Warner Music Group Corp.
Form 10-Q
May 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

There is no public market for the Registrant s common stock. As of May 14, 2013 the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant s common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

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WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets

	March 31, 2013 (unaudited)	September 30, 2012 (audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 294	$ 302
Accounts receivable, less allowances of $54 and $63 million	328	398
Inventories	25	28
Royalty advances expected to be recouped within one year	119	116
Deferred tax assets	51	51
Other current assets	66	44
Total current assets	883	939
Royalty advances expected to be recouped after one year	147	142
Property, plant and equipment, net	138	152
Goodwill	1,384	1,380
Intangible assets subject to amortization, net	2,371	2,499
Intangible assets not subject to amortization	102	102
Other assets	83	64
Total assets	$ 5,108	$ 5,278
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 137	$ 156
Accrued royalties	993	997
Accrued liabilities	198	253
Accrued interest	76	89
Deferred revenue	145	101
Current portion of long-term debt	30	
Other current liabilities	9	10
Total current liabilities	1,588	1,606
Long-term debt	2,181	2,206
Deferred tax liabilities	343	375
Other noncurrent liabilities	141	147
Total liabilities	4,253	4,334
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 and 1,000 shares issued and outstanding)		
Additional paid-in capital	1,128	1,129
Accumulated deficit	(221)	(143)
Accumulated other comprehensive loss, net	(71)	(59)
Total Warner Music Group Corp. equity	836	927
Noncontrolling interest	19	17

Total equity	855	944
Total liabilities and equity	$ 5,108	$ 5,278

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(in millions)			
Revenues	$ 675	$ 623	$ 1,444	$ 1,398
Costs and expenses:				
Cost of revenues	(329)	(318)	(737)	(738)
Selling, general and administrative expenses (a)	(242)	(233)	(504)	(501)
Amortization of intangible assets	(47)	(50)	(95)	(98)
Total costs and expenses	(618)	(601)	(1,336)	(1,337)
Operating income	57	22	108	61
Loss on extinguishment of debt			(83)	
Interest expense, net	(49)	(56)	(102)	(113)
Other (expense) income, net	(4)	2	(9)	
Income (loss) before income taxes	4	(32)	(86)	(52)
Income tax (expense) benefit		(2)	11	(8)
Net income (loss)	4	(34)	(75)	(60)
Less: income attributable to noncontrolling interest	(2)	(2)	(3)	(2)
Net income (loss) attributable to Warner Music Group Corp.	$ 2	$ (36)	$ (78)	$ (62)
(a) Includes depreciation expense of:	$ (12)	$ (13)	$ (25)	$ (25)

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Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(in millions)			
Net income (loss)	$ 4	$ (34)	$ (75)	$ (60)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(14)	6	(12)	(8)
Other comprehensive (loss) income, net of tax:	(14)	6	(12)	(8)
Total comprehensive loss	(10)	(28)	(87)	(68)
Less: comprehensive income attributable to noncontrolling interest	(2)	(2)	(3)	(2)
Comprehensive loss attributable to Warner Music Group Corp.	$ (12)	$ (30)	$ (90)	$ (70)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2013	2012
	(in millions)	
Cash flows from operating activities		
Net loss	$ (75)	$ (60)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	83	
Depreciation and amortization	120	123
Deferred income taxes	(12)	(9)
Non-cash interest expense (income)	6	(1)
Equity losses, including distributions	4	
Stock-based compensation	4	
Changes in operating assets and liabilities:		
Accounts receivable	64	76
Inventories	2	2
Royalty advances	(10)	21
Accounts payable and accrued liabilities	(74)	(41)
Royalty payables	12	26
Accrued interest	(13)	34
Deferred income	46	2
Other balance sheet changes	(32)	(27)
Net cash provided by operating activities	125	146
Cash flows from investing activities		
Investment and acquisition of businesses	(5)	(5)
Acquisition of publishing rights	(11)	(13)
Proceeds from the sale of music catalog		2
Capital expenditures	(13)	(13)
Net cash used in investing activities	(29)	(29)
Cash flows from financing activities		
Proceeds from draw down of the New Revolving Credit Facility	31	
Repayment of the New Revolving Credit Facility	(31)	
Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes	500	
Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes	227	
Proceeds from Acquisition Corp Term Loan Facility, net	594	
Repayment of Acquisition Corp 9.5% Senior Subordinated Notes	(1,250)	
Financing fees paid for early redemption of debt	(127)	
Deferred financing costs paid	(33)	
Amortization of Term Loan	(8)	
Distribution to noncontrolling interest holders		(2)
Net cash used in financing activities	(97)	(2)
Effect of exchange rate changes on cash and equivalents	(7)	3

Net (decrease) increase in cash and equivalents	(8)	118
Cash and equivalents at beginning of period	302	154
Cash and equivalents at end of period	$ 294	$ 272

See accompanying notes

Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interests	Total Equity
	(in millions, except per share amounts)							
Balance at September 30, 2012	**1,000**	**$ 0.001**	**$ 1,129**	**$ (143)**	**$ (59)**	**$ 927**	**$ 17**	**$ 944**
Net (loss) income				(78)		(78)	3	(75)
Deconsolidation of entity			(1)			(1)		(1)
Other comprehensive loss					(12)	(12)		(12)
Distribution to noncontrolling interests							(1)	(1)
Stock dividend	55							
Balance at March 31, 2013	**1,055**	**$ 0.001**	**$ 1,128**	**$ (221)**	**$ (71)**	**$ 836**	**$ 19**	**$ 855**

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), by and among the Company, AI Entertainment Holdings LLC, a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Merger Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger). Parent funded the merger consideration through cash on hand at the Company at closing, equity financing obtained from Parent and debt financing obtained from third-party lenders.

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

In connection with the Merger, the Company delisted its common stock from listing on the NYSE. The Company continues to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) in accordance with certain covenants contained in the instruments covering its outstanding indebtedness.

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

Recorded Music Operations

The Company s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. The Company plays an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing albums and promoting artists and their products.

In the U.S., Recorded Music operations are conducted principally through the Company s major record labels Warner Bros. Records and the Atlantic Records Group. The Company s Recorded Music operations also include Rhino, a division that specializes in marketing the Company s music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. The Company also conducts its Recorded Music operations through a collection of additional record labels, including, among others, Asylum, East West, Elektra, Nonesuch, Reprise, Roadrunner, Rykodisc, Sire and Word.

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

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Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (WEA Corp.), which markets and sells music and DVD 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., various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

In addition to the Company s Recorded Music products being sold in physical retail outlets, the Company s Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers such as Apple s iTunes and Google Play, and are otherwise exploited by online subscription services such as Spotify, Rhapsody and Deezer, and Internet radio services such as Pandora and iHeart Radio.

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

The Company is also diversifying its revenues beyond its traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, the Company provides services to and participates in artists activities outside the traditional recorded music business. The Company has built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands it helps create.

The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities will permit it to diversify revenue streams and capitalize on revenue opportunities in merchandising, fan clubs, sponsorship and touring. This will provide for improved long-term relationships with artists and allow the Company to more effectively connect artists and fans.

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, Warner/Chappell Music, garners a share of the revenues generated from use of the song.

Warner/Chappell is headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Warner/Chappell owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. Since 2012, Warner/Chappell has been making an effort to build up its film and TV music business, with the acquisitions of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. The Company s production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, and is collectively branded as Warner/Chappell Production Music.

2. Basis of Presentation

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of

management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2013.

The consolidated balance sheet at September 30, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (File No. 001-32502).

Basis of Consolidation

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

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

The Company maintains a 52-53 week fiscal year ending on the Friday nearest to each reporting date. As such, all references to March 31, 2013 and March 31, 2012 relate to the three-month periods ended March 29, 2013 and March 30, 2012, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31.

The Company has performed a review of all subsequent events through the date the financial statements were issued, and has determined that other than as described in Note 12, no additional disclosures are necessary.

New Accounting Pronouncements

During the first quarter of fiscal 2013, the Company adopted ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires entities to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of operations and other comprehensive income. The Company simultaneously adopted ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 defers the requirement to present components of reclassifications of comprehensive income on the statement of comprehensive income, with all other requirements of ASU 2011-05 unaffected. The adoption of these standard updates did not have a significant impact on the Company s financial statements, other than presentation.

During the first quarter of fiscal 2013, the Company adopted ASU 2011-08, Testing Goodwill for Impairment. ASU 2011-08 provides entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The adoption of this standard update did not have an impact on the Company s financial statements.

During the first quarter of fiscal 2013, the Company adopted ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which provides entities with an option to perform a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. The adoption of this standard update did not have an impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to clarify which financial assets and financial liabilities are included within the scope of ASU 2011-11. These ASUs require additional quantitative and qualitative disclosures over financial instruments and derivative instruments that are offset on the balance sheet or subject to master netting arrangements. Both ASUs are effective for annual and interim reporting periods for fiscal years beginning on or after January 1, 2013. The adoption of these standards is not expected to have a significant impact on the Company s financial statements, other than presentation.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires entities to disclose, in one place, information about the amounts reclassified out of accumulated other comprehensive income by

component. ASU 2013-02 is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2012. The adoption of this standard is not expected to have a significant impact on the Company s financial statements, other than disclosure.

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3. Accumulated Other Comprehensive (Loss) Income

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

	Foreign Currency Translation Loss	Minimum Pension Liability	Deferred Gains On Derivative Financial Instruments (in millions)	Accumulated Other Comprehensive Loss
Balance at September 30, 2012	**$ (54)**	**$ (6)**	**$ 1**	**$ (59)**
Activity through March 31, 2013	(12)			(12)
Balance at March 31, 2013	**$ (66)**	**$ (6)**	**$ 1**	**$ (71)**

4. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the six months ended March 31, 2013 (in millions):

	Recorded Music	Music Publishing (in millions)	Total
Balance at September 30, 2012	**$ 916**	**$ 464**	**$ 1,380**
Acquisitions			
Dispositions			
Other adjustments	4		4
Balance at March 31, 2013	**$ 920**	**$ 464**	**$ 1,384**

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

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Other Intangible Assets

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

	March 31, 2013	September 30, 2012
	(in millions)	
Intangible assets subject to amortization:		
Recorded music catalog	$ 538	$ 547
Music publishing copyrights	1,494	1,508
Artist and songwriter contracts	651	667
Trademarks	7	7
	2,690	2,729
Accumulated amortization	(319)	(230)
Total net intangible assets subject to amortization	2,371	2,499
Intangible assets not subject to amortization:		
Trademarks and brands	102	102
Total net other intangible assets	$ 2,473	$ 2,601

5. Debt

Debt Capitalization

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

	March 31, 2013	September 30, 2012
	(in millions)	
Old Revolving Credit Facility (a)	$	$
New Revolving Credit Facility (b)		
Term Loan Facility due 2018 Acquisition Corp (c)	587	
9.5% Senior Secured Notes due 2016 Acquisition Corp (d)		1,151
9.5% Senior Secured Notes due 2016 Acquisition Corp (e)		156
6.00% Senior Secured Notes due 2021 Acquisition Corp	500	
6.25% Senior Secured Notes due 2021 Acquisition Corp (f)	224	
11.5% Senior Notes due 2018 Acquisition Corp (g)	750	749
13.75% Senior Notes due 2019 Holdings	150	150
Total debt	$ 2,211	$ 2,206
Less: current portion	30	
Total long term debt	$ 2,181	$ 2,206

(a) Reflects $60 million of commitments under the Old Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at September 30, 2012. There were no loans outstanding under the Old Revolving Credit Facility as of September 30, 2012. The Old Revolving Credit Facility was retired in connection with the 2012 Refinancing and replaced with the New Revolving Credit Facility.

(b) Reflects $150 million of commitments under the New Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at March 31, 2013. There were no loans outstanding under the New Revolving Credit Facility as of March 31, 2013.

