UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number 333-121322

WMG Acquisition Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**68-0576630**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

75 Rockefeller Plaza
New York, NY 10019
(Address of principal executive offices)

(212) 275-2000
(Registrant's telephone number, including area code)

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

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	☐
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 ☒

As of August 2, 2010, the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,000. All of the Registrant's common stock is indirectly owned by Warner Music Group Corp.

Explanatory Note

This Amendment No. 1 on Form 10–Q/A (“Amendment No. 1”) to the Company’s Quarterly Report on Form 10–Q for the quarterly period ended June 30, 2010 (“Quarterly Report”), initially filed with the Securities and Exchange Commission on August 5, 2010, is being filed (1) to correct an error in the Consolidated Statement of Equity (Deficit) and Note 3, Comprehensive (Loss) Income of Part 1, Item 1 of the Quarterly Report so that the balances disclosed properly reflect the amounts included in our consolidated balance sheets and consolidated statements of operations and (2) to correct an error in Note 13, Additional Financial Information of Part 1, Item 1 of the Quarterly Report and in Management’s Discussion and Analysis of Financial Condition and Results of Operation under the heading “Financial Condition and Liquidity—Cash Flows” of Part 1, Item 2 of the Quarterly Report solely to properly disclose the cash paid for interest of $157 million for the nine months ended June 30, 2010 rather than the amount originally filed in our Quarterly Report of $169 million. There are no changes to the amounts shown in our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

No other changes in our Quarterly Report are being made by this Amendment No. 1. However, in accordance with Rule 12b–15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of Part I, Item 1, as amended, and Part 1, Item 2, as amended, are included herein.

This Amendment No. 1 also amends and restates the exhibit list in Part 2, Item 6 of the Quarterly Report and re-files certain exhibits specified herein, including currently dated certifications of our chief executive officer and chief financial officer set forth as Exhibits 31.1, 31.2, 32.1 and 32.2 hereto. This Amendment No. 1 speaks as of the date of the Quarterly Report, and has not been updated to reflect events occurring subsequent to the original filing date.

WMG ACQUISITION CORP.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WMG Acquisition Corp.

Consolidated Balance Sheets (Unaudited)

	June 30, 2010	September 30, 2009
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 224	$ 196
Accounts receivable, less allowances of $91 and $135 million	363	550
Inventories	36	46
Royalty advances expected to be recouped within one year	154	171
Deferred tax assets	29	29
Other current assets	56	48
Total current assets	862	1,040
Royalty advances expected to be recouped after one year	189	209
Investments	9	18
Property, plant and equipment, net	100	100
Goodwill	1,018	1,027
Intangible assets subject to amortization, net	1,143	1,317
Intangible assets not subject to amortization	100	100
Other assets	60	64
Total assets	$ 3,481	$ 3,875
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 153	$ 212
Accrued royalties	1,084	1,185
Accrued liabilities	228	282
Accrued interest	14	57
Deferred revenue	103	120
Other current liabilities	1	14
Total current liabilities	1,583	1,870
Long-term debt	1,678	1,686
Deferred tax liabilities	158	164
Other noncurrent liabilities	154	177
Total liabilities	3,573	3,897
Commitments and Contingencies (See Note 10)		
Deficit:		
Common stock	—	—
Additional paid-in capital	139	132
Accumulated deficit	(332)	(255)
Accumulated other comprehensive income, net	47	42
Total WMG Acquisition Corp. shareholder’s deficit	(146)	(81)
Noncontrolling interest	54	59
Total deficit	(92)	(22)
Total liabilities and deficit	$ 3,481	$ 3,875

See accompanying notes.

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WMG Acquisition Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(in millions, except per share data)			
Revenues	$ 652	$ 773	$ 2,232	$ 2,331
Costs and expenses:				
Cost of revenues	(352)	(435)	(1,186)	(1,269)
Selling, general and administrative expenses (a)	(246)	(258)	(811)	(812)
Amortization of intangible assets	(55)	(55)	(165)	(169)
Total costs and expenses	(653)	(748)	(2,162)	(2,250)
Operating (loss) income	(1)	25	70	81
Interest expense, net	(39)	(56)	(124)	(130)
Gain on sale of equity-method investment	—	—	—	36
Gain on foreign exchange transaction	—	—	—	9
Impairment of cost-method investment	—	—	—	(29)
Impairment of equity-method investment	—	—	—	(10)
Other income (expense), net	2	4	(1)	1
Loss before income taxes	(38)	(27)	(55)	(42)
Income tax expense	(9)	(4)	(24)	(30)
Net loss	(47)	(31)	(79)	(72)
Less: (income) loss attributable to noncontrolling interest	—	(1)	2	6
Net loss attributable to WMG Acquisition Corp.	$ (47)	$ (32)	$ (77)	$ (66)
(a) Includes depreciation expense of:	$ (10)	$ (10)	$ (28)	$ (27)

See accompanying notes.

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WMG Acquisition Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
	(in millions)	
Cash flows from operating activities		
Net loss	$ (79)	$ (72)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	193	196
Deferred taxes	(9)	—
Gain on sale of equity investment	—	(36)
Gain on foreign exchange transaction	—	(9)
Gain on sale of building	—	(3)
Impairment of equity investment	—	10
Impairment of cost-method investment	1	29
Non-cash interest expense	12	34
Non-cash stock-based compensation expense	7	8
Other non-cash items	(5)	—
Changes in operating assets and liabilities:		
Accounts receivable	173	129
Inventories	7	5
Royalty advances	2	(16)
Accounts payable and accrued liabilities	(135)	(42)
Accrued interest	(43)	(13)
Other balance sheet changes	(12)	(22)
Net cash provided by operating activities	112	198
Cash flows from investing activities		
Repayments of loans to third parties	—	3
Investments and acquisitions of businesses	(1)	(14)
Acquisition of publishing rights	(39)	(8)
Proceeds from the sale of investments	9	124
Proceeds from sale of building	—	8
Capital expenditures	(30)	(15)
Net cash (used in) provided by investing activities	(61)	98
Cash flows from financing activities		
Debt repayments	—	(1,379)
Proceeds from issuance of Senior Discount Notes	—	1,059
Deferred financing costs paid	—	(23)
Dividends paid	—	—
Distribution to noncontrolling interest holder	(2)	—
Net cash used in financing activities	(2)	(343)
Effect of foreign currency exchange rate changes on cash	(21)	(19)
Net increase (decrease) in cash and equivalents	28	(66)
Cash and equivalents at beginning of period	196	313
Cash and equivalents at end of period	$ 224	$ 247

See accompanying notes.

WMG Acquisition Corp.

Consolidated Statement of Equity (Deficit) (Unaudited)

	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total WMG Acquisition Corp. Shareholder's Deficit	Noncontolling Interests	Total Equity (Deficit)
Balance at September 30, 2009	$ 132	$ (255)	$ 42	$ (81)	$ 59	$ (22)
Comprehensive loss:						
Net loss	—	(77)	—	(77)	(2)	(79)
Foreign currency translation adjustment	—	—	5	5	—	5
Minimum pension liability	—	—	—	—	—	—
Deferred gains on derivative financial instruments	—	—	—	—	—	—
Other	—	—	—	—	(3)	(3)
Total comprehensive loss				(72)	(5)	(77)
Stock based compensation	7	—	—	7	—	7
Exercises of stock options	—	—	—	—	—	—
Balance at June 30, 2010	$ 139	$ (332)	$ 47	$ (146)	$ 54	$ (92)

See accompanying notes.

WMG Acquisition Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

WMG Acquisition Corp. (the “Company”) is a direct, wholly owned subsidiary of WMG Holdings Corp. (“Holdings”), which in turn, is a direct, wholly owned subsidiary of Warner Music Group Corp. (“Parent”). Parent, Holdings and the Company were formed by a private equity consortium of Investors (“Investor Group”), on November 21, 2003 to facilitate the acquisition. The Company 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, the Company 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 Parent’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 Parent 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 is building 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 countries, 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. 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, HBO and Turner Music Publishing. In 2007, the Company entered the production music library business with the acquisition of Non-Stop Music and has more recently expanded its activities in this area through further acquisitions in both the U.S. and Europe. Production music is a complementary alternative to licensing standards and contemporary hits for television, film and advertising producers.

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 nine month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010.

The consolidated balance sheet at September 30, 2009 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, 2009 (File No. 333-121322).

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 June 30, 2010 and 2009 relate to the three- and nine-month periods ended June 25, 2010 and June 26, 2009, respectively. For convenience purposes, the Company continues to date its financial statements as of June 30.

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

New Accounting Pronouncements

In December 2007, the FASB revised the authoritative guidance for accounting and reporting for the noncontrolling interest in a subsidiary (previously referred to as minority interest) and for the deconsolidation of a subsidiary. The new guidance requires the recognition of a noncontrolling interest as a component of equity in the consolidated financial statements as opposed to as a liability or mezzanine equity. The new guidance also changes the computation of net income of a consolidated group such that earnings attributed to the noncontrolling interest will no longer be deducted in determining net income. Instead, it must be separately presented on the face of the consolidated income statement. The carrying amount of the noncontrolling interest is adjusted to reflect the change in ownership interest, and any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to the controlling interest (i.e., as additional paid in capital). Any transaction that results in the loss of control of a subsidiary is considered a remeasurement event with any retained interest remeasured at fair value. The gain or loss recognized in income includes both the realized gain or loss related to the portion of the ownership interest sold and the gain or loss on the remeasurement to fair value of the retained interest. FASB requires that the new guidance for noncontrolling interests and the new guidance on business combinations be adopted concurrently and thus, this guidance is also effective for fiscal years beginning after December 15, 2008. The Company adopted the provisions of this guidance effective October 1, 2009. This guidance changes the Company's accounting treatment of business combinations and dispositions with noncontrolling interests on a prospective basis, except for the presentation and disclosure requirements, which were applied on a retrospective basis. As of June 30, 2010 and September 30, 2009, noncontrolling interests of $54 million and $59 million have been classified as a component of equity in the consolidated balance sheet. Loss attributable to noncontrolling interests of $1 million is included in net loss for the three months ended June 30, 2009. Income attributable to noncontrolling interests of $2 million and $6 million are included in net loss for the nine months ended June 30, 2010 and June 30, 2009.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* ("FAS 167"), 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 does not believe that the adoption of this new standard will have a material impact on its financial statements.

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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 comprehensive loss, net of related taxes (in millions):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Net loss	$ (47)	$ (31)	$ (79)	$ (72)
Foreign currency translation adjustments (a)	(3)	(5)	5	7
Derivative financial instruments gains	(1)	7	—	11
Other	(1)	—	(3)	—
Comprehensive loss	$ (52)	$ (29)	$ (77)	$ (54)

(a) The foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in international subsidiaries.

4. Investments

The Company's investments consist of the following (in millions):

	June 30, 2010	September 30, 2009
Cost-method investments	$ 3	$ 13
Equity-method investments	6	5
	$ 9	$ 18

During the nine months ended June 30, 2010, the Company sold its equity interest in lala media, inc. and terminated a memorandum of terms related to the formation of an international joint venture. The Company received cash consideration of approximately $9 million, which resulted in an immaterial gain.

5. Inventories

Inventories consist of the following (in millions):

	June 30, 2010	September 30, 2009
Compact discs and other music-related products	$ 34	$ 44
Published sheet music and song books	2	2
	$ 36	$ 46

6. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the nine months ended June 30, 2010 (in millions):

	Recorded Music	Music Publishing	Total
Balance at September 30, 2009	**$ 436**	**$ 591**	**$1,027**
Acquisitions	—	1	1
Dispositions	—	—	—
Other (a)	(9)	(1)	(10)
Balance at June 30, 2010	**$ 427**	**$ 591**	**$1,018**

(a) Other represents foreign currency translation adjustments.

