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 March 31, 2007

OR

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

Commission File Number
333-121322

WMG ACQUISITION CORP.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**68-0576630** **(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

As of May 4, 2007, the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,000. All of the registrant's common stock is indirectly owned by Warner Music Group Corp.

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ITEM 1. FINANCIAL STATEMENTS

WMG Acquisition Corp.
Consolidated Balance Sheets

	March 31, 2007 (unaudited)	September 30, 2006 (audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 261	$ 326
Accounts receivable, less allowances of $198 and $207 million, respectively	513	585
Intercompany receivable	3	4
Inventories	70	59
Royalty advances expected to be recouped within one year	194	191
Deferred tax assets	61	45
Other current assets	37	35
Total current assets	1,139	1,245
Royalty advances expected to be recouped after one year	238	207
Investments	26	25
Property, plant and equipment, net	135	146
Goodwill	984	929
Intangible assets subject to amortization, net	1,679	1,711
Intangible assets not subject to amortization	100	100
Other assets	89	98
Total assets	$ 4,390	$ 4,461
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	$ 200	$ 209
Accrued royalties	1,178	1,142
Taxes and other withholdings	30	32
Current portion of long-term debt	17	17
Other current liabilities	334	377
Total current liabilities	1,759	1,777
Long-term debt	2,049	2,048
Deferred tax liabilities, net	205	197
Other noncurrent liabilities	251	224
Total liabilities	4,264	4,246
Commitments and Contingencies (See Note 11)		
Shareholder's equity:		
Common stock	—	—
Additional paid-in capital	273	348
Accumulated deficit	(141)	(140)
Accumulated other comprehensive income, net	(6)	7
Total shareholder's equity	126	215
Total liabilities and shareholder's equity	$ 4,390	$ 4,461

See accompanying notes.

WMG Acquisition Corp.
Consolidated Statements of Operations (Unaudited)
Three Months Ended March 31, 2007 and 2006

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006
		(in millions)	
Revenues (b)	$ 784		$ 796
Costs and expenses:			
Cost of revenues (a) (b)	(427)		(409)
Selling, general and administrative expenses (a) (b)	(275)		(294)
Restructuring costs	(12)		—
Amortization of intangible assets	(51)		(48)
Total costs and expenses	(765)		(751)
Operating income	19		45
Interest expense, net	(42)		(41)
Equity in the gains of equity-method investees, net	—		1
Other income, net	—		2
(Loss) income before income taxes	(23)		7
Income tax expense	(1)		(10)
Net loss	$ (24)		$ (3)
(a) Includes depreciation expense of	$ (10)		$ (11)
(b) Includes the following expenses resulting from transactions with related companies:			
Revenues	$ 2		$ 4
Selling, general and administrative expenses	—		$ (3)

See accompanying notes.

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WMG Acquisition Corp.
Consolidated Statements of Operations (Unaudited)
Six Months Ended March 31, 2007 and 2006

	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
	(in millions)	
Revenues (b)	$ 1,712	$ 1,840
Costs and expenses:		
Cost of revenues (a) (b)	(935)	(939)
Selling, general and administrative expenses (a) (b)	(565)	(617)
Restructuring costs	(12)	—
Amortization of intangible assets	(101)	(95)
Total costs and expenses	(1,613)	(1,651)
Operating income	99	189
Interest expense, net	(84)	(82)
Equity in the gains of equity-method investees, net	—	1
Other income, net	—	2
Income before income taxes	15	110
Income tax expense	(16)	(40)
Net (loss) income	$ (1)	$ 70
(a) Includes depreciation expense of	$ (20)	$ (22)
(b) Includes the following expenses resulting from transactions with related companies:		
Revenues	$ 3	$ 4
Cost of revenues	$ (1)	$ —
Selling, general and administrative expenses	$ (4)	$ (8)

See accompanying notes.

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WMG Acquisition Corp.
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended March 31, 2007 and 2006

	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
	(in millions)	
Cash flows from operating activities		
Net (loss) income	$ (1)	$ 70
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	121	117
Deferred taxes	(22)	(2)
Non-cash interest expense	22	18
Non-cash, stock-based compensation expense	5	8
Equity in the gains of equity-method investees, including distributions	—	(1)
Changes in operating assets and liabilities:		
Accounts receivable	118	108
Inventories	(7)	8
Royalty advances	(28)	(29)
Accounts payable and accrued liabilities	(102)	(70)
Other balance sheet changes	—	(22)
Net cash provided by operating activities	106	205
Cash flows from investing activities		
Loan to third parties	(24)	—
Purchases in short-term investments	—	(27)
Investments and acquisitions	(57)	(18)
Proceeds from the sale of buildings	7	—
Capital expenditures	(13)	(12)
Net cash used in investing activities	(87)	(57)
Cash flows from financing activities		
Quarterly debt repayments	(8)	(8)
Change in intercompany	1	8
Return of capital and dividends paid	(80)	(86)
Net cash used in financing activities	(87)	(86)
Effect of foreign currency exchange rate changes on cash	3	2
Net (decrease) increase in cash and equivalents	(65)	64
Cash and equivalents at beginning of period	326	247
Cash and equivalents at end of period	$ 261	$ 311

See accompanying notes.

WMG Acquisition Corp.
Consolidated Statement of Shareholder's Equity (Unaudited)
Six Months Ended March 31, 2007

	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
		(in millions)		
Balance at September 30, 2006	$ 348	$ (140)	$ 7	$ 215
Comprehensive loss:				
Net loss	—	(1)	—	(1)
Foreign currency translation adjustment	—	—	(6)	(6)
Deferred gains on derivative financial instruments	—	—	(7)	(7)
Total comprehensive loss	—	(1)	(13)	(14)
Returns of capital and dividends	(80)	—	—	(80)
Issuance of stock options and restricted shares of common stock of Parent	5	—	—	5
Balance at March 31, 2007	$ 273	$ (141)	$ (6)	$ 126

See accompanying notes.

WMG Acquisition Corp.
Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

WMG Acquisition Corp. (the "Company") is one of the world's major music-based content companies and the successor to substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc. ("Time Warner"). Such predecessor interests, formerly owned by Time Warner, are hereinafter referred to as "Old WMG" or the "Predecessor." Effective March 1, 2004, the Company acquired Old WMG from Time Warner for approximately $2.6 billion (the "Acquisition"). The Company is a direct, wholly owned subsidiary of WMG Holdings Corp. ("Holdings"), which in turn, is a direct, wholly owned subsidiary of Warner Music Group Corp. ("Parent"). Parent, Holdings and the Company were formed by a private equity consortium of Investors (the "Investor Group") on November 21, 2003 to facilitate the Acquisition.

The Company's business is seasonal. Therefore, operating results for the three and six months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2007.

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 consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. In addition to the more traditional methods of discovering and developing artists, the Company established the Independent Label Group ("ILG") to discover artists earlier in their careers and at lower cost by leveraging the Company's independent distribution network.

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 Entertainment ("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. On May 31, 2006, the Company completed the acquisition of Ryko Corporation ("Ryko"), a leading independent, integrated music and entertainment company. See Note 4.

In January 2007, the Company acquired a majority interest in Roadrunner Music Group B.V. ("Roadrunner"), which includes Roadrunner Records, one of the leading hard rock and heavy metal labels. See Note 4.

Outside the U.S., Recorded Music activities are conducted in more than 50 countries through Warner Music International ("WMI") and its various subsidiaries, affiliates and non-affiliated licensees. WMI engages in the same activities as the Company's U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom the Company's domestic record labels have international rights. In certain smaller countries, WMI licenses to unaffiliated third-party record labels the right to distribute its records.

Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music products to retailers and wholesale distributors in the U.S.; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors in the U.S.; Ryko Distribution, which distributes music and DVD releases from Rykodisc, Ryko's record music label, and third-party record and video labels; 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 U.K., which provides ADA's distribution services to independent labels in the U.K.

Music Publishing Operations

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

The Company's Music Publishing operations include Warner/Chappell, its global music publishing company headquartered in 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, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd. and Hallmark Entertainment. In addition to the more traditional methods, the Company has implemented new initiatives to promote and develop emerging songwriters, such as its label, Perfect Game Recording Co., which similar to ILG seeks to identify and nurture songwriters earlier in the development process.

Publishing revenues are derived from four main sources:

- *Mechanical:* the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including physical recordings (*e.g.*, CDs, DVDs, video cassettes), online and wireless downloads and mobile phone ringtones.
- *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 wireless 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.
- *Other:* the licensor receives royalties from other uses such as in toys or novelty items and for use in sheet music.

2. Basis of Presentation

Interim Financial Statements

The accompanying consolidated financial statements are unaudited but, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company's financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP") applicable to interim periods. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2006 (Registration No. 333-121322).

Basis of Consolidation

The consolidated accounts include 100% of the assets, liabilities, revenues, expenses, income, losses and cash flows of the Company and 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 in consolidation.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123(R), "Share-Based Payment," ("FAS 123(R)") which revises FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Effective March 1, 2004, in connection with the Acquisition, the Company adopted the fair value recognition provisions of FAS 123 to account for all stock-based compensation plans adopted subsequent to the Acquisition. Under the fair value recognition provisions of FAS 123, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. The Company expenses deferred stock-based compensation on an accelerated basis over the vesting period of the stock award. Effective October 1, 2005, the Company adopted FAS 123(R) using the modified prospective method. There was no impact to the Company's results of operations or financial position as a result of the adoption of FAS 123(R).

Accounting for Pension and Post-retirement Plans

In September 2006, the FASB issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158"). FAS 158 requires all companies to recognize the funded status of all sponsored plans on the balance sheet. Under FAS 158, all underfunded plans are aggregated and recorded as a liability, and all overfunded plans are aggregated and recorded as an asset. The Company is required to implement these provisions of FAS 158 in the fiscal year ended September 30, 2007. The Company recorded an adjustment to reflect the implementation of FAS 158, which resulted in an other pension asset of $1 million, an additional pension liability of $3 million and an other comprehensive loss of approximately $2 million. The Company also recorded related tax adjustments of approximately $2 million.

FAS 158 also eliminates the early measurement date option previously permitted under the related guidance. The Company will be required to implement this change in the fiscal year ended September 30, 2008.

3. Comprehensive (Loss) Income

Comprehensive (loss) income consists of net (loss) income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, the components of other comprehensive income primarily consist of foreign currency translation gains and losses and deferred gains and losses on financial instruments designated as hedges under FASB Statement No. 133, "Accounting for Derivative and Hedging Activities", which include interest-rate swaps and foreign exchange contracts, as well as adjustments to correctly state pension obligations. The following summary sets forth the components of comprehensive (loss) income, net of related taxes, for the three and six months ended March 31, 2007 and 2006 (in millions):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
Net (loss) income	$ (24)	$ (3)	$ (1)	$ 70
Foreign currency translation losses (a)	—	—	(6)	(2)
Derivative financial instruments (losses) gains	(6)	2	(7)	9
Comprehensive (loss) income	$ (30)	$ (1)	$ (14)	$ 77

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

4. Significant Acquisitions and Dispositions

Acquisition of Roadrunner Music Group

On January 29, 2007, the Company acquired 73.5% of Roadrunner, which includes Roadrunner Records, a leading hard rock and heavy metal label. The transaction was accounted for under the purchase method of accounting, and the results of operations of Roadrunner have been included in the Company's results of operations from the date of acquisition. The purchase price has been preliminarily allocated to the underlying net assets acquired in proportion to the estimated fair value, principally recorded music catalog, artist contracts and goodwill. The accompanying consolidated financial statements include the following allocation of the approximately $83 million purchase price, consisting of a cash payment of $59 million and estimated future payment obligations of $24 million: recorded music catalog, $15 million; artists' contracts, $26 million; goodwill, $27 million; tangible assets, $47 million; and tangible liabilities, $32 million.

In connection with the signing of the initial agreement in December 2006, the Company had loaned Roadrunner approximately $52 million in the form of a promissory note. The note was repaid in connection with the close of the acquisition on January 29, 2007. In addition, in connection with the closing, the Company loaned the minority owner approximately $14.3 million in the form of a promissory note, which bears an annual simple rate of interest of 4.73% and matures in six years and can be utilized to satisfy the future payment obligations.

Acquisition of Ryko Corporation

On May 31, 2006, the Company completed the acquisition of Ryko, a leading independent, integrated music and entertainment company, for approximately $67.5 million in cash. Ryko consists of a recorded music label, Rykodisc, which focuses on a range of contemporary music and comedy releases and numerous film and television soundtracks and Ryko Distribution, which distributes music and DVD releases from Rykodisc as well as from independent third-party record and video labels. Additionally, Ryko owns a catalog of more than 1,000 titles of rock, folk, jazz, world, blues and alternative albums including Restless Records' catalog of punk, new wave and soundtrack recordings. The catalog and roster includes artists such as Frank Zappa, Joe Jackson, Soul Asylum, The Flaming Lips and They Might Be Giants. The transaction was accounted for under the purchase method of accounting, and the results of operations of Ryko are included in the Company's results of operations from the acquisition date of Ryko. The purchase price was allocated to the underlying net assets acquired in proportion to the estimated fair value, principally recorded music catalog and goodwill. The accompanying consolidated financial statements include the following allocation of the approximately $67.5 million purchase price: recorded music catalog, $28 million; artists' contracts, $1 million; tangible liabilities, $13 million; and goodwill, $52 million.

