decreased by $7 million, or 2%, to $278 million for the six months ended March 31, 2011 from $285 million for the six months ended March 31, 2010. Expressed as a percentage of revenues, general and administrative expenses increased from 18% for the six months ended March 31, 2010 to 19% for the six months ended March 31, 2011, primarily driven by severance charges of $17 million taken during the current-year period as compared with $11 million taken during the prior-year period, the increase in stock compensation expense of $3 million related to the modifications of existing restricted stock award agreements and an increase in professional fees.

Selling and marketing expense decreased by $27 million, or 11%, to $212 million for the six months ended March 31, 2011 from $239 million for the six months ended March 31, 2010, primarily due to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense decreased from 15% for the six months ended March 31, 2010 to 14% for the six months ended March 31, 2011.

Distribution expense decreased by $5 million, or 14%, to $30 million for the six months ended March 31, 2011 from $35 million for the six months ended March 31, 2010. The decrease in distribution expense was driven by the ongoing transition from physical to digital sales. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the six months ended March 31, 2011 and 2010.

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

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
OIBDA	$ 172	$ 199	$ (27)	-14%
Depreciation expense	(20)	(18)	(2)	11%
Amortization expense	(109)	(110)	1	-1%
Operating income	**43**	**71**	**(28)**	**-39%**
Interest expense, net	(94)	(97)	3	-3%
Other expense, net	(1)	(3)	2	-67%
Loss before income taxes	**(52)**	**(29)**	**(23)**	**79%**

Table of Contents

	For the Six Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
Income tax expense	(5)	(15)	10	-67%
Net loss	**(57)**	**(44)**	**(13)**	**30%**
Less: loss attributable to noncontrolling interest	1	2	(1)	-50%
Net loss attributable to Warner Music Group Corp.	**$ (56)**	**$ (42)**	**$ (14)**	**33%**

OIBDA

Our OIBDA decreased by $27 million to $172 million for the six months ended March 31, 2011 as compared to $199 million for the six months ended March 31, 2010. Expressed as a percentage of revenues, total OIBDA margin decreased from 13%, for the six months ended March 31, 2010, to 12%, for the six months ended March 31, 2011. Our OIBDA decrease was primarily driven by decreased revenues, increased severance charges in the current-year period as well as the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts in our Recorded Music business and an adjustment in royalty reserves in our Music Publishing business. The decrease was partially offset by the decrease in artist and repertoire costs, product costs and selling and marketing expense noted above.

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

Depreciation expense

Our depreciation expense increased from $18 million for the six months ended March 31, 2010, to $20 million for the six months ended March 31, 2011, primarily due to recently completed capital projects.

Amortization expense

Amortization expense decreased from $110 million for the six months ended March 31, 2010, to $109 million for the six months ended March 31, 2011. The decrease was due primarily to certain intangible assets being fully amortized during the current-year.

Operating income

Our operating income decreased $28 million to $43 million, for the six months ended March 31, 2011 as compared to operating income of $71 million for the six months ended March 31, 2010. The decrease in operating income was primarily a result of the decrease in OIBDA and the increase in depreciation expense, partially offset by the decrease in amortization expense noted above.

Interest expense, net

Our interest expense, net, decreased $3 million, or 3%, to $94 million for the six months ended March 31, 2011 as compared to $97 million for the six months ended March 31, 2010. The decrease was primarily driven by changes in foreign currency exchange rates related to our sterling denominated notes.

See Financial Condition and Liquidity for more information.

Other expense, net

Other expense for the six months ended March 31, 2011 and 2010 included net hedging gains on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, offset by equity in earnings on our share of net income on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We provided income tax expense of $5 million for the six months ended March 31, 2011 and $15 million for the six months ended March 31, 2010. The decrease in income tax expense was primarily due to losses in foreign territories and one-time benefits related to acquisitions during the six months ended March 31, 2011, partially offset by additional tax reserves.

We are currently under examination by various taxing authorities. We expect that $7 million of the total accrual of uncertain tax positions, which is $15 million as of March 31, 2011, will be paid during the next twelve months.

Net loss

Our net loss increased by $13 million, to a net loss of $57 million for the six months ended March 31, 2011 as compared to net loss of $44 million for the six months ended March 31, 2010. The increase was a result of decreased OIBDA, partially offset by the decrease in interest expense and the decrease in income tax expense.

Table of Contents

Noncontrolling interests

The loss attributable to noncontrolling interests was $1 million and $2 million for the six months ended March 31, 2011 and 2010, respectively.

Business Segment Results

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
Recorded Music				
Revenue	$ 1,223	$ 1,323	$ (100)	-8%
OIBDA	144	162	(18)	-11%
Operating income	$ 57	$ 74	(17)	-23%
Music Publishing				
Revenue	$ 257	$ 275	$ (18)	-7%
OIBDA	68	83	(15)	-18%
Operating income	$ 31	$ 47	$ (16)	-34%
Corporate expenses and eliminations				
Revenue	$ (9)	$ (12)	$ 3	25%
OIBDA	(40)	(46)	6	13%
Operating loss	$ (45)	$ (50)	$ 5	10%
Total				
Revenue	$ 1,471	$ 1,586	$ (115)	-7%
OIBDA	172	199	(27)	-14%
Operating income	$ 43	$ 71	$ (28)	-39%

Recorded Music

Revenues

Recorded Music revenues decreased by $100 million, or 8%, to $1.223 billion for the six months ended March 31, 2011 from $1.323 billion for the six months ended March 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 83% of consolidated revenues for the six months ended March 31, 2011 and 2010. U.S. Recorded Music revenues were $515 million and $539 million, or 42% and 41% of Recorded Music revenues for the six months ended March 31, 2011 and 2010, respectively. International Recorded Music revenues were $708 million and $784 million, or 58% and 59% of consolidated Recorded Music revenues for the six months ended March 31, 2011 and 2010, respectively. This performance reflected a competitive holiday release schedule and the declines in physical sales, partially offset increases in digital revenue, licensing revenue and revenue from our European concert promotion businesses. The increases in digital revenue have not yet fully offset by the decline in physical revenue. Digital revenues increased by $17 million, or 5%, for the six months ended March 31, 2011, driven by the growth in digital downloads in the U.S. and internationally and emerging new digital revenue streams such as Spotify and YouTube, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. Licensing revenues increased $19 million, or 17%, to $134 million for the six months ended March 31, 2011, driven primarily by increases in licensing our recorded music assets in film and television as well as compilations. The increases in our European concert promotion business reflected a stronger touring schedule, mostly in France and Italy. In addition, revenue from expanded-rights deals in the U.S. increased as a result of merchandising revenue associated with certain domestic artists. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues decreased by $88 million, or 7%.