Other Intangible Assets

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

	September 30, 2009	Acquisitions	Other (a)	June 30, 2010
Intangible assets subject to amortization:				
Recorded music catalog	$ 1,379	—	(8)	$ 1,371
Music publishing copyrights	952	45	(45)	952
Artist contracts	80	—	(1)	79
Trademarks	31	—	—	31
Other intangible assets	8	—	—	8
	2,450	45	(54)	2,441
Accumulated amortization	(1,133)			(1,298)
Total net intangible assets subject to amortization	1,317			1,143
Intangible assets not subject to amortization:				
Trademarks and brands	100			100
Total net other intangible assets	$ 1,417			$ 1,243

(a) Other represents foreign currency translation adjustments.

7. 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 June 30, 2010, the Company had approximately $9 million of liabilities outstanding primarily related to long-term lease obligations for vacated facilities, which are expected to be settled by 2019 and $69 million of liabilities outstanding primarily related to revaluations of artist and other contracts.

8. Debt

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

	June 30, 2010	September 30, 2009
9.5% Senior Secured Notes due 2016 (a)	$ 1,064	$ 1,060
7.375% U.S. dollar-denominated Senior Subordinated Notes due 2014	465	465
8.125% Sterling-denominated Senior Subordinated Notes due 2014 (b)	149	161
Total debt	$1,678	$ 1,686

(a) 9.5% Senior Secured Notes due 2016; face amount of $1.1 billion less unamortized discount of $36 million at June 30, 2010 and $40 million at September 30, 2009.

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

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9. Stock-based Compensation

The following table represents the expense recorded by the Company with respect to its stock-based awards for the three and nine months ended June 30, 2010 and 2009 (in millions):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Recorded Music	$ 1	$ 2	$ 4	$ 5
Music Publishing	—	—	—	—
Corporate expenses	1	1	3	3
Total	$ 2	$ 3	$ 7	$ 8

During the nine months ended June 30, 2010, Parent awarded 35,309 shares of restricted stock and 185,000 stock options to its employees. During the nine months ended June 30, 2009, Parent awarded 554,700 shares of restricted stock and 2,120,000 stock options to its employees.

10. 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. 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. 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 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.

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.

11. 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 14.

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.

12. 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, 2009. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While intercompany 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
June 30, 2010				
Revenues	$ 519	$ 139	$ (6)	$ 652
OIBDA	65	18	(19)	64
Depreciation of property, plant and equipment	(5)	(1)	(4)	(10)
Amortization of intangible assets	(39)	(16)	—	(55)
Operating income (loss)	$ 21	$ 1	$ (23)	$ (1)
June 30, 2009				
Revenues	$ 632	$ 148	$ (7)	$ 773
OIBDA	85	28	(23)	90
Depreciation of property, plant and equipment	(6)	(1)	(3)	(10)
Amortization of intangible assets	(40)	(16)	1	(55)
Operating income (loss)	$ 39	$ 11	$ (25)	$ 25

Nine Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
June 30, 2010				
Revenues	$ 1,836	$ 414	$ (18)	$ 2,232
OIBDA	227	101	(65)	263
Depreciation of property, plant and equipment	(17)	(3)	(8)	(28)
Amortization of intangible assets	(115)	(50)	—	(165)
Operating income (loss)	$ 95	$ 48	$ (73)	$ 70
June 30, 2009				
Revenues	$ 1,928	$ 419	$ (16)	$ 2,331
OIBDA	237	105	(65)	277
Depreciation of property, plant and equipment	(16)	(3)	(8)	(27)
Amortization of intangible assets	(121)	(48)	—	(169)
Operating income (loss)	$ 100	$ 54	$ (73)	$ 81

13. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $157 million and $109 million during the nine months ended June 30, 2010 and 2009, respectively. The Company previously made quarterly interest payments under its senior secured credit facility which was retired in May 2009. The Company now pays interest only semi-annually in the first and third quarters of the fiscal year. The Company paid approximately $31 million and $46 million of income and withholding taxes in the nine months ended June 30, 2010 and 2009, respectively. The Company received $11 million and $9 million of income tax refunds in the nine months ended June 30, 2010 and 2009, respectively.

14. 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 June 30, 2010. Derivatives not designated as hedging instruments primarily represent the balances below and the gains and losses on these financial instruments are included as other expenses of $1 million and royalty expense of $2 million in the statement of operations. Derivatives designated as hedging instruments are not material to the Company's financial statements.

	Fair Value Measurements as of June 30, 2010			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ 7	$ —	$ 7
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (4)	$ —	$ (4)
Other Non-current Liabilities:				
Purchase Obligation (b)	$ —	$ —	$ (5)	$(5)

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

(b) The fair value of this purchase obligation is based on a discounted cash flow ("DCF") approach and it is adjusted to fair value on an annual basis. The assumptions used in preparing the DCF model were based on data available as of September 30, 2009 and includes estimates of timing of the payment obligation, amount of cash flows, and discount rate.

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 June 30, 2010, the fair value of the Company's fixed-rate debt exceeded the carrying value by approximately $99 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.

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Financial Statements

The Company 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.

The Company has issued $1.1 billion principal amount of 9.50% Senior Secured Notes due 2016, $465 million principal amount of 7.375% Senior Subordinated Notes due 2014 and £100 million sterling principal amount of 8.125% Senior Subordinated notes due 2014 (together, the “Notes”). The Notes are guaranteed by all of the Company’s domestic wholly owned subsidiaries. The Senior Secured Notes are guaranteed on a senior secured basis and the Senior Subordinated Notes are guaranteed on an unsecured senior subordinated basis. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the issuer of the Notes, (ii) the guarantor subsidiaries of the Company, (iii) the non–guarantor subsidiaries of the Company 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. There are no restrictions on the Company’s ability to obtain funds from any of its wholly owned subsidiaries through dividends, loans or advances.

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Balance Sheet (Unaudited)
June 30, 2010

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Assets:					
Current assets:					
Cash and equivalents	$ —	$ 91	$ 133	$ —	$ 224
Accounts receivable, net	—	165	198	—	363
Due (to) from parent companies	(1,164)	1,079	86	(1)	—
Inventories	—	14	22	—	36
Royalty advances expected to be recouped within one year	—	91	63	—	154
Deferred tax asset	—	—	29	—	29
Other current assets	2	15	39	—	56
Total current assets	(1,162)	1,455	570	(1)	862
Royalty advances expected to be recouped after one year	—	111	78	—	189
Investments in and advances to (from) consolidated subsidiaries	2,830	742	—	(3,572)	—
Investments	—	5	4	—	9
Property, plant, and equipment, net	—	68	32	—	100
Goodwill	—	352	666	—	1,018
Intangible assets subject to amortization, net	—	646	497	—	1,143
Intangible assets not subject to amortization	—	90	10	—	100
Other assets	34	15	11	—	60
Total assets	$ 1,702	$ 3,484	$ 1,868	$ (3,573)	$ 3,481
Liabilities and Equity (Deficit)					
Current liabilities:					
Accounts payable	$ —	$ 81	$ 72	$ —	$ 153
Accrued royalties	—	647	437	—	1,084
Accrued liabilities	4	91	133	—	228
Accrued interest	14	—	—	—	14
Deferred revenue	—	29	74	—	103
Other current liabilities	—	10	(7)	(2)	1
Total current liabilities	18	858	709	(2)	1,583
Long-term debt	1,678	—	—	—	1,678
Deferred tax liabilities, net	—	51	107	—	158
Other non-current liabilities	6	99	45	4	154
Total liabilities	1,702	1,008	861	2	3,573
Total WMG Acquisition Corp. shareholder's equity (deficit)	—	2,476	953	(3,575)	(146)
Noncontrolling interest	—	—	54	—	54
Total equity (deficit)	—	2,476	1,007	(3,575)	(92)
Total liabilities and deficit	$ 1,702	$ 3,484	$ 1,868	$ (3,573)	$ 3,481

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Balance Sheet (Unaudited)
September 30, 2009

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Assets:					
Current assets:					
Cash and equivalents	$ —	$ 59	$ 137	$ —	$ 196
Accounts receivable, net	—	241	309	—	550
Due (to) from parent companies	(761)	819	(56)	(2)	—
Inventories	—	16	30	—	46
Royalty advances expected to be recouped within one year	—	101	70	—	171
Deferred tax assets	—	—	29	—	29
Other current assets	—	12	36	—	48
Total current assets	(761)	1,248	555	(2)	1,040
Royalty advances expected to be recouped after one year	—	124	85	—	209
Investments in and advances to (from) consolidated subsidiaries	2,527	861	—	(3,388)	—
Investments	—	15	3	—	18
Property, plant and equipment, net	—	68	32	—	100
Goodwill	—	351	676	—	1,027
Intangible assets subject to amortization, net	—	723	594	—	1,317
Intangible assets not subject to amortization	—	90	10	—	100
Other assets	35	17	12	—	64
Total assets	$ 1,801	$ 3,497	$ 1,967	$ (3,390)	$ 3,875
Liabilities and Equity (Deficit)					
Current liabilities:					
Accounts payable	$ —	$ 119	$ 93	$ —	$ 212
Accrued royalties	—	716	469	—	1,185
Accrued liabilities	11	124	147	—	282
Accrued interest	57	—	—	—	57
Deferred revenue	—	21	99	—	120
Other current liabilities	—	—	14		14
Total current liabilities	68	980	822	—	1,870
Long-term debt	1,686	—	—	—	1,686
Deferred tax liabilities, net	—	51	113	—	164
Other noncurrent liabilities	—	116	55	6	177
Total liabilities	1,754	1,147	990	6	3,897
Total WMG Acquisition Corp. shareholder's equity (deficit)	47	2,350	918	(3,396)	(81)
Noncontrolling interest	—	—	59	—	59
Total equity (deficit)	47	2,350	977	(3,396)	(22)
Total liabilities and equity (deficit)	$ 1,801	$ 3,497	$ 1,967	$ (3,390)	$ 3,875

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Statements of Operations (Unaudited)
For The Three Months Ended June 30, 2010 and 2009

	Three months ended June 30, 2010				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenue	$ —	$ 298	$ 383	$ (29)	$ 652
Costs and expenses:					
Cost of revenues	—	(146)	(232)	26	(352)
Selling, general and administrative expenses	—	(126)	(110)	(10)	(246)
Amortization of intangible assets	—	(32)	(23)	—	(55)
Total costs and expenses	—	(304)	(365)	16	(653)
Operating (loss) income	—	(6)	18	(13)	(1)
Interest expense, net	(41)	3	(1)	—	(39)
Equity gains (losses) from consolidated subsidiaries	13	4	—	(17)	—
Other income (expense), net	2	(14)	14	—	2
(Loss) income before income taxes	(26)	(13)	31	(30)	(38)
Income tax expense	(9)	(6)	(5)	11	(9)
Net (loss) income	(35)	(19)	26	(19)	(47)
Less: loss attributable to noncontrolling interest	—	—	—	—	—
Net (loss) income attributable to WMG Acquisition Corp.	$ (35)	$ (19)	$ 26	$ (19)	$ (47)