Acquisition of Maverick Recording Company

In November 2004, the Company acquired an additional 30% interest in Maverick Recording Company ("Maverick") from its existing partner for approximately $17 million and certain amounts previously owed by such partner to the Company, bringing its total interest in Maverick to 80%. The transaction was accounted for under the purchase method of accounting and the purchase price was allocated to the underlying net assets of Maverick in proportion to the estimated fair value, principally artist contracts and recorded music catalog.

On July 14, 2006, the Company acquired the remaining 20% interest in Maverick from its existing partner. The additional purchase price was allocated to the underlying net assets of Maverick in proportion to the estimated fair value, principally goodwill.

5. Inventories

Inventories consist of the following (in millions):

	March 31, 2007 (unaudited)	September 30, 2006 (audited)
Compact discs, cassettes and other music-related products	$ 117	$ 100
Published sheet music and song books	2	2
	119	102
Less reserve for obsolescence	(49)	(43)
	$ 70	$ 59

6. Intangible Assets

Intangible assets consist of the following (in millions):

	September 30, 2006 (audited)	Acquisitions	Other (a)	March 31, 2007 (unaudited)
Intangible assets subject to amortization:				
Recorded music catalog (b)	$ 1,288	$ 15	$ 4	$ 1,307
Music publishing copyrights	852	4	16	872
Artist contracts (b)	39	27	—	66
Trademarks	10	—	—	10
Other intangible assets	4	2	—	6
	2,193	48	20	2,261
Accumulated amortization	(482)			(582)
Total net intangible assets subject to amortization	1,711			1,679
Intangible assets not subject to amortization:				
Trademarks and brands	100			100
Total net other intangible assets	$ 1,811			$ 1,779

(a) Other represents foreign currency translation adjustments.

(b) The acquisitions primarily relate to $26 million of artist contracts and $15 million of recorded music catalog acquired in connection with the acquisition of Roadrunner.

7. Restructuring Costs

Realignment Plan for Fiscal Year 2007

Parent announced plans to implement changes intended to better align Parent’s workforce with the changing nature of the music industry. These changes are part of Parent’s continued evolution from a traditional record and songs-based business to a music-based content company and its ongoing management of its cost structure. The changes include a continued redeployment of resources to focus on new business initiatives to help Parent diversify its revenue streams, including digital opportunities. The realignment plan is also designed to improve the operating effectiveness of our current businesses and to realign our management structure to, among other things, effectively address the continued development of digital distribution channels along with the decline of industry-wide CD sales.

Parent intends to enhance its effectiveness, flexibility, structure, and performance by reducing and realigning long-term costs. This will primarily consist of the reorganization of management structures to more adequately and carefully address regional needs and new business requirements, to reduce organizational complexity and to improve leadership channels. Parent also intends to continue to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams. Part of the plan will also result in the outsourcing of some back-office functions as a cost-savings measure. In connection with these reductions, Parent expects to incur a charge ranging from $55 million to $65 million for severance and related benefits. In addition, Parent expects to incur implementation charges ranging from $10 million to $15 million related to consulting fees, costs of temporary workers and stay bonuses. All of these restructuring and implementation costs will be paid in cash. To implement such changes, Parent expects to reduce its headcount by approximately 400 employees. Parent expects the majority of any cost savings to be offset by new hirings and ongoing investment focused on new business initiatives such as digital distribution and video.

We anticipate that the changes described above will be implemented by the end of fiscal year 2007. Parent also expects to incur substantially all of the costs associated with the realignment plan by the end of the current fiscal year. Approximately $12 million of restructuring costs were incurred in Parent's fiscal second quarter of 2007, consisting primarily of the elimination of duplicative positions and redirecting of resources to growth areas of Parent's businesses in Europe.

	Employee Terminations	Other Exit Costs	Total
		(in millions)	
Liability as of September 30, 2006	**$ —**	**$ —**	**$—**
Additions in 2007	12	—	12
Cash paid during the six months ended March 31, 2007	(2)	—	(2)
Liability as of March 31, 2007	**$ 10**	**$ —**	**$ 10**

Acquisition-Related Restructuring Costs

As of March 31, 2007, the Company had approximately $26 million of liabilities for acquisition-related restructuring costs that were recognized as part of the cost of the Acquisition. These liabilities represent estimates of future cash obligations for all restructuring activities that have been implemented, as well as for all restructuring activities that have been committed to by management but have yet to occur. The outstanding balance of these liabilities primarily relates to extended payment terms for severance obligations and long-term lease obligations for vacated facilities. These remaining lease obligations are expected to be settled by 2019. The Company expects to pay the majority of the remaining employee termination costs by the end of fiscal year 2007.

	Employee Terminations	Other Exit Costs	Total
		(in millions)	
Liability as of September 30, 2006	**$ 4**	**$ 28**	**$ 32**
Cash paid during the six months ended March 31, 2007	(1)	(4)	(5)
Non-cash reductions during the six months ended March 31, 2007 (a)	—	(1)	(1)
Liability as of March 31, 2007	**$ 3**	**$ 23**	**$ 26**

(a) Principally relates to changes in foreign currency exchange rates and the non-cash write-off of the carrying value of advances relating to terminating certain artist, songwriter and co-publisher contracts.

8. Debt

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

	March 31, 2007 (unaudited)	September 30, 2006 (audited)
Senior secured credit facility:		
Revolving credit facility	$ —	$ —
Term loan	1,405	1,413
	1,405	1,413
7.375% U.S. dollar-denominated Senior Subordinated Notes due 2014	465	465
8.125% Sterling-denominated Senior Subordinated Notes due 2014	196	187
Total debt	2,066	2,065
Less current portion	(17)	(17)
Total long-term debt	$ 2,049	$ 2,048

Holdings Debt

The Company's immediate parent company, Holdings, issued debt in December 2004. While Holdings is the issuer of such debt, it is a holding company that conducts substantially all of its business operations through the Company, its only asset and wholly owned subsidiary. As such, Holdings will be relying on the Company to make any payments of principal and interest as they become due.

The indentures limit Holdings' ability and the ability of its restricted subsidiaries, including the Company, to (i) incur additional indebtedness or issue certain preferred shares, (ii) pay dividends on or make other distributions in respect of its capital stock or make other restricted payments, (iii) make certain investments (iv) sell certain assets, (v) create liens on certain debt without securing the notes, (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets, (vii) enter into certain transactions with affiliates and (viii) designate its subsidiaries as unrestricted subsidiaries.

9. Stock-based Compensation

The following table represents the expense recorded by the Company with respect to its stock-based awards for the three and six months ended March 31, 2007 and 2006 by segment and on a consolidated basis (in millions):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
Recorded Music	$ 2	$ 1	$ 4	$ 4
Music Publishing	(1)	—	(1)	1
Corporate expenses	1	1	2	3
Total	$ 2	$ 2	$ 5	$ 8

During the three and six months ended March 31, 2007, employees of the Company exercised 13,790 and 434,759 stock options, respectively. The Company received cash payments in respect of those exercises in the amount of approximately \$0.1 million and \$2 million, respectively.

10. Shareholder's Equity

On February 1, 2007, the Company declared and paid a dividend of \$80 million to its immediate parent, Holdings. This dividend was declared and paid as a dividend to Holdings' immediate parent, Parent, in order to fund the payment of future dividends to the stockholders of Parent.

11. Commitments and Contingencies

Radio Promotion Activities

Two independent labels have filed antitrust suits against the Company alleging that its radio promotion activities are anticompetitive. *Radikal Records, Inc. v. Warner Music Group, et al.* was filed on March 21, 2006 in U.S. District Court in the Central District of California, Western Division. *TSR Records, Inc. v. Warner Music Group, et al.* was filed on March 28, 2006 in U.S. District Court in the Central District of California, Western Division. The Company filed a Notice of Related Case and was successful in having both of these cases consolidated. On May 16, 2006, the Company filed a Motion to Dismiss in both cases. On October 11, 2006, the court denied the Company's Motion to Dismiss as to the antitrust claims but granted the motion, with leave to amend, as to the state tort claim for interference with prospective economic advantage. On October 24, 2006, Plaintiffs filed amended complaints, attempting to cure the defects in their tort claim. The Company again moved to dismiss the state court claims and on January 31, 2007, the court granted the Company's motion, but allowed plaintiffs to replead. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits.

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§ 340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served the Company with a request for information in the form of a Civil Investigative Demand as to whether its activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. The Company has provided documents and other information in response to these requests and intends to continue to fully cooperate with the New York Attorney General's and Department of Justice's industry-wide inquiries. Subsequent to the announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads have been filed. On August 15, 2006, the Judicial Panel on Multidistrict Litigation consolidated these actions for pre-trial proceedings in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Any litigation the Company may become involved in as a result of the inquiries of the Attorney General and Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

Statement of Objections

On March 30, 2007, the European Commission ("EC") issued a Statement of Objections to Apple Inc., iTunes S.a.r.l. and one of our subsidiaries, WEA International Inc. ("WEA"). The Company believes that similar Statements of Objections were also issued to Apple Inc. and each of the other major recorded music companies. The Statement of Objections targets Apple Inc.'s practice of applying certain territorial restrictions in relation to its iTunes stores in the European Economic Area ("EEA"). The EC alleges that these restrictions arise, among other ways, as a result of the agreement between Apple Inc. and WEA for the sale of downloaded music in the EEA. In the EC's preliminary view, these restrictions may lead to a distortion of competition, infringing Article 81 of the EC Treaty. In particular, the EC asserts that (i) consumers resident in a particular EEA country in which iTunes does not operate a dedicated online store are prevented from acquiring downloaded music from iTunes and (ii) consumers resident in a particular EEA country may be required to pay a higher price for the same download than consumers resident in another EEA country or may not have access to the same downloads as are available to consumers resident in another EEA country. The EC, if it finds an infringement, may require that the alleged restriction be eliminated and also has the authority to impose fines on the parties to any infringement. The Company intends to cooperate with the EC but believes that its practices have not infringed Article 81 of the EC Treaty.

Other Matters

In addition to the matters 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.

12. Derivative Financial Instruments

During the six months ended March 31, 2007, the Company did not enter into additional interest rate swap agreements to hedge the variability of its expected future cash interest payments. However, the Company entered into additional foreign exchange contracts to hedge its foreign currency royalty payments for the first quarter of fiscal year 2008. As of March 31, 2007, the Company had interest rate swap agreements to hedge a total notional debt amount of $897 million and recorded deferred gains in comprehensive income of $1 million. Additionally, as of March 31, 2007, the Company had $1 million of deferred net losses in comprehensive income related to foreign currency hedging.

13. 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 before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income by segment.

The Company accounts for inter-segment sales at fair value as if the sales were to third parties. While intercompany transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation and, therefore, do not themselves impact consolidated results.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
Revenues				
Recorded music	$ 648	$ 676	$ 1,448	$ 1,596
Music publishing	143	129	276	260
Corporate expenses and eliminations	(7)	(9)	(12)	(16)
Total revenues	$ 784	$ 796	$ 1,712	$ 1,840

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	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
OIBDA				
Recorded music	$ 55	$ 81	$ 196	$ 287
Music publishing	53	47	72	68
Corporate expenses and eliminations	(28)	(24)	(48)	(49)
Total OIBDA	$ 80	$ 104	$ 220	$ 306

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
Depreciation of Property, Plant and Equipment				
Recorded music	$ 6	$ 7	$ 12	$ 14
Music publishing	1	1	2	2
Corporate expenses and eliminations	3	3	6	6
Total depreciation	$ 10	$ 11	$ 20	$ 22

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
Amortization of Intangibles Assets				
Recorded music	$ 36	$ 34	$ 72	$ 67
Music publishing	14	14	29	28
Corporate expenses and eliminations	1	—	—	—
Total amortization	$ 51	$ 48	$ 101	$ 95

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
Operating Income				
Recorded music	$ 13	$ 40	$ 112	$ 206
Music publishing	38	32	41	38
Corporate expenses and eliminations	(32)	(27)	(54)	(55)
Total operating income	$ 19	$ 45	$ 99	$ 189

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
		(in millions)		
Reconciliation of OIBDA to Operating Income				
OIBDA	$ 80	$ 104	$ 220	$ 306
Depreciation expense	(10)	(11)	(20)	(22)
Amortization expense	(51)	(48)	(101)	(95)
Operating income	$ 19	$ 45	$ 99	$ 189

14. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $73 million and $71 million during the six months ended March 31, 2007 and 2006, respectively. The Company paid approximately $37 million and $26 million of income and withholding taxes in the six months ended March 31, 2007 and 2006, respectively. The Company received $6 million and $4 million of income tax refunds in the six months ended March 31, 2007 and 2006, respectively.

15. Subsequent Event

Napster Settlement

On April 24, 2007, Parent and Bertelsmann AG ("Bertelsmann") jointly announced a settlement of contingent claims held by Parent relating to Bertelsmann's relationship with Napster in 2000-2001. The settlement covers the resolution of the related legal claims against Bertelsmann by Parent's recorded music and music publishing businesses. As part of the settlement, Parent has received $110 million which Parent will be sharing with its artists and songwriters. Bertelsmann admits no liability in making this settlement.

WMG Acquisition Corp.
Supplementary Information
Consolidating Financial Statements

The Company is one of the world's major music-based content companies and the successor to substantially all of the interests of the recorded music and music publishing businesses of Time Warner. Effective March 1, 2004, the Company acquired such interests from Time Warner for approximately $2.6 billion.