(c) Principal amount of $592 million less unamortized discount of $5 million. Of this amount, $30 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long term debt at March 31, 2013.

(d) Face amount of $1.1 billion plus unamortized premiums of $51 million at September 30, 2012. All outstanding amounts were repaid in full as part of the 2012 Refinancing.

(e) Face amount of $150 million plus unamortized premiums of $6 million at September 30, 2012. All outstanding amounts were repaid in full as part of the 2012 Refinancing.

(f) Face amount of 175 million. Amount above represents the dollar equivalent of such notes at March 31, 2013.

(g) Face amount of $765 million less unamortized discounts of $15 million and $16 million at March 31, 2013 and September 30, 2012, respectively.

2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing (the 2012 Refinancing) of its then outstanding senior secured notes due 2016 (the Old Secured Notes). In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of Senior Secured Notes due 2021 and 175 million aggregate principal amount of Senior Secured Notes due 2021 (the New Secured Notes) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the Term Loan Facility) and a $150 million revolving credit facility (the New Revolving Credit Facility and, together with Term Loan Facility, the New Senior Credit Facilities). Acquisition Corp. is the borrower under the New Revolving Credit Facility (the Revolving Borrower) and under the Term Loan Facility (the Term Loan Borrower). The proceeds from the 2012 Refinancing, together with $101 million of the Company s available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company s previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the Old Secured Notes) as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million Revolving Credit Facility (the Old Revolving Credit Facility) in connection with the 2012 Refinancing, replacing it with the New Revolving Credit Facility. The Company also borrowed $31 million under the New Revolving Credit Facility as part of the 2012 Refinancing, which loans were repaid in full on December 3, 2012.

In connection with the 2012 Refinancing, the Company made a redemption payment of $1.377 billion, which included the repayment of the Company s previously outstanding $1.250 billion Old Secured Notes, tender/call premiums of $93 million and consent fees of approximately $34 million. The Company also paid approximately $45 million in accrued interest through the closing date.

The Company recorded a loss on extinguishment of debt of approximately $83 million in the six months ended March 31, 2013, which represents the difference between the redemption payment and the carrying value of the debt at the refinancing date, which included the principal value of $1.250 billion, plus unamortized premiums of $55 million, less unamortized debt issuance costs of $11 million related to the Old Secured Notes.

Interest Rates

The loans under the Revolving Credit Agreement bear interest at Revolving Borrower s election at a rate equal to (i) the rate for deposits in the currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Revolving LIBOR Rate), plus 3.50% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum, plus, in each case, 2.50% per annum.

If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The New Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The New Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the New Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

The loans under the Term Loan Credit Agreement bear interest at Term Loan Borrower s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR Rate), plus 4.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum, plus, in each case, 3.00% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.25%.

If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Customary fees will be payable in respect of the Term Loan Facility.

See also Financial Condition and Liquidity for a further discussion.

Scheduled Amortization of Term Loan

The Term Loans under the Term Loan Facility will amortize in equal quarterly installments in aggregate annual amounts equal to 5.00% of the original principal amount of the Term Loan Facility with the balance payable on maturity date of the Term Loans. The first quarterly installment was paid in the current three month period ended March 31, 2013.

Maturities of Credit Agreements

The Term Loan Facility matures on November 1, 2018. The New Revolving Credit Facility matures on November 1, 2017.

Maturities of Senior Notes

As of March 31, 2013, there are no scheduled maturities until 2018 ($765 million). Thereafter, $874 million is scheduled to mature.

Interest Expense

Total interest expense, net was $49 million and $56 million for the three months ended March 31, 2013 and March 31, 2012, respectively and $102 million and $113 million for the six months ended March 31, 2013 and March 31, 2012, respectively. The weighted-average interest rate of the Company s total debt was 8.3% and 10.5% for the three and six months ended March 31, 2013 and March 31, 2012, respectively.

6. Share-Based Compensation Plan

The Company accounts for share-based payments as required by FASB ASC Topic 718, Compensation-Stock Compensation (ASC 718). ASC 718 requires all share-based payments to employees to be recognized as compensation expense. Under the recognition provision of ASC 718, liability classified stock-based compensation costs are measured each reporting date until settlement. The Company s policy is to measure share-based compensation costs using the intrinsic value method instead of fair value as it is not practical to estimate the volatility of its share price.

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (the Plan). Eligible individuals include any employee, consultant or officer of the Company or any of its affiliates, who is selected by the Company s compensation committee to participate in the Plan. Under the Plan, participants are allocated a specific portion of the Company s free cash flow to use to purchase the equivalent of Company stock through a purposely established LLC holding company. The Company s Board of Directors authorized the LLC (the LLC) to purchase up to 82.1918 shares of the Company s common stock pursuant to the Plan; there are currently 55 shares issued and outstanding to the LLC. The Company will allocate shares to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined and may grant unallocated shares under the Plan to certain members of current or future management.

At the time that annual free cash flow bonuses for such Plan year are determined, a participant shall be granted and credited an equal number of deferred equity units and related matching equity units based on their respective allocation. Deferred equity units granted under the Plan generally will vest between one and seven years and the redemption price will equal the fair market value of the Company s stock on the date of the settlement. Matching equity units granted under the Plan generally will vest between three and seven years and the redemption price will equal the excess, if any, of the then fair market value of one Company fractional share over the grant date fair value. All deferred and matching equity units will be settled in three installments in December 2018, 2019, and 2020. The deferred units will be settled at the participant s election for cash equal to the fair market value or one fractional company share. The matching units will be settled for cash equal to the redemption price. In December 2020, all outstanding shares become mandatorily redeemable at the then fair market value. Due to this mandatory redemption clause, the Company has classified the awards under the Plan as liability instruments. Dividend distributions, if any, are also paid out on vested units and are calculated on the same basis as the Company s common shares. The Company has applied a graded (tranche-by-tranche) attribution method and expenses deferred stock-based compensation on an accelerated basis over the vesting period of the share award.

The following is a summary of the Company s share awards for the quarter ended March 31, 2013:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Exercise Price	Matching Equity Units Weighted-Average Exercise Price	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at January 1, 2013			$	$	$	$

Granted	25	25	107.13	107.13	107.13	107.13
Vested						
Forfeited	(1)	(1)	107.13	107.13	107.13	107.13
Unvested units at March 31, 2013	**24**	**24**	**107.13**	**107.13**	**107.13**	**107.13**

The weighted-average grant date intrinsic value of share awards for the quarter ended March 31, 2013 was $107.13. There were no shares that vested in the period. There was no such activity in the comparable quarter last year.

Compensation Expense

The Company recognized non-cash compensation expense related to its stock-based compensation plan of $4 million for the quarter ended March 31, 2013. There was no such expense in the comparable quarter last year. Of the $4 million, $3 million related to awards for employees and $1 million related to awards for non-employees.

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In addition, as of March 31, 2013, the Company had approximately $22 million of unrecognized compensation costs related to its unvested share awards. The remaining weighted average period over which total compensation related to unvested awards is expected to be recognized is 2.25 years.

7. Commitments and Contingencies

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain, for the class of Internet Music purchasers. The parties have filed amended pleadings complying with the court s order, and the case is currently in discovery. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Music Download Putative Class Action Suits

Five putative class action lawsuits have been filed against the Company in Federal Court in the Northern District of California between February 2, 2012 and March 10, 2012. The lawsuits, which were brought by various recording artists, all allege that the Company has improperly calculated the royalties due to them for certain digital music sales under the terms of their recording contracts. The named plaintiffs purport to raise these claims on their own behalf and, as a putative class action, on behalf of other similarly situated artists. Plaintiffs base their claims on a previous ruling that held another recorded music company had breached the specific recording contracts at issue in that case through its payment of royalties for music downloads and ringtones. In the wake of that ruling, a number of recording artists have initiated suits seeking similar relief against all of the major record companies, including us. Plaintiffs seek to have the interpretation of the contracts in that prior case applied to their different and separate contracts.

On April 10, 2012, the Company filed a motion to dismiss various claims in one of the lawsuits, with the intention of filing similar motions in the remaining suits, on the various applicable response dates. Meanwhile, certain plaintiffs counsel moved to be appointed as interim lead counsel, and other plaintiffs counsel moved to consolidate the various actions. In a June 1, 2012 Order, the Court consolidated the cases and appointed interim co-lead class counsel. Plaintiffs filed a consolidated, master complaint on August 21, 2012. All deadlines have been stayed until June 27, 2013 to allow for settlement of this dispute. If a settlement has not been reached by that date and if the parties agree that further settlement discussions would be fruitful, the parties can file a joint statement/stipulation seeking additional time for further settlement negotiations. In the alternative, the parties would file a joint statement/stipulation with the Court alerting the Court to the fact that settlement could not be reached and resetting a litigation schedule. Settlement discussions are ongoing. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company s brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company s results of operations for a given reporting period.

8. Derivative Financial Instruments

Foreign Currency Risk Management

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

The Company enters into FX Contracts primarily to hedge its royalty payments and balance sheet items denominated in foreign currency, including Euro denominated debt. The Company applies hedge accounting to FX Contracts for cash flows related to royalty payments. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are recognized in Other Comprehensive Income (OCI) for unrealized items and recognized in earnings for realized items. The Company elects to not apply hedge accounting to foreign currency exposures related to balance sheet items. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are immediately recognized in earnings. Fair value is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 11.

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

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

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

As of March 31, 2013, the Company had outstanding hedge contracts for the sale of $332 million and the purchase of $262 million of foreign currencies at fixed rates. As of March 31, 2013, the Company had $1 million of deferred gains in comprehensive loss related to foreign exchange hedging. As of September 30, 2012, the Company had outstanding hedge contracts for the sale of $349 million and the purchase of $21 million of foreign currencies at fixed rates. As of September 30, 2012, the Company had $1 million of deferred gains in comprehensive loss related to foreign exchange hedging.

Interest Rate Risk Management

The Company has $2.211 billion of debt outstanding at March 31, 2013, of which $587 million is variable rate debt. As such, the Company is exposed to changes in interest rates. The Company manages this exposure through the fixed-to-floating debt ratio; currently 73% of the Company s debt is at a fixed rate. In addition, at March 31, 2013, all of the Company s floating rate debt under our Term Loan Facility was subject to a LIBOR floor of 1.25%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed-rate debt until such time as the LIBOR rate moves higher than the floor.

In addition to the $587 million of variable rate debt, the Company also had $1.624 billion of fixed-rate debt. Based on the level of interest rates prevailing at March 31, 2013, the fair value of this fixed-rate debt was approximately $1.831 billion. The fair value of the Company s debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would increase or decrease the fair value of the fixed-rate debt by approximately $13 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

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

9. Segment Information

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

The accounting policies of the Company s business segments are the same as those described in the summary of significant accounting policies included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2012. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While inter-company transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, therefore, do not themselves impact the consolidated results. Segment information consists of the following (in millions):

Three Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2013				

Revenues	$ 554	$ 127	$ (6)	$ 675
OIBDA	87	53	(24)	116
Depreciation of property, plant and equipment	(9)	(1)	(2)	(12)
Amortization of intangible assets	(32)	(15)		(47)
Operating income (loss)	$ 46	$ 37	$ (26)	$ 57
March 31, 2012				
Revenues	$ 499	$ 127	$ (3)	$ 623
OIBDA	49	53	(17)	85
Depreciation of property, plant and equipment	(7)	(2)	(4)	(13)
Amortization of intangible assets	(34)	(16)		(50)
Operating income (loss)	$ 8	$ 35	$ (21)	$ 22

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Six Months Ended	Recorded music	Music publishing	Corporate expenses and eliminations	Total
		(in millions)		
March 31, 2013				
Revenues	$ 1,211	$ 243	$ (10)	$ 1,444
OIBDA	201	69	(42)	228
Depreciation of property, plant and equipment	(16)	(3)	(6)	(25)
Amortization of intangible assets	(65)	(30)		(95)
Operating income (loss)	$ 120	$ 36	$ (48)	$ 108
March 31, 2012				
Revenues	$ 1,158	$ 248	$ (8)	$ 1,398
OIBDA	153	69	(38)	184
Depreciation of property, plant and equipment	(15)	(3)	(7)	(25)
Amortization of intangible assets	(67)	(31)		(98)
Operating income (loss)	$ 71	$ 35	$ (45)	$ 61

10. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $110 million and $79 million during the six months ended March 31, 2013 and March 31, 2012, respectively. The increase in cash interest is due to timing of interest payments resulting from the refinancing of debt in the current period and the financing at the time of the Merger. The Company paid approximately $8 million and $24 million of income and withholding taxes, net of refunds, during the six months ended March 31, 2013 and March 31, 2012, respectively. The $24 million of cash tax payments during the six months ended March 31, 2012 includes $15 million of a payment relating to the settlement of an income tax audit in Germany. This payment was fully reimbursed to the Company by Time Warner under the terms of the 2004 acquisition of substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc.