	Three months ended June 30, 2009				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenue	$ —	$ 386	$ 475	$ (88)	$ 773
Costs and expenses:					
Cost of revenues	—	(160)	(364)	89	(435)
Selling, general and administrative expenses	—	(175)	(84)	1	(258)
Amortization of intangible assets	—	(34)	(21)	—	(55)
Total costs and expenses	—	(369)	(469)	90	(748)
Operating income	—	17	6	2	25
Interest expense, net	(49)	(5)	(2)	—	(56)
Equity gains (losses) from consolidated subsidiaries	18	9	—	(27)	—
Other income (expense), net	1	—	3	—	4
(Loss) income before income taxes	(30)	21	7	(25)	(27)
Income tax expense	(4)	(3)	—	3	(4)
Net (loss) income	(34)	18	7	(22)	(31)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)
Net (loss) income attributable to WMG Acquisition Corp.	$ (34)	$ 18	$ 6	$ (22)	$ (32)

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Statements of Operations (Unaudited)
For The Nine Months Ended June 30, 2010 and 2009

	Nine months ended June 30, 2010				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenue	$ —	$ 991	$ 1,383	$ (142)	$ 2,232
Costs and expenses:					
Cost of revenues	—	(496)	(820)	130	(1,186)
Selling, general and administrative expenses	—	(331)	(473)	(7)	(811)
Amortization of intangible assets	—	(97)	(68)	—	(165)
Total costs and expenses	—	(924)	(1,361)	123	(2,162)
Operating income (loss)	—	67	22	(19)	70
Interest expense, net	(115)	(5)	(4)	—	(124)
Equity gains (losses) from consolidated subsidiaries	75	(2)		(73)	—
Other income (expense), net	3	(16)	12	—	(1)
(Loss) income before income taxes	(37)	44	30	(92)	(55)
Income tax expense	(24)	(22)	(12)	34	(24)
Net (loss) income	(61)	22	18	(58)	(79)
Less: loss attributable to noncontrolling interest	—	—	2	—	2
Net (loss) attributable to WMG Acquisition Corp.	$ (61)	$ 22	$ 20	$ (58)	$ (77)

	Nine months ended June 30, 2009				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenue	$ —	$ 1,056	$ 1,429	$ (154)	$ 2,331
Costs and expenses:					
Cost of revenues	—	(551)	(872)	154	(1,269)
Selling, general and administrative expenses	—	(392)	(421)	1	(812)
Amortization of intangible assets	—	(103)	(66)	—	(169)
Total costs and expenses	—	(1,046)	(1,359)	155	(2,250)
Operating income	—	10	70	1	81
Interest expense, net	(112)	(15)	(3)	—	(130)
Equity gains (losses) from consolidated subsidiaries	77	123	—	(200)	—
Gain on sale of equity investment	—	(3)	39		36
Gain on foreign exchange transaction	—	9	—	—	9
Impairment of cost-method investment	—	(29)	—	—	(29)
Impairment of equity-method investment	—	(10)	—	—	(10)
Other (expense) income, net	—	(1)	2	—	1
(Loss) income before income taxes	(35)	84	108	(199)	(42)
Income tax expense	(30)	(32)	(13)	45	(30)
Net (loss) income	(65)	52	95	(154)	(72)
Less: (income) loss attributable to noncontrolling interest	—	(1)	7	—	6
Net (loss) income attributable to WMG Acquisition Corp.	$ (65)	$ 51	$ 102	$ (154)	$ (66)

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Statement of Cash Flows (Unaudited)
For The Nine Months Ended June 30, 2010

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Cash flows from operating activities:					
Net (loss) income	$ (61)	$ 22	$ 18	$ (58)	$ (79)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation and amortization	—	119	74	—	193
Deferred taxes	—	—	(9)	—	(9)
Impairment of cost-method investment		1			1
Non-cash interest expense	8	4	—	—	12
Non-cash, stock-based compensation expense	—	7	—	—	7
Equity (gains) losses from consolidated subsidiaries	(75)	2	—	73	—
Other non-cash adjustments		(5)			(5)
Changes in operating assets and liabilities:					
Accounts receivable	—	76	97	—	173
Inventories	—	2	5	—	7
Royalty advances	—	10	(8)	—	2
Accounts payable and accrued liabilities	173	(172)	(121)	(15)	(135)
Accrued interest	(43)	—	—	—	(43)
Other balance sheet changes	(2)	(4)	(6)	—	(12)
Net cash provided by operating activities	—	62	50	—	112
Cash flows from investing activities:					
Investments and acquisitions of businesses	—	—	(1)	—	(1)
Acquisition of publishing rights	—	(17)	(22)	—	(39)
Proceeds from sale of investments	—	9	—		9
Capital expenditures	—	(22)	(8)	—	(30)
Net cash used in investing activities	—	(30)	(31)	—	(61)
Cash flows from financing activities:					
Debt repayments	—	—	—	—	—
Distribution to noncontrolling interest holder	—	—	(2)	—	(2)
Net cash used in financing activities	—	—	(2)	—	(2)
Effect of foreign currency exchange rate changes on cash	—	—	(21)	—	(21)
Net increase (decrease) in cash and equivalents	—	32	(4)	—	28
Cash and equivalents at beginning of period	—	59	137	—	196
Cash and equivalents at end of period	$ —	$ 91	$ 133	$ —	$ 224

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WMG ACQUISITION CORP.

Supplementary Information
Consolidating Statement of Cash Flows (Unaudited)
For The Nine Months Ended June 30, 2009

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Cash flows from operating activities:					
Net (loss) income	$ (65)	$ 52	$ 95	$ (154)	$ (72)
Adjustments to reconcile net loss to net cash provided by operating activities					
Depreciation and amortization	—	123	73	—	196
Deferred taxes	—	—	—	—	—
Gain on sale of equity investment	—	3	(39)	—	(36)
Gain on foreign exchange transaction	—	(9)	—	—	(9)
Gain on sale of building	—	—	(3)	—	(3)
Impairment of equity investment	—	10	—	—	10
Impairment of cost-method investments	—	29	—	—	29
Non-cash interest expense	27	7	—	—	34
Non-cash, stock-based compensation expense	—	8	—	—	8
Equity (gains) losses from consolidated subsidiaries	(34)	(120)	—	154	—
Changes in operating assets and liabilities:	—	—	—	—	—
Accounts receivable	—	99	30	—	129
Inventories	—	3	2	—	5
Royalty advances	—	(8)	(8)	—	(16)
Accounts payable and accrued liabilities	435	(222)	(255)	—	(42)
Accrued interest	(13)	—	—	—	(13)
Other balance sheet changes	(7)	(4)	(11)	—	(22)
Net cash provided by (used in) operating activities	343	(29)	(116)	—	198
Cash flows from investing activities					
Repayments of loans to third parties	—	3	—	—	3
Investments and acquisitions of businesses	—	(8)	(6)	—	(14)
Acquisitions of publishing rights	—	(4)	(4)	—	(8)
Proceeds from sale of investments	—	3	121	—	124
Proceeds from sale of building	—	—	8	—	8
Capital expenditures	—	(9)	(6)	—	(15)
Net cash (used in) provided by investing activities	—	(15)	113	—	98
Cash flows from financing activities					
Debt repayments	(1,379)	—	—	—	(1,379)
Proceeds from issuance of Senior Discount Notes	1,059	—	—	—	1,059
Deferred financing costs paid	(23)	—	—	—	(23)
Net cash from financing activities	(343)	—	—	—	(343)
Effect of foreign currency exchange rate changes on cash	—	—	(19)	—	(19)
Net decrease in cash and equivalents	—	(44)	(22)	—	(66)
Cash and equivalents at beginning of period	—	171	142	—	313
Cash and equivalents at end of period	$ —	$ 127	$ 120	$ —	$ 247

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/A for the fiscal quarter ended June 30, 2010 (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 WMG Acquisition Corp. is routinely posted on and accessible at *http://investors.wmg.com*. In addition, you may automatically receive email alerts and other information about WMG Acquisition Corp. 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 terminology. 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, 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, Parent's intention to pay dividends or repurchase our or Holdings' outstanding notes or Parent's 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;
- current uncertainty in global economic conditions could adversely affect our prospects and our results of operations;
- 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;

- 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;
- 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
- the effects associated with the formation of Live Nation Entertainment.

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

WMG Acquisition Corp. (the “Company”) 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, the Company acquired such interests from Time Warner for approximately $2.6 billion (the “Acquisition”). The Company is a direct, wholly owned subsidiary of WMG Holdings Corp. (“Holdings”), which in turn, is a direct, wholly owned subsidiary of Warner Music Group Corp. (“Parent”). Parent, Holdings and the Company were formed by a private equity consortium of Investors (the “Investor Group”) on November 21, 2003 to facilitate the Acquisition.

The terms "we," "us," "our," "ours," and the "Company" refer collectively to WMG Acquisition 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 nine months ended June 30, 2010 and 2009. 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 nine months ended June 30, 2010 and 2009, as well as a discussion of our financial condition and liquidity as of June 30, 2010. 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) 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) 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 is 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 are building artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands we help create. In developing our artist services business, we have both built and expanded in-house capabilities and expertise and have acquired a number of existing artist services companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, concert promotion, fan club, original programming and video entertainment. We believe that entering into expanded-rights deals and enhancing our artist services capabilities 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 countries, 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 in the relatively early stages of growth, proportions may change as the roll out of new technologies continues. As an owner of musical content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

Recorded Music revenues are derived from three main sources:

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

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

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

Music Publishing Operations

Where recorded music is focused on exploiting a particular recording of a song, music publishing is an intellectual property business focused on the exploitation of the song itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other 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. 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, HBO and Turner Music Publishing. In 2007, we entered the production music library business with the acquisition of Non-Stop Music and have more recently expanded our activities in this area through further acquisitions in both the U.S. and Europe. Production music is a complementary alternative to licensing standards and contemporary hits for television, film and advertising producers.

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.

Current Economic Conditions

Ongoing uncertainty in global economic conditions poses a risk to the overall economy, which could continue to negatively affect demand for our products and other related matters. While the music industry has been relatively resilient in prior financial downturns as its products are low priced relative to other entertainment goods, we have been negatively impacted by current global economic conditions, which have resulted in significant recessionary pressures and lower consumer confidence and lower retail sales in general. The current uncertainty in global economic conditions makes it particularly difficult to predict product demand and other related matters and makes it more likely that our actual results could differ materially from our expectations. Even in the midst of the global economic slowdown, we remain committed to executing on our strategic initiatives and plan to continue our transformation to adapt to the changing music industry in order to maximize cash flow and profitability. We expect to adapt to the impact of the economic slowdown with a particular focus on cash and liquidity. We will monitor current events closely and take advantage of our flexible cost structure to minimize any impact.

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 2009, 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 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.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

Consolidated Historical Results

Revenues

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

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Revenue by Type				
Physical and other	$ 297	$ 419	$ (122)	-29%
Digital	169	163	6	4%
Licensing	53	50	3	6%
Total Recorded Music	**519**	**632**	**(113)**	**-18%**
Mechanical	50	43	7	16%
Performance	50	58	(8)	-14%
Synchronization	24	29	(5)	-17%
Digital	13	16	(3)	-19%
Other	2	2	—	—
Total Music Publishing	**139**	**148**	**(9)**	**-6%**
Intersegment elimination	(6)	(7)	1	-14%
Total Revenue	**$ 652**	**$ 773**	**$ (121)**	**-16%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 247	$ 284	$ (37)	-13%
U.S. Publishing	54	54	—	—
Total U.S.	**301**	**338**	**(37)**	**-11%**
International Recorded Music	272	348	(76)	-22%
International Publishing	85	94	(9)	-10%
Total International	**357**	**442**	**(85)**	**-19%**
Intersegment eliminations	(6)	(7)	1	-14%
Total Revenue	**$ 652**	**$ 773**	**$ (121)**	**-16%**

Total Revenue

Total revenues decreased by $121 million, or 16%, to $652 million for the three months ended June 30, 2010 from $773 million for the three months ended June 30, 2009. Excluding the unfavorable impact of foreign currency exchange rates, total revenues decreased $118 million, or 15%, period-to-period. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 79% and 21% of total revenues for the three months ended June 30, 2010, respectively, compared to 81% and 19% for the three months ended June 30, 2009, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 46% and 54% of total revenues for the three months ended June 30, 2010, respectively, compared to 43% and 57% for the three months ended June 30, 2009, respectively.