The Company issued (i) $465 million principal amount of 7.375% Senior Subordinated Notes due 2014 and (ii) £100 million Sterling principal amount of 8.125% Senior Subordinated Notes due 2014 (collectively, the "Notes"). The Notes are guaranteed by all of the Company's domestic wholly-owned subsidiaries on a senior subordinated basis. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the issuer of the Notes, (ii) the guarantor subsidiaries of the Company, (iii) the non-guarantor subsidiaries of the Company and (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated subsidiaries are presented under the equity method of accounting. There are no restrictions on the Company's ability to obtain funds from any of its wholly-owned subsidiaries through dividends, loans or advances.

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WMG Acquisition Corp.
Supplementary Information
Consolidating Balance Sheet (unaudited)
March 31, 2007

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	WMG Acquisition Corp. Consolidated
Assets:					
Current assets:					
Cash and equivalents	$ —	$ 94	$ 167	$ —	$ 261
Accounts receivable, net	—	301	212	—	513
Intercompany receivable	(143)	295	(235)	86	3
Inventories	—	32	38	—	70
Royalty advances expected to be recouped within one year	—	107	87	—	194
Deferred tax assets	—	—	61	—	61
Other current assets		15	22	—	37
Total current assets	(143)	844	352	86	1,139
Royalty advances expected to be recouped after one year	—	131	107	—	238
Investments in and advances to (from) consolidated subsidiaries	2,308	672	—	(2,980)	—
Investments	—	21	5	—	26
Property, plant and equipment, net	—	86	49	—	135
Goodwill	—	349	635	—	984
Intangible assets subject to amortization, net	—	1,029	650	—	1,679
Intangible assets not subject to amortization	—	100		—	100
Other assets	61	18	10	—	89
Total assets	$ 2,226	$ 3,250	$ 1,808	$ (2,894)	$ 4,390
Liabilities and shareholder's equity:					
Current liabilities:					
Accounts payable	$ 4	$ 113	$ 83	$ —	$ 200
Accrued royalties	—	703	475	—	1,178
Taxes and other withholdings		14	16	—	30
Current portion of long-term debt	17	—		—	17
Other current liabilities	33	107	194	—	334
Total current liabilities	54	937	768	—	1,759
Long-term debt	2,049			—	2,049
Deferred tax liabilities, net	—	—	205	—	205
Other noncurrent liabilities	—	178	73	—	251
Total liabilities	2,103	1,115	1,046	—	4,264
Shareholder's equity	123	2,135	762	(2,894)	126
Total liabilities and shareholder's equity	$ 2,226	$ 3,250	$ 1,808	$ (2,894)	$ 4,390

WMG Acquisition Corp.
Supplementary Information
Consolidating Balance Sheet (audited)
September 30, 2006

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	WMG Acquisition Corp. Consolidated
Assets					
Current assets:					
Cash and equivalents	$ —	$ 208	$ 118	$ —	$ 326
Accounts receivable, net	—	320	265	—	585
Intercompany receivable	(70)	195	(205)	84	4
Inventories	—	28	31	—	59
Royalty advances expected to be recouped within one year	—	109	82	—	191
Deferred tax assets	—	—	45	—	45
Other current assets	—	20	15	—	35
Total current assets	(70)	880	351	84	1,245
Royalty advances expected to be recouped after one year	—	118	89	—	207
Investments in and advances to (from) consolidated subsidiaries	2,306	681	—	(2,987)	—
Investments	—	19	6	—	25
Property, plant and equipment, net	—	91	55	—	146
Goodwill	—	340	589	—	929
Intangible assets subject to amortization, net	—	1,096	615	—	1,711
Intangible assets not subject to amortization	—	100	—	—	100
Other assets	74	17	7	—	98
Total assets	$ 2,310	$ 3,342	$ 1,712	$ (2,903)	$ 4,461
Liabilities and shareholder’s equity					
Current liabilities:					
Accounts payable	$ —	$ 127	$ 82	$ —	$ 209
Accrued royalties	—	689	453	—	1,142
Taxes and other withholdings	—	13	19	—	32
Current portion of long-term debt	17	—	—	—	17
Other current liabilities	33	130	214	—	377
Total current liabilities	50	959	768	—	1,777
Long-term debt	2,048	—	—	—	2,048
Deferred tax liabilities, net	—	11	186	—	197
Other noncurrent liabilities	—	151	73	—	224
Total liabilities	2,098	1,121	1,027	—	4,246
Shareholder’s equity	212	2,221	685	(2,903)	215
Total liabilities and shareholder’s equity	$ 2,310	$ 3,342	$ 1,712	$ (2,903)	$ 4,461

WMG Acquisition Corp.
Supplementary Information
Consolidating Statements of Operations (unaudited)
For The Three Months Ended March 31, 2007 and 2006

	Three months ended March 31, 2007				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenues	$ —	$ 476	$ 394	$ (86)	$ 784
Costs and expenses:					
Cost of revenues	—	(308)	(205)	86	(427)
Selling, general and administrative expenses	—	(120)	(155)	—	(275)
Restructuring costs	—	(2)	(10)	—	(12)
Amortization of intangible assets	—	(34)	(17)	—	(51)
Total costs and expenses	—	(464)	(387)	86	(765)
Operating income	—	12	7	—	19
Interest expense, net	(33)	(2)	(7)	—	(42)
Equity in the gains (losses) of consolidated subsidiaries	11	9		(20)	—
Other income, net	(1)	—	1	—	—
(Loss) income before income taxes	(23)	19	1	(20)	(23)
Income tax (expense) benefit	(1)	(5)	3	2	(1)
Net (loss) income	$ (24)	$ 14	$ 4	$ (18)	$ (24)

	Three months ended March 31, 2006				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Revenues	$ —	$ 463	$ 464	$ (131)	$ 796
Costs and expenses:					
Cost of revenues	—	(281)	(259)	131	(409)
Selling, general and administrative expenses	—	(144)	(150)	—	(294)
Amortization of intangible assets	—	(32)	(16)	—	(48)
Total costs and expenses	—	(457)	(425)	131	(751)
Operating income	—	6	39	—	45
Interest expense, net	(35)	(7)	(1)	2	(41)
Equity in the gains (losses) of consolidated subsidiaries	42	17	—	(59)	—
Equity in the gains of equity-method investees, net	—	—	1	—	1
Other income, net	—	4	(4)	2	2
Income (loss) before income taxes	7	20	35	(55)	7
Income tax (expense) benefit	(10)	(3)	(6)	9	(10)
Net (loss) income	$ (3)	$ 17	$ 29	$ (46)	$ (3)

WMG Acquisition Corp.
Supplementary Information
Consolidating Statements of Operations (unaudited)
For The Six Months Ended March 31, 2007 and 2006

	Six months ended March 31, 2007				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	WMG Acquisition Corp. Consolidated
Revenues	$ —	$ 898	$ 927	$ (113)	$ 1,712
Costs and expenses:					
Cost of revenues	—	(561)	(487)	113	(935)
Selling, general and administrative expenses	—	(214)	(351)	—	(565)
Restructuring costs	—	(2)	(10)	—	(12)
Amortization of intangible assets	—	(68)	(33)	—	(101)
Total costs and expenses	—	(845)	(881)	113	(1,613)
Operating income	—	53	46	—	99
Interest expense, net	(68)	(6)	(10)	—	(84)
Equity in the gains (losses) of consolidated subsidiaries	83	52	—	(135)	—
Income (loss) before income taxes	15	99	36	(135)	15
Income tax expense	(16)	(23)	(8)	31	(16)
Net (loss) income	$ (1)	$ 76	$ 28	$ (104)	$ (1)

	Six months ended March 31, 2006				
	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	WMG Acquisition Corp. Consolidated
Revenues	$ —	$ 892	$ 1,083	$ (135)	$ 1,840
Costs and expenses:					
Cost of revenues	—	(508)	(566)	135	(939)
Selling, general and administrative expenses	—	(251)	(366)	—	(617)
Amortization of intangible assets	—	(65)	(30)	—	(95)
Total costs and expenses	—	(824)	(962)	135	(1,651)
Operating income	—	68	121	—	189
Interest expense, net	(69)	(11)	(4)	2	(82)
Equity in the gains of equity method investees, net	—	—	1	—	1
Equity in the gains (losses) of consolidated subsidiaries	179	62	—	(241)	—
Other income, net	—	4	(4)	2	2
Income (loss) before income taxes	110	123	114	(237)	110
Income tax (expense) benefit	(40)	(22)	(32)	54	(40)
Net income (loss)	$ 70	$ 101	$ 82	$ (183)	$ 70

WMG Acquisition Corp.
Supplementary Information
Consolidating Statement of Cash Flows (unaudited)
For The Six Months Ended March 31, 2007

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated
			(in millions)		
Cash flows from operating activities:					
Net (loss) income	$ (1)	$ 76	$ 28	$ (104)	$ (1)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	82	39	—	121
Deferred taxes	—	—	(22)	—	(22)
Non-cash interest expense	6	11	5	—	22
Non-cash stock compensation expense	—	4	1	—	5
Equity in the (gains) losses of equity-method investees, including distributions	(66)	(38)	—	104	—
Changes in operating assets and liabilities:					
Accounts receivable	—	20	98	—	118
Inventories	—	(4)	(3)	—	(7)
Royalty advances	—	(13)	(15)	—	(28)
Accounts payable and accrued liabilities	—	(19)	(83)	—	(102)
Other balance sheet changes	6	(7)	1	—	—
Net cash provided by (used in) operating activities	(55)	112	49	—	106
Cash flows from investing activities:					
Loan to third parties	—	(6)	(18)	—	(24)
Investments and acquisitions	—	(3)	(54)	—	(57)
Proceeds from the sale of buildings	—	—	7	—	7
Capital expenditures	—	(9)	(4)	—	(13)
Net cash used in investing activities	—	(18)	(69)	—	(87)
Cash flows from financing activities:					
Quarterly debt repayments	(8)	—	—	—	(8)
Change in intercompany	143	(208)	66	—	1
Return of capital and dividends paid	(80)	—	—	—	(80)
Net cash (used in) provided by financing activities	55	(208)	66	—	(87)
Effect of foreign currency exchange rate changes on cash	—	—	3	—	3
Net (decrease) increase in cash and equivalents	—	(114)	49	—	(65)
Cash and equivalents at beginning of period	—	208	118	—	326
Cash and equivalents at end of period	$ —	$ 94	$ 167	$ —	$ 261

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WMG Acquisition Corp.
Supplementary Information
Consolidating Statement of Cash Flows (unaudited)
For The Six Months Ended March 31, 2006

	WMG Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in millions)	Eliminations	WMG Acquisition Corp. Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 70	$ 101	$ 82	$ (183)	$ 70
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	82	35	—	117
Deferred taxes	—	—	(2)	—	(2)
Non-cash interest expense	7	11	—	—	18
Non-cash stock compensation expense	—	7	1	—	8
Equity in the gains of equity method investees, including distributions	—	—	(1)	—	(1)
Equity in the (gains) losses of consolidated subsidiaries	(138)	(49)	—	187	—
Changes in operating assets and liabilities:					
Accounts receivable	4	49	55	—	108
Inventories	—	5	3	—	8
Royalty advances	—	(35)	6	—	(29)
Accounts payable and accrued liabilities	2	(42)	(30)	—	(70)
Other balance sheet changes	92	(59)	(51)	(4)	(22)
Net cash provided by operating activities	37	70	98	—	205
Cash flows from investing activities:					
Purchases in short-term investments	—	(27)	—	—	(27)
Investments and acquisitions	—	(1)	(17)	—	(18)
Capital expenditures	—	(8)	(4)	—	(12)
Net cash used in investing activities	—	(36)	(21)	—	(57)
Cash flows from financing activities:					
Quarterly debt repayments	(8)	—	—	—	(8)
Change in intercompany	57	64	(113)	—	8
Return of capital and dividends paid	(86)				(86)
Net cash (used in) provided by financing activities	(37)	64	(113)	—	(86)
Effect of foreign currency exchange rate changes on cash	—	—	2	—	2
Net increase (decrease) in cash and equivalents	—	98	(34)	—	64
Cash and equivalents at beginning of period	—	89	158	—	247
Cash and equivalents at end of period	$ —	$ 187	$ 124	$ —	$ 311

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

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007 (the "Quarterly Report"). This discussion contains forward-looking statements and involves numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements.

We make available on our Internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K as soon as practicable after we electronically file such reports with the Securities and Exchange Commission (the "SEC"). Our website address is www.wmg.com. The information contained in our website is not incorporated by reference in this Quarterly Report.