Cost of revenues

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

2011 vs. 2010

	For the Six Months Ended March 31, 2011	2010	$ Change	% Change
Artist and repertoire costs	$ 338	$ 348	$ (10)	-3%
Product costs	265	312	(47)	-15%
Licensing costs	50	38	12	32%
Total cost of revenues	**$ 653**	**$ 698**	**$ (45)**	**-6%**

Recorded Music cost of revenues decreased $45 million, or 6%, for the six months ended March 31, 2011. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 53% for the six months ended March 31, 2011 and 2010. The decrease in product costs of $47 million was primarily as a result of the change in mix from the sale of physical products to digital products and effective supply chain management, partially offset by higher non-traditional recorded music business costs related to the increase in revenue from our European concert promotion businesses. The decrease in artist and repertoire costs of $10 million was primarily driven by decreased revenues for the current year period. In addition, the prior-year period included a cost-recovery benefit related to the termination of certain artist contracts. The increase in licensing costs of $12 million was driven primarily by the increase in licensing revenue and changes in revenue mix.

Selling, general and administrative expense

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
General and administrative expense (1)	$ 200	$ 205	$ (5)	-2%
Selling and marketing expense	209	235	(26)	-11%
Distribution expense	30	35	(5)	-14%
Total selling, general and administrative expense	**$ 439**	**$ 475**	**$ (36)**	**-8%**

(1) Includes depreciation expense of $13 million and $12 million for the six months ended March 31, 2011 and 2010, respectively.

Recorded Music selling, general and administrative expense decreased $36 million, for the six months ended March 31, 2011. The decrease in selling and marketing expense was primarily the result of our efforts to better align selling and marketing expenses with revenues earned, the timing of our releases and the effect of continued cost-management efforts. The decrease in general and administrative expense was driven by the effect of continued cost-management efforts, partially offset by increased severance charges and an increase in stock compensation expense and of $3 million related to the modifications of existing restricted stock award agreements. The decrease in distribution expense was driven by the ongoing transition from physical to digital sales. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense remained flat at 36% for the six months ended March 31, 2011 and 2010.

OIBDA and Operating Income

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
OIBDA	$ 144	$ 162	$ (18)	-11%
Depreciation and amortization	(87)	(88)	1	-1%
Operating income	**$ 57**	**$ 74**	**$ (17)**	**-23%**

Recorded Music OIBDA decreased by $18 million, or 11%, to $144 million for the six months ended March 31, 2011 compared to $162 million for the six months ended March 31, 2010. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin remained flat at 12% for the six months ended March 31, 2011 and 2010. Our OIBDA decrease was primarily driven by decreased revenues, increased severance charges as well as the prior-year quarter impact of a cost-recovery benefit related to the termination of certain artist contracts, partially offset by the decrease in artist and repertoire costs, product costs and selling, general and administrative expense noted above.

Recorded Music operating income decreased by $17 million, due primarily to the decrease in OIBDA noted above.

Table of Contents

Music Publishing

Revenues

Music Publishing revenues decreased by $18 million, or 7%, to $257 million for the six months ended March 31, 2011 from $275 million for the six months ended March 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 17% of consolidated revenues, for the six months ended March 31, 2011 and 2010. U.S. Music Publishing revenues were $100 million and $101 million, or 39% and 37% of Music Publishing revenues for the six months ended March 31, 2011 and 2010, respectively. International Music Publishing revenues were $157 million and $174 million, or 61% and 63% of Music Publishing revenues for the six months ended March 31, 2011 and 2010, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $14 million, or 5%, for the six months ended March 31, 2011.

The decrease in Music Publishing revenues was driven primarily by expected decreases in mechanical revenue and performance revenue, partially offset by an increase in synchronization revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry, the timing of cash collections and an interim reduction in royalty rates related to radio performances in the U.S. Performance revenue declined primarily as a result of our decision not to renew a low margin administrative deal in the prior year. Synchronization revenue results reflected the improvement of the U.S. advertising market.

Cost of revenues

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
Artist and repertoire costs	$ 156	$ 161	$ (5)	-3%
Total cost of revenues	**$ 156**	**$ 161**	**$ (5)**	**-3%**

Music Publishing cost of revenues decreased $5 million, or 3%, to $156 million for the six months ended March 31, 2011, from $161 million for the six months ended March 31, 2010. The decrease in cost of revenues was driven primarily a combination of lower revenues in the current year quarter and lower costs associated with certain administrative deals which we decided not to renew, partially offset by the timing of artist and repertoire spend as well as an adjustment to royalty reserves in the prior-year period. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues increased to 61% for the six months ended March 31, 2011 from 59% for the six months ended March 31, 2010, primarily as a result of the adjustment to royalty reserves in the prior-year period.

Selling, general and administrative expense

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

	For the Six Months Ended March 31,		*2011 vs. 2010*	
	2011	**2010**	**$ Change**	**% Change**
General and administrative expense (1)	$ 35	$ 33	$ 2	6%
Total selling, general and administrative expense	**$ 35**	**$ 33**	**$ 2**	**6%**

(1) Includes depreciation expense of $2 million for the six months ended March 31, 2011 and 2010.

Music Publishing selling, general and administrative expense increased to $35 million for the six months ended March 31, 2011 as compared with $33 million for the six months ended March 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 14% for the six months ended March 31, 2011 from 12% for the six months ended March 31, 2010. The increase was primarily as a result of severance charges taken during the current-year period as well as overhead and closing costs associated with recent production music acquisitions, partially offset by cost reduction initiatives by management.