11. Fair Value Measurements

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

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

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

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

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

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company s financial instruments that are required to be measured at fair value as of March 31, 2013 and September 30, 2012. Balances in other current and other non-current liabilities represent purchase obligations and contingent consideration related to our various acquisitions. Derivatives not designated as hedging instruments represent the balances in other current assets and other current liabilities below and the gains and losses on these financial instruments are included as a component of other (expense) income, net, in the statement of operations.

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	Fair Value Measurements as of March 31, 2013			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$ 8	$	$ 8
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (9)	$	$ (9)
Other Current Liabilities:				
Contractual Obligations (b)	$	$	$ (2)	$ (2)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (10)	$ (10)
Total	**$**	**$ (1)**	**$ (12)**	**$ (13)**

	Fair Value Measurements as of September 30, 2012			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$	$	$	$
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$	$ (5)	$	$ (5)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$	$	$ (11)	$ (11)
Total	**$**	**$ (5)**	**$ (11)**	**$ (16)**

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

(b) This represents purchase obligations and contingent consideration related to our various acquisitions. This is based on a discounted cash flow (DCF) approach and it is adjusted to fair value on a recurring basis and any adjustments are included as a component of operating income in the statement of operations. These amounts were mainly calculated using unobservable inputs such as future earnings performance of our various acquisitions and the expected timing of the payment. The change represents the increase in contingent consideration on a previous acquisition.

The majority of the Company s non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant, and equipment, are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that an impairment exists, the asset is written down to its fair value. In addition, an impairment analysis is performed at least annually for goodwill and indefinite-lived intangible assets.

12. Subsequent Events

Debt Repayment

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility. Acquisition Corp. also issued an irrevocable notice of redemption relating to $50 million in aggregate principal amount of its currently outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its currently outstanding 6.250% Senior Secured Notes due 2021 (the Notes Redemption).

Term Loan Credit Agreement Amendment

On May 9, 2013, Acquisition Corp. entered into an incremental commitment amendment (the Term Loan Credit Agreement Amendment) to its existing Term Loan Credit Agreement, among Acquisition Corp., Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (as so amended, the Amended Term Loan Credit Agreement). The Amended Term Loan Credit Agreement provides for a $820 million delayed draw senior secured term loan facility (the Incremental Term Loan Facility) and the Term Loan Credit Agreement Amendment (i) effectuated a reduction of the applicable interest margin and the Term Loan LIBOR Rate floor for term loans outstanding on the date of the amendment and (ii) extends the maturity of term loans outstanding on the date of the amendment. The proceeds of the Incremental Term Loan Facility will be used to consummate the

acquisition of the Parlophone Label Group from Universal Music Group (the Transaction), to pay fees, costs and expenses related to the Transaction and for general corporate purposes of Acquisition Corp. and its subsidiaries.

The rate at which the loans under the Amended Term Loan Credit Agreement bear interest is equal to, at Term Loan Borrower s election (i) the Term Loan LIBOR Rate plus 2.75% per annum or (ii) the Term Loan Base Rate plus 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%.

Loans outstanding under the Amended Term Loan Credit Agreement will amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of indebtedness outstanding under the Amended Term Loan Credit Agreement with the balance payable on the maturity date of the term loans. The first quarterly installment is scheduled to be paid on December 31, 2013. The loans outstanding under the Amended Term Loan Credit Agreement mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the Unsecured WMG Notes) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Revolving Credit Facility

Acquisition Corp. entered into an amendment, dated April 23, 2013 (the Revolving Credit Agreement Amendment) to the New Revolving Credit Facility. The Revolving Credit Agreement Amendment reduces the applicable interest rate margin under the New Revolving Credit Facility and increases flexibility under the New Revolving Credit Facility to make investments in non-guarantors so as to permit internal reorganizations and optimization of ownership structure in foreign subsidiaries. Effective as of May 9, 2013, the rate at which the loans under the Amended Revolving Credit Agreement bear interest is equal to, at Revolving Borrower s election (i) the Revolving LIBOR Rate plus 2.00% per annum or (ii) the Revolving Base Rate plus 1.00% per annum.

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the Holdings Notes). In addition, Acquisition Corp. has issued and outstanding the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 11.50% Senior Notes due 2018 (together, the Acquisition Corp. Notes).

The Holdings Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Holdings Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the guarantor of the Holdings Notes, (ii) Holdings, which is the issuer of the Holdings Notes, (iii) the subsidiaries of Holdings (Acquisition Corp. is the only direct subsidiary of Holdings) and (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated or combined subsidiaries are presented under the equity method of accounting. The Company has revised its presentation for the Guarantor and Non-Guarantor Financial Information from what was filed in our Form 10-Q for March 31, 2012. The Company uses the equity method to account for its investment in its subsidiaries. The revised presentation reflects adjustments to certain equity, intercompany and investment balances primarily to properly reflect the impact of purchase accounting in the consolidating balance sheet. We have also revised the presentation of our statement of cash flows and reclassified the activity for our Parent Company from Operating Activities to Investing Activities and for our Guarantor subsidiaries from Operating Activities to Financing Activities. The principal elimination entries eliminate investments in subsidiaries and intercompany balances.

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

The Company and Holdings are holding companies that conduct substantially all of their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from their subsidiaries is restricted by the indentures for the Acquisition Corp. Notes and the credit agreements for the Acquisition Corp. New Senior Credit Facilities, and, with respect to the Company, the indenture for the Holdings Notes.

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets:									
Current assets:									
Cash and equivalents	$ 44	$ 94	$ 146	$	$ 284	$ 10	$	$	$ 294
Accounts receivable, net		165	163		328				328
Inventories		9	16		25				25
Royalty advances expected to be recouped within one year		75	44		119				119
Deferred tax assets		35	16		51				51
Other current assets		16	50		66				66
Total current assets	44	394	435		873	10			883
Royalty advances expected to be recouped after one year		93	54		147				147
Investments in and advances to (from) consolidated subsidiaries	3,020	789		(3,809)		978	836	(1,814)	
Property, plant and equipment, net		99	39		138				138
Goodwill		1,379	5		1,384				1,384
Intangible assets subject to amortization, net		1,041	1,330		2,371				2,371
Intangible assets not subject to amortization		75	27		102				102
Due (to) from parent companies		92	(92)						
Other assets	51	13	12	(1)	75	8			83
Total assets	$ 3,115	$ 3,975	$ 1,810	$ (3,810)	$ 5,090	$ 996	$ 836	$ (1,814)	$ 5,108
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$ 3	$ 82	$ 52	$	$ 137	$	$	$	$ 137
Accrued royalties		622	371		993				993
Accrued liabilities	1	84	113		198				198
Accrued interest	66				66	10			76
Deferred revenue		89	56		145				145
Current portion of long-term debt	30				30				30
Other current liabilities		15	(9)	3	9				9
Total current liabilities	100	892	583	3	1,578	10			1,588
Long-term debt	2,031				2,031	150			2,181
Deferred tax liabilities, net		147	196		343				343
Other noncurrent liabilities	6	45	90		141				141
Total liabilities	2,137	1,084	869	3	4,093	160			4,253

Total Warner Music Group Corp. equity (deficit)	978	2,891	922	(3,813)	978	836	836	(1,814)	836
Noncontrolling interest			19		19				19
Total equity (deficit)	978	2,891	941	(3,813)	997	836	836	(1,814)	855
Total liabilities and equity (deficit)	$ 3,115	$ 3,975	$ 1,810	$ (3,810)	$ 5,090	$ 996	$ 836	$ (1,814)	$ 5,108

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet

September 30, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets:									
Current assets:									
Cash and equivalents	$ 44	$ 105	$ 143	$	$ 292	$ 10	$	$	$ 302
Accounts receivable, net		158	240		398				398
Inventories		11	17		28				28
Royalty advances expected to be recouped within one year		67	49		116				116
Deferred tax assets		35	16		51				51
Other current assets	7	8	29		44				44
Total current assets	51	384	494		929	10			939
Royalty advances expected to be recouped after one year		82	60		142				142
Investments in and advances to (from) consolidated subsidiaries	3,133	621		(3,754)		1,070	926	(1,996)	
Property, plant and equipment, net		108	44		152				152
Goodwill		1,375	5		1,380				1,380
Intangible assets subject to amortization, net		1,097	1,402		2,499				2,499
Intangible assets not subject to amortization		75	27		102				102
Due from (to) parent companies		176	(176)						
Other assets	32	12	13		57	6	1		64
Total assets	$ 3,216	$ 3,930	$ 1,869	$ (3,754)	$ 5,261	$ 1,086	$ 927	$ (1,996)	$ 5,278
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$	$ 81	$ 75	$	$ 156	$	$	$	$ 156
Accrued royalties		591	406		997				997
Accrued liabilities		108	145		253				253
Accrued interest	79				79	10			89
Deferred revenue		63	38		101				101
Other current liabilities		14	(7)	3	10				10
Total current liabilities	79	857	657	3	1,596	10			1,606
Long-term debt	2,056				2,056	150			2,206
Deferred tax liabilities, net		159	216		375				375
Other noncurrent liabilities	11	47	81	8	147				147

Total liabilities	2,146	1,063	954	11	4,174	160			4,334
Total Warner Music Group Corp. equity (deficit)	1,070	2,867	898	(3,765)	1,070	926	927	(1,996)	927
Noncontrolling interest			17		17				17
Total equity (deficit)	1,070	2,867	915	(3,765)	1,087	926	927	(1,996)	944
Total liabilities and equity (deficit)	$ 3,216	$ 3,930	$ 1,869	$ (3,754)	$ 5,261	$ 1,086	$ 927	$ (1,996)	$ 5,278

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 351	$ 373	$ (49)	$ 675	$	$	$	$ 675
Costs and expenses:									
Cost of revenues		(168)	(205)	44	(329)				(329)
Selling, general and administrative expenses		(126)	(113)	(3)	(242)				(242)
Amortization of intangible assets		(28)	(19)		(47)				(47)
Total costs and expenses		(322)	(337)	41	(618)				(618)
Operating income		29	36	(8)	57				57
Interest expense, net	(42)	2	(4)		(44)	(5)			(49)
Equity gains (losses) from consolidated subsidiaries	56	(28)		(28)		7	2	(9)	
Other expense, net	(7)	5	(2)		(4)				(4)
(Loss) income before income taxes	7	8	30	(36)	9	2	2	(9)	4
Income tax benefit (expense)			1	(1)					
Net (loss) income	7	8	31	(37)	9	2	2	(9)	4
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ 7	$ 8	$ 29	$ (37)	$ 7	$ 2	$ 2	$ (9)	$ 2

