UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

OR

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

Commission File Number 001-32502

Warner Music Group Corp.
(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ 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 ☒

There is no public market for the Registrant's common stock. As of February 9, 2012 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,000. All of the Registrant's common stock is owned by AI Entertainment Holdings LLC (formerly Airplanes Music LLC), which is an affiliate of Access Industries, Inc.

WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	December 31, 2011	September 30, 2011
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 168	$ 154
Accounts receivable, less allowances of $90 and $40 million	421	385
Inventories	29	29
Royalty advances expected to be recouped within one year	143	135
Deferred tax assets	54	54
Other current assets	42	45
Total current assets	857	802
Royalty advances expected to be recouped after one year	175	173
Property, plant and equipment, net	177	182
Goodwill	1,376	1,372
Intangible assets subject to amortization, net	2,612	2,678
Intangible assets not subject to amortization	102	102
Other assets	73	71
Total assets	$ 5,372	$ 5,380
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 136	$ 165
Accrued royalties	1,034	974
Accrued liabilities	232	217
Accrued interest	32	55
Deferred revenue	128	101
Other current liabilities	16	10
Total current liabilities	1,578	1,522
Long-term debt	2,214	2,217
Deferred tax liabilities	403	411
Other noncurrent liabilities	135	148
Total liabilities	4,330	4,298
Commitments and Contingencies (See Note 8)		
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,000 shares issued and outstanding)	—	—
Additional paid-in capital	1,129	1,129
Accumulated deficit	(57)	(31)
Accumulated other comprehensive loss, net	(47)	(33)
Total Warner Music Group Corp. equity	1,025	1,065
Noncontrolling interest	17	17
Total equity	1,042	1,082
Total liabilities and equity	$ 5,372	$ 5,380

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Successor Three Months Ended December 31, 2011	Predecessor Three Months Ended December 31, 2010
	(in millions, except per share amounts)	
Revenues	$ 779	$ 778
Costs and expenses:		
Cost of revenues	(424)	(431)
Selling, general and administrative expenses (a)	(268)	(266)
Amortization of intangible assets	(48)	(54)
Total costs and expenses	(740)	(751)
Operating income	39	27
Interest expense, net	(57)	(47)
Other expense, net	(2)	—
Loss before income taxes	(20)	(20)
Income tax (expense) benefit	(6)	2
Net loss	(26)	(18)
Less: income attributable to noncontrolling interest	—	—
Net loss attributable to Warner Music Group Corp.	$ (26)	$ (18)
Net loss per common share attributable to Warner Music Group Corp.:		
Basic		$ (0.12)
Diluted		$ (0.12)
Weighted average common shares:		
Basic		150.0
Diluted		150.0
(a) Includes depreciation expense of:	$ (12)	$ (9)

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Successor Three Months Ended December 31, 2011	Predecessor Three Months Ended December 31, 2010
	(in millions)	
Cash flows from operating activities		
Net loss	$ (26)	$ (18)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	60	63
Deferred income taxes	(2)	(8)
Non-cash interest (income) expense	(1)	3
Non-cash stock-based compensation expense	—	2
Other non-cash items	—	(1)
Changes in operating assets and liabilities:		
Accounts receivable	(42)	8
Inventories	—	3
Royalty advances	(13)	(41)
Accounts payable and accrued liabilities	68	(86)
Accrued interest	(23)	(43)
Other balance sheet changes	4	5
Net cash provided by (used in) operating activities	25	(113)
Cash flows from investing activities		
Investments and acquisitions of businesses	—	(44)
Acquisition of publishing rights	(7)	(14)
Proceeds from the sale of music catalog	2	—
Capital expenditures	(6)	(8)
Net cash used in investing activities	(11)	(66)
Cash flows from financing activities		
Distribution to noncontrolling interest holder	(1)	—
Net cash used in financing activities	(1)	—
Effect of exchange rate changes on cash and equivalents	1	3
Net increase (decrease) in cash and equivalents	14	(176)
Cash and equivalents at beginning of period	154	439
Cash and equivalents at end of period	$ 168	$ 263

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interests	Total Equity
	(in millions, except per share amounts)							
Balance at September 30, 2011	1,000	$0.001	$1,129	$ (31)	$ (33)	$ 1,065	$ 17	$1,082
Comprehensive loss:								
Net loss			—	(26)	—	(26)	—	(26)
Foreign currency translation adjustment			—	—	(14)	(14)	—	(14)
Deferred gains on derivative financial instruments			—	—	—	—	—	—
Other			—	—	—	—	—	—
Total comprehensive loss						(40)	—	(40)
Balance at December 31, 2011	1,000	$0.001	$1,129	$ (57)	$ (47)	$ 1,025	$ 17	$1,042

See accompanying notes.

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

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

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

On the Closing Date, the Company notified the New York Stock Exchange, Inc. (the "NYSE") of its intent to remove the Company's common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company's common stock from the NYSE. On July 21, 2011, in accordance with the Company's request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company's common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On August 2, 2011 the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. The Company continues to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing the Company's outstanding indebtedness.

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

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

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

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

Recorded Music Operations

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

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

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

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

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

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

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

Music Publishing Operations

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

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

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 month period ended December 31, 2011 are not necessarily indicative of the results that may be expected for the twelve months ended September 30, 2012.

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

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

Basis of Consolidation

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

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

The Company maintains a 52-53 week fiscal year ending on the Friday nearest to each reporting date. As such, all references to December 31, 2011 and December 31, 2010 relate to the three-month periods ended December 30, 2011 and December 24, 2010, respectively. For convenience purposes, the Company continues to date its financial statements as of December 31.

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

3. Comprehensive (Loss) Income

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

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	Derivative Financial Instruments Gain	Accumulated Other Comprehensive Loss
	(in millions)			
Balance at September 30, 2011	**$ (35)**	**$ 1**	**$ 1**	**$ (33)**
Activity through December 31, 2011	(14)	—	—	(14)
Balance at December 31, 2011	**$ (49)**	**$ 1**	**$ 1**	**$ (47)**

4. Merger

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

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

The table below presents the consideration transferred and the adjusted preliminary allocation of purchase price to the assets and liabilities acquired as a result of the Merger (in millions):

Cash paid to acquire outstanding WMG shares	$ 1,228
Cash paid to settle equity awards	50
Total cash consideration	1,278
Less: Cash paid by WMG	(179)
Net Investment	1,099
WMG shares previously held by Parent	30
Total consideration to be allocated	$ 1,129
Fair Value of assets acquired and liabilities assumed:	
Cash	$ 140
Accounts receivable	331
Inventory	28
Artist advances*	341
Property, plant and equipment	182
Intangible assets	2,879
Other assets*	117
Current liabilities*	(1,544)
Deferred income tax liabilities	(363)
Deferred revenue	(115)
Other noncurrent liabilities*	(173)
Debt	(2,049)
Noncontrolling interests	(17)
Fair value of net assets acquired	(243)
Goodwill recorded*	1,372
Total consideration allocated	$ 1,129

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

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

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

	Value	Useful Life
US Recorded Music		
Trademarks/trade names	$ 24	Indefinite
Trademarks/trade names	3	7 years
Catalog	300	11 years
Artist contracts	250	12 years
International Recorded Music		
Trademarks/trade names	$ 27	Indefinite
Trademarks/trade names	4	7 years
Catalog	260	5 years
Artist contracts	270	8 years
Music Publishing		
Trademarks/trade names	$ 51	Indefinite
Copyrights	1,530	28 years
Songwriter contracts	160	29 years

5. Goodwill and Intangible Assets

Goodwill

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

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

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

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

Other Intangible Assets

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

	December 31, 2011	September 30, 2011
	(in millions)	
Intangible assets subject to amortization:		
Recorded music catalog (a)	$ 542	$ 551
Music publishing copyrights (a)	1,478	1,486
Artist and songwriter contracts (a)	670	672
Trademarks	7	7
Other intangible assets	—	—
	2,697	2,716
Accumulated amortization	(85)	(38)
Total net intangible assets subject to amortization	2,612	2,678
Intangible assets not subject to amortization:		
Trademarks and brands	102	102
Total net other intangible assets	$ 2,714	$ 2,780

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

6. Debt

Debt Capitalization

Long-term debt consisted of the following (in millions):

	December 31, 2011	September 30, 2011
	(in millions)	
Revolving Credit Facility (a)	$ —	$ —
9.5% Existing Secured Notes due 2016—Acquisition Corp (b)	1,160	1,162
9.5% Secured WMG Notes due 2016—Acquisition Corp (c)	156	157
11.5% Unsecured WMG Notes due 2018—Acquisition Corp (d)	748	748
13.75% Holdings Notes due 2019—Holdings (e)	150	150
Total long term debt	$ 2,214	$ 2,217

(a) Reflects $60 million of commitments under the Revolving Credit Facility which had no amounts outstanding at December 31, 2011 and September 30, 2011.

(b) 9.5% Existing Secured Notes due 2016; face amount of $1.1 billion plus unamortized premiums of $60 million and $62 million at December 31, 2011 and September 30, 2011, respectively.

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

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

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

Revolving Credit Facility

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

Interest Rates and Fees

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

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

Guarantee; Security

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

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

Covenants, Representations and Warranties

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

Existing Secured Notes

As of December 31, 2011, Acquisition Corp. had $1.160 billion of debt represented by the Acquisition Corp. Senior Secured Notes. Acquisition Corp. previously issued $1.1 billion aggregate principal amount of its 9.5% Senior Secured Notes due 2016 (the "Existing Secured Notes") in 2009. The Existing Secured Notes were issued at 96.289% of their face value for total net proceeds of $1.059 billion, with an effective interest rate of 10.25%. The original issue discount (OID) was $41 million. The OID is equal to the difference between the stated principal amount and the issue price. Following the Merger, in accordance with the acquisition method of accounting described in Note 1, these notes were recorded at fair value. This resulted in the elimination of the predecessor discount and the establishment of a $65 million successor premium based on market data as of the closing date of the Merger. This premium will be amortized using the effective interest rate method and reported as a component within non-cash interest expense. The Existing Secured Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and December 15 of each year at a fixed rate of 9.5% per annum.