Table of Contents

OIBDA and Operating Income

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

	For the Six Months Ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
OIBDA	$ 68	$ 83	$ (15)	-18%
Depreciation and amortization	(37)	(36)	(1)	3%
Operating income	**$ 31**	**$ 47**	**$ (16)**	**-34%**

Table of Contents

Music Publishing OIBDA decreased $15 million to $68 million for the six months ended March 31, 2011 from $83 million for the six months ended March 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin was 26% and 30% for the six months ended March 31, 2011 and 2010, respectively. The decrease in OIBDA was due primarily to lower revenues, severance charges taken during the current-year period, overhead and closing costs associated with recent production music acquisitions and the prior-year period adjustment to royalty reserves.

Music Publishing operating income decreased by $16 million due primarily to the decrease in OIBDA noted above.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased from $46 million for the six months ended March 31, 2010 to $40 million for the six months ended March 31, 2011, primarily as a result of the realization of cost savings from management initiatives taken in prior periods.

Our operating loss from corporate expenses and eliminations decreased from $50 million for the six months ended March 31, 2010 to $45 million for the six months ended March 31, 2011 due primarily to the decrease in OIBDA loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At March 31, 2011, we had $1.951 billion of debt, $319 million of cash and equivalents (net debt of $1.632 billion, defined as total debt less cash and equivalents and short-term investments) and a $304 million Warner Music Group Corp. s shareholders deficit. This compares to $1.945 billion of debt, $439 million of cash and equivalents (net debt of $1.506 billion, defined as total debt less cash and equivalents and short-term investments) and a $265 million shareholders deficit at September 30, 2010. Net debt increased by $126 million as a result of (i) a $120 million decrease in cash and equivalents, (ii) a $2 million increase related to the accretion on our Senior Secured Notes and (iii) a $4 million increase related to the impact of foreign exchange rates on our Sterling-denominated Senior Subordinated Notes.

The $39 million increase in Warner Music Group Corp. s shareholders deficit during the six months ended March 31, 2011 consisted of $56 million of net loss for the six months ended March 31, 2011 offset by $7 million of stock based compensation, foreign currency exchange movements of $9 million and $1 million related to deferred gains on derivative financial instruments.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the three months ended March 31, 2011 and 2010 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is comprised of the following in millions:

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Cash (used in) provided by:		
Operating activities	$ (7)	$ 51
Investing activities	(126)	(41)
Financing activities	(1)	(2)

Operating Activities

Cash used in operating activities was $7 million for the six months ended March 31, 2011 compared with cash provided by operations of $51 million for the six months ended March 31, 2010. The $58 million increase in cash used in operations reflected the decrease in OIBDA, the timing of artist and repertoire spend compared to the prior-year period, the variable timing of our working capital requirements which included the timing of sales and collections in the period, an increase in cash paid for severance, partially offset by a decrease in cash paid for taxes. Included in the current period cash interest was $12 million for the three months ended December 31, 2010 related to the Holdings Senior Discount Notes, which accreted to their full principal amount due at maturity on December 15, 2009. We made initial cash interest payments on the Holdings Senior Discount Notes in June 2010. As a result, cash interest amounted to $88 million for the six months ended March 31, 2011 as compared with $81 million for the six months ended March 31, 2010.

Investing Activities

Cash used in investing activities was $126 million for the six months ended March 31, 2011 as compared with $41 million for the six months ended March 31, 2010. The $126 million of cash used in investing consisted of $57 million to acquire businesses net of cash acquired, $47 million to acquire music publishing rights and $22 million for capital expenditures. The $41 million of cash used in investing activities in the six months ended March 31, 2010 consisted of cash used to acquire music publishing rights of $29 million, cash used for acquisitions totaling $6 million, net of cash acquired and capital expenditures of $15 million, offset by $9 million of cash proceeds received in connection with the sale of our equity investment in lala media, inc.

Financing Activities

Cash used in financing activities was $1 million for the six months ended March 31, 2011 as compared with $2 million for the six months ended March 31, 2010. Cash used in financing activities for the six months ended March 31, 2011 and 2010, respectively, consisted of distributions to our noncontrolling interest holders.

Liquidity

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

As of March 31, 2011, our long-term debt consisted of $1.1 billion aggregate principal amount of Senior Secured Notes less unamortized discount of $33 million, $626 million of Acquisition Corp. Senior Subordinated Notes and $258 million of Holdings Senior Discount Notes.

Senior Secured Notes

As of March 31, 2011, Acquisition Corp. had $1.067 billion of debt represented by the Acquisition Corp. Senior Secured Notes (the Acquisition Corp. Senior Secured Notes). The Acquisition Corp. Senior Secured Notes were issued at 96.289% of their face value for total net proceeds of $1.059 billion, with an effective interest rate of 10.25%. The original issue discount (OID) was $41 million. The OID is equal to the difference between the stated principal amount and the issue price. The OID will be amortized over the term of the Senior Secured Notes using the effective interest rate method and reported as non-cash interest expense. The Acquisition Corp. Senior Secured Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and December 15 of each year at a fixed rate of 9.50% per annum.

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

At any time prior to June 15, 2012, Acquisition Corp., at its option, may redeem up to 35% of the aggregate principal amount of the Senior Secured Notes at a redemption price of 109.50% of the principal amount of the Senior Secured Notes redeemed, plus accrued and unpaid interest with the proceeds of an Equity Offering, as defined in the indenture, provided that after such redemption at least 50% of the originally issued Senior Secured Notes remain outstanding. Prior to June 15, 2013, Acquisition Corp. may redeem some or all of the Senior Secured Notes at a price equal to 100% of the principal amount plus a make whole premium, as defined in the indenture. The Senior Secured Notes are also redeemable in whole or in part, at Acquisition Corp. s option, at any time on or after June 15, 2013 for the following redemption prices, plus accrued and unpaid interest:

Twelve month period beginning June 15,	Percentage
2013	104.750%
2014	102.375%
2015 and thereafter	100.000%

Upon the consummation and closing of a Major Music/Media Transaction, as defined in the indenture, at any time prior to June 15, 2013, the Senior Secured Notes may be redeemed in whole or in part, at Acquisition Corp. s option, at a redemption price of 104.75% plus accrued and unpaid interest. In the event of a change in control, as defined in the indenture, each holder of the Senior Secured Notes may require Acquisition

Corp. to repurchase some or all of its respective Senior Secured Notes at a purchase price equal to 101% plus accrued and unpaid interest.