Total digital revenues after intersegment eliminations increased by $4 million, or 2%, to $179 million for the three months ended June 30, 2010 from $175 million for the three months ended June 30, 2009. Total digital revenues represented 27% and 23% of consolidated revenues for the three months ended June 30, 2010 and 2009, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended June 30, 2010 were comprised of U.S. revenues of $111 million, or 61% of total digital revenues, and international revenues of $71 million, or 39% of total digital revenues. Prior to intersegment eliminations, total digital revenues for the three months ended June 30, 2009 were comprised of U.S. revenues of $116 million, or 65% of total digital revenues, and international revenues of $63 million, or 35% of total digital revenues. Excluding the favorable impact of foreign currency exchange rates, total digital revenues increased by $2 million, or 1%, for the three months ended June 30, 2010.

Recorded Music revenues decreased by $113 million, or 18%, to $519 million for the three months ended June 30, 2010 from $632 million for the three months ended June 30, 2009 on an as-reported and constant-currency basis. This performance reflected a light release schedule, lower revenue from tours promoted by our European concert promotions business due to a stronger touring schedule in the prior-year quarter and the ongoing impact from transitioning to digital from physical sales. The increases in digital revenue have not yet fully offset the decline in physical revenue. We believe this is attributable to the ability of

consumers in the digital space to purchase individual tracks from an album rather than purchase the entire album and the ongoing issue of piracy. Digital revenues increased by $6 million, or 4%, for the three months ended June 30, 2010, largely due to continued global download growth partially offset by the timing of our release schedule and declines in mobile revenues primarily related to lower ringtone demand in the U.S. Digital growth, especially in the U.S., is increasingly related to our overall release schedule and the timing and success of new products and service introductions. Licensing revenues increased $3 million, or 6%, to $53 million for the three months ended June 30, 2010.

Music Publishing revenues decreased by $9 million, or 6%, to $139 million for the three months ended June 30, 2010 from $148 million for the three months ended June 30, 2009. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $6 million, or 4%, for the three months ended June 30, 2010. An increase in mechanical revenue was more than offset by decreases in performance, digital and synchronization revenues. The increase in mechanical revenue was due to higher physical recorded music royalties primarily related to Michael Jackson, Susan Boyle and Michael Bublé as well as a shift to accrual-based accounting for a U.S.-based collection society. The decrease in performance revenues was driven by smaller contributions from the radio industry due to reductions in advertising spending. Digital revenue performance was impacted by the timing of cash collections. Synchronization revenue decreases were driven by the impact of the previously mentioned economic pressures on the film, TV production and advertising markets, which have resulted in decreased spending on song licensing, primarily in the U.S.

Revenue by Geographical Location

U.S. revenues decreased by $37 million, or 11%, to $301 million for the three months ended June 30, 2010 from $338 million for the three months ended June 30, 2009. The overall decline in the U.S. Recorded Music business reflected a light release schedule, the on-going impact from transitioning to digital from physical sales in the recorded music industry and declines in mobile revenues primarily related to lower ringtone demand.

International revenues decreased by $85 million, or 19%, to $357 million for the three months ended June 30, 2010 from $442 million for the three months ended June 30, 2009 on an as-reported and constant-currency basis. An increase in digital revenue, primarily as a result of continued global download growth, was more than offset by contracting demand for physical product and a lower revenue from tours promoted by our European concert promotions business in the prior-year quarter. The contracting demand for physical product reflected a light release schedule as well as the on-going impact from transitioning to digital from physical sales in the recorded music industry.

Cost of revenues

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

	For the Three Months Ended June 30,		*2010 vs 2009*	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 228	$ 266	$ (38)	-14%
Product costs	105	152	(47)	-31%
Licensing costs	19	17	2	12%
Total cost of revenues	**$ 352**	**$ 435**	**$ (83)**	**-19%**

Our cost of revenues decreased by $83 million, or 19%, to $352 million for the three months ended June 30, 2010 from $435 million for the three months ended June 30, 2009. Expressed as a percentage of revenues, cost of revenues were 54% and 56% for the three months ended June 30, 2010 and 2009, respectively.

Artist and repertoire costs increased as a percentage of revenues from 34% for the three months ended June 30, 2009 to 35% in the three months ended June 30, 2010 as a result of the timing of our artist and repertoire spending. The decrease in artist and repertoire costs was driven by decreased revenues for the current-year quarter as well as a benefit from increased recoupment on artists whose advances were previously written off.

Product costs decreased as a percentage of revenues from 20% for the three months ended June 30, 2009 to 16% in the three months ended June 30, 2010 primarily the result of a stronger touring schedule for our European concert promotions business in the prior-year quarter and the change in mix from the sale of physical products to new forms of digital music.

Licensing costs increased $2 million, or 12%, to $19 million for the three months ended June 30, 2010 from $17 million for the three months ended June 30, 2009. Licensing costs as a percentage of licensing revenues increased from 34% for the three months ended June 30, 2009 to 36% for the three months ended June 30, 2010, 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 June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 130	$ 128	$ 2	2%
Selling and marketing expense	99	114	(15)	-13%
Distribution expense	17	16	1	6%
Total selling, general and administrative expense	**$ 246**	**$ 258**	**$ (12)**	**-5%**

(1) Includes depreciation expense of $10 million for the three months ended June 30, 2010 and 2009.

Total selling, general and administrative expense decreased by $12 million, or 5%, to $246 million for the three months ended June 30, 2010 from $258 million for the three months ended June 30, 2009. Expressed as a percentage of revenues, selling, general and administrative expenses increased from 33% for the three months ended June 30, 2009 to 38% for the three months ended June 30, 2010.

General and administrative expenses increased by $2 million, or 2%, to $130 million for the three months ended June 30, 2010 from $128 million for the three months ended June 30, 2009. Expressed as a percentage of revenues, general and administrative expenses increased from 17% for the three months ended June 30, 2009 to 20% for the three months ended June 30, 2010, driven by severance charges of $9 million taken during the current-year quarter primarily related to our international Recorded Music operations, as compared with $3 million taken during the prior-year quarter, and lower variable compensation expense in the prior-year quarter, partially offset by realization of cost savings from management initiatives taken in prior periods.

Selling and marketing expense decreased by $15 million, or 13%, to $99 million for the three months ended June 30, 2010 from $114 million for the three months ended June 30, 2009, primarily as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense remained flat at 15% for the three months ended June 30, 2010 and 2009.

Distribution expense increased by $1 million, or 6% to $17 million for the three months ended June 30, 2010 from $16 million for the three months ended June 30, 2009. Expressed as a percentage of revenues, distribution expense increased from 2% for the three months ended June 30, 2009 to 3% for the three months ended June 30, 2010.

Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Loss Attributable to WMG Acquisition 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 WMG Acquisition Corp. for purposes of the discussion that follows (in millions):

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 64	$ 90	$ (26)	-29%
Depreciation expense	(10)	(10)	—	—
Amortization expense	(55)	(55)	—	—
Operating (loss) income	**(1)**	**25**	**(26)**	**—**
Interest expense, net	(39)	(56)	17	-30%
Other income, net	2	4	(2)	-50%
Loss before income taxes	**(38)**	**(27)**	**(11)**	**41%**
Income tax expense	(9)	(4)	(5)	—
Net loss	**(47)**	**(31)**	**(16)**	**52%**
Less: income attributable to noncontrolling interest	—	(1)	1	-100%
Net loss attributable to WMG Acquisition Corp.	**$ (47)**	**$ (32)**	**$ (15)**	**47%**

OIBDA

Our OIBDA decreased by $26 million to $64 million for the three months ended June 30, 2010 as compared to $90 million for the three months ended June 30, 2009. Expressed as a percentage of revenues, total OIBDA margin decreased from 12%, for the three months ended June 30, 2009, to 10%, for the three months ended June 30, 2010. Our OIBDA decrease was primarily driven by decreased revenues, severance charges primarily related to our international Recorded Music operations and lower variable compensation expense in the prior-year quarter, partially offset by the realization of cost savings from management initiatives taken in prior periods and the decrease in artist and repertoire costs noted above.

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

Depreciation expense

Our depreciation expense remained flat at $10 million for the three months ended June 30, 2010 and 2009.

Amortization expense

Amortization expense remained flat at $55 million for the three months ended June 30, 2010 and 2009.

Operating (loss) income

Our operating income decreased $26 million, to an operating loss of $1 million, for the three months ended June 30, 2010 as compared to operating income of $25 million for the prior period. The decrease in operating income was primarily a result of the decrease in OIBDA noted above.

Interest expense, net

Our interest expense, net, decreased $17 million, or 30%, to $39 million for the three months ended June 30, 2010 as compared to $56 million for the three months ended June 30, 2009. The decrease was primarily driven by unamortized deferred financing fees of $18 million, which were written off during the prior-year quarter in connection with the repayment of our senior secured credit facility. The decrease was partially offset by the change in interest terms related to our refinancing in May 2009.

See "—Financial Condition and Liquidity" for more information.

Other income, net

Other income for the three months ended June 30, 2009 included gain on the sale of a building.

Income tax expense

We provided income tax expense of $9 million for the three months ended June 30, 2010 as compared to $4 million for the three months ended June 30, 2009. The increase in income tax expense primarily related to the increase in foreign earnings subject to tax in certain jurisdictions and the recording of $3 million of accruals relating to uncertain tax positions in various jurisdictions.

We are currently under examination by the Internal Revenue Service for the fiscal years ended September 30, 2007 through September 30, 2008. We expect that $5 million of the $10 million total accrual for uncertain tax positions as of June 30, 2010, will be paid during the next twelve months.

Net loss

Our net loss increased by $16 million, to a net loss of $47 million for the three months ended June 30, 2010 as compared to net loss of $31 million for the three months ended June 30, 2009. The increase was a result of decreased OIBDA, a gain on the sale of a building during the prior-year quarter and the increase in income tax expense noted above, which was partially offset by the decrease in interest expense.

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Business Segment Results

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

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Recorded Music				
Revenue	$ 519	$ 632	$ (113)	-18%
OIBDA	65	85	(20)	-24%
Operating income	$ 21	$ 39	(18)	-46%
Music Publishing				
Revenue	$ 139	$ 148	$ (9)	-6%
OIBDA	18	28	(10)	-36%
Operating income	$ 1	$ 11	$ (10)	-91%
Corporate expenses and eliminations				
Revenue	$ (6)	$ (7)	$ 1	14%
OIBDA	(19)	(23)	4	17%
Operating loss	$ (23)	$ (25)	$ 2	-8%
Total				
Revenue	$ 652	$ 773	$ (121)	-16%
OIBDA	64	90	(26)	-29%
Operating (loss) income	$ (1)	$ 25	$ (26)	—

Recorded Music

Revenues

Recorded Music revenues decreased by $113 million, or 18%, to $519 million for the three months ended June 30, 2010 from $632 million for the three months ended June 30, 2009 on both an as-reported and constant-currency basis. Prior to intersegment eliminations, Recorded Music revenues represented 79% and 81% of total revenues for the three months ended June 30, 2010 and 2009, respectively. U.S. Recorded Music revenues were $247 million and $284 million, or 48% and 45% of Recorded Music revenues for the three months ended June 30, 2010 and 2009, respectively. International Recorded Music revenues were $272 million and $348 million, or 52% and 55% of consolidated Recorded Music revenues for the three months ended June 30, 2010 and 2009, respectively. This performance reflected a light release schedule, lower revenue from tours promoted by our European concert promotions business due to a stronger touring schedule in the prior-year quarter and the on-going impact from transitioning to digital from physical to digital sales. The increases in digital revenue have not yet fully offset the decline in physical revenue. We believe this is attributable to the ability of consumers in the digital space to purchase individual tracks from an album rather than purchase the entire album and the ongoing issue of piracy. Digital revenues increased by $6 million, or 4%, for the three months ended June 30, 2010, largely due to continued global download growth partially offset by the timing of our release schedule and declines in mobile revenues primarily related to lower ringtone demand. Licensing revenues increased $3 million, or 6%, to $53 million for the three months ended June 30, 2010.