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Revenues	$	$ 312	$ 374	$ (63)	$ 623	$	$	$	$ 623
Costs and expenses:									
Cost of revenues		(163)	(211)	56	(318)				(318)
Selling, general and administrative expenses		(112)	(128)	7	(233)				(233)
Amortization of intangible assets		(46)	(4)		(50)				(50)
Total costs and expenses		(321)	(343)	63	(601)				(601)
Operating income		(9)	31		22				22
Interest expense, net	(49)	2	(4)		(51)	(5)			(56)
Equity gains (losses) from consolidated subsidiaries	21	(14)		(7)		(31)	(36)	67	
Other income (expense), net	(1)	(33)	36		2				2
(Loss) income before income taxes	(29)	(54)	63	(7)	(27)	(36)	(36)	67	(32)
Income tax (expense) benefit	(2)	(1)	1		(2)				(2)
Net (loss) income	(31)	(55)	64	(7)	(29)	(36)	(36)	67	(34)
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ (31)	$ (55)	$ 62	$ (7)	$ (31)	$ (36)	$ (36)	$ 67	$ (36)

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Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 695	$ 854	$ (105)	$ 1,444	$	$	$	$ 1,444
Costs and expenses:									
Cost of revenues		(330)	(500)	93	(737)				(737)
Selling, general and administrative expenses		(249)	(267)	12	(504)				(504)
Amortization of intangible assets		(58)	(37)		(95)				(95)
Total costs and expenses		(637)	(804)	105	(1,336)				(1,336)
Operating income		58	50		108				108
Loss on extinguishment of debt	(83)				(83)				(83)
Interest expense, net	(85)	3	(9)		(91)	(11)			(102)
Equity gains (losses) from consolidated subsidiaries	97	(45)		(52)		(67)	(78)	145	
Other expense, net	(7)		(2)		(9)				(9)
(Loss) income before income taxes	(78)	16	39	(52)	(75)	(78)	(78)	145	(86)
Income tax benefit (expense)	11	10		(10)	11				11
Net (loss) income	(67)	26	39	(62)	(64)	(78)	(78)	145	(75)
Less: loss attributable to noncontrolling interest			(3)		(3)				(3)
Net (loss) income attributable to Warner Music Group Corp.	$ (67)	$ 26	$ 36	$ (62)	$ (67)	$ (78)	$ (78)	$ 145	$ (78)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$	$ 645	$ 869	$ (116)	$ 1,398	$	$	$	$ 1,398
Costs and expenses:									
Cost of revenues		(328)	(514)	104	(738)				(738)
Selling, general and administrative expenses		(236)	(277)	12	(501)				(501)
Amortization of intangible assets		(61)	(37)		(98)				(98)
Total costs and expenses		(625)	(828)	116	(1,337)				(1,337)
Operating income		20	41		61				61
Interest expense, net	(98)	3	(7)		(102)	(11)			(113)
Equity gains (losses) from consolidated subsidiaries	55	(27)		(28)		(51)	(62)	113	
Other income (expense), net		(9)	9						
(Loss) income before income taxes	(43)	(13)	43	(28)	(41)	(62)	(62)	113	(52)
Income tax (expense) benefit	(8)	(8)	(1)	9	(8)				(8)
Net (loss) income	(51)	(21)	42	(19)	(49)	(62)	(62)	113	(60)
Less: loss attributable to noncontrolling interest			(2)		(2)				(2)
Net (loss) income attributable to Warner Music Group Corp.	$ (51)	$ (21)	$ 40	$ (19)	$ (51)	$ (62)	$ (62)	$ 113	$ (62)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Net (loss) income	$ 7	$ 8	$ 31	$ (37)	$ 9	$ 2	$ 2	$ (9)	$ 4
Other comprehensive loss, net of tax:									
Foreign currency translation adjustment	(14)		(14)	14	(14)				(14)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive loss, net of tax:	(14)		(14)	14	(14)				(14)
Total comprehensive (loss) income	(7)	8	17	(23)	(5)	2	2	(9)	(10)
Comprehensive income attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (7)	$ 8	$ 15	$ (23)	$ (7)	$ 2	$ 2	$ (9)	$ (12)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (31)	$ (55)	$ 64	$ (7)	$ (29)	$ (36)	$ (36)	$ 67	$ (34)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	6		6	(6)	6				6
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	6		6	(6)	6				6
Total comprehensive (loss) income	(25)	(55)	70	(13)	(23)	(36)	(36)	67	(28)
Comprehensive loss attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (25)	$ (55)	$ 68	$ (13)	$ (25)	$ (36)	$ (36)	$ 67	$ (30)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (67)	$ 26	$ 39	$ (62)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	(12)		(12)	12	(12)				(12)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	(12)		(12)	12	(12)				(12)
Total comprehensive (loss) income	(79)	26	27	(50)	(76)	(78)	(78)	145	(87)
Comprehensive loss attributable to noncontrolling interest			(3)		(3)				(3)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (79)	$ 26	$ 24	$ (50)	$ (79)	$ (78)	$ (78)	$ 145	$ (90)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net (loss) income	$ (51)	$ (21)	$ 42	$ (19)	$ (49)	$ (62)	$ (62)	$ 113	$ (60)
Other comprehensive income, net of tax:									
Foreign currency translation adjustment	(8)		(8)	8	(8)				(8)
Deferred gains on derivative financial instruments									
Minimum pension liability									
Other comprehensive income, net of tax:	(8)		(8)	8	(8)				(8)
Total comprehensive (loss) income	(59)	(21)	34	(11)	(57)	(62)	(62)	113	(68)
Comprehensive loss attributable to noncontrolling interest			(2)		(2)				(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (59)	$ (21)	$ 32	$ (11)	$ (59)	$ (62)	$ (62)	$ 113	$ (70)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Cash flows from operating activities:									
Net (loss) income	$ (67)	$ 26	$ 39	$ (62)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Loss on extinguishment of debt	83				83				83
Depreciation and amortization		77	43		120				120
Deferred income taxes			(12)		(12)				(12)
Non-cash interest expense	5				5	1			6
Equity losses (gains)	(97)	49		52	4	67	78	(145)	4
Stock based compensation expense		4			4				4
Changes in operating assets and liabilities:									
Accounts receivable	(1)	(7)	72		64				64
Inventories		1	1		2				2
Royalty advances		(18)	8		(10)				(10)
Accounts payable and accrued liabilities		31	(121)	16	(74)				(74)
Royalty payables		30	(18)		12				12
Accrued interest	(13)				(13)				(13)
Deferred income		27	19		46				46
Other balance sheet changes	2	(14)	(14)	(6)	(32)				(32)
Net cash (used in) provided by operating activities	(88)	206	17		135	(10)			125
Cash flows from investing activities:									
Investments and acquisitions of businesses		(5)			(5)				(5)
Acquisition of publishing rights		(8)	(3)		(11)				(11)
Capital expenditures		(9)	(4)		(13)				(13)
Advances to issuer	195			(195)					
Net cash provided by (used in) investing activities	195	(22)	(7)	(195)	(29)				(29)
Cash flows from financing activities:									
Dividend by Acquisition Corp to Holdings Corp	(12)				(12)	12			
Change in due to (from) to issuer		(195)		195					
Proceeds from draw down of the New Revolving Credit Facility	31				31				31
Repayment of the New Revolving Credit Facility	(31)				(31)				(31)
Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes	500				500				500
	227				227				227

Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes									
Proceeds from Acquisition Corp Term Loan Facility, net	594				594				594
Repayment of Acquisition Corp 9.5% Senior Subordinated Notes	(1,250)				(1,250)				(1,250)
Financing fees paid for early redemption of debt	(127)				(127)				(127)
Deferred financing costs paid	(31)				(31)	(2)			(33)
Amortization of Term Loan	(8)				(8)				(8)
Net cash (used in) provided by financing activities	(107)	(195)		195	(107)	10			(97)
Effect of foreign currency exchange rate changes on cash			(7)		(7)				(7)
Net (decrease) increase in cash and equivalents		(11)	3		(8)				(8)
Cash and equivalents at beginning of period	44	105	143		292	10			302
Cash and equivalents at end of period	$ 44	$ 94	$ 146	$	$ 284	$ 10	$	$	$ 294

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2012

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities:									
Net (loss) income	(51)	(21)	42	(19)	$ (49)	$ (62)	$ (62)	$ 113	$ (60)
Adjustments to reconcile net (loss) income to net cash used in operating activities:									
Depreciation and amortization		79	44		123				123
Deferred income taxes			(9)		(9)				(9)
Non-cash interest expense (income)	(1)				(1)				(1)
Equity losses (gains)	(55)	27	(1)	29		51	62	(113)	
Changes in operating assets and liabilities:									
Accounts receivable	8	32	36		76				76
Inventories		1	1		2				2
Royalty advances		20	1		21				21
Accounts payable and accrued liabilities		(35)	4	(10)	(41)				(41)
Royalty payables		29	(3)		26				26
Accrued interest	28				28	6			34
Deferred income		(7)	9		2				2
Other balance sheet changes	38	(27)	(39)		(28)	1			(27)
Net cash (used in) provided by operating activities	(33)	98	85		150	(4)			146
Cash flows from investing activities:									
Acquisition of publishing rights		(6)	(7)		(13)				(13)
Proceeds from the sale of music catalog		2			2				2
Advances to issuer	60			(60)					
Investments and acquisitions of businesses			(5)		(5)				(5)
Capital expenditures		(10)	(3)		(13)				(13)
Net cash provided by (used in) investing activities	60	(14)	(15)	(60)	(29)				(29)
Cash flows from financing activities:									
Dividend by Acquisition Corp. to Holdings Corp.		(10)			(10)	10			
Distribution to noncontrolling interest holder			(2)		(2)				(2)
Change in due to (from) to issuer		(60)		60					

Net cash (used in) provided by financing activities		(70)	(2)	60	(12)	10			(2)
Effect of foreign currency exchange rate changes on cash			3		3				3
Net (decrease) increase in cash and equivalents	27	14	71		112	6			118
Cash and equivalents at beginning of period	17	61	72		150	4			154
Cash and equivalents at end of period	$ 44	$ 75	$ 143	$	$ 262	$ 10	$	$	$ 272

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

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013 (the Quarterly Report).

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost-savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar te Such statements include, among others, statements regarding the consummation of the acquisition of the Parlophone Label Group from Universal Music Group (the Transaction), including any related financing and the realization of any benefits following the consummation of the Transaction, our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost-savings from such efforts, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry s efforts to combat piracy on the industry, our intention to pay dividends or repurchase our outstanding notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, the impact on the competitive landscape of the music industry from the sale of EMI s recorded music and music publishing businesses, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

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

the continued decline in the global recorded music industry and the rate of overall decline in the music industry;

downward pressure on our pricing and our profit margins and reductions in shelf space;

our ability to identify, sign and retain artists and songwriters and the existence or absence of superstar releases;

threats to our business associated with home copying and Internet downloading;

the significant threat posed to our business and the music industry by organized industrial piracy;

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

the diversity and quality of our portfolio of songwriters;

the diversity and quality of our album releases;

the impact of legitimate channels for digital distribution of our creative content;

our dependence on a limited number of online music stores, in particular Apple s iTunes Music Store, for the online sale of our music recordings and their ability to significantly influence the pricing structure for online music stores;

our involvement in intellectual property litigation;

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

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

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

the failure of regulators to approve the Transaction;

the risk that the Transaction may not be completed on the expected time table, or at all;

failure to realize expected synergies and other benefits contemplated by the Transaction;

disruption from the Transaction making it more difficult to maintain certain strategic relationships;

risks relating to recent or future ratings agency actions or downgrades as a result of the Transaction, or any associated financing;

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

significant fluctuations in our operations and cash flows from period to period;

our inability to compete successfully in the highly competitive markets in which we operate;

further consolidation of our industry and its impact on the competitive landscape of the music industry, specifically the acquisition of EMI s recorded music business by Universal Music Group and the acquisition of EMI s music publishing business by a consortium led by Sony Corporation of America;

trends, developments or other events in some foreign countries in which we operate;

local economic conditions in the countries in which we operate;

our failure to attract and retain our executive officers and other key personnel;

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

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

an impairment in the carrying value of goodwill or other intangible and long-lived assets;

unfavorable currency exchange rate fluctuations;

our failure to have full control and ability to direct the operations we conduct through joint ventures;

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

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

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

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

the impact of, and risks inherent in, acquisitions or business combinations;

risks inherent to our outsourcing of information technology infrastructure and certain finance and accounting functions;

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

the impact of our substantial leverage, including any increase associated with additional indebtedness to be incurred in connection with the Transaction, on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;

the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;

the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;

our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness;

the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;

risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;

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

our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and part of Europe;

risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;

changes in law and government regulations; and

risks related to other factors discussed under Risk Factors in this Quarterly Report.