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

Acquisition Corp. used the net proceeds from the Senior Secured Notes offering, plus approximately $335 million in existing cash, to repay in full all amounts due under its senior secured credit facility and pay related fees and expenses. In connection with the repayment, Acquisition Corp. terminated its revolving credit facility.

Senior Subordinated Notes of Acquisition Corp.

As of March 31, 2011, Acquisition Corp. has outstanding two tranches of senior subordinated notes due in 2014: $465 million principal amount of U.S. dollar-denominated notes and £100 million principal amount of Sterling-denominated notes (collectively, the Acquisition Corp. Senior Subordinated Notes). The Acquisition Corp. Senior Subordinated Notes mature on April 15, 2014 and bear interest payable semi-annually on April 15 and October 15 of each year at a fixed rate of 7.375% per annum on the $465 million dollar notes and 8.125% per annum on the £100 million Sterling-denominated notes.

The indenture governing the Acquisition Corp. Senior Subordinated Notes limits our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; to pay dividends on or make other distributions in respect of our capital stock or make other restricted payments; to make certain investments; to sell certain assets; to create liens on certain debt without securing the notes; to consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; to enter into certain transactions with affiliates and to designate our subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness, and to make certain restricted payments and investments.

Holdings Senior Discount Notes

As of March 31, 2011, Holdings had $258 million of debt represented by the Holdings Senior Discount Notes (the Holdings Senior Discount Notes). The Holdings Senior Discount Notes were issued at a discount and had an initial accreted value of $630.02 per $1,000 principal amount at maturity. Prior to December 15, 2009, no cash interest payments accrued. However, interest accrued on the Holdings Senior Discount Notes in the form of an increase in the accreted value of such notes such that the accreted value of the Holdings Senior Discount Notes equaled the principal amount at maturity of $258 million on December 15, 2009. Thereafter, cash interest on the Holdings Senior Discount Notes is payable semi-annually on June 15 and December 15 of each year at a fixed rate of 9.5% per annum with the initial cash interest payment paid on June 15, 2010. The Holdings Senior Discount Notes mature on December 15, 2014.

The indenture governing the Holdings Senior Discount Notes limits our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; to pay dividends on or make other distributions in respect of its capital stock or make other restricted payments; to make certain investments; to sell certain assets; to create liens on certain debt without securing the notes; to consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; to enter into certain transactions with affiliates; and to designate its subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes permits Holdings and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness, and to make certain restricted payments and investments.

Dividends

We discontinued our previous policy of paying a regular quarterly dividend during the second quarter of fiscal year 2008. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

Covenant Compliance

The indentures governing the Holdings Senior Discount Notes, the Acquisition Corp. Senior Subordinated Notes and the Acquisition Corp. Senior Secured Notes contain certain financial covenants, which limit the ability of our restricted subsidiaries as defined in the indentures governing the notes to, among other things, incur additional indebtedness, issue certain preferred shares, pay dividends, make certain investments, sell certain assets, create liens on certain debt, and consolidate, merge, sell or otherwise dispose of all, or some of, our assets. In order for Acquisition Corp. and Holdings to incur additional debt or make certain restricted payments using certain exceptions provided for in the indentures governing the Acquisition Corp. Senior Subordinated Notes, the Acquisition Corp. Senior Secured Notes and Holdings Senior Discount Notes, the Fixed Charge Coverage Ratio, as defined in such indentures, must exceed a 2.0 to 1.0 ratio. The Fixed Charge Coverage Ratio is the ratio of EBITDA to Fixed Charges, as defined in the indentures. EBITDA, as defined in the indentures, is adjusted to add back certain non-cash, non-recurring and other items that are included in the definitions of EBITDA and consolidated net income in the indentures. Fixed Charges are defined in such indentures as consolidated interest expense excluding certain non-cash interest expense.

The terms of the indentures governing the Acquisition Corp. Senior Subordinated Notes, the Acquisition Corp. Senior Secured Notes and Holdings Senior Discount Notes significantly restrict Acquisition Corp., Holdings and our other subsidiaries from paying dividends and otherwise transferring assets to us. For example, the ability of Acquisition Corp. and Holdings to make such payments is governed by a formula based on 50% of each of their consolidated net income (which, as defined in the indentures governing such notes, excludes goodwill impairment charges and any after-tax extraordinary, unusual or nonrecurring gains and losses), accruing from July 1, 2004 under the indentures governing the Acquisition Corp. Senior Subordinated Notes and the Holdings Senior Discount Notes, and July 1, 2009 under the Acquisition Corp. Senior Secured Notes, plus in each case proceeds from equity offerings and capital contributions, among other items. In addition, as a condition to making such payments to us based on such formula, Acquisition Corp. and Holdings must each have a Fixed Charge Coverage Ratio of at least 2.0 to 1.0 after giving effect to any such payments. Notwithstanding such restrictions, the indentures governing the Acquisition Corp. Senior Subordinated Notes, the Holdings Senior Discount Notes and the Acquisition Corp. Senior Secured Notes permit an aggregate of $45 million, $75 million and $50 million, respectively, of such payments to be made by Acquisition Corp. and Holdings pursuant to the indentures, whether or not there is availability under the formula or the conditions to its use are met. The indenture governing the Acquisition Corp. Senior Secured Notes also permits Acquisition Corp. to make restricted payments not to exceed $90 million in any fiscal year.

Acquisition Corp. and Holdings may make additional restricted payments using certain other exceptions provided for in the indentures governing the Acquisition Corp. Senior Subordinated Notes, the Acquisition Corp. Senior Secured Notes and Holdings Senior Discount Notes. In addition, as of March 31, 2011, we had $164 million of cash at Warner Music Group Corp., which is unrestricted by any indenture covenants.

Summary

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 18 to our audited consolidated financial statements for the fiscal year ended September 30, 2010, we are exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates. As of March 31, 2011, other than as described below, there have been no material changes to the Company s exposure to market risk since September 30, 2010.