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

Ranking and Guarantees

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

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

Covenants, Representations and Warranties

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

Secured WMG Notes

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

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

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

Ranking and Guarantees

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

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

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

Covenants, Representations and Warranties

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

Unsecured WMG Notes

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

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

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

Ranking and Guarantees

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

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

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

Covenants, Representations and Warranties

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

Senior Holdings Notes

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

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

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

Ranking and Guarantees

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

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

Covenants, Representations and Warranties

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

Maturities

As of December 31, 2011, there are no scheduled maturities of long-term debt until 2016 ($1.250 billion). Thereafter, $915 million is scheduled to mature. In addition, the final maturity of the Revolving Credit Facility is July 19, 2016.

Interest Expense

Total interest expense, net was $57 million and $47 million for the three months ended December 31, 2011 (Successor) and December 31, 2010 (Predecessor), respectively. The weighted-average interest rate of the Company's total debt was 10.5% and 8.9% for the three months ended December 31, 2011 (Successor) and December 31, 2010 (Predecessor), respectively.

Guarantee of Acquisition Corp. Notes

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

Guarantee of Holdings Notes

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

7. Share-based Compensation

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

In total, the Company recognized non-cash compensation expense related to its stock-based compensation plans of $2 million for the three months ended December 31, 2010 (Predecessor). As there were no outstanding equity awards subsequent to July 20, 2011 the Company did not recognize any non-cash compensation expense for the three months ended December 31, 2011.

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

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

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.

9. Derivative Financial Instruments

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

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

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

Interest Rate Risk Management

The Company has $2.214 billion of debt outstanding at December 31, 2011. Based on the level of interest rates prevailing at December 31, 2011, the fair value of this fixed-rate debt was approximately $2.275 billion. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would increase or decrease the fair value of the fixed-rate debt by approximately $15 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

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

Foreign Currency Risk Management

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

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

As of December 31, 2011, the Company had outstanding hedge contracts for the sale of $218 million and the purchase of $30 million of foreign currencies at fixed rates. As of December 31, 2011, there was no material impact to the Company's comprehensive loss related to foreign exchange hedging. As of September 30, 2011, the Company had outstanding hedge contracts for the sale of $211 million and the purchase of $37 million of foreign currencies at fixed rates. As of September 30, 2011, the Company had $3 million of deferred losses in comprehensive loss related to foreign exchange hedging.

10. Segment Information

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

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

Three Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
December 31, 2011 (Successor)				
Revenues	$ 661	$ 123	$ (5)	$ 779
OIBDA	102	18	(21)	99
Depreciation of property, plant and equipment	(8)	(1)	(3)	(12)
Amortization of intangible assets	(33)	(15)	—	(48)
Operating income (loss)	$ 61	$ 2	$ (24)	$ 39
December 31, 2010 (Predecessor)				
Revenues	$ 662	$ 120	$ (4)	$ 778
OIBDA	90	18	(18)	90
Depreciation of property, plant and equipment	(6)	(1)	(2)	(9)
Amortization of intangible assets	(37)	(17)	—	(54)
Operating income (loss)	$ 47	$ —	$ (20)	$ 27

11. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $79 million and $88 million during the three months ended December 31, 2011 (Successor) and December 31, 2010 (Predecessor), respectively. The Company paid approximately $20 million and $10 million of income and withholding taxes, net of refunds, during the three months ended December 31, 2011 (Successor) and December 31, 2010 (Predecessor), respectively. The $20 million of cash tax payments includes $15 million of a payment relating to the settlement of an income tax audit in Germany. This payment was fully reimbursed to the Company by Time Warner under the terms of the 2004 acquisition of substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc. (the “2004 Acquisition Agreement”).

12. Fair Value Measurements

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

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

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

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

	Fair Value Measurements as of December 31, 2011			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ 3	$ —	$ 3
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (1)	$ —	$ (1)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (13)	$ (13)

	Fair Value Measurements as of September 30, 2011			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ 9	$ —	$ 9
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (3)	$ —	$ (3)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (13)	$ (13)

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

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

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

WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Financial Statements

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

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

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

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

WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Balance Sheet (Unaudited)
December 31, 2011

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets:									
Current assets:									
Cash and equivalents	$ —	$ 43	$ 125	$ —	$ 168	$ —	$ —	$ —	$ 168
Accounts receivable, net	(7)	174	254	—	421	—	—	—	421
Inventories	—	11	18	—	29	—	—	—	29
Royalty advances expected to be recouped within one year	—	79	64	—	143	—	—	—	143
Deferred tax assets	—	38	16	—	54	—	—	—	54
Other current assets	—	13	29	—	42	—	—	—	42
Total current assets	(7)	358	506	—	857	—	—	—	857
Royalty advances expected to be recouped after one year	—	96	79	—	175	—	—	—	175
Investments in and advances to (from) consolidated subsidiaries	3,286	837	—	(4,123)	—	1,096	1,331	(2,427)	—
Property, plant and equipment, net	—	131	46	—	177	—	—	—	177
Goodwill	—	1,371	5	—	1,376	—	—	—	1,376
Intangible assets subject to amortization, net	—	1,274	1,338	—	2,612	—	—	—	2,612
Intangible assets not subject to amortization	—	92	10	—	102	—	—	—	102
Due (to) from parent companies	(1,294)	(2,334)	(567)	4,118	(77)	383	(306)	—	—
Other assets	38	12	15	—	65	8	—	—	73
Total assets	$ 2,023	$ 1,837	$ 1,432	$ (5)	$ 5,287	$ 1,487	$1,025	$ (2,427)	$ 5,372
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$ —	$ 65	$ 71	$ —	$ 136	$ —	$ —	$ —	$ 136
Accrued royalties	—	563	471	—	1,034	—	—	—	1,034
Accrued liabilities	—	103	129	—	232	—	—	—	232
Accrued interest	27	—	—	—	27	5	—	—	32
Deferred revenue	—	66	62	—	128	—	—	—	128
Other current liabilities	—	13	2	—	15	1	—	—	16
Total current liabilities	27	810	735	—	1,572	6	—	—	1,578
Long-term debt	2,064	—	—	—	2,064	150	—	—	2,214
Deferred tax liabilities, net	—	169	234	—	403	—	—	—	403
Other noncurrent liabilities	6	52	71	6	135	—	—	—	135
Total liabilities	2,097	1,031	1,040	6	4,174	156	—	—	4,330
Total Warner Music Group Corp. (deficit) equity	(74)	806	375	(11)	1,096	1,331	1,025	(2,427)	1,025
Noncontrolling interest	—	—	17	—	17	—	—	—	17
Total (deficit) equity	(74)	806	392	(11)	1,113	1,331	1,025	(2,427)	1,042
Total liabilities and (deficit) equity	$ 2,023	$ 1,837	$ 1,432	$ (5)	$ 5,287	$ 1,487	$1,025	$ (2,427)	$ 5,372

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WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Balance Sheet (Unaudited)
September 30, 2011

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets:									
Current assets:									
Cash and equivalents	$ 17	$ 61	$ 72	$ —	$ 150	$ 4	$ —	$ —	$ 154
Accounts receivable, net	9	178	198	—	385	—	—	—	385
Inventories	—	11	18	—	29	—	—	—	29
Royalty advances expected to be recouped within one year	—	80	55	—	135	—	—	—	135
Deferred tax assets	—	38	16	—	54	—	—	—	54
Other current assets	—	23	22	—	45	—	—	—	45
Total current assets	26	391	381	—	798	4	—	—	802
Royalty advances expected to be recouped after one year	—	106	67	—	173	—	—	—	173
Investments in and advances to (from) consolidated subsidiaries	3,203	419	—	(3,622)	—	1,161	1,402	(2,563)	—
Property, plant and equipment, net	—	136	46	—	182	—	—	—	182
Goodwill	—	1,372	—	—	1,372	—	—	—	1,372
Intangible assets subject to amortization, net	—	1,252	1,426	—	2,678	—	—	—	2,678
Intangible assets not subject to amortization	—	92	10	—	102	—	—	—	102
Due (to) from parent companies	(1,200)	(1,951)	(556)	3,630	(77)	383	(306)	—	—
Other assets	40	9	14	—	63	8	—	—	71
Total assets	$ 2,069	$ 1,826	$ 1,388	$ 8	$ 5,291	$1,556	$1,096	$ (2,563)	$ 5,380
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$ —	$ 88	$ 77	$ —	$ 165	$ —	$ —	$ —	$ 165
Accrued royalties	—	586	388	—	974	—	—	—	974
Accrued liabilities	—	98	119	—	217	—	—	—	217
Accrued interest	51	—	—	—	51	4	—	—	55
Deferred revenue	—	46	55	—	101	—	—	—	101
Other current liabilities	—	7	3	—	10	—	—	—	10
Total current liabilities	51	825	642	—	1,518	4	—	—	1,522
Long-term debt	2,067	—	—	—	2,067	150	—	—	2,217
Deferred tax liabilities, net	—	169	242	—	411	—	—	—	411
Other noncurrent liabilities	6	60	76	6	148	—	—	—	148
Total liabilities	2,124	1,054	960	6	4,144	154	—	—	4,298
Total Warner Music Group Corp. (deficit) equity	(55)	772	411	2	1,130	1,402	1,096	(2,563)	1,065
Noncontrolling interest	—	—	17	—	17	—	—	—	17
Total (deficit) equity	(55)	772	428	2	1,147	1,402	1,096	(2,563)	1,082
Total liabilities and (deficit) equity	$ 2,069	$ 1,826	$ 1,388	$ 8	$ 5,291	$1,556	$1,096	$ (2,563)	$ 5,380

WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Statements of Operations (Unaudited)
For The Three Months Ended December 31, 2011 (Successor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$ —	$ 333	$ 495	$ (49)	$ 779	$ —	$ —	$ —	$ 779
Costs and expenses:									
Cost of revenues	—	(165)	(303)	44	(424)	—	—	—	(424)
Selling, general and administrative expenses	—	(124)	(149)	5	(268)	—	—	—	(268)
Transaction costs	—	—	—	—	—	—	—	—	—
Amortization of intangible assets	—	(15)	(33)	—	(48)	—	—	—	(48)
Total costs and expenses	—	(304)	(485)	49	(740)	—	—	—	(740)
Operating income	—	29	10	—	39	—	—	—	39
Interest expense, net	(49)	1	(3)	—	(51)	(6)	—	—	(57)
Equity (losses) gains from consolidated subsidiaries	35	(13)	—	(22)	—	(20)	(26)	46	—
Other (expense) income, net	1	24	(27)	—	(2)	—	—	—	(2)
(Loss) income before income taxes	(13)	41	(20)	(22)	(14)	(26)	(26)	46	(20)
Income tax expense	(6)	(7)	(2)	9	(6)	—	—	—	(6)
Net (loss) income	(19)	34	(22)	(13)	(20)	(26)	(26)	46	(26)
Less: loss attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Net (loss) income attributable to Warner Music Group Corp	$ (19)	$ 34	$ (22)	$ (13)	$ (20)	$ (26)	$ (26)	$ 46	$ (26)