There may be other factors not presently known to us or which we currently consider to be immaterial that could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the factors described in the Risk Factors section of this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

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

INTRODUCTION

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

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), by and among the Company, AI Entertainment Holdings LLC, a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Merger Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger). Parent funded the merger consideration through cash on hand at the Company at closing, equity financing obtained from Parent and debt financing obtained from third party lenders.

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

In connection with the Merger, the Company delisted its common stock from listing on the NYSE. We continue to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) in accordance with certain covenants contained in the instruments covering our outstanding indebtedness. The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms we, us, our, ours, and the Company refer collectively to Warner Music Group Corp. and its consolidated subsidiaries, except where otherwise indicated.

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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 notes thereto 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, 2013 and March 31, 2012. 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, 2013 and March 31, 2012 as well as a discussion of our financial condition and liquidity as of March 31, 2013. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

Use of OIBDA

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

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year results using current-year foreign currency exchange rates. However, a limitation of the use of the constant-currency results as a performance measure is that it does not reflect the impact of exchange rates on our revenue, including, for example, the $7 million, $6 million and $1 million unfavorable impact of exchange rates on our Total, Recorded Music and Music Publishing revenue, in the three months ended March 31, 2013 compared to the prior-year quarter and the $15 million, $13 million and $2 million unfavorable impact of exchange rates on our Total, Recorded Music and Music Publishing revenues in the six months ended March 31, 2013 compared to the prior-year period. We generally refer to such amounts calculated on a constant-currency basis as excluding the impact of foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

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

Recorded Music Operations

Our Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering

and developing talent to producing albums and promoting artists and their products.

In the U.S., our Recorded Music operations are conducted principally through our major record labels Warner Bros. Records and the Atlantic Records Group. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks. We also conduct our Recorded Music operations through a collection of additional record labels, including, among others, Asylum, East West, Elektra, Nonesuch, Reprise, Roadrunner, Rykodisc, Sire and Word.

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

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (WEA Corp.), which markets and sells music and DVD 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.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and ADA Global, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers such as Apple s iTunes and Google Play, and are otherwise exploited by online subscription services such as Spotify, Rhapsody and Deezer, and Internet radio services such as Pandora and iHeart Radio.

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

We are also diversifying our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, we provide services to and participate in artists activities outside the traditional recorded music business. We built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands we help create.

We believe that entering into expanded-rights deals and enhancing our artist services capabilities will permit us to diversify revenue streams and capitalize on revenue opportunities in merchandising, fan clubs, sponsorship and touring. This will provide for improved long-term relationships with artists and allow us to more effectively connect artists and fans.

Recorded Music revenues are derived from four main sources:

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

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

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

Product costs: the costs to manufacture, package and distribute product to wholesale and retail distribution outlets as well as those principal costs related to our artist services businesses;

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

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

Music Publishing Operations

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

Warner/Chappell is headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Warner/Chappell 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., Hallmark Entertainment, and Disney Music Publishing. Since 2012, Warner/Chappell has been making an effort to build up its film and TV music business, with the acquisition of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. Our production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, and is collectively branded as Warner/Chappell Production Music.

Publishing revenues are derived from five main sources:

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

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

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

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

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

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

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

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

Factors Affecting Results of Operations and Financial Condition

Market Factors

Since 1999, the recorded music industry has been unstable and the worldwide market has contracted considerably, which has adversely affected our operating results. The industry-wide decline can be attributed primarily to digital piracy. Other drivers of this decline are the bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space, and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. While CD sales still generate most of the recorded music revenues, CD sales continue to decline industry-wide and we expect that trend to continue. While new formats for selling recorded music product have been created, including the legal downloading of digital music using the Internet and the distribution of music on mobile devices, revenue streams from these new formats have not yet reached a level where they fully offset the declines in CD sales on a worldwide industry basis. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time the industry grew year-over-year in 13 years, and, according to the RIAA, the U.S. recorded music industry unit sales declined by only 0.9% in 2012, a marked improvement versus a decade of steep declines prior to 2011, sales continued to fall in other countries and the industry continues to be impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a significant portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

Severance Charges

We continue to monitor our business to determine when it is appropriate to take actions to further align our cost structure with industry trends. This resulted in severance charges of $1 million for the three months ended March 31, 2013, compared to $4 million for the three months ended March 31, 2012 and $6 million for the six months ended March 31, 2013, compared to $11 million during the six months ended March 31, 2012.

Additional Targeted Savings

As of the completion of the Merger on July 20, 2011, we targeted cost-savings over the next nine fiscal quarters following completion of the Merger of $50 million to $65 million based on identified cost-saving initiatives and opportunities, including targeted savings expected to be realized as a result of no longer having publicly traded equity, reduced expenses related to finance, legal and information technology and reduced expenses related to certain planned corporate restructuring initiatives. Through March 31, 2013 we had achieved a majority of the targeted cost-savings that we identified at the time of the Merger.

EMI Related Costs

We incurred certain costs, primarily representing professional fees, related to our participation in a sales process which resulted in the sale of EMI s recorded music and music publishing businesses, including the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies, and the subsequent sale of the Parlophone Label Group by Universal Music Group. These costs amounted to approximately $3 million for the three months ended March 31, 2013 and $1 million for the three months ended March 31, 2012, and were recorded in the consolidated statements of operations within general and administrative expense.

Expanding Business Models to Offset Declines in Physical Sales

Digital Sales

A key part of our strategy to offset declines in physical sales is to expand digital sales. New digital models have enabled us to find additional ways to generate revenues from our music content. In the early stages of the transition from physical to digital sales, overall sales have decreased as the increases in digital sales have not yet met or exceeded the decrease in physical sales. Part of the reason for this gap is the shift in consumer purchasing patterns made possible from new digital models. In the digital space, consumers are now presented with the opportunity to not only purchase entire albums, but to unbundle albums and purchase only favorite tracks as single-track downloads. While to date, sales of online and mobile downloads have constituted the majority of our digital Recorded Music and Music Publishing revenue, that may change over time as new digital models, such as access models (models that typically bundle the purchase of a mobile device with access to music) and streaming and subscription services, continue to develop. In the aggregate, we believe that growth in revenue from new digital models has the potential to offset physical declines and drive overall future revenue growth. We believe it is reasonable to expect that digital margins will generally be higher than physical margins as a result of the elimination of certain costs associated with physical products, such as manufacturing, distribution, inventory and return costs. Partially eroding that benefit are certain digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, as well as increases in mechanical copyright royalties payable to music publishers which apply in the digital space. As consumer purchasing patterns change over time and new digital models are launched, we may see fluctuations in contribution margin depending on the overall sales mix.

Expanded-Rights Deals

We have also been seeking to expand our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have been signing recording artists to expanded-rights deals for the last several years. Under these expanded-rights deals, we participate in the recording artist s revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. We believe that additional revenue from these revenue streams will help to offset declines in physical revenue over time. As we have generally signed newer artists to these deals, increased expanded-rights revenue from these deals is expected to come several years after these deals have been signed as the artists become more successful and are able to generate revenue other than from recorded music sales. Artist services and expanded rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 8% of our total revenue during the six months ended March 31, 2013. Artist services and expanded rights revenue will fluctuate from period to period depending upon touring schedules, among other things. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various artist services and expanded rights Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from touring under our expanded-rights deals typically flows straight through to net income with little cost. Revenue from our

management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from recorded music and music publishing.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the Management Agreement), pursuant to which Access provides the Company and its subsidiaries, with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, pays Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. For the three months ended March 31, 2013 and 2012, such costs incurred by the Company were approximately $2 million, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement. For the six months ended March 31, 2013 and 2012, such costs incurred by the Company were approximately $4 million, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, but excludes $1 million of expenses in each period reimbursed related to certain consultants with full time roles at the Company. Under the Management Agreement with Access, the Company is obligated to pay Access an aggregate annual fee equal to the greater of (i) the sum of (x) $6 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) as at such time and (ii) 1.5% of the EBITDA (as defined in the indenture governing the WMG Holdings Corp. 13.75% Senior Notes due 2019 as required by the Management Agreement) of the Company for the applicable fiscal year.

Debt Repayment

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility. On May 13, 2013, Acquisition Corp. issued an irrevocable notice of redemption relating to $50 million in aggregate principal amount of its currently outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its currently outstanding 6.250% Senior Secured Notes due 2021 (the Notes Redemption).

Recent Developments

Agreement to Acquire the Parlophone Label Group

On February 7, 2013, we announced that we had signed a definitive agreement to acquire the Parlophone Label Group from Universal Music Group, a division of Vivendi, for £487 million, or approximately $745 million (based on conversion of amounts from GBP to USD of 1:1.53 as of April 12, 2013), in an all-cash transaction. References to the Transaction include the transactions contemplated by the EMI France Agreement (as defined below) unless the context otherwise requires.

In connection with the Transaction, our wholly owned subsidiary, Warner Music Holdings Limited, together with certain other Company subsidiaries, as buyers, and Acquisition Corp., as guarantor, entered into a Share Purchase Agreement, dated as of February 6, 2013 (the PLG Agreement), with certain subsidiaries of Universal Music Group, relating to the purchase of the outstanding shares of capital stock of PLG Holdco Limited and related entities composing the Parlophone Label Group. Warner Music Holdings BV also entered into a put option (the Put Option) with EMI Music France Holdco Limited (the EMI France Seller) in respect of the outstanding shares of EMI Music France SAS (EMI France). Pursuant to the terms of the Put Option, the EMI France Seller will, upon satisfaction of conditions with respect to the workers council consultation process, exercise the put option and execute the sale and purchase agreement (the EMI France Agreement) (the form of which has been agreed) between the same parties to the Put Option to transfer the outstanding shares of EMI France to Warner Music Holdings BV (the EMI France Transaction). It is intended that the transactions contemplated by the EMI France Agreement shall be consummated in connection with the consummation of the transactions contemplated by the PLG Agreement.

In connection with the entry into the PLG Agreement, on February 6, 2013, EGH1 BV and Warner Music Holdings Limited entered into a separation agreement (the Separation Agreement) and a separation plan (the Separation Plan) setting forth the respective rights and obligations of the parties thereto with respect to the separation of Parlophone Label Group and its business from that of the Sellers (as defined in the PLG Agreement) and EMI. The Separation Agreement and the Separation Plan provide, among other things, for the cooperation of the parties thereto in the identification and allocation, both before and after the completion of the Transaction, of assets and liabilities properly attributable to the buyers or to the sellers, and set forth procedures for cooperation between the parties in complying with their respective audit, tax and other reporting obligations.

The Transaction is being undertaken by Universal Music Group in order to comply with divestiture conditions imposed by the European Commission in connection with the acquisition by Universal Music Group of the recorded music business of EMI in 2012.

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The Parlophone Label Group includes a broad range of some of the world s best-known recordings and classic and contemporary artists spanning a wide array of musical genres, as well as some of the industry s leading executive talent. The Parlophone Label Group is comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K. as well as EMI Classics and Virgin Classics (EMI Classics and Virgin Classics brand names are not included with the transaction), and EMI s recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. Its artist roster and catalog of recordings include, among many others, Air, Coldplay, Daft Punk, Danger Mouse, David Guetta, Deep Purple, Duran Duran, Edith Piaf, Gorillaz, Iron Maiden, Itzhak Perlman, Jethro Tull, Kate Bush, Kylie Minogue, Maria Callas, Pet Shop Boys, Pink Floyd, Radiohead, Shirley Bassey, Tina Turner and Tinie Tempah.