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We use foreign exchange contracts, primarily to hedge the risk that unremitted or future royalties and license fees owed to our U.S. companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on our major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, and Australian dollar. During the three months ended March 31, 2011, we had outstanding hedge contracts for the sale of $139 million and the purchase of $57 million of foreign currencies at fixed rates. During the current-year quarter, certain of our foreign exchange contracts expired and new foreign exchange contracts were renewed with similar features.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at March 31, 2011, assuming a hypothetical 10% depreciation of the U.S dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates, the fair value of the foreign exchange forward contracts would have decreased by $8 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

We are exposed to foreign currency exchange rate risk with respect to our £100 million principal amount of Sterling-denominated notes that were issued in April 2004. These sterling notes mature on April 15, 2014. As of March 31, 2011, these sterling notes had a carrying value of approximately $161 million. Based on the principal amount of Sterling-denominated notes outstanding as of March 31, 2011 and assuming that all other market variables are held constant (including the level of interest rates), a 10% weakening or strengthening of the U.S. dollar compared to the British pound sterling would not have an impact on the fair value of these sterling notes, since these notes are completely hedged as of March 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Certification

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

Introduction

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

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

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

Evaluation of Disclosure Controls and Procedures

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

Table of Contents

Changes in Internal Control over Financial Reporting

There have been no changes, other than as noted below, in our internal controls over financial reporting or other factors during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls.

In October 2010, we implemented a new SAP enterprise resource planning application in the U.S. for fiscal 2011. While we will experience changes in internal controls over financial reporting in fiscal 2011 as the implementation occurs throughout the fiscal year, we expect to be able to transition to the new processes and controls with no negative impact to our internal control environment. If we fail to effectively implement the SAP application or if the SAP application fails to operate as designed or intended, it may impact our ability to process transactions accurately and efficiently.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served us with requests for information in connection with an industry-wide investigation as to whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§ 340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served us with a request for information in the form of a Civil Investigative Demand as to whether our activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. Both investigations have now been closed. Subsequent to the announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads were filed and were later consolidated for pre-trial proceedings 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. All defendants, including us, filed a motion to dismiss the consolidated amended complaint on July 30, 2007. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including us. On November 20, 2008, plaintiffs filed a Notice of Appeal from the order of the District Court to the Circuit Court for the Second Circuit. Oral argument took place before the Second Circuit Court of Appeals on September 21, 2009. On January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings. On January 27, 2010, all defendants, including us, filed a petition for rehearing en banc with the Second Circuit. On March 26, 2010, the Second Circuit denied the petition for rehearing en banc. On August 20, 2010, all defendants including us, filed a petition for Certiorari before the Supreme Court. The petition was rejected on January 10, 2011. The case is now with the trial court. We intend to defend against these lawsuits vigorously, but are unable to predict the outcome of these suits. Any litigation we may become involved in as a result of the inquiries of the Attorney General of the State of New York and the Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

Other Matters

In addition to the matter discussed above, we are involved in other litigation arising in the normal course of business. Management does not believe that any legal proceedings pending against us will have, individually, or in the aggregate, a material adverse effect on its business. However, we cannot predict with certainty the outcome of any litigation or the potential for future litigation. Regardless of the outcome, litigation can have an adverse impact on our company, including our brand value, because of defense costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and other information in this report before making an investment decision with respect to shares of our common stock or any of our other securities. The risks and uncertainties described below may not be the only ones facing us. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In such case, the trading price of our common stock or other securities could fall, and you may lose all or part of the money you paid to buy such securities.

Table of Contents

Risks Related to our Business

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

The industry began experiencing negative growth rates in 1999 on a global basis and the worldwide recorded music market has contracted considerably. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may all be contributing to a declining recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended. While CD sales still generate most of the recorded music revenues, CD sales continue to decline industry-wide and we expect that trend to continue. However, new formats for selling recorded music product have been created, including the legal downloading of digital music and the distribution of music on mobile devices and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are beginning to offset declines in physical sales and represent a growing area of our recorded music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, ticketing and artist management. As our expansion into these new areas is recent, we cannot determine how our expansion into these new areas will impact our business. Despite the increase in digital sales, artist services revenues and expanded-rights revenues, revenues from these sources have yet to fully offset declining physical sales on a worldwide industry basis and it is too soon to determine the impact that sales of music through new channels might have on the industry or when the decline in physical sales might be offset by the increase in digital sales, artist services revenues and expanded-rights revenues. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats.

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

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

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

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

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

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, burned CDs and MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to the International Federation of the Phonographic Industry (IFPI) 2009 Digital Music Report. IFPI also reported in its Recording Industry in Numbers 2010 publication that peer-to-peer (P2P) file-sharing accounts for more than 20% of Internet traffic globally. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to certain risks from behaviors such as sideloading of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal file-sharing has a substantial negative impact on music sales. We are working to control this problem in a variety of ways including further litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by establishing legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to the music industry. The International Intellectual Property Alliance (IIPA) estimates that U.S. trade losses due to physical piracy of records and music in 39 key countries/territories around the world with copyright protection and/or enforcement deficiencies totaled $1.5 billion in 2009. In addition, an economic study conducted by Tera Consultants in Europe found that if left unabated, digital piracy could result in an estimated loss of 240 billion Euros in retail revenues for the creative industries including music in Europe over the period from 2008 - 2015. Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales and put pressure on the price of legitimate sales. They have had, and may continue to have, an adverse effect on our business.

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

We have positioned ourselves to take advantage of online and mobile technology as a sales distribution channel and believe that the continued development of legitimate channels for digital music distribution holds promise for us in the future. Digital revenue streams of all kinds are important to offset continued declining revenue from physical CD sales industry-wide over time. However, legitimate channels for digital distribution are a recent development and we cannot predict their impact on our business. In digital formats, certain costs associated with physical products such as manufacturing, distribution, inventory and return costs do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers that only apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, we believe it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. However, we cannot be sure that we will generally continue to achieve higher margins from digital sales. Any legitimate digital distribution channel that does develop may result in lower or less profitable sales for us than comparable physical sales. In addition, the transition to greater sales through digital channels introduces uncertainty regarding the potential impact of the unbundling of the album on our business. It remains unclear how consumer behavior will continue to change when customers are faced with more opportunities to purchase only favorite tracks from a given album rather than the entire album. In addition, if piracy continues unabated and legitimate digital distribution channels fail to gain consumer acceptance, our results of operations could be harmed. Furthermore, as new distribution channels continue to develop, we may have to implement systems to process royalties on new revenue streams for potential future distribution channels that are not currently known. These new distribution channels could also result in increases in the number of transactions that we need to process. If we are not able to successfully expand our processing capability or introduce technology to allow us to determine and pay royalty amounts due on these new types of transactions in a timely manner, we may experience processing delays or reduced accuracy as we increase the volume of our digital sales, which could have a negative effect on our relationships with artists and brand identity.