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

This Quarterly Report includes "forward-looking statements" within the meaning of 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, savings 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, to reduce future capital expenditures, to monetize our music content, including through new distribution channels and formats, to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether or not the Internet will become an important sales channel and whether we will be able to achieve higher margins from digital sales, 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 regular quarterly dividends, the adequacy of our existing sources of cash to support our existing operations during the next twelve months and, the effect of litigation and other investigations on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

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

- the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;
- the threat posed to our business by piracy of music by means of home CD-R activity and Internet peer-to-peer file-sharing;
- 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;
- the seasonal and cyclical nature of recorded music sales;
- 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;
- the ability to maintain product pricing in a competitive environment;
- 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 business;
- the impact of rates on other income streams that may be set by arbitration proceedings on our business; 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;
- legal or other developments related to pending litigation or investigations by the Attorney General of the State of New York, the Department of Justice and the European Commission;
- trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);
- the growth of other products that compete for the disposable income of consumers;
- risks inherent in relying on one supplier for manufacturing, packaging and distribution services in North America and Europe;
- risks inherent in our acquiring or investing in other businesses including our ability to successfully manage new businesses that we may acquire as we diversify revenue streams within the music industry;
- the impact of our recently announced realignment plan on our business;
- the possibility that our owners' interests will conflict with ours or yours;

- increased costs and diversion of resources associated with complying with the internal control reporting or other requirements of the Sarbanes-Oxley Act of 2002;
- the effects associated with the formation of Sony BMG Music Entertainment (“Sony BMG”) or the potential acquisition of BMG Music Publishing Group by Universal; 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

WMG Acquisition Corp. (the “Company”) is one of the world’s major music-based content companies and the successor to substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc. (“Time Warner”). Such predecessor interests formerly owned by Time Warner are hereinafter referred to as “Old WMG” or the “Predecessor.” Effective March 1, 2004, the Company acquired Old WMG from Time Warner for approximately $2.6 billion (the “Acquisition”). The Company is a direct, wholly owned subsidiary of WMG Holdings Corp. (“Holdings”), which in turn, is a direct, wholly owned subsidiary of Warner Music Group Corp. (“Parent”). Parent, Holdings and the Company were formed by a private equity consortium of Investors (the “Investor Group”) on November 21, 2003 to facilitate the Acquisition.

The 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 WMG Acquisition Corp. and its consolidated subsidiaries, except where otherwise indicated.

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

- *Overview.* This section provides a general description of our business, as well as recent developments that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.
- *Results of operations.* This section provides an analysis of our results of operations for the three and six months ended March 31, 2007 and 2006. This analysis is presented on both a consolidated and segment basis.
- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the six months ended March 31, 2007 and 2006, as well as a discussion of our financial condition and liquidity as of March 31, 2007. The discussion of our financial condition and liquidity includes (i) our available financial capacity under the revolving credit portion of our senior secured credit facility and (ii) a summary of our key debt compliance measures under our debt agreements.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of 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 (loss), net income (loss) and other measures of financial performance reported in accordance with U.S. GAAP.

OVERVIEW

Description of Business

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 these operations is presented below.

Our business is seasonal. Therefore, operating results for the three and six month periods ended March 31, 2007 are not necessarily indicative of the results that may be expected for fiscal year ended September 30, 2007.

Recorded Music Operations

Our Recorded Music business consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. In addition to the more traditional methods of discovering and developing artists, we established our Independent Label Group ("ILG") to discover artists earlier in their careers and at a lower cost by leveraging our independent distribution network.

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 Entertainment ("Rhino"), a division that specializes in marketing our music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. On May 31, 2006, the Company completed the acquisition of Ryko Corporation ("Ryko"), a leading independent, integrated music and entertainment company. In January 2007, the Company acquired a majority interest in Roadrunner, which includes Roadrunner Records, one of the leading hard rock and heavy metal labels.

Outside the U.S., our Recorded Music activities are conducted in more than 50 countries through Warner Music International ("WMI") and its various subsidiaries, affiliates and non-affiliated licensees. WMI engages in the same activities as our U.S. labels: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, WMI also markets and distributes the records of those artists for whom our domestic record labels have international rights. In certain smaller countries, WMI licenses to unaffiliated third-party record labels the right to distribute its records.

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music products to retailers and wholesale distributors in the U.S.; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors in the U.S.; Ryko Distribution, which distributes music and DVD releases from Rykodisc, Ryko's record music label, and third-party record and video labels; 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 U.K., which provides ADA's distribution services to independent labels in the U.K.

Our principal Recorded Music revenue sources are sales of CDs, digital downloads, mobile phone ringtones and other recorded music products and license fees received for the ancillary uses of our recorded music catalog. 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;
- selling and marketing costs—the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and
- general and administrative costs—the costs associated with general overhead and other administrative costs.

Music Publishing Operations

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

Our Music Publishing operations include Warner/Chappell, our global Music Publishing company headquartered in 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. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd. and Hallmark Entertainment. In addition to the more traditional methods, we have implemented new initiatives to promote and develop emerging songwriters, such as our label, Perfect Game Recording Co., which, similar to ILG, seeks to identify and nurture songwriters earlier in their careers.

Publishing revenues are derived from four main sources:

- *Mechanical:* the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including physical recordings (*e.g.*, CDs, DVDs, video cassettes), online and wireless downloads and mobile phone ringtones.
- *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 wireless 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.
- *Other:* the licensor receives royalties from other uses such as in toys or novelty items and 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
- 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, 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, DVD-Audio formats and the distribution of music on mobile devices, significant revenue streams from these new formats are just beginning to emerge. 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 the music publishing business. This is because our music publishing business generates a portion of its revenues from mechanical royalties received from the sale of music in recorded music formats such as the CD. Due in part to the development of the new formats mentioned above and ongoing anti-piracy initiatives, we believe that the recorded music industry is positioned to improve over the coming years. However, the industry may relapse into a period of decline. In addition, there can be no assurances as to the timing or the extent of any improvement in the industry.

Realignment Plan for Fiscal Year 2007

Parent announced plans to implement changes intended to better align Parent’s workforce with the changing nature of the music industry. These changes are part of Parent’s continued evolution from a traditional record and songs-based business to a music-based content company and its ongoing management of its cost structure. The changes include a continued redeployment of resources to focus on new business initiatives to help Parent diversify its revenue streams, including digital opportunities. The realignment plan is also designed to improve the operating effectiveness of our current businesses and to realign our management structure to, among other things, effectively address the continued development of digital distribution channels along with the decline of industry-wide CD sales.

Parent intends to enhance its effectiveness, flexibility, structure, and performance by reducing and realigning long-term costs. This will primarily consist of the reorganization of management structures to more adequately and carefully address regional needs and new business requirements, to reduce organizational complexity and to improve leadership channels. Parent also intends to continue to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams. Part of the plan will also result in the outsourcing of some back-office functions as a cost-savings measure. In connection with these reductions, Parent expects to incur a charge ranging from $55 million to $65 million for severance and related benefits. In addition, Parent expects to incur implementation charges ranging from $10 million to $15 million related to consulting fees, costs of temporary workers and stay bonuses. All of these restructuring and implementation costs will be paid in cash. To implement such changes, Parent expects to reduce its headcount by approximately 400 employees. Parent expects the majority of any cost savings to be offset by new hirings and ongoing investment focused on new business initiatives such as digital distribution and video.

We anticipate that the changes described above will be implemented by the end of fiscal year 2007. Parent also expects to incur substantially all of the costs associated with the realignment plan by the end of the current fiscal year. Approximately $12 million of restructuring costs were incurred in Parent’s fiscal second quarter of 2007, consisting primarily of the elimination of duplicative positions and redirecting of resources to growth areas of Parent’s businesses in Europe.

The 2004 Restructuring Plan

Immediately following the Acquisition, we executed a number of cost-saving initiatives in an attempt to realign our cost structure with the changing economics of the industry. These initiatives included significant headcount reductions from the consolidation of operations and the streamlining of corporate and label overhead, exiting certain leased facilities in an effort to consolidate locations and the sale of our manufacturing, packaging and physical distribution operations. We completed substantially all of our historical restructuring efforts in fiscal year 2005 and implemented approximately $250 million of annualized cost savings.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

The following table summarizes our historical results of operations:

	Three Months Ended March 31, 2007 (unaudited)		Three Months Ended March 31, 2006 (unaudited)
		(in millions)	
Revenues	$ 784		$ 796
Costs and expenses:			
Cost of revenues (1)	(427)		(409)
Selling, general and administrative expenses (1)	(275)		(294)
Restructuring costs	(12)		—
Amortization of intangible assets	(51)		(48)
Total costs and expenses	(765)		(751)
Operating income	19		45
Interest expense, net	(42)		(41)
Equity in gains of equity-method investees, net	—		1
Other income, net	—		2
(Loss) income before income taxes	$ (23)		$ 7
Income tax expense	(1)		(10)
Net loss	$ (24)		$ (3)

(1) Includes depreciation expense of $10 million and $11 million for the three months ended March 31, 2007 and 2006, respectively.

Consolidated Historical Results

Revenues

Our revenues decreased $12 million, or 2%, to $784 million for the three months ended March 31, 2007 as compared to $796 million for the three months ended March 31, 2006. Excluding a $30 million favorable impact of foreign currency exchange rates, total revenue declined by $42 million, or 5%, primarily resulting from a decrease in physical sales of $66 million. This decrease was due to fewer major artist releases during the three months ended March 31, 2007, as compared to the prior year, and was offset in part by increases in digital revenue of $19 million. Music Publishing revenues, excluding digital sales, increased by approximately $12 million in the three months ended March 31, 2007. Excluding the impact of foreign currency exchange rates, Music Publishing revenues, excluding digital sales, increased by $3 million.

Digital revenues increased $21 million to $111 million for the three months ended March 31, 2007 as compared to $90 million for the three months ended March 31, 2006. Digital revenues represent 14% and 11% of consolidated revenues for the three months ended March 31, 2007 and 2006, respectively. Total digital revenues were comprised of U.S. revenues of $80 million, or 72% of total digital revenues, and international revenues of $31 million, or 28% of total digital revenues.

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International operations represented $365 million of consolidated revenues for the three months ended March 31, 2007 as compared to $379 million of consolidated revenues for the three months ended March 31, 2006, comprising 47% and 48% of total revenues, respectively.

See “Business Segment Results” presented hereinafter for a discussion of revenue by business segment.

Cost of revenues

Our cost of revenues increased $18 million, or 4%, to $427 million for the three months ended March 31, 2007 as compared to $409 million for the three months ended March 31, 2006. Expressed as a percentage of revenues, cost of revenues was 54% and 51% for the three months ended March 31, 2007 and 2006, respectively. Excluding a $19 million impact of foreign currency exchange rates, our cost of revenues decreased $1 million which was primarily driven by lower physical sales as compared to the prior year. As a percentage of revenues, royalty expenses grew approximately 3%, which was driven by a change in product mix,. Product costs decreased by $8 million, which was primarily driven by the decline in physical sales and increase in digital revenues.

Selling, general and administrative expenses

Our selling, general and administrative expenses decreased by $19 million, or 6%, to $275 million for the three months ended March 31, 2007 as compared to $294 million for the three months ended March 31, 2006. Excluding an $8 million impact of foreign currency exchange rates, selling, general and administrative expenses decreased by $27 million, or 9%, which was driven primarily by a decrease in sales and marketing costs of $14 million and a decrease in distribution costs of $2 million, primarily associated with the decline in physical sales previously described. The remaining decrease was driven primarily by cost management efforts, which was offset in part by employee termination costs of $4 million associated with our realignment plan.

Restructuring costs

Our restructuring costs were $12 million for the three months ended March 31, 2007. These are mainly severance costs incurred in connection with our realignment plan. We did not record any restructuring costs in the three months ended March 31, 2006.

Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Income

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 income for purposes of the discussion that follows:

	Three Months Ended March 31, 2007 (unaudited)	Three Months Ended March 31, 2006 (unaudited)
	(in millions)	
OIBDA	$ 80	$ 104
Depreciation expense	(10)	(11)
Amortization expense	(51)	(48)
Operating income	19	45
Interest expense, net	(42)	(41)
Equity in gains of equity-method investees	—	1
Other Income, net	—	2
Income before income taxes	$ (23)	$ 7
Income tax expense	(1)	(10)
Net loss	$ (24)	$ (3)

OIBDA

Our OIBDA decreased $24 million, or 23% to $80 million for the three months ended March 31, 2007 as compared to $104 million for the three months ended March 31, 2006, primarily driven by the decline in physical sales and costs associated with our restructuring plan as previously discussed.

Depreciation expense

Our depreciation expense decreased by $1 million to $10 million for the three months ended March 31, 2007 as compared to $11 million for the three months ended March 31, 2006. The decrease primarily relates to lower capital spending since the date of the Acquisition.

Amortization expense

Our amortization expense increased by $3 million, or 6%, to $51 million for the three months ended March 31, 2007 as compared to $48 million for the three months ended March 31, 2006. The increase relates to the acquisition of certain recorded music catalog assets, including Ryko, and the acquisition of various music publishing copyrights.

Operating income

Our operating income decreased $26 million, or 58% to $19 million for the three months ended March 31, 2007 as compared to $45 million for the three months ended March 31, 2006, which mainly relates to the decline in physical sales and to the restructuring costs previously discussed.

Interest expense, net

Our interest expense, net was $42 million and $41 million for the three months ended March 31, 2007 and 2006, respectively.

Equity in gains of equity-method investees, net

Equity in the gains of equity method investees was less than $1 million for the three months ended March 31, 2007 compared to $1 million for the three months ended March 31, 2006.

Other income, net

Other income, net was less than $1 million for the three months ended March 31, 2007 and $2 million for the three months ended March 31, 2006. Our other income relates primarily to favorable foreign currency exchange rate movements associated with intercompany receivables and payables that are short-term in nature and therefore, required to be recognized in the Statement of Operations under U.S. GAAP.

Income tax expense

We provided an income tax expense of $1 million for the three months ended March 31, 2007 compared to $10 million for the three months ended March 31, 2006. This was a result of the decline in pre-tax income, which was primarily a result of the decrease in operating income discussed previously.