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WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Statements of Operations (Unaudited)
For The Three Months Ended December 31, 2010 (Predecessor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$ —	$ 308	$ 515	$ (45)	$ 778	$ —	$ —	$ —	$ 778
Costs and expenses:									
Cost of revenues	—	(147)	(324)	40	(431)	—	—	—	(431)
Selling, general and administrative expenses	—	(89)	(188)	11	(266)	—	—	—	(266)
Amortization of intangible assets	—	(32)	(22)	—	(54)	—	—	—	(54)
Total costs and expenses	—	(268)	(534)	51	(751)	—	—	—	(751)
Operating income	—	40	(19)	6	27	—	—	—	27
Interest expense, net	(39)	1	(3)	—	(41)	(6)	—	—	(47)
Equity gains (losses) from consolidated subsidiaries	27	(3)	—	(24)	—	(11)	(17)	28	—
Other income (expense), net	1	1	(2)	—	—	—	—	—	—
(Loss) income before income taxes	(11)	39	(24)	(18)	(14)	(17)	(17)	28	(20)
Income tax expense	3	1	(2)	1	3	—	(1)	—	2
Net (loss) income	(8)	40	(26)	(17)	(11)	(17)	(18)	28	(18)
Less: loss attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Net (loss) income attributable to Warner Music Group Corp	$ (8)	$ 40	$ (26)	$ (17)	$ (11)	$ (17)	$ (18)	$ 28	$ (18)

WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Statement of Cash Flows (Unaudited)
For The Three Months Ended December 31, 2011 (Successor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities:									
Net (loss) income	$ (19)	$ 34	$ (22)	$ (13)	$ (20)	$ (26)	$ (26)	$ 46	$ (26)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization	—	23	37	—	60	—	—	—	60
Deferred income taxes	—	—	(2)	—	(2)	—	—	—	(2)
Non-cash interest expense	(1)	—	—	—	(1)	—	—	—	(1)
Non-cash, stock-based compensation expense	—	—	—	—	—	—	—	—	—
Equity losses (gains) from consolidated subsidiaries	(35)	13	—	22	—	20	26	(46)	—
Changes in operating assets and liabilities:									
Accounts receivable	15	5	(62)	—	(42)	—	—	—	(42)
Inventories	—	—	—	—	—	—	—	—	—
Royalty advances	—	12	(25)	—	(13)	—	—	—	(13)
Accounts payable and accrued liabilities	9	(75)	136	(2)	68	—	—	—	68
Accrued interest	(23)	—	—	—	(23)	—	—	—	(23)
Other balance sheet changes	37	(26)	(2)	(7)	2	2	—	—	4
Net cash (used in) provided by operating activities	(17)	(14)	60	—	29	(4)	—	—	25
Cash flows from investing activities:									
Purchase of Predecessor	—	—	—	—	—	—	—	—	—
Acquisition of publishing rights	—	(2)	(5)	—	(7)	—	—	—	(7)
Proceeds from the sale of music catalog	—	2	—	—	2	—	—	—	2
Capital expenditures	—	(4)	(2)	—	(6)	—	—	—	(6)
Net cash used in investing activities	—	(4)	(7)	—	(11)	—	—	—	(11)
Cash flows from financing activities:									
Distribution to noncontrolling interest holder	—	—	(1)	—	(1)	—	—	—	(1)
Net cash provided by (used in) financing activities	—	—	(1)	—	(1)	—	—	—	(1)
Effect of foreign currency exchange rate changes on cash	—	—	1	—	1	—	—	—	1
Net increase (decrease) in cash and equivalents	(17)	(18)	53	—	18	(4)	—	—	14
Cash and equivalents at beginning of period	17	61	72	—	150	4	—	—	154
Cash and equivalents at end of period	$ —	$ 43	$ 125	$ —	$ 168	$ —	$ —	$ —	$ 168

WARNER MUSIC GROUP CORP.

Supplementary Information
Consolidating Statement of Cash Flows (Unaudited)
For The Three Months Ended December 31, 2010 (Predecessor)

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities:									
Net (loss) income	$ (8)	$ 40	$ (26)	$ (17)	$ (11)	$ (17)	$ (18)	$ 28	$ (18)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization	—	39	24	—	63	—	—	—	63
Deferred income taxes	—	—	(8)	—	(8)	—	—	—	(8)
Non-cash interest expense	3	—	—	—	3	—	—	—	3
Non-cash, stock-based compensation expense	—	2	—	—	2	—	—	—	2
Equity losses (gains) from consolidated subsidiaries	(27)	3	—	24	—	11	17	(28)	—
Other non-cash items	—	(1)	—	—	(1)	—	—	—	(1)
Changes in operating assets and liabilities:									
Accounts receivable	(1)	20	(11)	—	8	—	—	—	8
Inventories	—	2	1	—	3	—	—	—	3
Royalty advances	—	(14)	(27)	—	(41)	—	—	—	(41)
Accounts payable and accrued liabilities	67	(170)	17	—	(86)	—	—	—	(86)
Accrued interest	(37)	—	—	—	(37)	(6)	—	—	(43)
Other balance sheet changes	3	1	7	(7)	4	12	(11)	—	5
Net cash (used in) provided by operating activities	—	(78)	(23)	—	(101)	—	(12)	—	(113)
Cash flows from investing activities:									
Investments and acquisitions of businesses	—	—	(44)	—	(44)	—	—	—	(44)
Acquisition of publishing rights	—	(7)	(7)	—	(14)	—	—	—	(14)
Capital expenditures	—	(6)	(2)	—	(8)	—	—	—	(8)
Net cash used in investing activities	—	(13)	(53)	—	(66)	—	—	—	(66)
Cash flows from financing activities:									
Net cash provided by (used in) financing activities	—	—	—	—	—	—	—	—	—
Effect of foreign currency exchange rate changes on cash	—	—	3	—	3	—	—	—	3
Net increase (decrease) in cash and equivalents	—	(91)	(73)	—	(164)	—	(12)	—	(176)
Cash and equivalents at beginning of period	—	135	128	—	263	—	176	—	439
Cash and equivalents at end of period	$ —	$ 44	$ 55	$ —	$ 99	$ —	$ 164	$ —	$ 263

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

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

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negative thereof or variations thereon or similar 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 and our ability to generate expected cost savings from such efforts, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry's efforts to combat piracy on the industry, our intention to pay dividends or repurchase our outstanding notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, the impact on the competitive landscape of the music industry from the announced sale of EMI's recorded music and music publishing businesses, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

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

- litigation in respect of the Merger;
- disruption from the Merger and the transactions related to the Merger making it more difficult to maintain certain strategic relationships;
- risks relating to recent or future ratings agency actions or downgrades as a result of the Merger and the transactions related to the Merger or for any other reason;
- reduced access to capital markets as the result of the delisting of the our common stock on the New York Stock Exchange following consummation of the Merger;
- the impact of our substantial leverage, including the increase associated with additional indebtedness incurred in connection with the Merger and the transactions related to the Merger, on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- our ability to achieve expected or targeted cost savings following consummation of the Merger;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;
- the threat posed to our business by piracy of music by means of home CD-R activity, Internet peer-to-peer filesharing and sideloading of unauthorized content;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;
- the diversity and quality of our album releases;
- significant fluctuations in our results of operations and cash flows due to the nature of our business;

- our involvement in intellectual property litigation;
- the possible downward pressure on our pricing and profit margins;
- our ability to continue to enforce our intellectual property rights in digital environments;
- the ability to develop a successful business model applicable to a digital environment and to enter into expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music business;
- the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;
- risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
- the impact of legitimate music distribution on the Internet or the introduction of other new music distribution formats;
- the reliance on a limited number of online music stores and their ability to significantly influence the pricing structure for online music stores;
- the impact of rate regulations on our Recorded Music and Music Publishing businesses;
- the impact of rates on other income streams that may be set by arbitration proceedings on our business;
- the impact an impairment in the carrying value of goodwill or other intangible and long-lived assets could have on our operating results and shareholders' deficit;
- risks associated with the fluctuations in foreign currency exchange rates;
- our ability and the ability of our joint venture partners to operate our existing joint ventures satisfactorily;
- the enactment of legislation limiting the terms by which an individual can be bound under a "personal services" contract;
- potential loss of catalog if it is determined that recording artists have a right to recapture recordings under the U.S. Copyright Act;
- changes in law and government regulations;
- trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);
- the growth of other products that compete for the disposable income of consumers;
- the impact on the competitive landscape of the music industry from the announced sale of EMI's recorded music and music publishing businesses.
- risks inherent in relying on one supplier for manufacturing, packaging and distribution services in North America and parts of Europe;
- risks inherent in our acquiring or investing in other businesses including our ability to successfully manage new businesses that we may acquire as we diversify revenue streams within the music industry;
- the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost savings;
- the fact that we are outsourcing certain back-office functions, such as IT infrastructure and development and certain finance and accounting functions, which will make us more dependent upon third parties;
- the possibility that our owners' interests will conflict with ours or yours; and
- failure to attract and retain key personnel.

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

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

INTRODUCTION

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

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

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

On the Closing Date, the Company notified the New York Stock Exchange, Inc. (the "NYSE") of its intent to remove the Company's common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of the Company's common stock from the NYSE. On July 21, 2011, in accordance with the Company's request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of the Company's common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On August 2, 2011, the Company filed a Form 15 with the SEC in order to provide notification of a suspension of its duty to file reports under Section 15(d) of the Exchange Act. We continue to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing our outstanding indebtedness.