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

We derive an increasing portion of our revenues from sales of music through digital distribution channels. We are currently dependent on a small number of leading online music stores that sell consumers digital music. Currently, the largest U.S. online music store, iTunes, charges U.S. consumers prices ranging from $0.69 to $1.29 per single-track download. We have limited ability to increase our wholesale prices to digital service providers for digital downloads as we believe Apple s iTunes controls more than two-thirds of the legitimate digital music track download business in the U.S. If iTunes were to adopt a lower pricing model or if there were structural change to other download pricing models, we may receive substantially less per download for our music, which could cause a material reduction in our revenues, unless it is offset by a corresponding increase in the number of downloads. Additionally, Apple s iTunes and other online music stores at present accept and make available for sale all the recordings that we and other

53

distributors deliver to them. However, if online stores in the future decide to limit the types or amount of music they will accept from music content owners like us, our revenues could be significantly reduced.

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

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

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

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

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

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

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

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

- limited legal protection and enforcement of intellectual property rights;

- restrictions on the repatriation of capital;

fluctuations in interest and foreign exchange rates;

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

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

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

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

tariffs, duties, export controls and other trade barriers;

- longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

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

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

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

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

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

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

Our success depends, in part, upon the continuing contributions of our executive officers many of whom have been with us since our acquisition from Time Warner in 2004. Although we have employment agreements with our executive officers, there is no guarantee that they will not leave. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects.

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

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

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

On March 31, 2011, we had $1.084 billion of goodwill and $100 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (ASC) Topic 350, Intangibles Goodwill and other (ASC 350) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units carrying value. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets, the market capitalization of our stock, and trends in the music industry. We tested our goodwill and other indefinite-lived intangible assets for impairment in the fourth quarter of fiscal 2010 and concluded that such assets were not impaired. We continue to believe that conclusion is appropriate. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders deficit could be adversely affected.

We also had $1.103 billion of definite-lived intangible assets at March 31, 2011. FASB ASC Topic 360-10-35, (ASC 360-10-35) requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders deficit.

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

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, approximately 54% and 58% of our revenues related to operations in foreign territories for the three and six months ended March 31, 2011. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of March 31, 2011, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

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

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

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

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

Table of Contents

We face 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.

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

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

We may acquire, make investments in, or enter into strategic alliances or joint ventures with, companies engaged in businesses that are similar or complementary to ours. If we make such acquisitions or investments or enter into strategic alliances, we will face certain risks inherent in such transactions. For example, gaining regulatory approval for significant acquisitions or investments could be a lengthy process and there can be no assurance of a successful outcome and we could increase our leverage in connection with acquisitions or investments. We could face difficulties in managing and integrating newly acquired operations. Additionally, such transactions would divert management resources and may result in the loss of recording artists or songwriters from our rosters. If we invest in companies involved in new businesses or develop our own new business opportunities, we will need to integrate and effectively manage these new businesses before any new line of business can become successful, and as such the progress and success of any new business is uncertain. In addition, investments in new business may result in an increase in capital expenditures to build infrastructure to support our new initiatives. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures that they will be completed in a timely manner, that they will be structured or financed in a way that will enhance our credit-worthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our company as a whole.

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

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations. Following the Acquisition, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. We continue to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed cost structure to minimize any impact.

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

Table of Contents

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

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

Changes to our information technology infrastructure to harmonize our systems and processes may fail to operate as designed and intended.

We regularly implement business process improvement initiatives to harmonize our systems and processes and to optimize our performance. Our current business process initiatives included the delivery of a SAP enterprise resource planning application in the U.S. for fiscal 2011. While we will experience changes in internal controls over financial reporting in fiscal 2011 as the implementation occurs, we expect to be able to transition to the new processes and controls with no negative impact to our internal control environment. If we fail to effectively implement the SAP application or if the SAP application fails to operate as designed and intended, it may impact our ability to process transactions accurately and efficiently.

We are controlled by entities that may have conflicts of interest with us.

THL, Bain Capital and Providence Equity (collectively, the Current Investor Group) control a majority of our common stock on a fully diluted basis. In addition, representatives of the Current Investor Group occupy substantially all of the seats on our Board of Directors and pursuant to a stockholders agreement, have the right to appoint all of the independent directors to our board. As a result, the Current Investor Group has the ability to control our policies and operations, including the appointment of management, the entering into of mergers, acquisitions, sales of assets, divestitures and other extraordinary transactions, future issuances of our common stock or other securities, the payments of dividends, if any, on our common stock, the incurrence of debt by us and the amendment of our certificate of incorporation and Bylaws. The Current Investor Group has the ability to prevent any transaction that requires the approval of our Board of Directors or the stockholders regardless of whether or not other members of our Board of Directors or stockholders believe that any such transaction is in their own best interests. For example, the Current Investor Group could cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets. Additionally, the Current Investor Group is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Current Investor Group may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. So long as the Current Investor Group continues to hold a majority of our outstanding common stock, they will be entitled to nominate a majority of our Board of Directors, and will have the ability to effectively control the vote in any election of directors. In addition, so long as the Current Investor Group continues to own a significant amount of our equity, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control our decisions.