Consummation of the Transaction is subject to certain regulatory approvals and customary conditions, including, without limitation, approval of the Transaction by the European Commission pursuant to Council Regulation (EC) No. 139/2004, as amended, and the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. Consummation of the EMI France Transaction is subject to conclusion of the consultation process with the workers council (comite d entreprise) of EMI France. As of May 14, 2013, the parties have received the required approval of U.S., Brazilian and Austrian regulators.

The PLG Agreement provides that the buyers thereunder may assign to an entity under common control with the Company the PLG Agreement and all of their rights and obligations thereunder without the prior written consent of the seller under certain circumstances.

On May 9, 2013, Acquisition Corp. entered into an incremental commitment amendment (the Term Loan Credit Agreement Amendment) to its existing Term Loan Credit Agreement (as so amended, the Amended Term Loan Credit Agreement). Proceeds from indebtedness to be incurred under the Amended Term Loan Credit Agreement will be used to finance the Transaction. On May 9, 2013, Acquisition Corp. also effectuated a repricing of its outstanding term loans under its existing Term Loan Credit Agreement in connection with its entry into the Term Loan Credit Agreement Amendment. See Financial Condition and Liquidity Liquidity Term Loan Facility .

Revolving Credit Facility

On April 23, 2013, Acquisition Corp. entered into an amendment to its New Revolving Credit Facility (as defined below). See Financial Condition and Liquidity Liquidity Revolving Credit Facility .

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2013 Compared with Three Months Ended March 31, 2012

Consolidated Historical Results

Revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	2012	$ Change	% Change
Revenue by Type				
Physical	$ 190	$ 170	$ 20	12%
Digital	262	222	40	18%
Total Physical and Digital	452	392	60	15%
Artist services and expanded rights	50	60	(10)	-17%
Licensing	52	47	5	11%
Total Recorded Music	**554**	**499**	**55**	**11%**
Performance	48	46	2	4%
Mechanical	27	32	(5)	-16%
Synchronization	27	32	(5)	-16%
Digital	21	14	7	50%
Other	4	3	1	33%
Total Music Publishing	**127**	**127**		
Intersegment eliminations	(6)	(3)	(3)	100%
Total Revenue	**$ 675**	**$ 623**	**$ 52**	**8%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 249	$ 207	$ 42	20%
U.S. Music Publishing	56	54	2	4%
Total U.S.	**305**	**261**	**44**	**17%**
International Recorded Music	305	292	13	5%
International Music Publishing	71	73	(2)	-3%
Total International	**376**	**365**	**11**	**3%**
Intersegment eliminations	(6)	(3)	(3)	100%
Total Revenue	**$ 675**	**$ 623**	**$ 52**	**8%**

Total Revenue

Total revenues increased by $52 million, or 8%, to $675 million for the three months ended March 31, 2013 from $623 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 81% and 19% of total revenues for the three months ended March 31, 2013, respectively, compared to 80% and 20% for the three months ended March 31, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 45% and 55% of total revenues, respectively, for the three months ended March 31, 2013 compared to 42% and 58% for the three months ended March 31, 2012, respectively. Excluding the

unfavorable impact of foreign currency exchange rates, total revenues increased $59 million, or 10%, for the three months ended March 31, 2013.

Total digital revenues after intersegment eliminations increased by $46 million, or 20%, to $281 million for the three months ended March 31, 2013 from $235 million for the three months ended March 31, 2012. Total digital revenues represented 42% and 38% of consolidated revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2013 were comprised of U.S. revenues of $157 million and international revenues of $126 million, or 55% and 45% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended March 31, 2012 were comprised of U.S. revenues of $131 million and international revenues of $105 million, or 56% and 44% of total digital revenues, respectively.

Recorded Music revenues increased by $55 million to $554 million for the three months ended March 31, 2013 from $499 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music revenues represented 81% and 80% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Recorded Music revenues were $249 million and $207 million, or 45% and 41% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $305 million and $292 million, or 55% and 59% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected a strong release schedule in the current-year quarter as compared with the prior-year quarter. Despite the ongoing transition from physical to digital sales, physical revenues increased as a result of a strong release schedule with several albums that were more heavily weighted towards physical sales including Josh Groban s All That Echos and Blake Shelton s Based on a True Story . Digital revenues also continued to grow, up $40 million or 18% for the quarter. This increase was driven by particularly strong download growth of $31 million and continued growth in streaming and subscription services of $15 million, offset by declines in mobile revenues of $6 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to both new releases, as well as continued success from prior-quarter releases with strong digital demand, such as those from Bruno Mars and fun. In addition, licensing revenues increased $5 million, or 11%, to $52 million for the three months ended March 31, 2013, due primarily to timing. Artist services and expanded-rights revenue declined primarily due to a decrease in concert promotion revenue resulting from a strong European touring schedule in the prior-year quarter which was not duplicated in the current-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $61 million, or 12%.

Overall, Music Publishing revenue remained flat, primarily due to the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by continued growth in digital revenue and an increase in performance revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $2 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $3 million and streaming and subscription services of $5 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues increased by $1 million, or 1%.

Revenue by Geographical Location

U.S. revenues increased by $44 million, to $305 million for the three months ended March 31, 2013 from $261 million for the three months ended March 31, 2012. The increase in U.S. Recorded Music revenues reflected the strong release schedule in the current quarter, leading to an increase in physical revenues of $14 million despite the continued decline in demand for physical product. U.S. Recorded Music digital revenues increased $22 million as a result of the continued growth in digital download revenue of $23 million and in streaming and subscription service revenue of $3 million, due to the increased availability of and demand for digital formats. U.S. artist services and expanded-rights revenue decreased slightly by $2 million due to a decline in merchandise revenues on managed tours. U.S. Music Publishing revenues increased $2 million due to digital revenue growth of $4 million which more than offset declines in synchronization revenue of $3 million.

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International revenues increased by $11 million, or 3%, to $376 million for the three months ended March 31, 2013 from $365 million for the three months ended March 31, 2012. The overall increase in international Recorded Music revenues was driven primarily by the increase in digital revenue of $18 million which was partially offset by a decline of $8 million in artist services and expanded rights revenue. The increase in digital revenue was mainly attributable to continued success from prior quarter releases with strong digital demand. International artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in Italy and France in the prior-year quarter which was not duplicated in the current-year quarter. International Music Publishing revenues decreased $2 million due to the decline in mechanical revenue of $5 million, which was partially offset by $3 million of continued digital revenue growth. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $18 million or 5%, for the three months ended March 31, 2013.

Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 216	$ 211	$ 5	2%
Product costs	113	107	6	6%
Total cost of revenues	**$ 329**	**$ 318**	**$ 11**	**4%**

Our cost of revenues increased by $11 million, or 4%, to $329 million for the three months ended March 31, 2013 from $318 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, cost of revenues were 49% and 51% for the three months ended March 31, 2013 and March 31, 2012, respectively.

Artist and repertoire costs increased by $5 million to $216 million for the three months ended March 31, 2013 from $211 million for the three months ended March 31, 2012. The increase in artist and repertoire costs were driven by increased revenues for the current-year quarter and the timing of our artist and repertoire spend. Artist and repertoire costs as a percentage of revenues decreased from 34% for three months ended March 31, 2012 to 32% for three months ended March 31, 2013.

Product costs increased by $6 million, or 6%, to $113 million for the three months ended March 31, 2013 from $107 million for the three months ended March 31, 2012 primarily as a result of the increase in both physical and digital revenue offset by a decrease in artist services and expanded rights revenues. Costs associated with our artist services and expanded rights business are primarily recorded as a component of product costs and tend to yield lower margins than our physical and digital revenue. Product costs as a percentage of revenues remained flat at 17% for both the three months ended March 31, 2013 and March 31, 2012 due to the revenue mix.

Selling, general and administrative expenses

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 131	$ 130	$ 1	1%
Selling and marketing expense	99	90	9	10%
Distribution expense	12	13	(1)	-8%
Total selling, general and administrative expense	**$ 242**	**$ 233**	**$ 9**	**4%**

(1) Includes depreciation expense of $12 million and $13 million for the three months ended March 31, 2013 and March 31, 2012, respectively.

Total selling, general and administrative expense increased by $9 million, or 4%, to $242 million for the three months ended March 31, 2013 from $233 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses were 36% and 37% for the three months ended March 31, 2013 and March 31, 2012, respectively.

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General and administrative expenses slightly increased by $1 million, or 1%, to $131 million for the three months ended March 31, 2013 from $130 million for the three months ended March 31, 2012. The increase in general and administrative expense was driven by higher variable compensation in the current period including stock-based compensation expense, partially offset by lower severance charges in the current period. Expressed as a percentage of revenues, general and administrative expenses decreased from 21% for the three months ended March 31, 2012 to 19% for the three months ended March 31, 2013.

Selling and marketing expense increased by $9 million, or 10%, to $99 million for the three months ended March 31, 2013 from $90 million for the three months ended March 31, 2012, primarily related to higher variable marketing expense related to current quarter releases. Expressed as a percentage of revenues, selling and marketing expense increased from 14% for the three months ended March 31, 2012 to 15% for the three months ended March 31, 2013.

Distribution expense slightly decreased by $1 million, or 8%, to $12 million for the three months ended March 31, 2013 from $13 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the three months ended March 31, 2013 and March 31, 2012.

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

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

	For the Three Months Ended March 31,		***2013 vs. 2012***	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 116	$ 85	$ 31	37%
Depreciation expense	(12)	(13)	1	-8%
Amortization expense	(47)	(50)	3	-6%
Operating income	**57**	**22**	**35**	**159%**
Interest expense, net	(49)	(56)	7	-13%
Other (expense) income, net	(4)	2	(6)	-300%
Income (loss) before income taxes	**4**	**(32)**	**36**	**-113%**
Income tax expense		(2)	2	-100%
Net income (loss)	**4**	**(34)**	**38**	**-112%**
Less: income attributable to noncontrolling interest	(2)	(2)		
Net income (loss) attributable to Warner Music Group Corp.	**$ 2**	**$ (36)**	**$ 38**	**106%**

OIBDA

Our OIBDA increased by $31 million, or 37%, to $116 million for the three months ended March 31, 2013 as compared to $85 million for the three months ended March 31, 2012. Expressed as a percentage of revenues, total OIBDA margin increased from 14% for the three months ended March 31, 2012 to 17% for the three months ended March 31, 2013. Our OIBDA increase was primarily driven by higher revenues, the continuing shift from physical to digital sales, and the decrease in costs as a percentage of revenue for artist and repertoire costs and selling, general and administrative expense.

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

Depreciation expense

Our depreciation expense decreased by $1 million, or 8%, to $12 million for the three months ended March 31, 2013 as compared to $13 million for the three months ended March 31, 2012.

Amortization expense

Amortization expense decreased by $3 million, or 6%, to $47 million for the three months ended March 31, 2013 as compared to $50 million for the three months ended March 31, 2012 primarily due to exchange rate fluctuations.

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Operating income

Our operating income increased by $35 million, or 159%, to $57 million for the three months ended March 31, 2013 as compared to operating income of $22 million for the three months ended March 31, 2012. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in depreciation and amortization expense noted above.

Interest expense, net

Our interest expense, net, decreased by $7 million, or 13%, to $49 million for the three months ended March 31, 2013 as compared to $56 million for the three months ended March 31, 2012. The decrease was primarily driven by the refinancing of our senior secured debt on November 1, 2012. Our new debt obligations have lower comparable interest rates than the debt obligations outstanding in the prior-year quarter. See Financial Condition and Liquidity for more information.