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

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

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

- *Overview.* This section provides a general description of our business, as well as recent developments that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.
- *Results of operations.* This section provides an analysis of our results of operations for the three months ended December 31, 2011 (Successor) and December 31, 2010 (Predecessor). This analysis is presented on both a consolidated and segment basis.
- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the three months ended December 30, 2011 (Successor) and December 31, 2010 (Predecessor) as well as a discussion of our financial condition and liquidity as of December 31, 2011. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

Use of OIBDA

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

Our results of operations for the three months ended December 31, 2011, and OIBDA as presented herein, reflect the impact of (i) $7 million of severance-related expenses and (ii) $3 million of costs incurred in connection with our bid to acquire EMI. Our results of operation for the three months ended December 31, 2010, and OIBDA as presented herein, reflect the impact of (i) $11 million of severance-related expenses and (ii) $2 million of share-based compensation expense.

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

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year results using current-year foreign currency exchange rates. However, a limitation of the use of the constant-currency results as a performance measure is that it does not reflect the impact of exchange rates on our revenue, including, for example, the $5 million and $4 million favorable impact of exchange rates on our Total and Recorded Music revenue, in the three months ended December 31, 2011 compared to the prior-year quarter. We generally refer to such amounts calculated on a constant-currency basis as "excluding the impact of foreign currency exchange rates." These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

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

Recorded Music Operations

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

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

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

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

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

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

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

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

Recorded Music revenues are derived from three main sources:

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

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

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

Music Publishing Operations

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

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

Turner Music Publishing. In 2007, we entered the production music library business with the acquisition of Non-Stop Music. We have subsequently continued to expand our production music operations with the acquisitions of Groove Addicts Production Music Library and Carlin Recorded Music Library in 2010 and 615 Music in 2011.

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 on a world wide industry basis. While U.S. industry-wide track-equivalent album sales rose in 2011 for the first time since 2004, album sales continued to fall in other countries, such as the U.K., as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a significant portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

Share-Based Compensation

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

In total, the Company recognized non-cash compensation expense related to its stock-based compensation plans of $2 million for the three months ended December 30, 2010 (Predecessor). As there were no outstanding equity awards subsequent to July 20, 2011, the company did not recognize any non-cash compensation expense for the three months ended December 31, 2011.

Severance Charges

During the three months ended December 31, 2011, we took additional actions to further align our cost structure with industry trends. This resulted in severance charges of $7 million for the three months ended December 31, 2011, compared to $11 million during the three months ended December 31, 2010.

Additional Targeted Savings

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

Expanding Business Models to Offset Declines in Physical Sales

Digital Sales

A key part of our strategy to offset declines in physical sales is to expand digital sales. New digital models have enabled us to find additional ways to generate revenues from our music content. In the 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, represented approximately 8% of our total revenue during the three months ended December 31, 2011, we believe this revenue should continue to grow and represent a larger proportion of our revenue over time. Non-traditional revenue will fluctuate from period to period depending upon touring schedules, among other things. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various non-traditional Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from touring under our expanded-rights deals typically flows straight through to net income with little cost. Revenue from our management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from recorded music and music publishing.

The Merger

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

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

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

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

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

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Closing Date (the "Management Agreement"), pursuant to which Access will provide the Company and its subsidiaries, with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. For the three months ended December 31, 2011, such costs incurred by the Company were approximately $2 million.

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RESULTS OF OPERATIONS

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

Consolidated Historical Results

Revenues

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

	Successor	Predecessor	2011 vs. 2010	
	For the Three Months Ended December 31,			
	2011	2010	$ Change	% Change
Revenue by Type				
Physical and other	$ 399	$ 422	$ (23)	-5%
Digital	205	178	27	15%
Licensing	57	62	(5)	-8%
Total Recorded Music	**661**	**662**	**(1)**	**—**
Mechanical	33	39	(6)	-15%
Performance	48	44	4	9%
Synchronization	24	24	—	—
Digital	15	11	4	36%
Other	3	2	1	50%
Total Music Publishing	**123**	**120**	**3**	**3%**
Intersegment elimination	(5)	(4)	(1)	25%
Total Revenue	**$ 779**	**$ 778**	**$ 1**	**—**
Revenue by Geographical Location				
U.S. Recorded Music	$ 258	$ 249	$ 9	4%
U.S. Publishing	41	39	2	5%
Total U.S.	**299**	**288**	**11**	**4%**
International Recorded Music	403	413	(10)	-2%
International Publishing	82	81	1	1%
Total International	**485**	**494**	**(9)**	**-2%**
Intersegment eliminations	(5)	(4)	(1)	25%
Total Revenue	**$ 779**	**$ 778**	**$ 1**	**—**

Total Revenue

Total revenues increased by $1 million to $779 million for the three months ended December 31, 2011 from $778 million for the three months ended December 31, 2010. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of total revenues for the three months ended December 31, 2011, respectively, compared to 85% and 15% for the three months ended December 31, 2010, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 38% and 62% of total revenues for the three months ended December 31, 2011 and 37% and 63% of total revenues for the three months ended December 31, 2010, respectively. Excluding the favorable impact of foreign currency exchange rates, total revenues decreased $4 million, or 1%.

Total digital revenues after intersegment eliminations increased by $32 million, or 17%, to $219 million for the three months ended December 31, 2011 from $187 million for the three months ended December 31, 2010. Total digital revenues represented 28% and 24% of consolidated revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2011 were comprised of U.S. revenues of $122 million and international revenues of $98 million, or 55% and 45% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2010 were comprised of U.S. revenues of $102 million and international revenues of $87 million, or 54% and 46% of total digital revenues, respectively.

Recorded Music revenues decreased by $1 million to $661 million for the three months ended December 31, 2011 from $662 million for the three months ended December 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 84% and 85% of consolidated revenues, for the three months ended December 31, 2011 and December 31, 2010, respectively. U.S. Recorded Music revenues were $258 million and $249 million, or 39% and 38% of consolidated Recorded Music revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. International Recorded Music revenues were $403 million and $413 million, or 61% and 62% of consolidated Recorded Music revenues for the three months ended December 31, 2011 and December 31, 2010, respectively.

This performance reflected a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé's "Christmas." The success of this release helped offset the continued decline of physical sales. Digital revenues increased by $27 million, or 15%, for the three months ended December, 2011, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. These increases were offset by declines in our European concert promotion business which reflected the timing and composition of touring schedules in the current period as compared with the prior-year quarter. In addition, licensing revenues decreased $5 million, or 8%, to $57 million for the three months ended December 31, 2011, due primarily to timing. Excluding the favorable impact of foreign currency exchange rates, total recorded music revenues decreased by $5 million, or 1%.

Music Publishing revenues increased by $3 million, or 3%, to $123 million for the three months ended December 31, 2011 from $120 million for the three months ended December 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 16% and 15% of consolidated revenues, for the three months ended December 31, 2011 and December 31, 2010, respectively. U.S. Music Publishing revenues were $41 million and $39 million, or 33% of Music Publishing revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. International Music Publishing revenues were $82 million and $81 million, or 67% of Music Publishing revenues for the three months ended December 31, 2011 and December 31, 2010, respectively.

The increase in Music Publishing revenue was driven primarily by increases in performance revenue and digital revenue, partially offset by the expected decrease in mechanical revenue. The increase in performance revenue was driven by a stronger advertising market, strong chart positions as well as recent acquisitions. The increase in digital revenue reflected growth in global digital downloads and certain streaming services. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry.

Revenue by Geographical Location

U.S. revenues increased by $11 million, or 4%, to $299 million for the three months ended December 31, 2011 from $288 million for the three months ended December 31, 2010. The overall increase in the U.S. Recorded Music business reflected a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé's "Christmas." The success of this release helped offset the continued decline of physical sales. The increase in digital revenues were driven by growth in digital downloads and the continued success of streaming services, partially offset by the continued decline in mobile revenue primarily related to lower ringtone demand.

International revenues decreased by $9 million, or 2%, to $485 million for the three months ended December 31, 2011 from $494 million for the three months ended December 31, 2010. The overall decrease in international revenues were driven primarily by declines in our European concert promotion business which reflected the timing and composition of touring schedules in the current period as compared with the prior-year quarter and the ongoing impact of the transition from physical to digital sales in the recorded music industry, partially offset by (i) the success of Michael Bublé's "Christmas" which was released in the current period and (ii) an increase in digital revenue, primarily as a result of continued growth in global downloads and streaming. Revenue growth in Germany and Japan was more than offset by declines in France. Excluding the favorable impact of foreign currency exchange rates, total international revenues decreased $13 million or 3%.

Cost of revenues

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

	Successor	Predecessor	2011 vs. 2010	
	For the Three Months Ended December 31,			
	2011	2010	$ Change	% Change
Artist and repertoire costs	$ 261	$ 262	$ (1)	— %
Product costs	141	150	(9)	-6%
Licensing costs	22	19	3	16%
Total cost of revenues	**$ 424**	**$ 431**	**$ (7)**	**-2%**

Our cost of revenues decreased by $7 million, or 2%, to $424 million for the three months ended December 31, 2011 from $431 million for the three months ended December 31, 2010. Expressed as a percentage of revenues, cost of revenues were 54% and 55% for the three months ended December 31, 2011 and December 31, 2010, respectively.

Artist and repertoire costs decreased slightly by $1 million to $261 million for the three months ended December 31, 2011 from $262 million for the three months ended December 31, 2010. Artist and repertoire costs as a percentage of revenues remained flat at 34% for three months ended December 31, 2011 and December 31, 2010.

Product costs decreased $9 million, or 6%, to $141 million for the three months ended December 31, 2011 from $150 million for the three months ended December 31, 2010, primarily as a result of lower non-traditional recorded music business costs related to the decrease in revenue from our European concert promotion businesses. Costs associated with our non-traditional recorded music businesses are primarily recorded as a component of product costs. Product costs as a percentage of revenues decreased from 19% for the three months ended December 31, 2010 to 18% for the three months ended December 31, 2011 due primarily to changes in revenue mix as some of our non-traditional recorded music businesses, particularly concert promotions, typically yield lower margins than our traditional recorded music model.

Licensing costs increased by $3 million, or 16%, to $22 million for the three months ended December 31, 2011 from $19 million for the three months ended December 31, 2010. Licensing costs as a percentage of licensing revenues increased from 31% for the three months ended December 31, 2010 to 39% for the three months ended December 31, 2011, primarily as a result of changes in revenue mix.