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

We have recently renewed our agreements with Cinram. On November 16, 2010, we entered into a series of new agreements with Cinram and its affiliates including an agreement with Cinram Manufacturing LLC (formerly Cinram Manufacturing Inc.), Cinram Distribution LLC and Cinram International Inc. for the United States and Canada and an agreement with Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited for certain territories within the European Union. We entered into certain amendments to the agreements in January 2011. Both new agreements, as amended, now expire on January 31, 2014. The terms of the new agreements, as amended, remain substantially the same as the terms of the original 2003 agreements, as amended, but now provide us with the option to use third-party vendors for up to a certain percentage of the volume provided to us by Cinram during the 2010 calendar year (and up to a higher percentage upon the occurrence of certain events). In addition, we have expanded termination rights. As Cinram continues to be our primary supplier of manufacturing and distribution services in the U.S., Canada and part of Europe, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram s continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, or was unable to otherwise continue to provide services, we may have difficulty satisfying our commitments to our wholesale and retail customers in the short term until we more fully transitioned to an alternate provider, which could have an adverse impact on our revenues. In February 2011, Cinram announced the successful completion of a refinancing and recapitalization transaction. Any future inability of Cinram to continue to provide services due to financial distress, refinancing issues or otherwise could also require us to switch to substitute suppliers of these services for more services than currently planned. Even though our agreements with Cinram give us a right to terminate based upon failure to meet mandated service levels and now also permit us to use third-party vendors for a portion of our service requirements, and there are several capable substitute suppliers, it might be costly for us to switch to substitute suppliers for any such services, particularly in the short term, and the delay and transition time associated with finding substitute suppliers could also have an adverse impact on our revenues.

The consummation of the proposed merger with Airplanes is subject to risks and uncertainties, including the satisfaction of specified conditions.

As described under Notes to Consolidated Interim Financial Statements (Unaudited) Footnote 14. Subsequent Events, on May 6, 2011, the Company entered into an Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), with Airplanes Music LLC, a Delaware limited liability company (Airplanes), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Airplanes (Merger Sub and, together with Airplanes, the Acquiring Parties). The Acquiring Parties are affiliated with Access Industries, Inc.

The Merger Agreement provides for, upon the terms and subject to the conditions in the Merger Agreement, the merger of Merger Sub with and into the Company with the Company surviving as a wholly-owned subsidiary of Airplanes (the Merger).

Pursuant to the Merger Agreement, at the effective time of 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 the Acquiring Parties or their respective affiliates or by any stockholders who are entitled to and who properly exercise appraisal rights under Delaware law), will be cancelled and will be converted automatically into the right to receive $8.25 in cash, without interest. The closing of the Merger is subject to customary conditions, including the approval by the holders of a majority of the outstanding shares of the Company s common stock entitled to vote on the Merger and certain regulatory approvals. It is anticipated that the transaction will be completed in the third calendar quarter of this year.

We cannot predict whether the closing conditions to the Merger set forth in the Merger Agreement will be satisfied, and may be delayed or even abandoned before completion if certain events occur. If the conditions to the Merger are not satisfied or waived, or the Merger is not completed for any other reason, (i) the market price of our common stock could significantly decline, (ii) we will remain liable for expenses that we have incurred related to the transaction, including financial advisor and legal fees, and in certain scenarios could be required to pay a $56 million termination fee and (iii) we may experience substantial disruption in our operating activities and the loss of key personnel and other third-party relationships, any of which could materially and adversely affect us and our business, operating results and financial condition.

For additional details regarding the Merger Agreement, please see our Current Report on Form 8-K, dated May 9, 2011, filed with the SEC.

Risks Related to our Leverage

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

We are highly leveraged. As of March 31, 2011, our total consolidated indebtedness was $1.951 billion.

Our high degree of leverage could have important consequences for our investors, including:

- making it more difficult for us and our subsidiaries to make payments on indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

- limiting our ability and the ability of our subsidiaries to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and

- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

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

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

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

While we currently have sufficient cash to make scheduled interest payments, in the future WMG Holdings Corp. (Holdings), our immediate subsidiary, also may rely on our indirect subsidiary WMG Acquisition Corp. (Acquisition Corp.) and its subsidiaries to make payments on its borrowings. If Acquisition Corp. does not dividend funds to Holdings in an amount sufficient to make such payments, if necessary in the future, Holdings may default under the indenture governing its borrowings, which would result in all such notes becoming due and payable. Because Acquisition Corp. s debt agreements have covenants that limit its ability to make payments to Holdings, Holdings may not have access to funds in an amount sufficient to service its indebtedness.

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

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

- incur additional indebtedness or issue certain preferred shares;

- pay dividends on or make distributions in respect of our common stock or make other restricted payments;

- make certain investments;

- sell certain assets;

- create liens on certain indebtedness without in certain cases securing the applicable indebtedness;

- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

- enter into certain transactions with our affiliates; and designate our subsidiaries as unrestricted subsidiaries.

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

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

A reduction in our credit ratings could impact our cost of capital.

Although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

Risks Related to our Common Stock

We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements.

The Current Investor Group controls a majority of our outstanding common stock. As a result, we are a controlled company within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a company of which more than 50% of the voting power is held by an individual, a group, or another company is a controlled company and may elect not to comply with certain NYSE corporate governance requirements, as applicable, including (1) the requirement that a majority of the Board of Directors consist of independent directors, (2) the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities, (3) the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities and (4) the requirement that we perform an annual performance evaluation of the nominating/corporate governance committee and compensation committee. We are utilizing and intend to continue to utilize these exemptions while we are a controlled company. As a result, we will not have a majority of independent directors and neither our nominating and corporate governance committee, which also serves as our executive committee, nor our compensation committee will consist entirely of independent directors. While our executive, governance and nominating committee and compensation committee have charters that comply with NYSE requirements, we are not required to maintain those charters. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Future sales of our shares could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of March 31, 2011, we had approximately 155 million shares of common stock outstanding. Approximately 93.3 million shares are held by the Current Investor Group and are eligible for resale from time to time, subject to contractual and Securities Act restrictions. The Current Investor Group has the ability to cause us to register the resale of their shares and certain other holders of our common stock, including members of our management and certain other parties that have piggyback registration rights, will be able to participate in such registration. In addition, in 2005, we registered approximately 8.3 million shares of restricted common stock and approximately 8.4 million shares underlying options issued and securities that may be issued in the future pursuant to our benefit plans and arrangements on registration statements on Form S-8. Shares registered on these registration statements on Form S-8 may be sold as provided in the respective registration statements on Form S-8. In April 2008, we registered an additional 16.5 million shares underlying options issued, and securities that might be issued in the future pursuant to our benefit plans and arrangements, on an additional Form S-8.