Net loss

Our net loss increased $21 million to $24 million for the three months ended March 31, 2007 as compared to $3 million for the three months ended March 31, 2006. The decrease was due primarily to the decline in physical sales and restructuring costs previously discussed, off set in part by the decrease in income tax expense.

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Business Segment Results

Revenue, OIBDA and operating income by business segment are as follows:

	Three Months Ended March 31, 2007 (unaudited)		Three Months Ended March 31, 2006 (unaudited)
		(in millions)	
Recorded Music			
Revenue	$ 648		$ 676
OIBDA	$ 55		$ 81
Operating income	$ 13		$ 40
Music Publishing			
Revenue	$ 143		$ 129
OIBDA	$ 53		$ 47
Operating income	$ 38		$ 32
Corporate and Revenue Eliminations			
Revenue	$ (7)		$ (9)
OIBDA	$ (28)		$ (24)
Operating loss	$ (32)		$ (27)
Total			
Revenue	$ 784		$ 796
OIBDA	$ 80		$ 104
Operating income	$ 19		$ 45

(1) The OIBDA and Operating Income for the three months ended March 31, 2007 has been reduced by $12 million of restructuring costs. Of such an amount, $11 million relates to Recorded Music and $1 million relates to Corporate.

Recorded Music

Recorded Music revenues decreased by $28 million, or 4%, to $648 million for the three months ended March 31, 2007 from $676 million for the three months ended March 31, 2006. Excluding a $22 million favorable impact of foreign currency exchange rates, revenues decreased by $50 million, or 7%, primarily resulting from a $66 million decrease in physical sales, offset in part by an increase in digital sales of $17 million. Physical sales declined as the current quarter reflected fewer major artist releases and weaker international markets, primarily in Europe, offset in part by increases in sales of domestic repertoire in the Asia Pacific region. The digital sales increase was comprised of an increase in U.S. and international digital sales of $14 million and $5 million, respectively, which reflect our efforts to develop new digital products and distribution methods. Digital sales comprised approximately 16% of Recorded Music revenues for the three months ended March 31, 2007, up from 13% of Recorded Music revenues for the three months ended March 31, 2006.

Recorded Music revenues represented 83% and 85% of consolidated revenues, prior to corporate and revenue eliminations, for the three months ended March 31, 2007 and 2006, respectively. U.S. Recorded Music revenues were $358 million and $361 million, or 55% and 53% of consolidated Recorded Music revenues for the three months ended March 31, 2007 and 2006, respectively. International Recorded Music revenues were $290 million and $315 million, or 45% and 47 % of consolidated Recorded Music revenues for the three months ended March 31, 2007 and 2006, respectively.

Recorded Music OIBDA decreased by $26 million, or 32% to $55 million for the three months ended March 31, 2007 compared to $81 million for the three months ended March 31, 2006. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA was 8% and 12% for the three months ended March 31, 2007 and 2006, respectively. Excluding a $2 million impact of foreign currency exchange rates, OIBDA decreased by $28 million, which was primarily caused by the significant decline in physical sales previously described, increased royalty costs related to product mix and $11 million of severance costs related to our realignment plan.

Recorded Music operating income was $13 million for the three months ended March 31, 2007, down 68% as compared to $40 million for the three months ended March 31, 2006. Recorded Music operating income included the following components:

	Three Months Ended March 31, 2007 (unaudited)		Three Months Ended March 31, 2006 (unaudited)
		(in millions)	
OIBDA	$ 55		$ 81
Depreciation and amortization	(42)		(41)
Operating income	$ 13		$ 40

The $27 million decrease in Recorded Music operating income related to the $26 million decrease in Recorded Music OIBDA more fully discussed above, and a $1 million an increase in Recorded Music depreciation and amortization.

Music Publishing

Music Publishing revenues increased $14 million, or 11%, to $143 million for the three months ended March 31, 2007 as compared to $129 million for the three months ended March 31, 2006. Excluding a $9 million favorable impact of foreign currency exchange rates, Music Publishing revenues increased by $5 million, or 4%, which was primarily a result of timing and increases in performance revenue of $7 million and digital revenue of $2 million, offset by a decrease in mechanical revenue of $4 million, which primarily related to market declines across a number of territories. Synchronization revenue was relatively flat as compared to the three months ended March 31, 2006.

Music Publishing OIBDA increased $6 million or 13% to $53 million for the three months ended March 31, 2007 as compared to $47 million for the three months ended March 31, 2006. Excluding a $1 million impact of foreign currency exchange rates, OIBDA increased $5 million, which resulted primarily from the increase in revenue above and from adjustments to settlements of royalties payable balances to certain songwriters, offset in part by an increase in new songwriter spending.

Music Publishing operating income was $38 million for the three months ended March 31, 2007 as compared to $32 million for the three months ended March 31, 2006. Music Publishing operating income includes the following components:

	Three Months Ended March 31, 2007 (unaudited)		Three Months Ended March 31, 2006 (unaudited)
		(in millions)	
OIBDA	$ 53		$ 47
Depreciation and amortization	(15)		(15)
Operating income	$ 38		$ 32

The $6 million increase in Music Publishing operating income related to the $6 million increase in Music Publishing OIBDA described above.

Corporate Expenses and Eliminations

Corporate expenses before depreciation and amortization expense increased $4 million, or 17% to $28 million for the three months ended March 31, 2007 as compared to $24 million for the three months ended

March 31, 2006. The increase primarily relates to an increase in consulting and professional fees costs along with $1 million of restructuring costs.

Six Months Ended March 31, 2007 Compared to Six Months Ended March 31, 2006

The following table summarizes our historical results of operations:

	Six Months Ended March 31, 2007 (unaudited)		Six Months Ended March 31, 2006 (unaudited)
		(in millions)	
Revenues	$ 1,712		$ 1,840
Costs and expenses:			
Cost of revenues (1)	(935)		(939)
Selling, general and administrative expenses (1)	(565)		(617)
Restructuring costs	(12)		—
Amortization of intangible assets	(101)		(95)
Total costs and expenses	(1,613)		(1,651)
Operating income	99		189
Interest expense, net	(84)		(82)
Equity in gains of equity-method investees, net	—		1
Other income, net	—		2
Income before income taxes	$ 15		$ 110
Income tax expense	(16)		(40)
Net (loss) income	$ (1)		$ 70

(1) Includes depreciation expense of $20 million and $22 million for the six months ended March 31, 2007 and 2006, respectively.

Consolidated Historical Results

Revenues

Our revenues decreased $128 million, or 7%, to $1.712 billion for the six months ended March 31, 2007 as compared to $1.840 billion for the six months ended March 31, 2006. Excluding a $64 million favorable impact of foreign currency exchange rates, total revenue declined by $192 million, or 10%, primarily resulting from a decrease in physical sales of $259 million. This decrease was due to fewer major artist releases during the six months ended March 31, 2007, as compared to the prior year, and was offset in part by increases in digital revenue of $50 million and licensing revenue of $16 million. Music Publishing revenues, excluding digital sales, increased by $12 million or 5% in the six months ended March 31, 2007 to $263 million compared to $251 million in the six months ended March 31, 2006. Excluding the impact of foreign currency exchange rates, Music Publishing revenues, excluding digital sales, decreased by $3 million.

Digital revenues increased $52 million to $211 million for the six months ended March 31, 2007 as compared to $159 million for the six months ended March 31, 2006. Digital revenues represent 12% and 9% of consolidated revenues for the six months ended March 31, 2007 and 2006, respectively. Total digital revenues were comprised of U.S. revenues of $145 million, or 69% of total digital revenues, and international revenues of $66 million, or 31% of total digital revenues.

International operations represented $887 million of consolidated revenues for the six months ended March 31, 2007 as compared to $964 million of consolidated revenues for the six months ended March 31, 2006, comprising 52% of total revenues for each of the six months ended March 31, 2007 and 2006.

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

Cost of revenues

Our cost of revenues decreased $4 million to $935 million for the six months ended March 31, 2007 as compared to $939 million for the six months ended March 31, 2006. Expressed as a percentage of revenues, cost of revenues was 55% and 51% for the six months ended March 31, 2007 and 2006, respectively. Excluding a $39 million impact of foreign currency exchange rates, our cost of revenues decreased $43 million which was primarily driven by lower physical sales as compared to the prior year. As a percentage of revenues, royalty expenses grew approximately 3%, which was driven by a change in product mix. In addition, royalty advance write-offs drove an additional 1% increase in costs of revenues as a percentage of revenue, due primarily to increased new artist spending in the current year, in both our Recorded Music and our Music Publishing businesses.

Selling, general and administrative expenses

Our selling, general and administrative expenses decreased by $52 million, or 8%, to $565 million for the six months ended March 31, 2007 as compared to $617 million for the six months ended March 31, 2006. Excluding a $16 million impact of foreign currency exchange rates, selling, general and administrative expenses decreased by $68 million, or 11%, which was driven primarily by decreases in distribution expenses of $13 million and decreases in marketing costs of $38 million, primarily related to the decrease in physical sales. The remaining decrease was driven by cost management efforts, which was offset in part by severance costs of $4 million associated with our realignment initiative.

Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Income

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 income for purposes of the discussion that follows:

	Six Months Ended March 31, 2007 (unaudited)		Six Months Ended March 31, 2006 (unaudited)
		(in millions)	
OIBDA	$ 220		$ 306
Depreciation expense	(20)		(22)
Amortization expense	(101)		(95)
Operating income	99		189
Interest expense, net	(84)		(82)
Equity in gains of equity-method investees, net	—		1
Other Income, net	—		2
Income before income taxes	$ 15		$ 110
Income tax expense	(16)		(40)
Net (loss) income	$ (1)		$ 70

OIBDA

Our OIBDA decreased $86 million, or 28% to $220 million for the six months ended March 31, 2007 as compared to $306 million for the six months ended March 31, 2006, primarily driven by the decline in physical sales and costs associated with our restructuring plan and cost-saving initiatives previously discussed.

Depreciation expense

Our depreciation expense decreased by $2 million to $20 million for the six months ended March 31, 2007 as compared to $22 million for the six months ended March 31, 2006. The decrease primarily relates to lower capital spending since the date of the Acquisition.

Amortization expense

Our amortization expense increased by $6 million, or 6%, to $101 million for the six months ended March 31, 2007 as compared to $95 million for the six months ended March 31, 2006. The increase relates to the recent acquisition of certain recorded music catalog, including Ryko, and the acquisition of various music publishing copyrights.

Operating income

Our operating income decreased $90 million, or 48% to $99 million for the six months ended March 31, 2007 as compared to $189 million for the six months ended March 31, 2006, which mainly relates to the decline in physical sales and costs associated with our restructuring plan and cost-saving initiatives previously discussed.

Interest expense, net

Our interest expense, net increased to $84 million for the six months ended March 31, 2007 compared to $82 million for the six months ended March 31, 2006. The increase in interest expense, net is a result of fluctuations in interest rates.

Income tax expense

We provided an income tax expense of $16 million for the six months ended March 31, 2007 compared to $40 million for the six months ended March 31, 2006. This was a result of the decline in pre-tax income, which was primarily a result of the decrease in operating income discussed previously.

Equity in gains of equity method investees

The six months ended March 31, 2007 includes less than $1 million of equity in the gains of equity method investees. The six months ended March 31, 2006 includes $1 million of equity in the gains of equity method investees.

Other income, net

We recognized other income, net of $2 million for the six months ended March 31, 2006. Our other income relates primarily to favorable foreign currency on exchange rate movements associated with intercompany receivables and payables that are short-term in nature and therefore, required to be recognized in the Statement of Operations under U.S. GAAP. There was no such income in the six months ended March 31, 2007.

Net (loss)income

We incurred a net loss of $1 million for the six months ended March 31, 2007 compared to net income of $70 million for the six months ended March 31, 2006. The decrease was due primarily to the decline in physical sales previously discussed, offset in part by the decrease in income tax expense.

Business Segment Results

Revenue, OIBDA and operating income by business segment are as follows:

	Six Months Ended March 31, 2007 (unaudited)		Six Months Ended March 31, 2006 (unaudited)
		(in millions)	
Recorded Music			
Revenue	$ 1,448		$ 1,596
OIBDA	$ 196		$ 287
Operating income	$ 112		$ 206
Music Publishing			
Revenue	$ 276		$ 260
OIBDA	$ 72		$ 68
Operating income	$ 41		$ 38
Corporate and Revenue Eliminations			
Revenue	$ (12)		$ (16)
OIBDA	$ (48)		$ (49)
Operating loss	$ (54)		$ (55)
Total			
Revenue	$ 1,712		$ 1,840
OIBDA	$ 220		$ 306
Operating income	$ 99		$ 189

(1) The OIBDA and Operating Income for the six months ended March 31, 2007 has been reduced by $12 million of restructuring costs. Of such an amount, $11 million relates to Recorded Music and $1 million relates to Corporate.

Recorded Music

Recorded Music revenues decreased by $148 million, or 9%, to $1.448 billion for the six months ended March 31, 2007 from $1.596 billion for the six months ended March 31, 2006. Excluding a $49 million favorable impact of foreign currency exchange rates, revenues decreased by $197 million, or 12%, primarily resulting from a $259 million decrease in physical sales, offset in part by an increase in digital sales of $46 million and an increase in licensing revenues of $16 million. Physical sales declined as the current six month period end March 31, 2007 reflected fewer major artist releases and weaker international markets, primarily in Europe, offset in part by increases in sales of domestic repertoire in the Asia Pacific region. Digital sales were comprised of an increase in U.S. digital sales of $29 million and an increase in international digital sales of $17 million, excluding the impact of foreign currency exchange rates, which reflect our efforts to develop new digital products and distribution methods. Digital sales comprised approximately 14% of Recorded Music revenues for the six months ended March 31, 2007, up from 9% of Recorded Music revenues for the six months ended March 31, 2006.