Selling, general and administrative expenses

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
General and administrative expense (1)	$ 146	$ 134	$ 12	9%
Selling and marketing expense	106	116	(10)	-9%
Distribution expense	16	16	—	— %
Total selling, general and administrative expense	**$ 268**	**$ 266**	**$ 2**	**1%**

(1) Includes depreciation expense of $12 million and $9 million for the three months ended December 31, 2011 and December 31, 2010, respectively.

Total selling, general and administrative expense increased by $2 million, or 1%, to $268 million for the three months ended December 31, 2011 from $266 million for the three months ended December 31, 2010. Expressed as a percentage of revenues, selling, general and administrative expenses remained flat at 34% for the three months ended December 31, 2011 and December 31, 2010.

General and administrative expenses increased by $12 million, or 9%, to $146 million for the three months ended December 31, 2011 from $134 million for the three months ended December 31, 2010. Expressed as a percentage of revenues, general and administrative expenses increased from 17% for the three months ended December 31, 2010 to 19% for the three months ended December 31, 2011. The increase in general and administrative expense was driven primarily by higher variable compensation expense, an increase in professional fees incurred in connection with our bid to acquire EMI of $3 million and an increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger, partially offset by lower severance charges in the current period and continued cost management efforts.

Selling and marketing expense decreased by $10 million, or 9%, to $106 million for the three months ended December 31, 2011 from $116 million for the three months ended December 31, 2010, primarily related to lower variable marketing expense as a result of our efforts to better align spending on selling and marketing expense with revenues earned. Expressed as a percentage of revenues, selling and marketing expense decreased from 15% for the three months ended December 31, 2010 to 14% for the three months ended December 31, 2011, primarily as a result of the strong sales performance of Michael Bublé's "Christmas," which had a lower proportionate marketing spend.

Distribution expense remained flat at $16 million for the three months ended December 31, 2011 and December 31, 2010. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the three months ended December 31, 2011 and December 31, 2010.

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

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
OIBDA	$ 99	$ 90	$ 9	10%
Depreciation expense	(12)	(9)	(3)	33%
Amortization expense	(48)	(54)	6	-11%
Operating income	**39**	**27**	**12**	**44%**
Interest expense, net	(57)	(47)	(10)	21%
Other expense, net	(2)	—	(2)	—
Loss before income taxes	**(20)**	**(20)**	**—**	**—**
Income tax (expense) benefit	(6)	2	(8)	—
Net loss	**(26)**	**(18)**	**(8)**	**44%**
Less: income attributable to noncontrolling interest	—	—	—	—
Net loss attributable to Warner Music Group Corp.	**$ (26)**	**$ (18)**	**$ (8)**	**44%**

OIBDA

Our OIBDA increased by $9 million, or 10%, to $99 million for the three months ended December 31, 2011 as compared to $90 million for the three months ended December 31, 2010. Expressed as a percentage of revenues, total OIBDA margin increased from 12%, for the three months ended December 31, 2010, to 13%, for the three months ended December 31, 2011. Our OIBDA increase was primarily driven by previously announced cost savings initiatives, lower product costs associated with our European concert promotion businesses and lower severance charges, partially offset by an increase in variable compensation expense and an increase in professional fees incurred in connection with our bid to acquire EMI. In addition, OIBDA margin improvements were driven by the strong sales performance of Michael Bublé's "Christmas," which increased overall margin due to reductions in proportionate marketing spend.

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

Depreciation expense

Our depreciation expense increased by $3 million, or 33%, to $12 million for the three months ended December 31, 2011 as compared to $9 million for the three months ended December 31, 2010, primarily due to recently completed capital projects and purchase price accounting recorded in connection with the Merger.

Amortization expense

Amortization expense decreased by $6 million, or 11%, to $48 million for the three months ended December 31, 2011 as compared to $54 million for the three months ended December 31, 2010. The decrease was primarily related to purchase price accounting recorded in connection with the Merger that resulted in longer useful lives.

Operating income

Our operating income increased $12 million, or 44%, to $39 million, for the three months ended December 31, 2011 as compared to operating income of $27 million for the three months ended December 31, 2010. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in amortization expense, partially offset by the increase in depreciation expense noted above.

Interest expense, net

Our interest expense, net, increased $10 million, or 21%, to $57 million for the three months ended December 31, 2011 as compared to $47 million for the three months ended December 31, 2010. The increase was driven by our new debt obligations which were issued with higher interest rates.

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

Other expense, net

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

Income tax (expense) benefit

We incurred income tax expense of $6 million for the three months ended December 31, 2011 as compared to a benefit of $2 million for the three months ended December 31, 2010. The increase in income tax expense primarily relates to a one-time tax benefit during the three months ended December 31, 2010 related to the release of valuation allowance associated with acquisitions.

We are currently under examination by various taxing authorities. We expect that $6 million of the total accrual of uncertain tax positions, which is $13 million as of December 31, 2011, will be paid during the next twelve months.

Net loss

Our net loss increased by $8 million, to a net loss of $26 million for the three months ended December 31, 2011 as compared to a net loss of $18 million for the three months ended December 31, 2010. The increase was driven by increases in interest expense and income tax expense, partially offset by an increase in operating income noted above.

Business Segment Results

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
Recorded Music				
Revenue	$ 661	$ 662	$ (1)	—
OIBDA	102	90	12	13%
Operating income	$ 61	$ 47	14	30%
Music Publishing				
Revenue	$ 123	$ 120	$ 3	3%
OIBDA	18	18	—	— %
Operating income	$ 2	$ —	$ 2	—
Corporate expenses and eliminations				
Revenue	$ (5)	$ (4)	$ (1)	25%
OIBDA	(21)	(18)	(3)	17%
Operating loss	$ (24)	$ (20)	$ (4)	20%
Total				
Revenue	$ 779	$ 778	$ 1	—
OIBDA	99	90	9	10%
Operating income	$ 39	$ 27	$ 12	44%

Recorded Music

Revenues

Recorded Music revenues decreased by $1 million to $661 million for the three months ended December 31, 2011 from $662 million for the three months ended December 31, 2010. Prior to intersegment eliminations, Recorded Music revenues represented 84% and 85% of consolidated revenues, for the three months ended December 31, 2011 and December 31, 2010, respectively. U.S. Recorded Music revenues were $258 million and $249 million, or 39% and 38% of consolidated Recorded Music revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. International Recorded Music revenues were $403 million and $413 million, or 61% and 62% of consolidated Recorded Music revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. This performance reflected a strong holiday release schedule which included the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan, Michael Bublé's "Christmas." The success of this release helped offset the ongoing impact of the transition from physical to digital sales. Digital revenues increased by $27 million, or 15%, for the three months ended December, 2011, driven by growth of digital downloads from emerging digital markets in Latin America and certain European territories and the continued success of streaming services, partially offset by the continued decline in global mobile revenue primarily related to lower ringtone demand. These increases were offset by declines in our European concert promotion business which reflected the timing and composition of touring schedules in the current period as compared with the prior-year quarter. In addition, licensing revenues decreased $5 million, or 8%, to $57 million for the three months ended December 31, 2011, due primarily to timing. Excluding the favorable impact of foreign currency exchange rates, total revenues decreased by $5 million, or 1%.

Cost of revenues

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change
Artist and repertoire costs	$ 178	$ 177	$ 1	1%
Product costs	141	151	(10)	-7%
Licensing costs	22	19	3	16%
Total cost of revenues	**$ 341**	**$ 347**	**$ (6)**	**-2%**

Recorded Music cost of revenues decreased $6 million, or 2%, for the three months ended December 31, 2011. The decrease in product costs was primarily the result of lower non-traditional recorded music business costs related to the decrease in revenue from our European concert promotion businesses. Costs associated with our non-traditional recorded music businesses are primarily recorded as a component of product costs. The increase in licensing costs was driven primarily by changes in revenue mix. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 52% for the three months ended December 31, 2011 and December 31, 2010.

Selling, general and administrative expense

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
General and administrative expense (1)	$ 105	$ 100	$ 5	5%
Selling and marketing expense	105	115	(10)	-9%
Distribution expense	16	16	—	— %
Total selling, general and administrative expense	**$ 226**	**$ 231**	**$ (5)**	**-2%**

(1) Includes depreciation expense of $8 million and $6 million for the three months ended December 31, 2011 and December 31, 2010, respectively.

Recorded Music selling, general and administrative expense decreased $5 million, for the three months ended December 31, 2011. The decrease in selling and marketing expense was primarily the result of our efforts to better align selling and marketing expenses with revenues earned and continued cost-management efforts. The increase in general and administrative expense was driven primarily by higher variable compensation expense and an increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger, partially offset by lower severance charges in the current period. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased from 35% for the three months ended December 31, 2010 to 34% for the three months ended December 31, 2011.

OIBDA and Operating Income

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
OIBDA	$ 102	$ 90	$ 12	13%
Depreciation and amortization	(41)	(43)	2	-5%
Operating income	**$ 61**	**$ 47**	**$ 14**	**30%**

Recorded Music OIBDA increased by $12 million, or 13%, to $102 million for the three months ended December 31, 2011 compared to $90 million for the three months ended December 31, 2010. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 15% for the three months ended December 31, 2011 from 14% for the three months ended December 31, 2010. Our Recorded Music OIBDA increase was primarily driven by previously announced cost savings initiatives, decreases in product costs associated with our European concert promotion business, decreases in selling and marketing expense and lower severance charges, partially offset by an increase in variable compensation expense. In addition, OIBDA margin improvements were driven by the strong sales performance of Michael Bublé's "Christmas," which increased overall margin due to reductions in proportionate marketing spend.

Recorded Music operating income increased by $14 million, due primarily to the increase in OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues increased by $3 million, or 3%, to $123 million for the three months ended December 31, 2011 from $120 million for the three months ended December 31, 2010. Prior to intersegment eliminations, Music Publishing revenues represented 16% and 15% of consolidated revenues, for the three months ended December 31, 2011 and December 31, 2010, respectively. U.S. Music Publishing revenues were $41 million and $39 million, or 33% of Music Publishing revenues for the three months ended December 31, 2011 and December 31, 2010, respectively. International Music Publishing revenues were $82 million and $81 million, or 67% of Music Publishing revenues for the three months ended December 31, 2011 and December 31, 2010, respectively.