Other (expense) income, net

Other (expense) income, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, Euro denominated debt, and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax expense

We did not incur any significant income tax expense for the three months ended March 31, 2013 as compared to $2 million for the three months ended March 31, 2012.

Net income (loss)

Our net loss decreased by $38 million, to net income of $4 million for the three months ended March 31, 2013 as compared to a net loss of $34 million for the three months ended March 31, 2012. The decrease was primarily driven by the increase in operating income noted above as well as the decreases in interest expense and income tax expense.

Noncontrolling interest

Net income attributable to noncontrolling interest was $2 million for both the three months ended March 31, 2013 and March 31, 2012.

Business Segment Results

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Recorded Music				
Revenue	$ 554	$ 499	$ 55	11%
OIBDA	87	49	38	78%
Operating income	$ 46	$ 8	$ 38	475%
Music Publishing				
Revenue	$ 127	$ 127	$	
OIBDA	53	53		
Operating income	$ 37	$ 35	$ 2	6%
Corporate expenses and eliminations				
Revenue	$ (6)	$ (3)	$ (3)	100%
OIBDA	(24)	(17)	(7)	41%
Operating loss	$ (26)	$ (21)	$ (5)	24%

Total				
Revenue	$ 675	$ 623	$ 52	8%
OIBDA	116	85	31	37%
Operating income	$ 57	$ 22	$ 35	159%

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Recorded Music

Revenues

Recorded Music revenues increased by $55 million to $554 million for the three months ended March 31, 2013 from $499 million for the three months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music revenues represented 81% and 80% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Recorded Music revenues were $249 million and $207 million, or 45% and 41% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $305 million and $292 million, 55% and 59% of consolidated Recorded Music revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected a strong release schedule in the current-year quarter as compared with the prior-year quarter. Despite the ongoing transition from physical to digital sales, physical revenues increased as a result of a strong release schedule with several albums that were more heavily weighted towards physical sales including Josh Groban s All That Echos and Blake Shelton s Based on a True Story . Digital revenues continued to grow, up $40 million or 18% for the quarter. This increase was driven by particularly strong download growth of $31 million and continued growth in streaming and subscription services of $15 million, offset by declines in mobile revenues of $6 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to both new releases, as well as continued success from prior quarter releases with strong digital demand, such as those from Bruno Mars and fun. In addition, licensing revenues increased $5 million, or 11%, to $52 million for the three months ended March 31, 2013, due primarily to timing. Artist services and expanded rights revenue declined primarily due to a decrease in concert promotion revenue resulting from a strong European touring schedule in the prior-year quarter which was not duplicated in the current-year quarter. Excluding the unfavorable impact of foreign currency exchange rates, total recorded music revenues increased by $61 million, or 12%.

Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 164	$ 155	$ 9	6%
Product costs	113	107	6	6%
Total cost of revenues	**$ 277**	**$ 262**	**$ 15**	**6%**

Recorded Music cost of revenues increased $15 million, or 6%, to $277 million for the three months ended March 31, 2013 from $262 million for the three months ended March 31, 2012. The increase in artist and repertoire costs were driven by increased revenues for the current-year quarter and the timing of our artist and repertoire spend. The increase in product costs was due to the increase in physical sales, offset by lower spend on artist services and expanded rights due to revenue declines. Costs associated with our artist services and expanded rights business are primarily recorded as a component of product costs and tend to yield lower margins than our physical and digital revenue. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased from 53% for the three months ended March 31, 2012 to 50% for the three months ended March 31, 2013.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 89	$ 94	$ (5)	-5%
Selling and marketing expense	98	88	10	11%

Distribution expense	12	13	(1)	-8%
Total selling, general and administrative expense	**$ 199**	**$ 195**	**$ 4**	**2%**

(1) Includes depreciation expense of $9 million and $7 million for the three months ended March 31, 2013 and March 31, 2012, respectively.

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Recorded Music selling, general and administrative expense increased $4 million, or 2%, to $199 million for the three months ended March 31, 2013 from $195 million for the three months ended March 31, 2012. This increase was primarily due to an increase in selling and marketing expense offset by a decrease in general and administrative expense. The increase in selling and marketing expense increased in line with the increase in revenues and was largely the result of higher variable marketing increases related to current quarter releases. The increase in general and administrative expense was driven by higher variable compensation in the current period partially offset by lower severance charges in the current period. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased from 39% for the three months ended March 31, 2012 to 36% for the three months ended March 31, 2013.

OIBDA and Operating Income

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 87	$ 49	$ 38	78%
Depreciation and amortization	(41)	(41)		
Operating income	**$ 46**	**$ 8**	**$ 38**	**475%**

Recorded Music OIBDA increased by $38 million, or 78%, to $87 million for the three months ended March 31, 2013 compared to $49 million for the three months ended March 31, 2012. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 16% for the three months ended March 31, 2013 from 10% for the three months ended March 31, 2012. Our Recorded Music OIBDA increase was driven by higher revenues, the continuing shift from physical to digital sales, and the decrease in costs as a percentage of revenue for product costs and selling, general and administrative expense.

Recorded Music operating income increased by $38 million, due to the increase in OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues remained flat at $127 million for both the three months ended March 31, 2013 and March 31, 2012. Prior to intersegment eliminations, Music Publishing revenues represented 19% and 20% of consolidated revenues, for the three months ended March 31, 2013 and March 31, 2012, respectively. U.S. Music Publishing revenues were $56 million and $54 million, or 44% and 43% of Music Publishing revenues for the three months ended March 31, 2013 and March 31, 2012, respectively. International Music Publishing revenues were $71 million and $73 million, or 56% and 57% of Music Publishing revenues for the three months ended March 31, 2013 and March 31, 2012, respectively.

Overall, Music Publishing revenue remained flat, primarily due to the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by continued growth in digital revenue and an increase in performance revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $2 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $3 million and streaming and subscription services of $5 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues increased by $1 million, or 1%.

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Cost of revenues

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Artist and repertoire costs	$ 58	$ 59	$ (1)	-2%
Total cost of revenues	**$ 58**	**$ 59**	**$ (1)**	**-2%**

Music Publishing cost of revenues slightly decreased $1 million, or 2%, to $58 million for the three months ended March 31, 2013, from $59 million for the three months ended March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues remained flat at 46% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

Selling, general and administrative expense

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 17	$ 16	$ 1	6%
Selling and marketing expenses		1	(1)	-100%
Total selling, general and administrative expense	**$ 17**	**$ 17**	**$**	

(1) Includes depreciation expense of $1 million and $2 million for the three months ended March 31, 2013 and March 31, 2012, respectively.
Music Publishing selling, general and administrative expense remained flat at $17 million for both the three months ended March 31, 2013 and March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 13% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

OIBDA and Operating Income

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

	For the Three Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 53	$ 53	$	
Depreciation and amortization	(16)	(18)	2	-11%
Operating income	**$ 37**	**$ 35**	**$ 2**	**6%**

Music Publishing OIBDA remained flat at $53 million for both the three months ended March 31, 2013 and March 31, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA remained flat at 42% for the three months ended March 31, 2012 and for the three months ended March 31, 2013.

Music Publishing operating income increased $2 million due to a $2 million decrease in depreciation and amortization expense and flat OIBDA.

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Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations increased from $17 million for the three months ended March 31, 2012 to $24 million for the three months ended March 31, 2013, primarily as a result of higher variable compensation including stock-based compensation expense in the current period partially offset by lower severance.

Our operating loss from corporate expenses and eliminations increased from $21 million for the three months ended March 31, 2012 to $26 million for the three months ended March 31, 2013 due to the decrease in OIBDA noted above and the decrease in depreciation and amortization expense.

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Six Months Ended March 31, 2013 Compared with Six Months Ended March 31, 2012

Consolidated Historical Results

Revenues

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
Revenue by Type				
Physical	$ 490	$ 511	$ (21)	-4%
Digital	499	427	72	17%
Total Physical and Digital	989	938	51	5%
Artist services and expanded rights	110	120	(10)	-8%
Licensing	112	100	12	12%
Total Recorded Music	**1,211**	**1,158**	**53**	**5%**
Performance	95	94	1	1%
Mechanical	53	65	(12)	-19%
Synchronization	49	55	(6)	-11%
Digital	40	29	11	38%
Other	6	5	1	20%
Total Music Publishing	**243**	**248**	**(5)**	**-2%**
Intersegment eliminations	(10)	(8)	(2)	25%
Total Revenue	**$ 1,444**	**$ 1,398**	**$ 46**	**3%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 508	$ 463	$ 45	10%
U.S. Music Publishing	91	93	(2)	-2%
Total U.S.	**599**	**556**	**43**	**8%**
International Recorded Music	703	695	8	1%
International Music Publishing	152	155	(3)	-2%
Total International	**855**	**850**	**5**	**1%**
Intersegment eliminations	(10)	(8)	(2)	25%
Total Revenue	**$ 1,444**	**$ 1,398**	**$ 46**	**3%**

Total Revenue

Total revenues increased by $46 million to $1.444 billion for the six months ended March 31, 2013 from $1.398 billion for the six months ended March 31, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of revenues for the six months ended March 31, 2013 and 82% and 18% of total revenues for the six months ended March 31, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 41% and 59% of total revenues for the six months ended March 31, 2013 and 40% and 60% of total revenues for the six months ended March 31, 2012, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total revenues increased by $61 million, or 4%.

Total digital revenues after intersegment eliminations increased by $82 million, or 18%, to $536 million for the six months ended March 31, 2013 from $454 million for the six months ended March 31, 2012. Total digital revenues represented 37% and 33% of consolidated revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2013 were comprised of U.S. revenues of $296 million and international revenues of $243 million, or 55% and 45% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the six months ended March 31, 2012 were comprised of U.S. revenues of $253 million and international revenues of $203 million, or 55% and 45% of total digital revenues, respectively.

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Recorded Music revenues increased by $53 million to $1.211 billion for the six months ended March 31, 2013 from $1.158 billion for the six months ended March 31, 2012. U.S. Recorded Music revenues were $508 million and $463 million, or 42% and 40% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $703 million and $695 million, or 58% and 60% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected the continued decline in physical sales which was more than offset by growth in digital and licensing revenue. The decrease in physical sales was primarily driven by the comparatively strong holiday release schedule in the prior year, which included the initial release of Michael Bublé s Christmas , the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan and more heavily weighted towards physical sales. Digital revenues continued to grow, up $72 million or 17% in the current period. This increase was driven by equally strong growth in both downloads which increased $40 million and in streaming and subscription services which also increased $40 million, offset by the decline in mobile revenue of $8 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-period releases such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior-year releases with strong digital demand such as releases from Flo Rida and fun. Licensing revenues increased $12 million, or 12%, due to timing. In addition, artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong European touring schedule in the prior period which was not duplicated in the current period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $66 million, or 6%.

Music Publishing revenues decreased by $5 million, or 2%, to $243 million for the six months ended March 31, 2013 from $248 million for the six months ended March 31, 2012. U.S. Music Publishing revenues were $91 million and $93 million, or 37% and 38%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Music Publishing revenues were $152 million and $155 million, or 63% and 62%, of Music Publishing revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by the increase in digital revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the music industry. The decrease in synchronization revenue reflected lower demand in commercials of $4 million and videogames of $2 million. The increase in digital revenue reflected continued growth in digital downloads of $5 million and streaming and subscription services of $6 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $3 million, or 1%.

Revenue by Geographical Location

The increase in U.S. revenues reflected the growth in Recorded Music digital revenues and licensing revenues slightly offset by a decline in Music Publishing revenues. U.S. Recorded Music digital revenues increased $35 million as a result of the continued growth in digital download revenue of $25 million and in streaming and subscription service revenue of $17 million, due to the increased availability and demand of digital formats including the introduction of new cloud and locker services, offset by a decline in mobile revenue of $7 million. U.S. licensing revenues increased $11 million due to timing. Music Publishing revenues decreased $2 million due to declines in mechanical revenue of $6 million and synchronization revenue of $4 million which was partially offset by digital revenue growth of $8 million. U.S. artist services and expanded rights revenue remained flat.