Recorded Music revenues represented 85% and 87% of consolidated revenues, prior to corporate and revenue eliminations, for the three months ended March 31, 2007 and 2006, respectively. U.S. Recorded Music revenues were $720 million and $768 million, or 50% and 48% of consolidated Recorded Music revenues for the six months ended March 31, 2007 and 2006, respectively. International Recorded Music revenues were $728 million and $828 million, or 50% and 52% of consolidated Recorded Music revenues for the six months ended March 31, 2007 and 2006, respectively.

Recorded Music OIBDA decreased by $91 million, or 32% to $196 million for the six months ended March 31, 2007 compared to $287 million for the six months ended March 31, 2006. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA was 14% and 18% for the six months ended March 31, 2007 and 2006, respectively. Excluding a $7 million impact of foreign currency exchange rates, OIBDA decreased by $98 million, which was primarily caused by the significant decline in physical sales previously described, the increase in royalty expense related to a variance in product mix from the prior period and the impact of the restructuring plan.

Recorded Music operating income was $112 million for the six months ended March 31, 2007 as compared to $206 million for the six months ended March 31, 2006. Recorded Music operating income included the following components:

	Six Months Ended March 31, 2007 (unaudited)	(in millions)	Six Months Ended March 31, 2006 (unaudited)
OIBDA	$ 196		$ 287
Depreciation and amortization	(84)		(81)
Operating income	$ 112		$ 206

The $94 million decrease in Recorded Music operating income related to the $91 million decrease in Recorded Music OIBDA more fully discussed above, and an increase in Recorded Music depreciation and amortization of $3 million.

Music Publishing

Music Publishing revenues increased $16 million, or 6%, to $276 million for the six months ended March 31, 2007 as compared to $260 million for the six months ended March 31, 2006. Excluding a $15 million favorable impact of foreign currency exchange rates, Music Publishing revenues increased by $1 million, which was primarily the result of timing and increases in performance revenue of $7 million and digital revenue of $4 million, offset by a decrease in mechanical revenue of $7 million related to market declines across various territories and a decrease in other revenue of $3 million. Synchronization revenue was flat for the six months ended March 31, 2007 as compared to the six months ended March 31, 2006.

Music Publishing OIBDA increased $4 million to $72 million for the six months ended March 31, 2007 as compared to $68 million for the six months ended March 31, 2006. Excluding a $2 million impact of foreign currency exchange rates, OIBDA increased $2 million, which resulted primarily from the increase in revenue discussed above and a decrease in costs of revenues due to the change in revenue composition. Additionally, the increase was due to adjustments to settlements of royalties payable balances of certain songwriters, offset in part by an increase in new songwriter spending.

Music Publishing operating income was $41 million for the six months ended March 31, 2007 as compared to $38 million for the six months ended March 31, 2006. Music Publishing operating income includes the following components:

	Six Months Ended March 31, 2007 (unaudited)	(in millions)	Six Months Ended March 31, 2006 (unaudited)
OIBDA	$ 72		$ 68
Depreciation and amortization	(31)		(30)
Operating income	$ 41		$ 38

The $3 million increase in Music Publishing operating income related to the $4 million increase in Music Publishing OIBDA described above and the $1 million increase in depreciation and amortization.

Corporate Expenses and Eliminations

Corporate expenses before depreciation and amortization expense decreased by $1 million, or 2% to $48 million for the six months ended March 31, 2007 as compared to $49 million for the six months ended March 31, 2006. The decrease primarily relates to a decrease in consulting and professional fees.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At March 31, 2007, we had $2.066 billion of debt, $261 million of cash and equivalents (net debt of $1.805 billion, defined as total debt less cash and equivalents and short-term investments) and $126 million of shareholder's equity. This compares to $2.065 billion of debt, $326 million of cash and equivalents (net debt of $1.739 billion) and $215 million of shareholder's equity at September 30, 2006. Net debt increased by $66 million as a result of (i) a $65 million decrease in cash and equivalents, (ii) a $9 million impact of foreign exchange rates on the Company's Sterling-denominated Senior Subordinated Notes due 2014 offset by a $8 million decrease in debt as a result of quarterly repayments of our term loans under our senior secured credit facility.

Short-term investments include high-quality, investment grade securities such as taxable auction rate securities as well as commercial paper and corporate bonds with maturities greater than 90 days but less than one year. We have expanded our investment portfolio in order to increase yield while maintaining safety of principal consistent with an investment policy approved by our Board of Directors. At March 31, 2006, our short-term investment balance was $18 million. At March 31, 2007, we had no short-term investment balance.

The $89 million decrease in shareholder's equity during the six months ended March 31, 2007, was primarily a result of the dividend declared and paid to Holdings of $80 million, the net loss of $1 million for the six months ended March 31, 2007, deferred losses on derivative financial instruments of $7 million, foreign currency exchange movements of $6 million, offset by $5 million of stock compensation.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the six months ended March 31, 2007 and 2006 are unaudited and are derived from our interim financial statements included elsewhere herein.

	Six Months Ended March 31, 2007 (unaudited)	Six Months Ended March 31, 2006 (unaudited)
	(in millions)	
Cash provided by (used in):		
Operating activities	$ 106	$ 205
Investing activities	(87)	(57)
Financing activities	(87)	(86)

Operating Activities

Cash provided by operations was $106 million for the six months ended March 31, 2007 compared to $205 million for the six months ended March 31, 2006. The $99 million decrease in cash provided by operations primarily reflects the decrease in physical sales for the last six months of calendar 2006, which resulted in lower collections in the first six months of fiscal year 2007 as compared to the first six months of fiscal year 2006. This decrease was offset in part by the variable timing of our working capital requirements in association with the variances in our business.

Investing Activities

Cash used in investing activities was $87 million for the six months ended March 31, 2007 as compared to $57 million for the six months ended March 31, 2006. The $87 million of cash used in investing activities in the six months ended March 31, 2007 consisted primarily of payments to acquire Roadrunner, which included $36 million paid to acquire 73.5% of Roadrunner, net of cash acquired of $23 million, and a loan to the seller of approximately $14 million. In addition, we paid approximately $11 million to acquire a video production company in the U.K., net of cash acquired, and $5 million to acquire a digital distribution company in Germany, net of cash acquired, and paid approximately $13 million for capital expenditures. This was offset by the receipt of approximately $7 million related to the sale of certain buildings. The $57 million of cash used in investing activities in the six months ended March 31, 2006 primarily reflects $27 million of cash invested in auction-rate securities and other short-term investments, $12 million of capital expenditures and the acquisition of a small independent record label in Australia.

Financing Activities

Cash used in financing activities was $87 million for the six months ended March 31, 2007 compared to $86 million for the six months ended March 31, 2006. The cash used in both periods consisted of $8 million of our quarterly repayments of debt and payment of dividends to Holdings.

Liquidity

Our primary sources of liquidity are the cash flow generated from our subsidiaries' operations, availability under the unused $250 million (less $4 million of outstanding letters of credit as of March 31, 2007) revolving credit portion of our senior secured credit facility and available cash and equivalents and short-term investments. These sources of liquidity are needed to fund our debt service requirements, working capital requirements, capital expenditure requirements, and regular quarterly dividends. We believe that our existing sources of cash will be sufficient to support our existing operations over the next twelve months.

As of March 31, 2007, our long-term debt consisted of $1.405 billion of borrowings (including $17 million of debt that is classified as a current obligation) under the term loan portion of our senior secured credit facility, $661 million of Senior Subordinated Notes. There were no borrowings under the revolving portion of our senior secured credit facility as of March 31, 2007.

Senior Secured Credit Facility

The senior secured credit facility consists of a $1.405 billion outstanding term loan portion and a $250 million revolving credit portion. The term loan portion of the facility matures in February 2011. We are required to prepay outstanding term loans, subject to certain exceptions and conditions, with excess cash flow or in the event of certain asset sales and casualty and condemnation events and incurrence of debt. We are required to make minimum repayments under the term loan portion of our facility in quarterly principal amounts of approximately $4 million through November 2010, with a remaining balloon payment in February 2011. The revolving credit portion of the senior secured credit facility matures in February 2010. There are no mandatory reductions in borrowing availability for the revolving credit portion of the facility through its term.

Borrowings under both the term loan and revolving credit portion of the senior secured credit facility currently bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Bank of America, N.A. and (2) the federal funds rate plus 1/2 of 1% or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs. As of March 31, 2007, the applicable margins with respect to base rate borrowings and LIBOR borrowings were 1.25% and 2.25%, respectively, for borrowings under the revolving credit facility. The applicable margins are variable subject to changes in certain leverage ratios. For borrowings under the term loan facility, the margins with respect to the base rate borrowings and LIBOR borrowings are 1.00% and 2.00%, respectively, but will be 0.75% and 1.75%, respectively, if the senior secured debt of the Company is rated at least BB by S&P and Ba2 by Moody's. As of May 4, 2007, our term loan facility was rated BB- by S&P and Ba2 by Moody's.

In addition to paying interest on outstanding principal under the senior secured credit facility, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments. The initial commitment fee rate was 0.5%. As of March 31, 2007, the commitment fee rate was 0.375%. The commitment fee rate is variable subject to changes in certain of our leverage ratios. We also are required to pay customary letter of credit fees, as necessary.

The senior secured credit facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability and the ability of our subsidiaries to sell assets, incur additional indebtedness or issue preferred stock, repay other indebtedness, pay dividends and distributions or repurchase capital stock, create liens on assets, make investments, loans or advances, make certain acquisitions, engage in mergers or consolidations, engage in certain transactions with affiliates, amend certain material agreements, change the business conducted by us and enter into agreements that restrict dividends from subsidiaries. In addition, the senior secured credit facility requires us to maintain the following financial covenants: a maximum total leverage ratio and a minimum interest coverage ratio, both tested quarterly, and a maximum annual capital expenditures limitation. The occurrence of an event of default under the senior secured credit facility could result in all amounts outstanding under the facility to be immediately due and payable, which could have a material adverse impact on our results of operations, financial position and cash flows. As of March 31, 2007, we were in compliance with all covenants under the senior secured credit facility.

Senior Subordinated Notes

We have outstanding two tranches of senior subordinated notes due 2014: $465 million principal amount of U.S. dollar-denominated notes and £100 million principal amount of Sterling-denominated notes (collectively, the "Subordinated Notes"). The Subordinated Notes mature on April 15, 2014. The Subordinated Notes bear interest at a fixed rate of 7 3/8% per annum on the $465 million dollar notes and 8 1/8% per annum on the £100 million sterling notes. The indenture governing the notes limits our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; to pay dividends on or make other distributions in respect of its capital stock or make other restricted payments; to make certain investments; to sell certain assets; to create liens on certain debt without securing the notes; to consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; to enter into certain transactions with affiliates; and to designate our subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness, and to make certain restricted payments and investments.

Holdings Notes

Our immediate parent company, Holdings, issued debt in December of 2004. While Holdings is the issuer of such debt, it is a holding company that conducts substantially all of its business operations through us, its only asset and wholly owned subsidiary. As such, Holdings will be relying on us to make any payments of principal and interest as they become due.

In December 2004, our direct parent, Holdings issued $847 million principal amount of debt. The $847 million principal amount of Holdings' debt consisted of (i) $250 million principal amount of Floating Rate Senior Notes due 2011 (the "Holdings Floating Rate Notes"), (ii) $397 million principal amount at maturity of 9.5% Senior Discount Notes due 2014, which had an initial issuance discount of $147 million (the "Holdings Discount Notes") and (iii) $200 million principal amount of Floating Rate Senior PIK Notes due 2014 (the "Holdings PIK Notes", and collectively, the "Holdings Notes").

In connection with Parent's initial common stock offering, Holdings used $517 million of proceeds from the offering, received as a capital contribution from Parent, along with $57 million of available cash received as a dividend from us, to redeem certain of the Holdings Notes outstanding. As of September 30, 2006, Holdings had $191 million of debt on its balance sheet relating to such securities, net of issuance discounts.

The Holdings Floating Rate Notes were redeemed in full on June 15, 2005. From the issuance date through the redemption date, the notes bore interest at a quarterly floating rate based on three-month LIBOR rates plus a margin equal to 4.375%. Interest was payable quarterly in cash beginning on March 15, 2005.

The Holdings Discount Notes were issued at a discount and had an initial accreted value of $630.02 per $1,000 principal amount at maturity. Prior to December 15, 2009, no cash interest payments are required. However, interest accrues on the Holdings Discount Notes in the form of an increase in the accreted value of such notes such that the accreted value of the Holdings Discount Notes will equal the principal amount at maturity on December 15, 2009. Thereafter, cash interest on the Holdings Discount Notes is payable semiannually at a fixed rate of 9.5% per annum. The Holdings Discount Notes mature on December 15, 2014. Holdings redeemed 35% of the Holdings Discount Notes on June 15, 2005.

The Holdings PIK Notes were redeemed in full on June 15, 2005. From the date of issuance through the date of redemption, the notes bore interest at a semi-annual floating rate based on six-month LIBOR rates plus a margin equal to 7%. Interest was accrued in the form of additional PIK notes at the election of the Company. Such amounts were also repaid in connection with the redemption.