The increase in Music Publishing revenue was driven primarily by increases in performance revenue and digital revenue, partially offset by the expected decrease in mechanical revenue. The increase in performance revenue was driven by a stronger advertising market, strong chart positions as well as recent acquisitions. The increase in digital revenue reflected growth in global digital downloads and certain streaming services. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry.

Cost of revenues

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		*2011 vs. 2010*	
	2011	2010	$ Change	% Change
Artist and repertoire costs	$ 88	$ 89	$ (1)	-1%
Total cost of revenues	**$ 88**	**$ 89**	**$ (1)**	**-1%**

Music Publishing cost of revenues decreased $1 million, or 1%, to $88 million for the three months ended December 31, 2011, from $89 million for the three months ended December 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 72% for the three months ended December 31, 2011 from 74% for the three months ended December 31, 2010, primarily as a result of our newly acquired publishing rights which have improved the Company's net publishers share and the extension of existing agreements with more favorable splits, partially offset by an increase in unproven artist spend.

Selling, general and administrative expense

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

	Successor	Predecessor		
	For the Three Months Ended December 31,		*2011 vs. 2010*	
	2011	2010	$ 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 December 31, 2011 and December 31, 2010.

Music Publishing selling, general and administrative expense increased to $18 million for the three months ended December 31, 2011 as compared with $14 million for the three months ended December 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased from 12% to 15% for the three months ended December 31, 2011 and December 31, 2010, respectively. The increase was driven by general and administrative costs from newly acquired businesses and an increase in variable compensation expense.

OIBDA and Operating Income

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

	Successor	Predecessor	2011 vs. 2010	
	For the Three Months Ended December 31,			
	2011	2010	$ Change	% Change
OIBDA	$ 18	$ 18	$ —	—
Depreciation and amortization	(16)	(18)	2	-11%
Operating income	**$ 2**	**$ —**	**$ 2**	**—**

Music Publishing OIBDA remained flat at $18 million for the three months ended December 31, 2011 and December 31, 2010. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin also remained flat at 15% for the three months ended December 31, 2011 and December 31, 2010, as a result of an increase in revenue and a slight decrease in cost of revenue offset by an increase in selling, general and administrative expenses noted above.

Music Publishing operating income increased by $2 million due primarily as a result of a decrease in amortization expense driven by the extended useful lives of certain intangible assets recorded in connection with the Merger.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations increased from $18 million for the three months ended December 31, 2010 to $21 million for the three months ended December 31, 2011, primarily as a result of increases in severance charges and variable compensation during the current period as well as an increase in professional fees incurred in connection with our bid to acquire EMI.

Our operating loss from corporate expenses and eliminations increased from $20 million for the three months ended December 31, 2010 to $24 million for the three months ended December 31, 2011 due to the decrease in OIBDA noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At December 31, 2011, we had $2.214 billion of debt, $168 million of cash and equivalents (net debt of $2.046 billion, defined as total debt less cash and equivalents and short-term investments) and $1.025 billion in Warner Music Group Corp. equity. This compares to $2.217 billion of debt, $154 million of cash and equivalents (net debt of $2.063 billion, defined as total debt less cash and equivalents and short-term investments) and $1.065 billion in Warner Music Group Corp. equity at September 30, 2011. Net debt decreased by $17 million as a result of (i) a $14 million increase in cash and equivalents and (ii) a $3 million decrease in long-term debt related to the amortization of premiums on our Existing Secured Notes and Secured WMG Notes and accretion of the discount on our Unsecured WMG Notes.

The $40 million decrease in Warner Music Group Corp. equity during the three months ended December 31, 2011 consisted of $26 million of net loss for the three months ended December 31, 2011 and foreign currency exchange movements of $14 million.

Cash Flows

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

	Successor Three Months Ended December 31, 2011	Predecessor Three Months Ended December 31, 2010
Cash provided by (used in):		
Operating activities	$ 25	$ (113)
Investing activities	(11)	(66)
Financing activities	(1)	—

Operating Activities

Cash provided by operating activities was $25 million for the three months ended December 31, 2011 as compared with cash used in operating activities of $113 million for the three months ended December 31, 2010. The $138 million increase in cash provided by operations related to a combination of higher OIBDA during the current-year quarter, the variable timing of our working capital requirements which include the timing of sales and collections in the period, the timing of artist and repertoire spend compared to the prior-year, a decrease in cash paid for severance and lower total cash bonus payouts in the current quarter than in the prior year period. In addition, our cash interest paid decreased to $79 million for the three months ended December 31, 2011 as compared with $88 million for the three months ended December 31, 2010 as a result of a shorter accrual cycle on certain of our new debt obligations which were issued in July 2011. Subsequent to the refinancing in connection with the Merger, all of the Company's cash interest payments on its bonds are paid semi-annually in the first and third quarters of its fiscal year.

Investing Activities

Cash used in investing activities was $11 million for the three months ended December 31, 2011 as compared with $66 million for the three months ended December 31, 2010. The $11 million of cash used in investing consisted of $7 million to acquire music publishing rights and $6 million for capital expenditures, partially offset by $2 million received for the sale of a music publishing catalog. The $66 million of cash used in investing activities in the three months ended December 31, 2010 consisted of $44 million to acquire businesses, $14 million to acquire music publishing rights and $8 million in capital expenditures.

Financing Activities

Cash used in financing activities of $1 million for the three months ended December 31, 2011 represented distributions to our noncontrolling interest holders.

Liquidity

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

As of December 31, 2011, our long-term debt was as follows (in millions):

Revolving Credit Facility (a)	$ —
9.5% Existing Secured Notes due 2016—Acquisition Corp. (b)	1,160
9.5% Secured WMG Notes due 2016—Acquisition Corp. (c)	156
11.5% Unsecured WMG Notes due 2018—Acquisition Corp. (d)	748
13.75% Holdings Notes due 2019—Holdings (e)	150
Total long term debt	$ 2,214

(a) Reflects $60 million of commitments under the Revolving Credit Facility which had no amounts outstanding at December 31, 2011.
(b) 9.5% Existing Secured Notes due 2016; face amount of $1.1 billion plus unamortized premium of $60 million.
(c) 9.5% Secured WMG Notes due 2016; face amount of $150 million plus unamortized premium of $6 million.
(d) 11.5% Unsecured WMG Notes due 2018; face amount of $765 million less unamortized discount of $17 million.
(e) 13.75% Holdings Notes due 2019; face amount of $150 million.

Revolving Credit Facility

In connection with the Merger, Acquisition Corp. entered into a credit agreement (the "Credit Agreement") for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Revolving Credit Facility").

General

Acquisition Corp. is the borrower (the "Borrower") under the Credit Agreement which provides for a revolving credit facility in the amount of up to $60 million (the "Commitments") and includes a letter of credit sub-facility. The Credit Agreement permits loans for general corporate purposes and may also be utilized to issue letters of credit. The Credit Agreement matures five years from the Closing Date.

Interest Rates and Fees

Borrowings under the Credit Agreement bear interest at Borrower's election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("LIBOR rate"), plus 4% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month LIBOR rate plus 1.0% per annum, plus, in each case, 3% per annum. The LIBOR rate shall be deemed to be not less than 1.5%.

If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.00% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.00% per annum above the amount that would apply to an alternative base rate loan.

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

Prepayments

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

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

Guarantee; Security

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

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

Covenants, Representations and Warranties

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

There are no financial covenants included in the Credit Agreement, other than a springing leverage ratio, which will be tested only when there are loans outstanding under the Credit Agreement in excess of $5 million (excluding letters of credit).

Events of Default

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

Existing Secured Notes

As of December 31, 2011, Acquisition Corp. had $1.160 billion of debt represented by its 9.5% Senior Secured Notes due 2016 (the "Existing Secured Notes"). Acquisition Corp. issued $1.1 billion aggregate principal amount of Existing Secured Notes in 2009 pursuant to the Indenture, dated as of May 28, 2009 (as amended and supplemented, the "Existing Secured Notes Indenture"), among the Acquisition Corp., the guarantors party thereto, and Wells Fargo Bank, National Association as trustee.

The Existing Secured Notes were issued at 96.289% of their face value for total net proceeds of $1.059 billion, with an effective interest rate of 10.25%. The original issue discount (OID) was $41 million. The OID was equal to the difference between the stated principal amount and the issue price. Following the Merger, in accordance with the guidance under ASC 805, these notes were recorded at fair value in conjunction with acquisition-method accounting. This resulted in the elimination of the predecessor discount and the establishment of a $65 million successor premium based on market data as of the closing date. This premium will be amortized using the effective interest rate method and reported as an offset to non-cash interest expense. The Existing Secured Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and December 15 of each year at a fixed rate of 9.5% per annum.

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

The Existing Secured Notes remain outstanding following the Merger. Acquisition Corp. entered into a supplemental indenture, dated as of the Closing Date (the "Existing Secured Notes Supplemental Indenture") that supplements the Existing Secured Notes Indenture. Pursuant to the Existing Secured Notes Supplemental Indenture, certain subsidiaries of Acquisition Corp. that had not previously been parties to the Existing Secured Notes Indenture, agreed to become parties thereto and to unconditionally guarantee, on a senior secured basis, payment of the Existing Secured Notes.

Ranking and Security

The Existing Secured Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with the Secured WMG Notes and the Revolving Credit Facility and all future indebtedness secured under the same security arrangements as such indebtedness. The Existing Secured Notes rank senior in right of payment to Acquisition Corp.'s existing and future subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the Secured WMG Notes, indebtedness under the Revolving Credit Facility and the Unsecured WMG Notes; are effectively senior to all of Acquisition Corp.'s existing and future unsecured indebtedness, to the extent of the assets securing the Existing Secured Notes and are structurally subordinated to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below), to the extent of the assets of those subsidiaries. All obligations under the Existing Secured Notes and the guarantees of those obligations are secured by first-priority liens, subject to permitted liens, in the assets of Holdings (which consists of the shares of Acquisition Corp.), Acquisition Corp., and the subsidiary guarantors, except for certain excluded assets.

Guarantees

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

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

Optional Redemption

Acquisition Corp. may redeem the Existing Secured Notes, in whole or in part, at any time prior to June 15, 2013, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Existing Secured Notes to be redeemed to the applicable redemption date.