Cost of revenues

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

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 129	$ 167	$ (38)	-23%
Product costs	105	152	(47)	-31%
Licensing costs	19	17	2	12%
Total cost of revenues	**$ 253**	**$ 336**	**$ (83)**	**-25%**

Recorded Music cost of revenues decreased $83 million, or 25%, for the three months ended June 30, 2010. The decrease was comprised of decreases in product costs of $47 million and artist and repertoire costs of $38 million partially offset by an increase of $2 million in licensing costs. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased from 53% for the three months ended June 30, 2009 to 49% for the three months ended June 30, 2010. The decrease in product costs was primarily the result of a stronger touring schedule for our European concert promotions business in the prior-year quarter and the change in mix from the sale of physical products to new forms of digital music. The decrease in artist and repertoire costs was driven by the timing of artist and repertoire spending and a benefit from increased recoupment on artists whose advances were previously written off. The increase in licensing costs 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 Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 92	$ 89	$ 3	3%
Selling and marketing expense	97	112	(15)	-13%
Distribution expense	17	16	1	6%
Total selling, general and administrative expense	**$ 206**	**$ 217**	**$ (11)**	**-5%**

(1) Includes depreciation expense of $5 million and $6 million for the three months ended June 30, 2010 and 2009, respectively.

Recorded Music selling, general and administrative expense decreased $11 million, for the three months ended June 30, 2010. 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. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense increased from 34% for the three months ended June 30, 2009 to 40% for the three months ended June 30, 2010, driven by severance charges of $7 million taken during the current-year quarter primarily related to our international Recorded Music operations, as compared with $2 million taken during the prior-year quarter, and lower variable compensation expense in the prior-year quarter, partially offset by realization of cost savings from management initiatives taken in prior periods.

OIBDA and Operating Income

Recorded Music OIBDA was $65 million for the three months ended June 30, 2010 as compared to $85 million for the three months ended June 30, 2009. Recorded Music operating income included the following (in millions):

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 65	$ 85	$ (20)	-24%
Depreciation and amortization	(44)	(46)	2	-4%
Operating income	**$ 21**	**$ 39**	**$ (18)**	**-46%**

Recorded Music OIBDA decreased by $20 million, or 24%, to $65 million for the three months ended June 30, 2010 compared to $85 million for the three months ended June 30, 2009. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin remained flat at 13% for the three months ended June 30, 2010 and 2009. Our OIBDA decrease was primarily driven by decreased revenues, severance charges primarily related to our international Recorded Music operations and lower variable compensation expense in the prior-year quarter, partially offset by the realization of cost savings from management initiatives taken in prior periods and the decrease in artist and repertoire costs noted above.

Recorded Music operating income decreased by $18 million, due primarily to the decrease in OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues decreased by $9 million, or 6%, to $139 million for the three months ended June 30, 2010 compared to $148 million for the three months ended June 30, 2009. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $6 million, or 4% for the three months ended June 30, 2010. Music Publishing revenues represented 21% and 19% of consolidated revenue, for the three months ended June 30, 2010 and 2009, respectively. An increase in mechanical revenue was more than offset by decreases in performance, digital and synchronization revenues. The increase in mechanical revenue was due to a higher physical recorded music royalties primarily related to Michael Jackson, Susan Boyle and Michael Bublé as well as a $7 million benefit from the shift to accrual-based accounting for a U.S.-based collection society. The decrease in performance revenues was driven by smaller contributions from the radio industry due to reductions in advertising spending. Digital revenue performance was impacted by the timing of cash collections. Synchronization revenue decreases were driven by the impact of the previously mentioned economic pressures on the film, TV production and advertising markets, which have resulted in decreased spending on song licensing, primarily in the U.S.

Cost of revenues

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

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 104	$ 107	$ (3)	-3%
Total cost of revenues	**$ 104**	**$ 107**	**$ (3)**	**-3%**

Music Publishing cost of revenues decreased $3 million to $104 million for the three months ended June 30, 2010, from $107 million for the three months ended June 30, 2009. The decrease was driven primarily by our continued focus on directing current and future spending to publishing deals that maximize profitability. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues increased to 75% for the three months ended June 30, 2010 from 72% for the three months ended June 30, 2009, primarily as a result of changes in revenue mix as mechanical revenue tends to have a lower margin than synchronization, performance and digital revenue.

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 June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 18	$ 14	$ 4	29%
Total selling, general and administrative expense	**$ 18**	**$ 14**	**$ 4**	**29%**

(1) Includes depreciation expense of $1 million for the three months ended June 30, 2010 and 2009.

Music Publishing selling, general and administrative expense increased to $18 million for the three months ended June 30, 2010 as compared with $14 million for the three months ended June 30, 2009, primarily as a result of increased professional fees. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 13% for the three months ended June 30, 2010 from 9% for the three months ended June 30, 2009.

OIBDA and Operating Income

Music Publishing operating income decreased to $1 million for the three months ended June 30, 2010 as compared to $11 million for the three months ended June 30, 2009. Music Publishing operating income includes the following (in millions):

	For the Three Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 18	$ 28	$ (10)	-36%
Depreciation and amortization	(17)	(17)	—	—
Operating income	**$ 1**	**$ 11**	**$ (10)**	**-91%**

Music Publishing OIBDA decreased $10 million to $18 million for the three months ended June 30, 2010 from $28 million for the three months ended June 30, 2009. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA was 13% and 19% for the three months ended June 30, 2010 and 2009, respectively. The decrease in OIBDA was due primarily to lower revenues, changes in revenue mix as mechanical revenue tends to have a lower margin that other Music Publishing revenue and the increase in professional fees noted above.

Music Publishing operating income decreased by $10 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 June 30, 2009 to $19 million for the three months ended June 30, 2010, 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 $25 million for the three months ended June 30, 2009 to $23 million for the three months ended June 30, 2010.

Nine Months Ended June 30, 2010 Compared with Nine Months Ended June 30, 2009

Consolidated Historical Results

Revenues

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

	For the Nine Months Ended June 30,		*2010 vs 2009*	
	2010	2009	$ Change	% Change
Revenue by Type				
Physical and other	$ 1,138	$ 1,275	$ (137)	-11%
Digital	530	485	45	9%
Licensing	168	168	—	—
Total Recorded Music	**1,836**	**1,928**	**(92)**	**-5%**
Mechanical	137	130	7	5%
Performance	155	166	(11)	-7%
Synchronization	73	76	(3)	-4%
Digital	41	38	3	8%
Other	8	9	(1)	-11%
Total Music Publishing	**414**	**419**	**(5)**	**-1%**
Intersegment elimination	(18)	(16)	(2)	13%
Total Revenue	**$ 2,232**	**$ 2,331**	**$ (99)**	**-4%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 782	$ 867	$ (85)	-10%
U.S. Publishing	153	159	(6)	-4%
Total U.S.	**935**	**1,026**	**(91)**	**-9%**
International Recorded Music	1,054	1,061	(7)	-1%
International Publishing	261	260	1	—
Total International	**1,315**	**1,321**	**(6)**	**—**
Intersegment eliminations	(18)	(16)	(2)	13%
Total Revenue	**$ 2,232**	**$ 2,331**	**$ (99)**	**-4%**

Total Revenue

Total revenues decreased by $99 million, or 4%, to $2.232 billion for the nine months ended June 30, 2010 from $2.331 billion for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total revenues decreased $179 million, or 7%, period-to-period. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 82% and 18% of total revenues for the nine months ended June 30, 2010 and 2009, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 42% and 58% of total revenues for the nine months ended June 30, 2010, respectively, compared to 44% and 56% for the nine months ended June 30, 2009, respectively.

Total digital revenues after intersegment eliminations increased by $43 million, or 8%, to $562 million for the nine months ended June 30, 2010 from $519 million for the nine months ended June 30, 2009. Total digital revenues represented 25% and 22% of consolidated revenues for the nine months ended June 30, 2010 and 2009, respectively. Prior to intersegment eliminations, total digital revenues for the nine months ended June 30, 2010 were comprised of U.S. revenues of $345 million, or 60% of total digital revenues, and international revenues of $226 million, or 40% of total digital revenues. Total digital revenues for the nine months ended June 30, 2009 were comprised of U.S. revenues of $340 million, or 65% of total digital revenues, and international revenues of $183 million, or 35% of total digital revenues. Excluding the favorable impact of foreign currency exchange rates, total digital revenues increased by $31 million, or 6%, for the nine months ended June 30, 2010.

Recorded Music revenues decreased by $92 million, or 5%, to $1.836 billion for the nine months ended June 30, 2010 from $1.928 billion for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenues decreased $162 million, or 8%, for the nine months ended June 30, 2010. This performance reflected a light release schedule, the on-going impact from transitioning to digital from physical sales and continued general economic pressures. Economic pressures have resulted in decreased discretionary spending by consumers and a reduction by retailers in the amount of floor and shelf space dedicated to music. Retailers still account for the majority of sales of our physical product; however, as the number of physical music retailers has declined significantly, there is increased competition for available display space. This has led to a decrease in the amount and variety of product on display. In addition, increases in digital revenue have not yet fully offset the decline in physical revenue. We believe this is attributable to the ability of consumers in the digital space to purchase individual tracks from an album rather than purchase the entire album, the economic pressures described above and the ongoing issue of piracy. Digital revenues increased by $45 million, or 9%, for the nine months ended June 30, 2010, largely due to strong international download growth and moderate domestic download growth, offset by declines in mobile revenues primarily related to lower ringtone demand. Licensing revenues remained flat at $168 million for the nine months ended June 30, 2010 and 2009.

Music Publishing revenues decreased by $5 million to $414 million for the nine months ended June 30, 2010 from $419 million for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $15 million for the nine months ended June 30, 2010. The increases in mechanical and digital revenues were more than offset by decreases in performance, synchronization and other revenues. Performance revenue decreases were driven by smaller contributions from the radio industry due to reductions in advertising spending. Synchronization revenue decreases were driven by the impact of the previously mentioned economic pressures on the film, TV production and advertising markets, which have resulted in decreased spending on song licensing, primarily in the U.S. The increase in mechanical revenue was due to higher physical recorded music royalties primarily related to Michael Jackson, Susan Boyle and Michael Bublé as well as a $7 million benefit from the shift to accrual-based accounting for a U.S.-based collection society. The increase in digital revenue was primarily driven by growth in streaming and webcasting revenues.

Revenue by Geographical Location

U.S. revenues decreased by $91 million, or 9%, to $935 million for the nine months ended June 30, 2010 from $1.026 billion for the nine months ended June 30, 2009. The overall decline in the U.S. Recorded Music business reflected a light release schedule, the on-going impact from transitioning to digital from physical sales in the recorded music industry and the continued general economic pressures noted above.