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or potential conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of securities analysts and investors, and in response, the market price of our common stock could decrease significantly. As a result, the market price of our common stock could decline below the price at which you purchase it. You may be unable to resell your shares of our common stock at or above such price. Among the other factors that could affect our stock price are:

- actual or anticipated variations in operating results;
- changes in dividend policy or our intentions to deploy our capital, including any decisions to repurchase our debt or common stock;
- changes in financial estimates or investment recommendations by research analysts;
- actual or anticipated changes in economic, political or market conditions, such as recessions or international currency fluctuations;
- actual or anticipated changes in the regulatory environment affecting the music industry;
- changes in the retailing environment;
- changes in the market valuations of other content on media companies or diversified media companies that are also engaged in some of the business in which we are engaged that may be deemed our peers; and
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives.

See Risk Factors Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period. In the past, following periods of volatility in the market price of a company s securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management attention and resources, which could significantly harm our profitability and reputation.

Provisions in our Charter and amended and restated bylaws and Delaware law may discourage a takeover attempt.

Provisions contained in our Charter and amended and restated bylaws (Bylaws) and Delaware law could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. Provisions of our Charter and Bylaws impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions. For example, our Charter authorizes our Board of Directors to issue up to 100,000,000 preferred shares and determine the rights including vesting rights, preferences, privileges, qualifications, limitations, and restrictions of unissued series of preferred stock, without any vote or action by our shareholders. Thus, our Board of Directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. These rights may have the effect of delaying or deterring a change of control of our company. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

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

Item 2 is not applicable and has been omitted.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Item 3 is not applicable and has been omitted.

Table of Contents

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Employment Arrangements with Michael D. Fleisher

Mr. Fleisher s employment agreement with WMG Acquisition Corp. dated as of November 14, 2008, was amended on May 9, 2011, in several respects.

First, upon Mr. Fleisher s resignation for any reason or earlier termination of employment by the Company without cause (as defined in the employment agreement), he will receive the same severance benefit set forth in his employment agreement otherwise payable upon a termination of his employment by the Company without cause or by him for good reason (as such terms are defined in the employment agreement), except that the portion of the severance consisting of his prorated Corporate Bonus will be computed by multiplying his current target bonus of $1.1 million by the proportionate length of his employment during the current fiscal year.

Second, Mr. Fleisher s resignation for any reason or earlier termination by the Company without cause will be deemed to have the same treatment as a termination of employment for good reason in anticipation of a change in control (within the meaning of the Company s 2005 Amended and Restated Omnibus Award Plan) for purposes of his outstanding equity awards; and, notwithstanding any provision of the Stock Option Agreement between Mr. Fleisher and the Company dated as of November 15, 2008 to the contrary, as of his resignation (or earlier termination of employment by the Company without cause) his then outstanding options shall be the Vested Option (as defined in such agreement) and will remain exercisable until the earlier of (A) the last day of the Option Period (as defined in such agreement) and (B) the first anniversary of his resignation or earlier termination of his employment by the Company without cause, subject to earlier termination upon the occurrence of a transaction or event pursuant to which options for Company employees are generally being cancelled. In addition, the portion of his then outstanding restricted stock award subject to performance-based vesting will be forfeited and cancelled as of the effective date of such resignation or earlier termination by the Company without cause.

Third, Mr. Fleisher was awarded a Success Bonus of $1.8 million to be paid on or before May 16, 2011. In addition, if the transaction contemplated by the Merger Agreement is modified and consummated (or an alternative transaction is consummated) in a way that values the common stock of the Company at or above $10.00 per share, he will be paid an additional Success Bonus of $200,000; or if in a way that values such common stock at or above $9.00 per share but less than $10.00 per share, he will be paid $100,000; provided, that any such payment will be made only if the relevant transaction is consummated on or before May 6, 2012, and any payment due will be made promptly following consummation of the relevant transaction.

The amendment prohibits Mr. Fleisher from engaging in competitive employment activities for a period of two years following his cessation of employment.

If any amounts otherwise payable to Mr. Fleisher are expected to become subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (the so-called golden parachute penalty tax), payments will be cut back to a level expected to avoid imposition of that tax on him, but only if the cutback would result in his retaining on an after-tax basis a greater amount than if the cutback had not been so imposed.

ITEM 6. EXHIBITS

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

Exhibit No.	**Description**
3.1	Amended and Restated Certificate of Incorporation of Warner Music Group Corp. (1)
3.2	Amended and Restated Bylaws of Warner Music Group Corp. (2)
10.1	

	First Letter Amendment (dated January 14, 2011) to (a) US/Canada Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WEA and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and (b) International Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WMI and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited. *
10.2	Second Letter Amendment (dated January 21, 2011) to (a) US/Canada Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WEA and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and (b) International Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WMI and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited. *
10.3	Extension Amendment (dated January 25, 2011) to (a) US/Canada Manufacturing and PP&S Agreement, effective as of July 1, 2010, between WEA and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and (b) International Manufacturing and PP&S Agreement, effective as of July 1, 2010, between WMI and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited. **
10.4	Separation Agreement and Release, dated January 1, 2011, between Warner/Chappell Music, Inc. and David H. Johnson.*
10.5	Amendment, dated as of January 18, 2011, to Restricted Stock Award Agreement, dated as of March 15, 2008, by and between Warner Music Group Corp. and Edgar Bronfman, Jr. (3)
10.6	Amendment, dated as of January 18, 2011, to Restricted Stock Award Agreement, dated as of March 15, 2008, by and between Warner Music Group Corp. and Lyor Cohen. (3)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***

* Filed herewith.

** Filed herewith. An application for confidential treatment for selected portions of this agreement has been filed with the Securities and Exchange Commission.

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

Represents management contract, compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

Table of Contents

(1) Incorporated by reference to Warner Music Group Corp. s Quarterly Report on Form 10-Q for the period ended March 31, 2005 (File No. 001-32502).

(2) Incorporated by reference to Warner Music Group Corp. s Current Report on Form 8-K filed on November 17, 2009 (File No. 001-32502).

(3) Incorporated by reference to Warner Music Group Corp. s Current Report on Form 8-K filed on January 19, 2011 (File No. 001-32502).

Table of Contents

SIGNATURES

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

May 10, 2011

WARNER MUSIC GROUP CORP.

By:	/s/ EDGAR BRONFMAN, JR.
Name:	**Edgar Bronfman, Jr.**
Title:	**Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)**

By:	/s/ STEVEN MACRI
Name:	**Steven Macri**
Title:	**Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**