The Existing Secured Notes may also be redeemed, in whole or in part, at any time prior to June 15, 2013, upon the consummation and closing of a Major Music/Media Transaction (as defined in the Existing Secured Notes Indenture), at a redemption price equal to 104.750% of the principal amount of the Existing Secured Notes redeemed plus accrued and unpaid interest and special interest, if any, on the Existing Secured Notes to be redeemed to the applicable redemption date, subject to the right of holders of the Existing Secured Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after June 15, 2013, Acquisition Corp. may redeem all or a part of the Existing Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Existing Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on June 15 of the years indicated below:

Year	Percentage
2013	104.750%
2014	102.375%
2015 and thereafter	100.000%

In addition, at any time prior to June 15, 2012, Acquisition Corp. may on any one or more occasions redeem up to 35% of the aggregate principal amount of Existing Secured Notes at a redemption price equal to 109.50% of the principal amount thereof, plus accrued and unpaid interest and special interest, if any, to the date of redemption, with the net cash proceeds of certain equity offerings; provided that: (1) at least 50% of the aggregate principal amount of Existing Secured Notes originally issued under the Existing Secured Notes Indenture (excluding Existing Secured Notes held by Acquisition Corp. and its subsidiaries) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

Change of Control

Upon the occurrence of a change of control, which is defined in the Existing Secured Notes Indenture, each holder of the Existing Secured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's Existing Secured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date. A change of control includes, among other events, either a sale of Acquisition Corp.'s Recorded Music business or a sale of its Music Publishing business. A sale of the Acquisition Corp.'s Recorded Music Business will not constitute a change of control where Acquisition Corp. has made an offer to redeem all the Existing Secured Notes in connection with such sale.

The Existing Secured Notes remain outstanding following the Merger. In connection with the Merger, in May 2011, the Company received the requisite consents from holders of the Existing Secured Notes to amend the indenture governing the notes such that the Merger would not constitute a "Change of Control" as defined therein.

Covenants

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

Events of Default

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

Secured WMG Notes

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

The Secured WMG Notes were issued at 104.75% of their face value for total net proceeds of $157 million, with an effective interest rate of 8.32%. The original issue premium (OIP) was $7 million. The OIP is the difference between the stated principal amount and the issue price. The OIP will be amortized over the term of the Secured WMG Notes using the effective interest rate method and reported as an offset to non-cash interest expense. The Secured WMG Notes mature on June 15, 2016 and bear interest payable semi-annually on June 15 and December 15 of each year at fixed rate of 9.5% per annum.

Ranking and Security

The Secured WMG Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with the Existing Secured Notes and the Revolving Credit Facility and all future indebtedness secured under the same security arrangements as such indebtedness. The Secured WMG Notes rank senior in right of payment to Acquisition Corp.'s existing and future subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the Existing Secured Notes, indebtedness under the Revolving Credit Facility and the Unsecured WMG Notes; are effectively senior to all of Acquisition Corp.'s existing and future unsecured indebtedness, to the extent of the assets securing the Secured WMG Notes; and are structurally subordinated to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)) to the extent of the assets of such subsidiaries. All obligations under the Secured WMG Notes and the guarantees of those obligations are secured by first-priority liens, subject to permitted liens, on the assets of Holdings (which consists of the shares of Acquisition Corp.), Acquisition Corp., and the subsidiary guarantors, except for certain excluded assets.

Guarantees

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

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

Optional Redemption

Acquisition Corp. may redeem the Secured WMG Notes, in whole or in part, at any time prior to June 15, 2013, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Secured WMG Notes to be redeemed to the applicable redemption date.

The Secured WMG Notes may also be redeemed, in whole or in part, at any time prior to June 15, 2013, upon the consummation and closing of a Major Music/Media Transaction (as defined in the Secured WMG Notes Indenture), at a redemption price equal to 104.750% of the principal amount of the Secured WMG Notes redeemed plus accrued and unpaid interest and special interest, if any, on the Secured WMG Notes to be redeemed to the applicable redemption date, subject to the right of holders of the Secured WMG Notes on the relevant record date to receive interest due on the relevant interest payment date.

On or after June 15, 2013, Acquisition Corp. may redeem all or a part of the Secured WMG Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Secured WMG Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on June 15 of the years indicated below:

Year	Percentage
2013	104.750%
2014	102.375%
2015 and thereafter	100.000%

In addition, at any time prior to June 15, 2012, Acquisition Corp. may on any one or more occasions redeem up to 35% of the aggregate principal amount of Secured WMG Notes at a redemption price equal to 109.50% of the principal amount thereof, plus accrued and unpaid interest and special interest, if any, to the date of redemption, with the net cash proceeds of certain equity offerings; provided that: (1) at least 50% of the aggregate principal amount of Secured WMG Notes originally issued under the Secured WMG Notes Indenture (excluding Secured WMG Notes held by Acquisition Corp. and its subsidiaries) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

Change of Control

Upon the occurrence of a change of control, which is defined in the Secured WMG Notes Indenture, each holder of the Secured WMG Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's Secured WMG Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date. A change of control includes, among other events, either a sale of Acquisition Corp.'s Recorded Music business or a sale of its Music Publishing business. A sale of the Acquisition Corp.'s Recorded Music Business will not constitute a change of control where Acquisition Corp. has made an offer to redeem all the Secured WMG Notes in connection with such sale.

Covenants

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

Events of Default

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

Senior Unsecured WMG Notes

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

The Unsecured WMG Notes were issued at 97.673% of their face value for total net proceeds of $747 million, with an effective interest rate of 12%. The original issue discount (OID) was $17 million. The OID is the difference between the stated principal amount and the issue price. The OID will be amortized over the term of the Unsecured WMG Notes using the effective interest rate method and reported as non-cash interest expense. The Unsecured WMG Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 11.5% per annum.

Ranking

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

Guarantees

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

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

Optional Redemption

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

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

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

Change of Control

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

Covenants

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

Events of Default

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

Senior Holdings Notes

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

The Holdings Notes were issued at 100% of their face value. The Holdings Notes mature on October 1, 2019 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 13.75% per annum.

Ranking

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

Guarantee

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

Optional Redemption

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

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

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

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

Change of Control

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

Covenants

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

Events of Default

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

Guarantee of Holdings Notes

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

Guarantee of Acquisition Corp. Notes

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

Dividends

In connection with the consummation of the Merger and the related transactions, cash on hand at the Company was used, among other things, to finance the aggregate Merger Consideration, to make payments in satisfaction of other equity-based interests in the Company under the Merger Agreement, to repay certain of the Company's existing indebtedness and to pay related transaction fees and expenses. See "Overview—The Merger."

Refinancing of Existing Notes Following the Merger

On July 20, 2011 (the "Early Acceptance Date"), each of Holdings and Acquisition Corp. accepted for purchase in connection with their previously announced tender offers and related consent solicitations in respect of the Existing Notes, such Existing Notes as had been tendered at or prior to 5:00 p.m., New York City time, on July 11, 2011 (the "Early Consent Time"). Each of Holdings and Acquisition Corp. then issued a notice of redemption relating to all Existing Notes not accepted for payment on the Early Acceptance Date. Following payment for the Existing Notes tendered at or prior to the Early Consent Time, each of Holdings and Acquisition Corp. deposited with Wells Fargo Bank, National Association, as trustee (the "Trustee") under (i) the Indenture, dated as of April 8, 2004, as amended, among Acquisition Corp., the subsidiary guarantors party thereto and the Trustee (the "Warner Music Group Existing Indenture"), relating to the Existing Acquisition Corp. Notes and (ii) the Indenture, dated as of December 23, 2004, among Holdings, the Company, as guarantor, and the Trustee (the "Holdings Existing Indenture"), relating to the Existing Holdings Notes (such indenture, together with the Acquisition Corp. Existing Indenture, the "Existing Indentures"), funds sufficient to satisfy all obligations remaining under the Existing Indentures with respect to the Existing Notes not accepted for payment on the Early Acceptance Date. The Trustee then entered into a Satisfaction and Discharge of Indenture, each dated as of July 21, 2011, with respect to each Existing Indenture. On July 27, 2011, each of Holdings and Acquisition Corp. accepted for purchase such Existing Notes as were tendered after the Early Acceptance Date and prior to 12:00 am on July 26, 2011. The remaining Existing Notes were discharged in August 2011 to complete the redemption.

Covenant Compliance

See "Liquidity" above for a description of the covenants governing our indebtedness.

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

The indentures governing our notes use a similar financial measure called "EBITDA." However, the financial measure used in the indentures governing the notes may differ from Consolidated EBITDA as presented herein. Consolidated EBITDA may include additional adjustments not included in EBITDA as defined in the indentures, including, for example, some of the definitions that have an add-back for certain projected cost savings and synergies similar to consolidated EBITDA and some that do not, that may cause calculations under such definitions of EBITDA and Consolidated EBITDA, as presented herein, to differ.

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

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

The following is a reconciliation of net income (loss), which is a GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Adjusted Consolidated Funded Indebtedness to Consolidated EBITDA ratio, which we refer to as the leverage ratio, under our Credit Agreement for the most recently ended four fiscal quarters ended December 31, 2011. The terms and related calculations are defined in the Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended December 31, 2011
Net Loss	**$ (179)**
Income tax expense	37
Interest expense, net	190
Depreciation and amortization	255
Restructuring costs (a)	34
Net hedging losses (b)	2
Management fees (c)	3
Stock compensation expense (d)	22
Transaction costs (e)	57
Proforma savings (f)	40
Consolidated EBITDA	**$ 461**
Consolidated Funded Indebtedness (g)	**$ 2,046**
Leverage Ratio (h)	**4.44x**

(a) Reflects severance costs.
(b) Reflects net losses from hedging activities.
(c) Reflects management fees paid to Access.
(d) Reflects stock based compensation costs.
(e) Reflects costs mainly associated with the Merger.
(f) Reflects net cost savings and synergies projected to result from actions taken or expected to be taken no later than twelve (12) months after the end of such period (calculated on a pro forma basis as though such cost savings and synergies had been realized on the first day of the period for which Consolidated EBITDA is being determined), net of the amount of actual benefits realized during such period from such actions during the twelve months ended December 31, 2011. Pro forma savings reflected in the table above reflect a portion of the previously announced additional targeted savings of $50-$65 million following the Merger as well as other cost savings and synergies.
(g) Reflects the principal balance of external debt at Acquisition Corp of $2.015 billion, as well as contractual obligations of deferred purchase price of approximately $15 million and contingent consideration related to acquisitions of approximately $15 million as of December 31, 2011.
(h) Reflects the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA as of the twelve months ended December 31, 2011. If the outstanding aggregate principal amount of borrowings under our Revolving Credit Facility is greater than $5 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Credit Agreement is 6.25x as of the end of any fiscal quarter in fiscal 2012.