International revenues decreased by $6 million to $1.315 billion for the nine months ended June 30, 2010 from $1.321 billion for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total international revenues decreased $86 million, or 6% for the nine months ended June 30, 2010. An increase in digital revenue, primarily as a result of growth in digital downloads, was more than offset by the contracting demand for physical product and licensing revenues. The contracting demand for physical product reflected a light release schedule, the on-going impact from transitioning to digital from physical sales in the recorded music industry and the continued general economic pressures noted above. Revenue growth in the U.K. was more than offset by weakness in France and Japan as well as other parts of Europe.

Cost of revenues

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 724	$ 793	$ (69)	-9%
Product costs	405	417	(12)	-3%
Licensing costs	57	59	(2)	-3%
Total cost of revenues	**$ 1,186**	**$ 1,269**	**$ (83)**	**-7%**

Our cost of revenues decreased by $83 million, or 7%, to $1.186 billion for the nine months ended June 30, 2010 from $1.269 billion for the nine months ended June 30, 2009. Expressed as a percentage of revenues, cost of revenues were 53% and 54% for the nine months ended June 30, 2010 and 2009, respectively.

Artist and repertoire costs decreased $69 million, or 9%, to $724 million for the nine months ended June 30, 2010 from $793 million for the nine months ended June 30, 2009. The decrease in artist and repertoire costs was driven by decreased revenues in the current period, a cost-recovery benefit related to the early termination of certain artist contracts and a benefit from increased recoupment on artists whose advances were previously written off. Artist and repertoire costs as a percentage of revenues decreased from 34% for the nine months ended June 30, 2009 to 32% in the nine months ended June 30, 2010 as a result of the timing of our artist and repertoire spending and the factors noted above which were partially offset by higher royalty expense related to certain artist profit-sharing agreements.

Product costs remained flat as a percentage of revenues at 18% for the nine months ended June 30, 2010 and 2009. The decrease in product costs was due primarily to the change in mix from the sale of physical products to new forms of digital music.

Licensing costs decreased $2 million, or 3%, to $57 million for the nine months ended June 30, 2010 from $59 million for the nine months ended June 30, 2009. Expressed as a percentage of licensing revenues, licensing costs decreased from 35% for the nine months ended June 30, 2009 to 34% for the nine months ended June 30, 2010 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 Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 415	$ 411	$ 4	1%
Selling and marketing expense	344	352	(8)	-2%
Distribution expense	52	49	3	6%
Total selling, general and administrative expense	**$ 811**	**$ 812**	**$ (1)**	—

(1) Includes depreciation expense of $28 million and $27 million for the nine months ended June 30, 2010, and 2009, respectively.

Total selling, general and administrative expense decreased by $1 million to $811 million for the nine months ended June 30, 2010 from $812 million for the nine months ended June 30, 2009. Expressed as a percentage of revenues, selling, general and administrative expenses increased from 35% for the nine months ended June 30, 2009 to 36% for the nine months ended June 30, 2010.

General and administrative expense increased by $4 million, or 1%, to $415 million for the nine months ended June 30, 2010 from $411 million for the nine months ended June 30, 2009. Expressed as a percentage of revenues, general and administrative expenses increased from 18% for the nine months ended June 30, 2009 to 19% for the nine months ended June 30, 2010, driven by severance charges taken during the current period primarily related to our international Recorded Music operations and lower variable compensation expense in the prior period, partially offset by realization of cost savings from management initiatives taken in prior periods.

Selling and marketing expense decreased by $8 million, or 2%, to $344 million for the nine months ended June 30, 2010 from $352 million for the nine months ended June 30, 2009, primarily as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense remained flat at 15% for the nine months ended June 30, 2010 and 2009.

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Distribution expense increased by $3 million, or 6% to $52 million for the nine months ended June 30, 2010 from $49 million for the nine months ended June 30, 2009. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the nine months ended June 30, 2010 and 2009.

Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Loss Attributable to WMG Acquisition 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 WMG Acquisition Corp. for purposes of the discussion that follows (in millions):

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 263	$ 277	$ (14)	-5%
Depreciation expense	(28)	(27)	(1)	4%
Amortization expense	(165)	(169)	4	-2%
Operating income	**70**	**81**	**(11)**	**-14%**
Interest expense, net	(124)	(130)	6	-5%
Gain on sale of equity-method investment	—	36	(36)	—
Gain on foreign exchange transaction	—	9	(9)	—
Impairment of cost-method investment	—	(29)	29	—
Impairment of equity-method investment	—	(10)	10	—
Other (expense) income, net	(1)	1	(2)	—
Loss before income taxes	**(55)**	**(42)**	**(13)**	**31%**
Income tax expense	(24)	(30)	6	-20%
Net loss	(79)	(72)	(7)	10%
Less: loss attributable to noncontrolling interest	2	6	(4)	-67%
Net loss attributable to WMG Acquisition Corp.	**$ (77)**	**$ (66)**	**$ (11)**	**17%**

OIBDA

Our OIBDA decreased by $14 million to $263 million for the nine months ended June 30, 2010 as compared to $277 million for the nine months ended June 30, 2009. Expressed as a percentage of revenues, total OIBDA margin remained flat at 12% for the nine months ended June 30, 2010 and 2009. Our OIBDA decrease was primarily driven by decreased revenues and severance charges primarily related to our international Recorded Music operations, partially offset by the realization of cost savings from management initiatives taken in prior periods and the decreases in artist and repertoire and product costs noted above.

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

Depreciation expense

Our depreciation expense increased $1 million, or 4%, to $28 million for the nine months ended June 30, 2010, from $27 million for nine months ended June 30, 2009.

Amortization expense

Amortization expense decreased by $4 million, or 2%, to $165 million for the nine months ended June 30, 2010. The decrease was primarily related to certain intangibles assets being fully amortized during the current period.

Operating income

Our operating income decreased $11 million, or 14%, to $70 million for the nine months ended June 30, 2010 as compared to $81 million for the prior period. The decrease in operating income was primarily due to the decline in OIBDA, partially offset by the decrease in amortization expense noted above.

Interest expense, net

Our interest expense, net, decreased $6 million, or 5%, to $124 million for the nine months ended June 30, 2010 as compared to $130 million for the nine months ended June 30, 2009. The decrease was primarily driven by unamortized deferred financing fees of $18 million, which were written off during the prior year in connection with the repayment of our senior secured credit facility. The decrease was partially offset by the change in interest terms related to our refinancing in May 2009.

See "—Financial Condition and Liquidity" for more information.

Gain on sale of equity-method investment

During the nine months ended June 30, 2009, we sold our remaining equity stake in Front Line Management to Ticketmaster for $123 million in cash. As a result of the transaction, we recorded a gain on sale of equity-method investment of $36 million.

Gain on foreign exchange transaction

During the nine months ended June 30, 2009, we recorded a $9 million non-cash gain on a foreign exchange transaction as a result of a settlement of a short-term foreign-denominated loan related to the Front Line Management sale.

Impairment of equity-method investment

During the nine months ended June 30, 2009, we chose not to continue our participation in Equatrax, L.P. (formerly known as Royalty Services, L.P.) and Equatrax, LLC (formerly known as Royalty Services, LLC), which were formed in 2004 to develop an outsourced royalty platform. As a result, we wrote off the remaining $10 million related to our investment in the joint venture.

Impairment of cost-method investments

During the nine months ended June 30, 2009, we determined that our cost-method investments in digital venture capital companies, including imeem and lala, were impaired largely due to the current economic environment and changing business conditions from the time of the initial investments. As a result, we recorded one-time charges of $29 million, including $16 million to write off our investment in imeem and $11 million to write down our investment in lala.

Other (expense) income, net

Other expense, net for the nine months ended June 30, 2010 and 2009 includes 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. In addition, the prior-year period included a gain on the sale of a building.

Income tax expense

We provided income tax expense of $24 million for the nine months ended June 30, 2010 as compared to $30 million for the nine months ended June 30, 2009. The decrease in income tax expense primarily related to the decrease in foreign earnings subject to tax in certain jurisdictions and the implementation of new digital transfer pricing agreements.

We are currently under examination by the Internal Revenue Service for the fiscal years ended September 30, 2007 through September 30, 2008. We expect that $5 million of the $10 million total accrual for uncertain tax positions as of June 30, 2010, will be paid during the next twelve months.

Net loss

Net loss increased by $7 million, to a net loss of $79 million for the nine months ended June 30, 2010 as compared to a net loss of $72 million for the nine months ended June 30, 2009. The increase in net loss was driven primarily by our decrease in OIBDA partially offset by decreases in our amortization expense, income tax expense and interest expense during the nine months ended June 30, 2010. In addition, during the nine months ended June 30, 2009 we recorded gains on the sale of our remaining stake in Front Line Management, a foreign exchange transaction and the sale of a building, which were partially offset by impairments of equity and cost-method investments as discussed above.

Noncontrolling interest

Net loss attributable to noncontrolling interests for the nine months ended June 30, 2010 and 2009 was of $2 million and $6 million, respectively.

Business Segment Results

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Recorded Music				
Revenue	$ 1,836	$ 1,928	$ (92)	-5%
OIBDA	227	237	(10)	-4%
Operating income	$ 95	$ 100	(5)	-5%
Music Publishing				
Revenue	$ 414	$ 419	$ (5)	-1%
OIBDA	101	105	(4)	-4%
Operating income	$ 48	$ 54	$ (6)	-11%
Corporate expenses and eliminations				
Revenue	$ (18)	$ (16)	$ (2)	-13%
OIBDA	(65)	(65)	—	—
Operating loss	$ (73)	$ (73)	$ —	—
Total				
Revenue	$ 2,232	$ 2,331	$ (99)	-4%
OIBDA	263	277	(14)	-5%
Operating income	$ 70	$ 81	$ (11)	-14%

Recorded Music

Revenues

Recorded Music revenues decreased by $92 million, or 5%, to $1.836 billion for the nine months ended June 30, 2010 from $1.928 billion for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenues decreased $162 million, or 8%, for the nine months ended June 30, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 82% of total revenues for the nine months ended June 30, 2010 and 2009. U.S. Recorded Music revenues were $782 million and $867 million, or 43% and 45% of Recorded Music revenues for the nine months ended June 30, 2010 and 2009, respectively. International Recorded Music revenues were $1.054 billion and $1.061 billion, or 57% and 55% of consolidated Recorded Music revenues for the nine months ended June 30, 2010 and 2009, respectively. This Recorded Music performance reflected a light release schedule, the on-going impact from transitioning to digital from physical sales in the recorded music industry and continued general economic pressures. Economic pressures have resulted in decreased discretionary spending by consumers and a reduction by retailers in the amount of floor and shelf space dedicated to music. Retailers still account for the majority of sales of our physical product; however, as the number of physical music retailers has declined significantly, there is increased competition for available display space. This has led to a decrease in the amount and variety of product on display. In addition, increases in digital revenue have not yet fully offset the decline in physical revenue. We believe this is attributable to the ability of consumers in the digital space to purchase individual tracks from an album rather than purchase the entire album, the economic pressures described above and the ongoing issue of piracy. These decreases were offset by an increase in digital revenues largely due to strong international download growth and moderate domestic download growth, which was offset by declines in mobile revenues primarily related to lower ringtone demand. Licensing revenues remained flat at $168 million for the nine months ended June 30, 2010.