Holdings' primary source of liquidity to service its indebtedness will be cash flow generated from the operations of the Company. However, the terms of certain of the debt instruments governing our existing notes significantly restrict us and Holdings' other subsidiaries from paying dividends, making distributions and otherwise transferring assets to Holdings. For example, our ability to make such payments is generally governed by a formula based on 50% of its consolidated net income (which, as defined in the indenture governing our existing notes, excludes goodwill impairment charges and any after-tax extraordinary, unusual or nonrecurring gains and losses) accruing from June 1, 2004. In addition, as a condition to making such payments to Holdings based on such formula, we must have a ratio of Adjusted EBITDA to fixed charges ("Fixed Charge Coverage Ratio") of at least 2.0 to 1.0 after giving effect to any such payments. We may also make payments to Holdings or other restricted payments if, on a pro forma basis after giving effect to any such payment, we have a Net Indebtedness to Adjusted EBITDA ratio of no greater than 3.75 to 1.0 and a Net Senior Indebtedness to Adjusted EBITDA Ratio of no greater than 2.5 to 1.0. We may also pay up to $45 million to Holdings or make other restricted payments without regard to any such provisions. Finally, our senior secured credit facility permits us to make payments to Holdings so that Holdings can pay interest in cash on its indebtedness (including on its notes) up to a maximum amount of $35 million in any fiscal year for the next five years. Thereafter, our senior secured credit facility permits Holdings to pay cash interest when due if it is then required to be paid in cash, assuming there has been no event of default under our senior secured credit facility.

Dividends

Parent has disclosed that it intends to pay regular quarterly dividends on its common stock outstanding in an amount not to exceed $80 million per year. We may be required to fund these dividends through dividends to our parent companies. The ability of Parent to pay this dividend is dependent on our cash flows and operations.

On March 8, 2007, the Parent declared a dividend on its outstanding common stock at a rate of $0.13 per share, or approximately $19 million in the aggregate, which was paid on April 27, 2007 to the Parent's shareholders, except for the portion of the dividends with respect to the unvested restricted stock, which will be paid at such time as such shares become vested.

On December 29, 2006, the Parent declared a dividend on its outstanding common stock at a rate of $0.13 per share, or approximately $19 million in the aggregate. The dividend was paid on February 16, 2007 to Parent's shareholders of record as of the close of business on January 18, 2007.

On August 31, 2006, the Parent declared a dividend on its outstanding common stock at a rate of $0.13 per share, or approximately $19 million in the aggregate, which was paid to the Parent's shareholders on October 20, 2006, except for the portion of the dividends with respect to unvested restricted stock, which will be paid at such time as such shares become vested.

Summary

Management believes that future funds generated from our operations and available borrowing capacity will be sufficient to fund our debt service requirements, working capital requirements, capital expenditure requirements and payment of regular dividends on our common stock. 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 decline of industry-wide CD sales.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 21 to our audited consolidated financial statements for the twelve months ended September 30, 2006, the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of March 31, 2007, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2006.

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 current exchange rate fluctuations on our major currencies, which include the British pound sterling, euro, Japanese yen, Canadian dollar and Australian dollar. During the six months ended March 31, 2007, the Company entered into additional foreign exchange hedge contracts and, as of March 31, 2007, the Company has outstanding hedge contracts for the sale of $413 million and the purchase of $161 million of foreign currencies at fixed rates. The Company did not enter into any significant foreign exchange contracts subsequent to March 31, 2007.

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.

We are exposed to foreign currency exchange rate risk with respect to our £100 million principal amount of Sterling-denominated notes that were issued in April 2004. These sterling notes mature on April 15, 2014. As of March 31, 2007, these Sterling-denominated notes had a carrying value of approximately $196 million. However, a weakening or strengthening of the U.S. dollar compared to the British Pound Sterling would not have an impact on the fair value of these Sterling notes, as these notes are completely hedged as of March 31, 2007. We did not enter into any additional hedges related to this debt subsequent to March 31, 2007.

We are exposed to interest rate risk with respect to our floating rate debt. The Company did not enter into additional interest rate swap agreements to hedge the variability of its expected future cash interest payments. The total notional amount of debt hedged as of March 31, 2007 was $897 million. We did not enter into any additional interest rate swap agreements subsequent to March 31, 2007.

We monitor our positions with, and the credit quality of, the financial institutions that are party to any of our financial transactions. Credit risk relating to the interest rate swaps is considered low because the swaps are entered into with strong, credit-worthy counterparties, and the credit risk is confined to the net settlement of the interest over the remaining life of the swaps.

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 SEC'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 SEC'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 the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting or other factors during the period ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is located on page 75 in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2006. Ernst & Young LLP's Report of Independent Registered Public Accounting Firm on internal control over financial reporting is located on page 77 in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2006.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation

Radio Promotion Activities

Two independent labels have filed antitrust suits against the Company alleging that its radio promotion activities are anticompetitive. *Radikal Records, Inc. v. Warner Music Group, et al.* was filed on March 21, 2006 in U.S. District Court in the Central District of California, Western Division. *TSR Records, Inc. v. Warner Music Group, et al.* was filed on March 28, 2006 in U.S. District Court in the Central District of California, Western Division. The Company filed a Notice of Related Case and was successful in having both of these cases consolidated. On May 16, 2006, the Company filed a Motion to Dismiss in both cases. On October 11, 2006, the court denied the Company's Motion to Dismiss as to the antitrust claims but granted the motion, with leave to amend, as to the state tort claim for interference with prospective economic advantage. On October 24, 2006, Plaintiffs filed amended complaints, attempting to cure the defects in their tort claim. The Company again moved to dismiss the state court claims and on January 31, 2007, the court granted the Company's motion, but allowed plaintiffs to replead. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits.

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§ 340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served the Company with a request for information in the form of a Civil Investigative Demand as to whether its activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. The Company has provided documents and other information in response to these requests and intends to continue to fully cooperate with the New York Attorney General's and Department of Justice's industry-wide inquiries. Subsequent to the announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads have been filed. On August 15, 2006, the Judicial Panel on Multidistrict Litigation consolidated these actions for pre-trial proceedings in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Any litigation the Company may become involved in as a result of the inquiries of the Attorney General and Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

Statement of Objections

On March 30, 2007, the European Commission ("EC") issued a Statement of Objections to Apple Inc., iTunes S.a.r.l. and one of our subsidiaries, WEA International Inc. ("WEA"). The Company believes that similar Statements of Objections were also issued to Apple Inc. and each of the other major recorded music companies. The Statement of Objections targets Apple Inc.'s practice of applying certain territorial restrictions in relation to its iTunes stores in the European Economic Area ("EEA"). The EC alleges that these restrictions arise, among other ways, as a result of the agreement between Apple Inc. and WEA for the sale of downloaded music in the EEA. In the EC's preliminary view, these restrictions may lead to a distortion of competition, infringing Article 81 of the EC Treaty. In particular, the EC asserts that (i) consumers resident in a particular EEA country in which iTunes does not operate a dedicated online store are prevented from acquiring downloaded music from iTunes and (ii) consumers resident in a particular EEA country may be required to pay a higher price for the same download than consumers resident in another EEA country or may not have access to the same downloads as are available to consumers resident in another EEA country. The EC, if it finds an infringement, may require that the alleged restriction be eliminated and also has the authority to impose fines on the parties to any infringement. The Company intends to cooperate with the EC but believes that its practices have not infringed Article 81 of the EC Treaty.

Other Matters

In addition to the matters discussed above, we are involved in other litigation arising in the normal course of our business. Management does not believe that any legal proceedings pending against us will have, individually, or in the aggregate, a material adverse effect on our 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 us, including our brand value, because of defense costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and other information in this report before making an investment decision with respect to our securities. Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

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. Illegal downloading of music from the Internet, 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. According to RIAA, from 1999 to 2004, annual dollar sales of physical music product in the U.S. are estimated to have declined at a CAGR of 4%, although there was a 2.5% year-over-year increase recorded in 2004. In 2005, the physical business experienced an 8% year-over-year decline. However, new formats for selling recorded music product have been created, including the legal downloading of digital music using the Internet, physical format product innovations such as DVD-Audio and the soon-to-be launched MVI disc and the distribution of music on mobile devices, and revenue streams from these new markets are beginning to emerge. These new digital revenue streams are important to offset declines in physical sales and represent the fastest growing area of our business. As reported by IFPI, sales of music via the Internet and mobile phones generated an estimated $2 billion in trade revenues for record companies in 2006, doubling the worldwide digital music market year-over-year and sales of music through new avenues such as digital tracks are beginning to offset the declines seen in prior years. RIAA announced in April 2007 that the overall value of the U.S. record industry was $11.5 billion in 2006, a 6.2% decline compared to 2005. RIAA additionally reported that the value of CD shipments to retail and specialty outlets totaled $9.2 billion in 2006, a 12.9% drop from the previous year, while sales of digital music content—via online as well as mobile outlets—rose 13% in value to $1.9 billion. For 2006, according to SoundScan, total album sales were down 5% on a unit basis compared with the same period last year. However, when including “Track Equivalent Albums,” total album sales were down 1.2% for 2006. Track Equivalent Albums convert digital track sales to album sales using SoundScan’s standard of ten tracks per album. This SoundScan comparison with prior years also does not reflect the impact of sales on mobile devices or online subscription sales. However, it is too soon to determine if the industry has stabilized or the impact of sales of music through new channels might have on the industry and the recorded music industry performance may continue to negatively impact our operating results. 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, primarily from the sale of music in CD and other recorded music formats.

There may be downward pressure on our pricing and our profit margins.

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, increased price competition among record companies resulting from the Universal and Sony BMG recorded music duopoly, price competition from the sale of motion pictures in 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, the adoption by record companies of initially lower-margin formats such as DVD-Audio 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 wholesale 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 will continue to grow as a result of the decline of specialty music retailers, which could increase their negotiating leverage. Several large specialty music retailers, including Tower Records and Musicland, have recently filed for bankruptcy protection. See "Risk Factors—We may be materially and adversely affected by the formation of Sony BMG Music Entertainment and the potential acquisition of BMG Music Publishing Group by Universal" and "Risk Factors—We are substantially dependent on a limited number of online music stores, in particular Apple 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 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 under terms that are economically attractive to us. Our competitive position is dependent on our continuing ability to attract and develop talent 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 and songwriters 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 general economic and retail environment of the countries in which we operate, 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 create unauthorized copies of our recordings in the form of, for example, CDs and MP3 files. An estimated 20 billion songs were illegally swapped or downloaded worldwide in 2005, according to IFPI. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread dissemination on the Internet without an economic return to us. We are working to control this problem through litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws and technological means 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 entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to the music industry. Worldwide, industrial pirated music (which encompasses unauthorized physical copies manufactured for sale but does not include Internet downloads or home CD burning) is estimated to have generated over $4.5 billion in revenues in 2005, according to IFPI. IFPI estimates that 1.2 billion pirated units were manufactured in 2005. According to IFPI estimates, approximately 37% of all music CDs sold worldwide in 2005 were pirated. 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.

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

Our business is highly dependent upon intellectual property, a field that has encountered increasing 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, 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 timing of the release of 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.

Our operating results fluctuate on a seasonal and quarterly basis, and, in the event we do not generate sufficient net sales in our first fiscal quarter, we may not be able to meet our debt service and other obligations.

Our business is seasonal. For the fiscal year ended September 30, 2006, we derived approximately 85% of our revenues from our Recorded Music business. In the recorded music business, purchases are heavily weighted towards the last three months of the calendar year, which represent our first quarter under our September 30 fiscal year. Historically, we have realized approximately 35% of recorded music net sales worldwide during the last three months of the calendar year, making those three months (*i.e.*, our first fiscal quarter) material to our full-year performance. We realized 28%, 32% and 32% of recorded music calendar year net sales during the last three months of calendar 2006, 2005 and 2004, respectively. This sales seasonality affects our operating cash flow from quarter to quarter. We cannot assure you that our recorded music net sales for the last three months of any calendar year will continue to be sufficient to meet our obligations or that they will be higher than such net sales for our other quarters. In the event that we do not derive sufficient recorded music net sales in such last three months, we may not be able to meet our debt service requirements, working capital requirements, capital expenditure requirements, payment of regular dividends on Parent's common stock and other obligations. As digital revenue increases as a percentage of our total revenue, this may affect the overall seasonality of our business. For example, sales of MP3 players or gift cards to purchase digital music sold in the holiday season tend to result in sales of digital music in subsequent periods. However, seasonality with respect to the sale of music in new formats, such as digital, is still developing.

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

The industry in which we operate is highly competitive, is based on consumer preferences and is rapidly changing. Additionally, the music industry requires substantial human and capital resources. We compete with other recorded music companies and music publishers to identify and sign new recording artists and songwriters who subsequently achieve long-term success and to renew agreements with established artists and songwriters. In addition, our competitors may from time to time reduce their prices in an effort to expand market share and introduce new services, or improve the quality of their products or services. We may lose business if we are unable to sign successful artists or songwriters or to match the prices or the quality of products and services, offered by our competitors. 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 adversely affected by technological developments that facilitate the piracy of music, such as Internet peer-to-peer file-sharing and CD-R activity; by its inability to enforce our intellectual property rights in digital environments; and by its failure to develop a successful business model applicable to a digital environment, including such channels of distribution as satellite radio. It also faces competition from other forms of entertainment and leisure activities, such as cable and satellite television, pre-recorded films on videocassettes and DVD, the Internet and computer and videogames.