Summary

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 14 to our audited consolidated financial statements for the twelve months ended September 30, 2011, we are exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of December 31, 2011, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2011.

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We use foreign exchange contracts, primarily to hedge the risk that unremitted or future royalties and license fees owed to our domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on our major currencies, which include the British pound sterling, euro, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. As of December 31, 2011, the Company had outstanding hedge contracts for the sale of $218 million and the purchase of $30 million of foreign currencies at fixed rates. Subsequent to December 31, 2011, certain of our foreign exchange contracts expired and were renewed with new foreign exchange contracts with similar features.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at December 31, 2011, assuming a hypothetical 10% depreciation of the U.S dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates, the fair value of the foreign exchange forward contracts would have decreased by $19 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

ITEM 4. CONTROLS AND PROCEDURES

Certification

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

Introduction

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

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

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes in our Internal Controls over financial reporting or other factors during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pricing of Digital Music Downloads

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

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

Other Matters

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

ITEM 1A. RISK FACTORS

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

Risks Related to our Business

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

The industry began experiencing negative growth rates in 1999 on a global basis and the worldwide recorded music market has contracted considerably. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may all be contributing to a declining recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has ended. While CD sales still generate most of the recorded music revenues, CD sales continue to decline industry-wide and we expect that trend to continue. However, new formats for selling recorded music product have been created, including the legal downloading of digital music and the distribution of music on mobile devices and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are beginning to offset declines in physical sales and represent a growing area of our Recorded Music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, ticketing and artist management. As our expansion into these new areas is recent, we cannot determine how our expansion into these new areas will impact our business. Despite the increase in digital sales, artist services revenues and expanded-rights revenues, revenues from these sources have yet to fully offset declining physical sales on a worldwide industry basis and it is too soon to determine the impact that sales of music through new channels might have on the industry or when the decline in physical sales might be offset by the increase in digital sales, artist services revenues and expanded-rights revenues. While U.S. industry-wide track-equivalent album sales rose in 2011 for the first time since 2004, album sales continued to fall in other countries, such as the U.K., as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats.

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

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

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

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

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

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, "burned" CDs and MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to the International Federation of the Phonographic Industry ("IFPI") 2009 Digital Music Report. IFPI, citing data from third-party company Envisional, also reported in its Recording Industry in Numbers 2011 publication that 23.8% of global Internet traffic is infringing. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to certain risks from behaviors such as "sideloading" of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal filesharing has a substantial negative impact on music sales. We are working to control this problem in a variety of ways including further litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by establishing legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

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

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

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

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

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

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

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

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

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

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

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

We may be materially and adversely affected by the acquisition of EMI's recorded music division by Universal and the acquisition of EMI Music Publishing by a group including Sony Corporation of America (an affiliate of Sony/ATV).

In November 2011, Vivendi and its subsidiary, Universal Music Group (UMG), announced that it had signed with Citigroup, Inc. ("Citi") a definitive agreement to purchase EMI's recorded music division. The proposed acquisition would combine the largest and the fourth-largest recorded music companies. The transaction is subject to certain closing conditions, including regulatory approvals.

Also in November 2011, an investor group comprised of Sony Corporation of America (an affiliate of Sony/ATV), in conjunction with the Estate of Michael Jackson, Mubadala Development Company PJSC, Jynwel Capital Limited, the Blackstone Group's GSO Capital Partners LP and David Geffen announced that they had signed with Citi a definitive agreement to purchase EMI Music Publishing. The proposed acquisition would combine the second- and fourth-largest music publishers. The transaction is subject to certain closing conditions, including regulatory approvals.

Should these transactions close, we cannot predict what impact they might have on the competitive landscape of the industries in which we operate or on our results of operations.

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

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

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- fluctuations in interest and foreign exchange rates;
- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;

- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
- exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;
- difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;
- tariffs, duties, export controls and other trade barriers;
- longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

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

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

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

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

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

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

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

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

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

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

On December 31, 2011, we had $1.376 billion of goodwill and $102 million of indefinite-lived intangible assets. Financial Accounting Standards Codification ("ASC") Topic 350, Intangibles—Goodwill and other ("ASC 350") requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units' carrying value. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets, the market capitalization of our stock, and trends in the music industry. As noted, the Merger was completed during the fourth quarter of fiscal year ended September 30, 2011 and resulted in all assets and liabilities being recognized at fair value as of July 20, 2011. This eliminated the need for the Company to perform a separate annual assessment of the recoverability of its goodwill and intangibles. No indicators of impairment were identified during the Predecessor period that required the Company to perform an interim assessment or recoverability test, nor were any identified during the Successor period. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders' equity could be adversely affected.

We also had $2.612 billion of definite-lived intangible assets as of December 31, 2011. FASB ASC Topic 360-10-35, ("ASC 360-10-35") requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders' equity.

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

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, approximately 62% of our revenues related to operations in foreign territories for the three months ended December 31, 2011. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of December 31, 2011, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

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

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

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

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

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

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

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

We may pursue strategic transactions in the future, which could be difficult to implement, disrupt our business or change our business profile significantly.

We have in the past considered and will continue to, from time to time, consider opportunistic strategic transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in businesses that are similar or complementary to ours. Any such strategic combination could be material. Any future strategic transaction could involve numerous risks, including:

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

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

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

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

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

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See "—The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations." Following the 2004 Acquisition, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. We continue to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed cost structure to minimize any impact. As of the completion of the Merger in July 2011, we have targeted cost savings over the next nine fiscal quarters following the merger of $50 million to $65 million based on identified cost savings initiatives and opportunities. While a portion of these initiatives and opportunities have been implemented, there can be no assurances that additional cost savings will be achieved in full or at all.

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

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

Following the consummation of the Merger, Access indirectly owns all of our common stock, and the actions that Access undertakes as the sole ultimate shareholder may differ from or adversely affect the interests of debt holders. Because Access ultimately controls our voting shares and those of all of our subsidiaries, it has the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as to elect our directors and those of our subsidiaries, to change our management and to approve any other changes to our operations. Access also has the power to direct us to engage in strategic transactions, with or involving other companies in our industry, including acquisitions, combinations or dispositions, and any such transaction could be material. Any such transaction would carry the risks set forth above under "—If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions."

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

Finally, because we do not have any securities listed on a securities exchange following the consummation of the Merger and the related transactions, we are not subject to certain of the corporate governance requirements of any securities exchange, including any requirement to have any independent directors.

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

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

Risks Related to our Leverage

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

We are highly leveraged. As of December 31, 2011, our total consolidated indebtedness was $2.214 billion. In addition, we would have been able to borrow up to $60 million under our Revolving Credit Facility.

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

- make it more difficult for us to make payments on our indebtedness;
- increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility;
- expose us to the risk of increased interest rates because any borrowings we make under the Revolving Credit Facility will bear interest at variable rates;
- require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses;
- limit our ability to refinance existing indebtedness on favorable terms or at all or borrow additional funds in the future for, among other things, working capital, acquisitions or debt service requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared to competitors that have less indebtedness; and
- limit our ability to borrow additional funds that may be needed to operate and expand our business.

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

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

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

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

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

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

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

In addition, the credit agreement governing the Revolving Credit Facility contains a number of covenants that limit our ability and the ability of our restricted subsidiaries to:

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

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

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

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

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

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

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

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

Item 2 is not applicable and has been omitted.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Item 3 is not applicable and has been omitted.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Effective January 31, 2012, Edgar Bronfman, Jr. stepped down as Chairman. Mr. Bronfman remains a director of the Company. A new Chairman will be appointed in due course. An interim Chairman will be appointed for all meetings on an ad hoc basis until a permanent Chairman is appointed.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
3.1	Third Amended and Restated Certificate of Incorporation of Warner Music Group Corp. (1)
3.2	Third Amended and Restated Bylaws of Warner Music Group Corp. (2)
4.1	Guarantee, dated December 8, 2011, issued by Warner Music Group Corp., relating to the New Secured Notes (3)
4.2	Guarantee, dated December 8, 2011, issued by Warner Music Group Corp., relating to the Existing Secured Notes (3)
4.3	Guarantee, dated December 8, 2011, issued by Warner Music Group Corp., relating to the 11.5% Senior Notes due 2018 (3)
10.1	Employment Agreement, dated as of November 10, 2011, between Warner Music Inc. and Brian Roberts. † (4)
10.2	Separation Agreement and Release, dated November 10, 2011, between Warner Music inc. and Steven Macri. †(4)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.1	Financial statements from the Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended December 31, 2011, filed on February 9, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Equity Deficit and (v) Notes to Consolidated Interim Audited Financial Statements***

* Filed herewith.

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

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

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

(1) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on July 20, 2011 (File No. 001-32502).

(2) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on July 26, 2011 (File No. 001-32502).

(3) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the fiscal year ended September 30, 2011 (File No. 001-32502).

(4) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on November 10, 2011 (File No. 001-32502).

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SIGNATURES

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

February 9, 2012

WARNER MUSIC GROUP CORP.

By: /S/ STEPHEN COOPER
Name: **Stephen Cooper**
Title: **Chief Executive Officer (Principal Executive Officer)**

By: /S/ BRIAN ROBERTS
Name: **Brian Roberts**
Title: **Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2011 of Warner Music Group 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;

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;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: February 9, 2012

/s/ STEPHEN COOPER

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Brian Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2011 of Warner Music Group 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;

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;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: February 9, 2012

/s/ BRIAN ROBERTS

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 Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Cooper, 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: February 9, 2012

/s/ STEPHEN COOPER

Stephen Cooper
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 Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Roberts, 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: February 9, 2012

/s/ BRIAN ROBERTS

Brian Roberts
Chief Financial Officer