Cost of revenues

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 477	$ 542	$ (65)	-12%
Product costs	405	415	(10)	-2%
Licensing costs	57	59	(2)	-3%
Total cost of revenues	**$ 939**	**$ 1,016**	**$ (77)**	**-8%**

Recorded Music cost of revenues decreased $77 million, or 8%, for the nine months ended June 30, 2010. The decrease was comprised of decreases in artists and repertoire costs of $65 million, product costs of $10 million and licensing costs of $2 million. The decrease in artist and repertoire costs was driven by decreased revenues for the current period, a cost-recovery benefit related to the early termination of certain artist contracts and a benefit from increased recoupment on artists whose advances were previously written off. The decrease in production costs was driven primarily by the decline of physical revenue partially offset by the change in revenue mix from the sale of physical products to new forms of digital music. Artist and repertoire costs decreased as a percentage of Recorded Music revenues to 26% in the nine months ended June 30, 2010 from 28% in the nine months ended June 30, 2009 as a result of the cost-recovery noted above, partially offset by higher royalty expense related to certain artist profit-sharing agreements.

Selling, general and administrative expense

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 297	$ 295	$ 2	1%
Selling and marketing expense	338	347	(9)	-3%
Distribution expense	52	49	3	6%
Total selling, general and administrative expense	**$ 687**	**$ 691**	**$ (4)**	**-1%**

(1) Includes depreciation expense of $17 million and $16 million for the nine months ended June 30, 2010 and 2009, respectively.

Recorded Music selling, general and administrative expense decreased $4 million, or 1%, for the nine months ended June 30, 2010. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense increased from 36% for the nine months ended June 30, 2009 to 37% for the nine months ended June 30, 2010, respectively, driven by severance charges taken during the current period primarily related to our international Recorded Music operations partially offset by the realization of cost savings from management initiatives taken in prior periods and our continued efforts to better align spending on selling and marketing expense with revenues earned.

OIBDA and Operating Income

Recorded Music OIBDA was $227 million for the nine months ended June 30, 2010 as compared to $237 million for the nine months ended June 30, 2009. Recorded Music operating income included the following (in millions):

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 227	$ 237	$ (10)	-4%
Depreciation and amortization	(132)	(137)	5	-4%
Operating income	**$ 95**	**$ 100**	**$ (5)**	**-5%**

Recorded Music OIBDA decreased by $10 million, or 4%, to $227 million for the nine months ended June 30, 2010 compared to $237 million for the nine months ended June 30, 2009. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA remained flat at 12% for the nine months ended June 30, 2010 and 2009. Our OIBDA decrease was primarily driven by decreased revenues and severance charges primarily related to our international Recorded Music operations, partially offset by the realization of cost savings from management initiatives taken in prior periods and the decrease in artist and repertoire costs noted above.

Recorded Music operating income decreased by $5 million, or 5% due to the decrease in OIBDA described noted, partially offset by the decrease in amortization expense.

Music Publishing

Revenues

Music Publishing revenues decreased by $5 million to $414 million for the nine months ended June 30, 2010 compared to $419 million for the nine months ended June 30, 2009. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $15 million, or 3% for the nine months ended June 30, 2010. Music Publishing revenues

represented 19% and 18% of consolidated revenue, for the nine months ended June 30, 2010 and 2009, respectively. International Music Publishing revenues were $261 million and $260 million, or 63% and 62% of consolidated Music Publishing revenues for the nine months ended June 30, 2010 and 2009, respectively. U.S. Music Publishing revenues were $153 million and $159 million, or 37% and 38% of consolidated Music Publishing revenues for the nine months ended June 30, 2010 and 2009, respectively. The increases in mechanical and digital revenues were more than offset by decreases in performance and synchronization and other revenues. Performance revenue decreases were driven by smaller contributions from the radio industry due to reductions in advertising spending. Synchronization revenue decreases were driven by the impact of the previously mentioned economic pressures on the film, TV production and advertising markets, which have resulted in decreased spending on song licensing, primarily in the U.S. The increase in mechanical revenue was due to higher share of physical recorded music royalties primarily related to Michael Jackson, Susan Boyle and Michael Bublé as well as a $7 million benefit from the shift to accrual-based accounting for a U.S.-based collection society. The increase in digital revenue was primarily driven by growth in streaming and webcasting revenues.

Cost of revenues

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
Artist and repertoire costs	$ 265	$ 271	$ (6)	-2%
Total cost of revenues	**$ 265**	**$ 271**	**$ (6)**	**-2%**

Music Publishing cost of revenues decreased by $6 million for the nine months ended June 30, 2010, driven primarily by an adjustment in royalty reserves and our continued focus to direct current and future spending on publishing deals that maximize profitability. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues was 64% and 65% for the nine months ended June 30, 2010 and 2009, respectively.

Selling, general and administrative expense

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

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
General and administrative expense (1)	$ 51	$ 46	$ 5	11%
Total selling, general and administrative expense	**$ 51**	**$ 46**	**$ 5**	**11%**

(1) Includes depreciation expense of $3 million for the nine months ended June 30, 2010 and 2009, respectively.

Music Publishing selling, general and administrative expense increased to $51 million for the nine months ended June 30, 2010 as compared with $46 million for the nine months ended June 30, 2009, primarily as a result of increased professional fees. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 12% for the nine months ended June 30, 2010 from 11% for the nine months ended June 30, 2009.

OIBDA and Operating Income

Music Publishing operating income decreased to $48 million for the nine months ended June 30, 2010, from $54 million for the nine months ended June 30, 2009. Music Publishing operating income includes the following (in millions):

	For the Nine Months Ended June 30,		2010 vs 2009	
	2010	2009	$ Change	% Change
OIBDA	$ 101	$ 105	(4)	-4%
Depreciation and amortization	(53)	(51)	(2)	4%
Operating income	**$ 48**	**$ 54**	**$ (6)**	**-11%**

Music Publishing OIBDA decreased by $4 million, or 4%, to $101 million for the nine months ended June 30, 2010 from $105 million for the nine months ended June 30, 2009. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA was 24% and 25% for the nine months ended June 30, 2010 and 2009, respectively. The decrease in OIBDA was due primarily to lower revenues, changes in revenue mix as mechanical revenue tends to have a lower margin than other Music Publishing revenue and the increases in professional fees noted above.

Music Publishing operating income decreased by $6 million due to the decrease in OIBDA and increase in amortization expense noted above.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations remained flat at $65 million for both the nine months ended June 30, 2010 and 2009.

Our operating loss from corporate expenses and eliminations remained flat at $73 million for both the nine months ended June 30, 2009 and 2010.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At June 30, 2010, we had $1.678 billion of debt, $224 million of cash and equivalents (net debt of $1.454 billion, defined as total debt less cash and equivalents and short-term investments) and a $146 million WMG Acquisition Corp.'s shareholder's deficit. This compares to $1.686 billion of debt, $196 million of cash and equivalents (net debt of $1.490 billion, defined as total debt less cash and equivalents and short-term investments) and a $81 million shareholder's deficit at September 30, 2009. Net debt decreased by $36 million as a result of (i) an $11 million decrease related to the impact of foreign exchange rates on our Sterling-denominated Senior Subordinated Notes and (ii) a $28 million increase in cash and equivalents, offset by (iii) a $3 million increase related to the accretion on our Senior Secured Notes as more fully described below.

The $65 million increase in shareholder's deficit during the nine months ended June 30, 2010 consisted of $77 million of net loss for the nine months ended June 30, 2010, offset by foreign currency exchange movements of $5 million and $7 million of stock compensation expense.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the nine months ended June 30, 2010 and 2009 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is comprised of the following in millions:

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Cash provided by (used in):		
Operating activities	$ 112	$ 198
Investing activities	(61)	98
Financing activities	(2)	(343)

Operating Activities

Cash provided by operations was $112 million for the nine months ended June 30, 2010 compared to cash provided by operations of $198 million for the nine months ended June 30, 2009. The $86 million decrease primarily related to the variable timing of our working capital requirements related to timing of sales and collections in the period, which included an expected increase in cash paid for interest. Following our May 2009 refinancing, all of our cash interest payments are made semi-annually in the first and third quarters of the fiscal year. We previously made quarterly interest payments under our senior secured credit facility, which was retired in May 2009. As a result, cash interest amounted to $157 million as compared to $109 million for the nine months ended June 30, 2010 and 2009, respectively. These decreases were partially offset by a decrease in cash paid for taxes.

Investing Activities

Cash used in investing activities was $61 million for the nine months ended June 30, 2010 as compared to cash provided by investing activities of $98 million for the nine months ended June 30, 2009. The $61 million of cash used in investing consisted of cash used to acquire music publishing rights of $39 million, cash used for acquisitions totaling $1 million, net of cash acquired and capital expenditures of $30 million primarily related to software infrastructure improvements, offset by $9 million of cash proceeds received in connection with the sale of our equity investment in lala media, inc. The $98 million of cash provided by investing activities in the nine months ended June 30, 2009 consisted primarily of proceeds received from the sale of our remaining stake in Front Line Management to Ticketmaster for $123 million and proceeds from the sale of a building of $8 million, offset by $15 million in capital expenditures, cash used for acquisitions totaling $14 million and $8 million of cash used to acquire music publishing rights.

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Financing Activities

Cash used in financing activities was $2 million and $343 million for the nine months ended June 30, 2010 and 2009, respectively. The $2 million of cash used in financing activities in the nine months ended June 30, 2010 consisted of distributions to our noncontrolling interest holders. The $343 million of cash used in financing activities in the nine months ended June 30, 2009 consisted of the full repayment of the senior credit facility of $1.371 billion, our quarterly repayments of principal on our senior secured credit facility of $8 million and $23 million of financing fees related to the Senior Secured Notes, offset by $1.059 billion of net proceeds from the issuance of the Senior Secured Notes.

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 or Holdings' outstanding notes or Parent's common stock in open market purchases, privately negotiated purchases or otherwise, we or Parent 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 June 30, 2010, our long-term debt consisted of $1.1 billion aggregate principal amount of Senior Secured Notes less unamortized discount of $36 million and $614 million of Acquisition Corp. Senior Subordinated Notes.

Senior Secured Notes

On May 28, 2009, Acquisition Corp. issued $1.1 billion aggregate principal amount of 9.50% Senior Secured Notes due 2016 pursuant to an indenture, dated as of May 28, 2009, among Acquisition Corp., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee. The 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. Deferred financing fees of $25 million were incurred related to the Senior Secured Notes and are being amortized over the term of the Senior Secured Notes.

The Senior Secured Notes mature on June 15, 2016. Interest on the Senior Secured Notes accrues at a rate of 9.50% per annum and is payable, commencing on December 15, 2009, semi-annually in arrears on June 15 and December 15 of each year to the holders of record on the immediately preceding June 1 and December 1. Interest on the Senior Secured Notes is computed on the basis of a 360-day year comprised of twelve 30-day months.

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

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 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 Discount Notes

Our immediate parent company, Holdings, issued debt in December of 2004. As of June 30, 2010, Holdings had $258 million of debt represented by the Holdings Discount Notes. The Holdings 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 Discount Notes in the form of an increase in the accreted value of such notes such that the accreted value of the Holdings Discount Notes equaled the principal amount at maturity of $258 million on December 15, 2009. Thereafter, cash interest on the Holdings Discount Notes became payable semi–annually at a fixed rate of 9.5% per annum with the initial cash interest payment paid on June 15, 2010. The Holdings Discount Notes mature on December 15, 2014. While Holdings is the issuer of such debt, it is a holding company that conducts substantially all of its business operations through us, its only asset and wholly–owned subsidiary. As such, Holdings will be relying on us to make any payments of principal and interest as they become due.