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

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

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

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 to, among other things, continue to maximize the value of our music assets, significantly reduce costs to maximize flexibility and adjust to new realities of the market, continue to act to contain digital piracy, to diversify our revenue streams and 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. The results of the 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 the 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.

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 wireless technology as a sales distribution channel and believe that the 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 revenues from 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. 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 assure you 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. While recent studies have indicated that consumers spend more on music in general when they begin to purchase music in digital form than previously, it remains unclear how consumer behavior will change when faced with the opportunity to purchase only their 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. In addition, as new distribution channels continue to develop we have to implement systems to process royalties on these new revenue streams. If we are not able to successfully expand our processing capability or introduce technology to allow us to determine and pay royalty amounts due in a timely manner and automate these tasks, we may experience delays 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 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 revenue from sales of music through digital distribution channels. We are currently dependent on a small number of leading online music stores that sell to consumers digital music. Currently, the largest U.S. online music store, iTunes, charges U.S. consumers $0.99 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 70% of the legitimate digital music download business. If iTunes were to adopt a lower pricing model for our music recordings or if there is a pricing structure change to other pricing models, we may receive substantially less per download for our music recordings, which could cause a material reduction in our revenue, 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 post 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 recordings they will accept from music content owners like us, our revenue could be significantly reduced.

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 industry negotiations contemplated by the U.S. Copyright Act 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. The U.S. Copyright Office recently decided that the use of compositions as ringtones fall under the compulsory license provisions of section 115 of the Copyright Act. If this decision is not reversed on appeal, it will likely lower the cost of mechanical licenses for ringtones, which is favorable for our Recorded Music business but unfavorable for our Music Publishing 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 appealable arbitration process under the U.S. Copyright Act unless rates are determined through voluntary 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 these and other income sources are set too low through this process, it could have a material adverse impact on our Recorded Music business or our business prospects.

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. For the fiscal year ended September 30, 2006, approximately 52% of our revenues related to operations in foreign territories. For the six months ended March 31, 2007 approximately 52% of our revenues related to operations in foreign territories. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of March 31, 2007, we have hedged our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates for the next 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 California to repeal Subsection (b) and then withdrawn. A bill regarding personal service contracts was introduced into the California legislature this year. Unlike in prior years, the bill does not seek to repeal sections applying to the music industry. Legislation was also reintroduced in New York in January 2007 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of three years, potentially affecting the duration of artist contracts. There is no assurance that California or any other state will not reintroduce 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 licenses or assignments of rights in their copyrighted works. This right does not apply to works that are "works made for hire". Since the effective date of U.S. copyright liability for sound recordings (February 15, 1972), virtually all of our agreements with recording artists provide that such recording artists render services under an employment-for-hire relationship. A termination right exists under the U.S. Copyright Act for musical compositions that are not "works made for hire". If any of our commercially available recordings were determined not to be "works made for hire", then the recording artists (or their heirs) could have the right to terminate the rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of 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 either at the end of 56 years from the date of copyright or on January 1, 1978, whichever is later). A termination of rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) can terminate our rights in musical compositions. However, we believe the effect of those terminations is already reflected in the financial results of our Music Publishing business.

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

We may acquire, make investments in, or enter into strategic alliances or joint ventures with, companies engaged in businesses that are similar or complementary to ours. If we make such acquisitions or investments or enter into strategic alliances, we will face certain risks inherent in such transactions. For example, gaining regulatory approval for significant acquisitions or investments could be a lengthy process and there can be no assurance of a successful outcome and we could increase our leverage in connection with acquisitions or investments. We could face difficulties in managing and integrating newly acquired operations. Additionally, such transactions would divert management resources and may result in the loss of artists or songwriters from our rosters. If we invest in companies involved in new businesses or develop our own new business opportunities, we will need to integrate and effectively manage these new businesses before any new line of business can become successful, and as such its progress and success are uncertain. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures that they will be completed in a timely manner, that they will be structured or financed in a way that will enhance our credit-worthiness and allow for continued payment of regular dividends 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 spent and this could have a negative impact on our businesses or our company as a whole.

Our realignment plan may not be successful and may adversely affect our business.

We have recently began to implement a realignment plan aimed at better aligning our workforce with the changing nature of the music industry. These changes are part of the continued evolution from a traditional record and songs-based business to a music-based content company and the ongoing management of our cost structure. The changes include a continued redeployment of resources to focus on new business initiatives to help us diversify our revenue streams, including digital opportunities. The realignment plan is also designed to improve the operating effectiveness of our current businesses and to realign our management structure to, among other things, effectively address the continued development of digital distribution channels along with declining physical sales. Our future competitiveness depends upon our continued success in implementing these initiatives throughout our operations. Although we will seek to successfully implement these actions in a manner that does not negatively impact our results of operations or impair our ability to compete successfully, we cannot be certain that these actions will accomplish their intended objective. Substantially all of the restructuring charges associated with the realignment plan have required or will require the outlay of cash.

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

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

Our reliance on one company for the manufacturing, packaging and physical distribution of our products in North America and Europe could have an adverse impact on our ability to meet our manufacturing, packaging and physical distribution requirements.

Cinram is currently our exclusive supplier of manufacturing, packaging and physical distribution services in North America and most of Europe. Accordingly, 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, we would have difficulty satisfying our commitments to our wholesale and retail customers, which could have an adverse impact on our revenues. Even though our agreements with Cinram give us a right to terminate based upon failure to meet mandated service levels, and there are several capable substitute suppliers, it might be difficult 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 itself have an adverse impact on our revenues.

On March 13, 2007, we entered into amendments to our existing manufacturing, packaging and physical distribution arrangements with Cinram for our physical products in North America and Europe. Cinram will remain our exclusive supplier of manufacturing, packaging and physical distribution services in North America and most of Europe. The terms of the Cinram agreements remain substantially the same as the terms of the original agreements. We believe that the terms of these agreements, as amended, continue to reflect market rates. The agreements, as amended, now expire on December 31, 2010.

We may be materially and adversely affected by the formation of Sony BMG Music Entertainment and the potential acquisition of BMG Music Publishing Group by Universal.

In August 2004, Sony Music Entertainment ("Sony") and Bertelsmann Music Group ("BMG") merged their recorded music businesses to form Sony BMG. As a result, the recorded music industry now consists of four major players (Universal, Sony BMG, EMI and us) rather than five (Universal, Sony, BMG, EMI and us). Prior to the formation of Sony BMG, there was one appreciably larger major, Universal, with approximately 25% of the global recorded music revenues and four other majors relatively equal in size ranging between 11% and 14% of recorded music revenues. Now there are two appreciably larger majors, Universal and Sony BMG, and two significantly smaller majors, EMI and us. On July 13, 2006, the European Court of First Instance annulled the European Commission's decision approving the formation of Sony BMG. Sony and Bertelsmann are now re-applying to the European Commission to seek clearance for the formation of Sony BMG and the European Commission will have to re-examine the combination. As a result of this re-examination, the European Commission could clear the transaction without conditions, clear the transaction with conditions or block the transaction forcing Sony BMG to unwind. In the interim, Sony BMG has appealed the ruling to the European Court of Justice. We cannot predict what actions will be taken by the European Commission, Sony or Bertelsmann as a result of the ruling or the outcome or timing of the European Commission's re-examination of

Sony BMG or the appeal of the ruling, or what impact the final decision regarding the formation of SonyBMG might have on us. Further, in September 2006, it was announced that Universal had agreed to acquire the BMG Music Publishing Group from Bertelsmann. The acquisition has been approved by U.S. merger authorities but still requires the approval of EU merger authorities and, if approved, would result in the formation of the largest music publishing company with a share of global revenues potentially in excess of 25%, making Universal both the largest recorded music company and music publishing company. We cannot predict what impact the acquisition of BMG Music Publishing by Universal might have on us.

Risks Related to our Leverage

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

We are highly leveraged. As of March 31, 2007, our total consolidated indebtedness was $2,066 billion. We have an additional $250 million available for borrowing under the revolving portion of our senior secured credit facility (less $4 million of letters of credit).

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

- making it more difficult for us and our subsidiaries to make payments on indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates as certain of the borrowings of our subsidiaries, including borrowings under our senior secured credit facility, will be at variable rates of interest;
- limiting our ability and the ability of our subsidiaries to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

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

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

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will 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, including the notes.

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 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. Our senior secured credit facility and the indenture 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.

Holdings also will be relying on the Company and its subsidiaries to make payments on the Holdings Notes. If the Company does not dividend funds to Holdings in an amount sufficient to make such payments, Holdings may default under the indenture governing the Holdings Notes, which would result in all such notes becoming due and payable. Because the Company'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.

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

- incur additional indebtedness or issue certain preferred shares of Parent;
- pay dividends on or make distributions in respect of our common stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens on certain indebtedness without securing the notes;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

In addition, under our senior secured credit facility, our subsidiaries are required to satisfy and maintain specified financial ratios and other financial condition tests. Their ability to meet those financial ratios and tests can be affected by events beyond our control, and they may not be able to meet those ratios and tests. A breach of any of these covenants could result in a default under our senior secured credit facility. Upon the occurrence of an event of default under our senior secured credit facility, the lenders could elect to declare all amounts outstanding under our senior secured credit facility to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our senior secured credit facility could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our senior secured credit facility. If the lenders under our senior secured credit facility accelerate the repayment of borrowings, we may not have sufficient assets to repay our senior secured credit facility as well as any unsecured indebtedness.

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Item 4 is not applicable and has been omitted.

ITEM 5. OTHER INFORMATION

The Company entered into an employment agreement amendment, effective as of April 1, 2007, with David H. Johnson, under which Mr. Johnson will serve as Chairman & CEO of Warner/Chappell Music Inc. The employment agreement amendment extends the term of Mr. Johnson's employment agreement through June 30, 2008. Under the terms of the employment agreement amendment, Mr. Johnson will be paid an annual salary equal to $700,000. Mr. Johnson is also eligible to receive an annual cash bonus, with a target of $800,000. In the event that Mr. Johnson's employment is terminated for any reason other than cause, or if he terminates his employment for good reason, as defined in the agreement, the amendment provides that his severance payment would equal one year of salary plus one year of bonus target, plus a pro rata bonus for the year of termination. In the event of non-renewal of his agreement, Mr. Johnson would receive a payment equal to one year of salary plus one year of bonus target, plus a pro rata bonus for the year of termination. Other terms of his agreement remain unchanged by this amendment.

Simultaneously with the execution of the employment agreement amendment, the Company designated Paul M. Robinson, General Counsel, as an executive officer of the Company.

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ITEM 6. EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of WMG Acquisition Corp. (1)
3.2	Amended and Restated Bylaws of WMG Acquisition Corp. (1)
10.1	Amendment dated March 13, 2007 to U.S. Manufacturing and Packaging Agreement, dated as of October 24, 2003, between Warner-Elektra-Atlantic Corporation and Cinram Manufacturing LLC, formerly known as Cinram Manufacturing Inc., and International Manufacturing and Packaging Agreement, dated as of October 24, 2003, between WEA International Inc. and Cinram GmbH (2) (3)
10.2	Amendment dated March 13, 2007 to U.S. Pick, Pack and Shipping Services Agreement, dated as of October 24, 2003, between Warner-Elektra-Atlantic Corporation and Cinram Distribution LLC and International Pick, Pack and Shipping Services Agreement, dated as of October 24, 2003, between WEA International Inc. and Cinram GmbH (2) (3)
10.3	Amended and Restated 2005 Omnibus Award Plan (2)
10.4	Employment Agreement Amendment dated May 4, 2007, between Warner Music Inc. and David H. Johnson (2)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

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* Filed herewith.

** Pursuant to SEC Release No. 33-8212, 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 of 1934, as amended, or otherwise subject the liability of Section 18 of the Securities Exchange Act, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

(1) Incorporated by reference to WMG Acquisition Corp.’s Amendment No. 2 to the Registration Statement on Form S-4 (File No. 333-121322).

(2) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended March 31, 2007.

(3) Exhibit omits certain information that has been filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

May 8, 2007

WMG ACQUISITION CORP.

By:	/s/ EDGAR BRONFMAN, JR.
Name:	**Edgar Bronfman, Jr.**
Title:	**Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)**
By:	/s/ MICHAEL D. FLEISHER
Name:	**Michael D. Fleisher**
Title:	**Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Edgar Bronfman, Jr., Chief Executive Officer and Chairman of the Board of Directors of WMG Acquisition Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2007 of WMG Acquisition Corp. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
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 we 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 my 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;
   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 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 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: May 8, 2007

/s/ EDGAR BRONFMAN, JR.

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

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Michael D. Fleisher, Chief Financial Officer of WMG Acquisition Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2007 of WMG Acquisition Corp. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
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 we 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 my 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;
   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 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 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: May 8, 2007

/S/ MICHAEL D. FLEISHER

Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of WMG Acquisition Corp. (the “Company”) on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edgar Bronfman, Jr., Chief Executive Officer of WMG Acquisition Corp., 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: May 8, 2007

/s/ EDGAR BRONFMAN, JR.

Edgar Bronfman, Jr.
Chief Executive Officer

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of WMG Acquisition Corp. (the “Company”) on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Fleisher, Chief Financial Officer of WMG Acquisition Corp., 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: May 8, 2007

/s/ MICHAEL D. FLEISHER

Michael D. Fleisher
Chief Financial Officer