The increase in international revenues was driven primarily by the increase in digital revenue which was partially offset by a decrease in physical revenue and artist services and expanded rights revenue. The increase in Recorded Music digital revenue was attributable to both current-period releases and continued success from prior-period releases with strong digital demand. The decrease in Recorded Music physical revenue was primarily due to the comparatively strong holiday release schedule in the prior year. International artist services and expanded rights revenue declined $10 million primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in Italy and France in the prior period which was not duplicated in the current period. International Music Publishing revenues decreased due to the decline in mechanical revenue of $6 million, which was partially offset by continued digital revenue growth of $3 million. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $20 million or 2% for the three months ended March 31, 2013.

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Cost of revenues

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
Artist and repertoire costs	$ 482	$ 490	$ (8)	-2%
Product costs	255	248	7	3%
Total cost of revenues	**$ 737**	**$ 738**	**$ (1)**	

Our cost of revenues slightly decreased by $1 million to $737 million for the six months ended March 31, 2013 from $738 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, cost of revenues were 51% and 53% for the six months ended March 31, 2013 and March 31, 2012, respectively.

Artist and repertoire costs decreased by $8 million, or 2%, to $482 million for the six months ended March 31, 2013 from $490 million for the six months ended March 31, 2012. The decrease in artist and repertoire costs were driven by the timing of our artist and repertoire spend. Artist and repertoire costs as a percentage of revenues decreased to 33% for the six months ended March 31, 2013 from 35% for the six months ended March 31, 2012.

Product costs increased $7 million, or 3%, to $255 million for the six months ended March 31, 2013 from $248 million for the six months ended March 31, 2012, primarily as a result of the increase in revenue offset by the decrease in artist services and expanded rights revenues. Costs associated with our artist services and expanded rights businesses tend to yield lower margins than our physical and digital revenue. Product costs as a percentage of revenues remained flat at 18% for the six months ended March 31, 2013 and the six months ended March 31, 2012.

Selling, general and administrative expenses

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
General and administrative expense (1)	$ 259	$ 276	$ (17)	-6%
Selling and marketing expense	216	196	20	10%
Distribution expense	29	29		
Total selling, general and administrative expense	**$ 504**	**$ 501**	**$ 3**	**1%**

(1) Includes depreciation expense of $25 million for the six months ended March 31, 2013 and March 31, 2012.

Total selling, general and administrative expense increased by $3 million, or 1%, to $504 million for the six months ended March 31, 2013 from $501 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 35% for the six months ended March 31, 2013 from 36% for the six months ended March 31, 2012.

General and administrative expenses decreased by $17 million, or 6%, to $259 million for the six months ended March 31, 2013 from $276 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, general and administrative expenses decreased to 18% for the six months ended March 31, 2013 from 20% for the six months ended March 31, 2012. The decrease in general and administrative expense was due to continued cost-management efforts, lower severance charges and lower variable compensation.

Selling and marketing expense increased by $20 million, or 10%, to $216 million for the six months ended March 31, 2013 from $196 million for the six months ended March 31, 2012, primarily related to higher variable marketing expense related to current-period releases. Expressed as a percentage of revenues, selling and marketing expense increased to 15% for the six months ended March 31, 2013 from 14% for the six months ended March 31, 2012, primarily as a result of the strong sales performance of Michael Bublé s Christmas in the prior-period, which had a lower proportionate marketing spend.

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Distribution expense remained flat at $29 for the six months ended March 31, 2013 and the six months ended March 31, 2012. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the six months ended March 31, 2013 and March 31, 2012.

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

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 228	$ 184	$ 44	24%
Depreciation expense	(25)	(25)		
Amortization expense	(95)	(98)	3	-3%
Operating income	**108**	**61**	**47**	**77%**
Loss on extinguishment of debt	(83)		(83)	
Interest expense, net	(102)	(113)	11	-10%
Other expense, net	(9)		(9)	
Loss before income taxes	**(86)**	**(52)**	**(34)**	**65%**
Income tax benefit (expense)	11	(8)	19	-238%
Net loss	**(75)**	**(60)**	**(15)**	**25%**
Less: income attributable to noncontrolling interest	(3)	(2)	(1)	50%
Net loss attributable to Warner Music Group Corp.	**$ (78)**	**$ (62)**	**$ (16)**	**26%**

OIBDA

Our OIBDA increased by $44 million, or 24%, to $228 million for the six months ended March 31, 2013 as compared to $184 million for the six months ended March 31, 2012. Expressed as a percentage of revenues, total OIBDA margin increased to 16% for the six months ended March 31, 2013, from 13% for the six months ended March 31, 2012. Our OIBDA increase was primarily driven by increased digital revenues, the continuing shift from physical to digital sales, previously announced cost-savings initiatives, lower severance charges and lower variable compensation expense, partially offset by an increase in variable marketing spend.

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

Depreciation expense

Our depreciation expense remained flat at $25 million for the six months ended March 31, 2013 and the six months ended March 31, 2012.

Amortization expense

Amortization expense decreased by $3 million, or 3%, to $95 million for the six months ended March 31, 2013 as compared to $98 million for the six months ended March 31, 2012 primarily due to favorable exchange rate fluctuations.

Operating income

Our operating income increased $47 million, or 77%, to $108 million, for the six months ended March 31, 2013 as compared to operating income of $61 million for the six months ended March 31, 2012. The increase in operating income was primarily a result of the increase in OIBDA and the decrease in amortization expense noted above.

Loss on extinguishment of debt

On November 1, 2013, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. As a result, for the six months ended March 31, 2013, we recorded an $83 million loss on extinguishment of debt representing the difference between the redemption payment and the carrying value of the debt as of the refinancing date.

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Interest expense, net

Our interest expense, net, decreased $11 million, or 10%, to $102 million for the six months ended March 31, 2013 as compared to $113 million for the six months ended March 31, 2012. The decrease was primarily driven by the refinancing of our senior secured debt on November 1, 2012. Our new debt obligations have lower comparable interest rates than the debt obligations outstanding in the prior period.

See Financial Condition and Liquidity for more information.

Other expense, net

Other expense, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with inter-company receivables and payables that are short term in nature, Euro denominated debt and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax benefit (expense)

We incurred income tax benefit of $11 million for the six months ended March 31, 2013 as compared to an expense of $8 million for the six months ended March 31, 2012. The decrease in income tax expense primarily relates to the increase in pretax loss largely resulting from the loss on extinguishment of debt in the U.S. for which we were able to recognize a tax benefit.

Net loss

Our net loss increased by $15 million, to a net loss of $75 million for the six months ended March 31, 2013 as compared to a net loss of $60 million for the six months ended March 31, 2012. The increase was driven by the loss on extinguishment of debt, partially offset by the income tax benefit, the decrease in interest expense and the increase in operating income noted above.

Noncontrolling interest

Net income attributable to noncontrolling interest was $3 million for the six months ended March 31, 2013 and $2 million for the six months ended March 31, 2012.

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Business Segment Results

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

	For the Six Months Ended March 31,		2013 vs. 2012	
	2013	2012	$ Change	% Change
Recorded Music				
Revenue	$ 1,211	$ 1,158	$ 53	5%
OIBDA	201	153	48	31%
Operating income	$ 120	$ 71	$ 49	69%
Music Publishing				
Revenue	$ 243	$ 248	$ (5)	-2%
OIBDA	69	69		
Operating income	$ 36	$ 35	$ 1	3%
Corporate expenses and eliminations				
Revenue	$ (10)	$ (8)	$ (2)	25%
OIBDA	(42)	(38)	(4)	11%
Operating loss	$ (48)	$ (45)	$ (3)	7%
Total				
Revenue	$ 1,444	$ 1,398	$ 46	3%
OIBDA	228	184	44	24%
Operating income	$ 108	$ 61	$ 47	77%

Recorded Music

Revenues

Recorded Music revenues increased by $53 million to $1.211 billion for the six months ended March 31, 2013 from $1.158 billion for the six months ended March 31, 2012. U.S. Recorded Music revenues were $508 million and $463 million, or 42% and 40% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively. International Recorded Music revenues were $703 million and $695 million, or 58% and 60% of consolidated Recorded Music revenues for the six months ended March 31, 2013 and March 31, 2012, respectively.

The overall increase in Recorded Music revenue reflected the continued decline in physical sales which was more than offset by growth in digital and licensing revenue. The decrease in physical sales was primarily driven by the comparatively strong holiday release schedule in the prior year, which included the initial release of Michael Bublé s Christmas , the second-largest-selling album of calendar 2011 in the U.S. according to SoundScan more heavily weighted towards physical sales. Digital revenues continued to grow, up $72 million or 17% in the current period. This increase was driven by equally strong growth in both downloads which increased $40 million and in streaming and subscription services which also increased $40 million, offset by the decline in mobile revenue of $8 million which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-period releases such as Bruno Mars Unorthodox Jukebox , as well as continued success from prior-year releases with strong digital demand such as releases from Flo Rida and fun. Licensing revenues increased $12 million, or 12%, due to timing. In addition, artist services and expanded rights revenue declined primarily due to a decline in concert promotion revenue resulting from a strong European touring schedule in the prior period which was not duplicated in the current period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $66 million, or 6%.

Cost of revenues

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

For the Six Months Ended March 31,		2013 vs. 2012	
2013	2012	$ Change	% Change

Artist and repertoire costs	$ 347	$ 351	$ (4)	-1%
Product costs	255	248	7	3%
Total cost of revenues	**$ 602**	**$ 599**	**$ 3**	**1%**

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Recorded Music cost of revenues increased $3 million, or 1%, for the six months ended March 31, 2013. The decrease in artist and repertoire costs was driven by the timing of our artist and repertoire spend. The increase in product costs was primarily as a result of the increase in revenue in the current period. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 50% for the six months ended March 31, 2013 from 52% for the six months ended March 31, 2012.

Selling, general and administrative expense

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
General and administrative expense (1)	$ 182	$ 199	$ (17)	-9%
Selling and marketing expense	213	193	20	10%
Distribution expense	29	29		
Total selling, general and administrative expense	**$ 424**	**$ 421**	**$ 3**	**1%**

(1) Includes depreciation expense of $16 million and $15 million for the six months ended March 31, 2013 and March 31, 2012, respectively.
Recorded Music selling, general and administrative expense increased $3 million, or 1%, for the six months ended March 31, 2013. This increase was due to an increase in selling and marketing expense partially offset by a decrease in general and administrative expense. The increase in selling and marketing expense was primarily the result of variable marketing increases related to current-period releases compared to the prior-period releases including Michael Bublé s Christmas album which had comparatively low marketing spend. The decrease in general and administrative expense was driven primarily by lower variable compensation, lower severance expense in the current period and continued cost-management efforts. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense decreased to 35% for the six months ended March 31, 2013 from 36% for the six months ended March 31, 2012.

OIBDA and Operating Income

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

	For the Six Months Ended March 31,		*2013 vs. 2012*	
	2013	**2012**	**$ Change**	**% Change**
OIBDA	$ 201	$ 153	$ 48	31%
Depreciation and amortization	(81)	(82)	1	1%
Operating income	**$ 120**	**$ 71**	**$ 49**	**69%**

Recorded Music OIBDA increased by $48 million, or 31%, to $201 million for the six months ended March 31, 2013 compared to $153 million for the six months ended March 31, 2012. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 17% for the six months ended March 31, 2013 from 13% for the six months ended March 31, 2012. Our Recorded Music OIBDA increase was primarily driven by higher revenues, the continuing shift from physical to digital sales and the decrease in costs as a percentage of revenue for artist and repertoire costs and selling, gen