The indenture governing the Holdings 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

Parent discontinued its 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 and Parent's Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our and Parent's Board of Directors may deem relevant.

Covenant Compliance

The indentures governing the Holdings Discount Notes, the Acquisition Corp. Senior Subordinated Notes and the 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 Senior Secured Notes and Holdings Discount Notes, the Fixed Charge Coverage Ratio, as defined in such indentures, must exceed a 2.0 to 1.0 ratio. 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 Senior Secured Notes and Holdings Discount Notes significantly restrict Acquisition Corp., Holdings and other subsidiaries from paying dividends and otherwise transferring assets to Parent. 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, the Holdings Discount Notes, and July 1, 2009 under the 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 Parent based on such formula, Acquisition Corp. and Holdings must each have an adjusted EBITDA, as defined in the indenture, to interest expense 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 Discount Notes and the 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 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 Senior Secured Notes and Holdings Discount Notes.

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 the Holdings Discount Notes, our Acquisition Corp. Senior Subordinated Notes or our Senior Secured Notes and/or Parent 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 the Holdings Discount Notes, Acquisition Corp. Senior Subordinated Notes and/or our Senior Secured Notes with existing cash and/or with funds provided from additional borrowings.

CRITICAL ACCOUNTING POLICIES

The SEC’s Financial Reporting Release No. 60, “Cautionary Advice Regarding Disclosure About Critical Accounting Policies” (“FRR 60”), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in our application. We believe the following list represents the critical accounting policies of us as contemplated by FRR 60. For a summary of all of our significant accounting policies, see Note 3 to our audited consolidated financial statements contained in our annual report on Form 10-K for the fiscal year ended September 30, 2009.

Purchase Accounting

We account for our business acquisitions under the Financial Accounting Standards Board (“FASB”) authoritative guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management’s judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. In addition, reserves have been established on our balance sheet related to acquired liabilities and qualifying restructuring costs based on assumptions made at the time of acquisition. We evaluate these reserves on a regular basis to determine the adequacy or accuracy of the amounts estimated.

Accounting for Goodwill and Other Intangible Assets

We account for our goodwill and other indefinite-lived intangible assets as required by FASB Accounting Standards Codification ("ASC") Topic 350, Intangibles—Goodwill and other ("ASC 350"). Under ASC 350, we no longer amortize goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life. ASC 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques on an annual basis and when events occur that may suggest that the fair value of such assets cannot support the carrying value. Goodwill impairment is tested using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill.

In performing the first step, management determines the fair value of its reporting units using a combination of a discounted cash flow ("DCF") analysis and a market-based approach. Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates, as well as relevant comparable company earnings multiples for the market-based approach including the determination of whether a premium or discount should be applied to those comparables. The cash flows employed in the DCF analyses are based on management's most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future impairment tests. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital ("WACC") for each reporting unit. Management considers many factors in selecting a WACC, including the market view of risk for each individual reporting unit, the appropriate capital structure and the appropriate borrowing rates for each reporting unit. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of a reporting unit.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

As of September 30, 2009, we had recorded goodwill in the amount of $1.03 billion, primarily related to the Acquisition (as defined). We test our goodwill and other indefinite-lived intangible assets for impairment on an annual basis in the fourth quarter of each fiscal year. The performance of our fiscal 2009 impairment analyses did not result in any impairments of the Company's goodwill. The discount rates utilized in the fiscal 2009 analysis ranged from 9% to 10% while the terminal growth rates used in the DCF analysis ranged from 2% to 3%. To illustrate the magnitude of a potential impairment relative to future changes in estimated fair values, had the fair values of each of the reporting units been hypothetically lower by 50% at September 30, 2009, no reporting unit's book value would have exceeded its fair value. The percentage by which the fair value of each reporting unit exceeded the respective carrying value was as follows:

Reporting Unit	Percentage by which Fair Value Exceeded Carrying Value
U.S. Recorded Music	50%
International Recorded Music	205%
Publishing	78%

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. Common among such approaches is the "relief from royalty" methodology, which is used in estimating the fair value of the Company's trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

See Note 8 to our audited consolidated financial statements contained in our annual report on Form 10-K for the fiscal year ended September 30, 2009 for a further discussion of our goodwill and other intangible assets.

Equity Method and Cost Method Investments

For non-publicly traded investments, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. The ability to accurately predict future cash flows, especially in developing and unstable markets, may impact the determination of fair value.

In the event a decline in fair value of an investment occurs, management may be required to determine if the decline in market value is other than temporary. Management's assessments as to the nature of a decline in fair value are based on the valuation methodologies discussed above and our ability and intent to hold the investment. We consider our equity method investees to be strategic long-term investments; therefore, we generally complete our assessments with a long-term viewpoint. If the fair value of any of our equity method or cost method investments is less than the carrying value and the decline in value is considered to be other than temporary, an impairment charge is recorded to write down the carrying value of the investment to its fair value. Management's assessments of fair value in accordance with these valuation methodologies represent our best estimates as of the time of the impairment review and are consistent with our internal planning. If different fair values were estimated, this could have a material impact on the financial statements.

Revenue and Cost Recognition

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Under FASB ASC Topic 605, Revenue Recognition, revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of product sales that will be returned, management analyzes historical returns, current economic trends, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of product sales to provide for the estimated customer returns.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers, and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management's analysis of sales returns and uncollectible accounts, reserves totaling $91 million and $135 million have been established at June 30, 2010 and September 30, 2009, respectively. The ratio of our receivable allowances to gross accounts receivables was approximately 20% at both June 30, 2010 and September 30, 2009.

Gross Versus Net Revenue Classification

In the normal course of business, we act as an intermediary or agent with respect to certain payments received from third parties. For example, we distribute music product on behalf of third-party record labels.

The accounting issue encountered in these arrangements is whether we should report revenue based on the "gross" amount billed to the ultimate customer or on the "net" amount received from the customer after participation and other royalties paid to third parties. To the extent revenues are recorded gross (in the full amount billed), any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether we record the revenue on a gross basis or net basis (less related participations and royalties).

Determining whether revenue should be reported gross or net is based on an assessment of whether we are acting as the "principal" in a transaction or acting as an "agent" in the transaction. To the extent we are acting as a principal in a transaction, we report as revenue the payments received on a gross basis. To the extent we are acting as an agent in a transaction, we report as revenue the payments received less participations and royalties paid to third parties, i.e., on a net basis. The determination of whether we are serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

In determining whether we serve as principal or agent in these arrangements, we follow the guidance in FASB ASC Subtopic 605-45, Principal Agent Considerations ("ASC 605-45"). Pursuant to such guidance, we serve as the principal in transactions where we have the substantial risks and rewards of ownership. The indicators that we have substantial risks and rewards of ownership are as follows:

- we are the supplier of the products or services to the customer;
- we have latitude in establishing prices;
- we have the contractual relationship with the ultimate customer;
- we modify and service the product purchased to meet the ultimate customer specifications;
- we have discretion in supplier selection; and
- we have credit risk.

Conversely, pursuant to ASC 605-45, we serve as agent in arrangements where we do not have substantial risks and rewards of ownership. The indicators that we do not have substantial risks and rewards of ownership are as follows:

- the supplier (not the Company) is responsible for providing the product or service to the customer;
- the supplier (not the Company) has latitude in establishing prices;
- the amount we earn is fixed;
- the supplier (not the Company) has credit risk; and
- the supplier (not the Company) has general inventory risk for a product before it is sold.

Based on the above criteria and for the more significant transactions that we have evaluated, we record the distribution of product on behalf of third-party record labels on a gross basis, subject to the terms of the contract. However, recorded music compilations distributed by other record companies where we have a right to participate in the profits are recorded on a net basis.

Accounting for Royalty Advances

We regularly commit to and pay royalty advances to our recording artists and songwriters in respect of future sales. We account for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music ("ASC 928"). Under ASC 928, we capitalize as assets certain advances that we believe are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. Advances to recording artists or songwriters with a history of successful commercial acceptability will typically be larger than advances to a newer or unproven recording artist or songwriter. In addition, in most cases these advances represent a multi-album release or multi-song obligation and the number of albums releases and songs will vary by recording artist or songwriter.

Management's decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon management's forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, management evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, management expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, we monitor the projection of future sales based on the current environment, the recording artist's or songwriter's ability to meet their contractual obligations as well as our intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

We had $343 million and $380 million of advances in our balance sheet at June 30, 2010 and September 30, 2009, respectively. We believe such advances are recoverable through future royalties to be earned by the applicable recording artists and songwriters.

Stock-Based Compensation

We account for share-based payments in accordance with FASB ASC Topic 718, Compensation—Stock Compensation ("ASC 718"). ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Under this fair value recognition provision of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. We have applied the modified prospective method and expenses deferred stock-based compensation on an accelerated basis over the vesting period of the stock award.

We estimate the fair value of our grants made using the binomial method, which includes assumptions related to volatility, expected life, dividend yield and risk-free interest rate. We also award or sell restricted shares to our employees. For restricted shares awarded or sold below market value, the accounting charge is measured at the grant date and amortized ratably as non-cash compensation over the vesting term.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, we are required to estimate income taxes payable in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. FASB ASC Topic 740, Income Taxes (“ASC 740”), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period generally represent sufficient negative evidence to consider a valuation allowance under the provisions of ASC 740. As a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance.

The realization of the remaining deferred tax assets is primarily dependent on forecasted future taxable income. Any reduction in estimated forecasted future taxable income may require that we record additional valuation allowances against our deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. Our income tax expense recorded in the future may be reduced to the extent of offsetting decreases in our valuation allowance. The establishment and reversal of valuation allowances could have a significant negative or positive impact on our future earnings.

Tax assessments may arise several years after tax returns have been filed. Predicting the outcome of such tax assessments involves uncertainty; however, we believe that recorded tax liabilities adequately account for our analysis of more likely than not outcomes.

New Accounting Principles

In addition to the critical accounting policies discussed above, we adopted several new accounting policies during the past two years. None of these new accounting principles had a material effect on our audited financial statements. See Note 3 to our audited consolidated financial statements contained in our annual report on Form 10-K for the fiscal year ended September 30, 2009 for a complete summary.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of WMG Acquisition Corp. (1)
3.2	Amended and Restated Bylaws of WMG Acquisition Corp. (2)
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.

** This certification will be treated as “accompanying” this Quarterly Report on Form 10-Q/A 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.

(1) Incorporated by reference to exhibit 3.196 to WMG Acquisition Corp’s Amendment No.1 to the Registration Statement on Form S-4 (File No. 333-12122).

(2) Incorporated by reference to exhibit 3.197 to WMG Acquisition Corp’s Amendment No.1 to the Registration Statement on Form S-4 (File No. 333-12122).

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SIGNATURES

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

August 24, 2010

WMG ACQUISITION 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)**

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Edgar Bronfman, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the period ended June 30, 2010 of WMG Acquisition Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

Dated: August 24, 2010

/s/ EDGAR BRONFMAN, JR.

Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Steven Macri, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the period ended June 30, 2010 of WMG Acquisition Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

Dated: August 24, 2010

/s/ STEVEN MACRI

Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 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

In connection with the Quarterly Report of WMG Acquisition Corp. (the "Company") on Form 10-Q/A for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edgar Bronfman, Jr., Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 24, 2010

/s/ EDGAR BRONFMAN, JR.

Edgar Bronfman, Jr.
Chief Executive Officer

Exhibit 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

In connection with the Quarterly Report of WMG Acquisition Corp. (the "Company") on Form 10-Q/A for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven Macri, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 24, 2010

/s/ STEVEN MACRI

Steven Macri
Chief Financial Officer