Warner Music Group Corp.
Form 10-Q
August 07, 2008
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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 June 30, 2008

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of August 5, 2008, the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 153,919,646

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WARNER MUSIC GROUP CORP.

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Warner Music Group Corp.

Consolidated Balance Sheets

	June 30, 2008 (unaudited)	September 30, 2007 (audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 338	$ 333
Accounts receivable, less allowances of $166 and $192	481	555
Inventories, net	57	58
Royalty advances expected to be recouped within one year	192	176
Deferred tax assets	38	40
Other current assets	36	33
Total current assets	1,142	1,195
Royalty advances expected to be recouped after one year	235	216
Investments	166	146
Property, plant and equipment, net	125	133
Goodwill	1,072	1,065
Intangible assets subject to amortization, net	1,596	1,632
Intangible assets not subject to amortization	100	100
Other assets	83	85
Total assets	$ 4,519	$ 4,572
Liabilities and Shareholders Deficit		
Current liabilities:		
Accounts payable	$ 178	$ 225
Accrued royalties	1,291	1,226
Taxes and other withholdings	21	33
Dividends payable	1	23
Current portion of long-term debt	17	17
Deferred revenue	109	56
Other current liabilities	275	302
Total current liabilities	1,892	1,882
Long-term debt	2,255	2,256
Dividends payable		1
Deferred tax liabilities	245	244
Other noncurrent liabilities	226	225
Total liabilities	$ 4,618	$ 4,608
Commitments and Contingencies (See Note 12)		
Shareholders deficit:		
Common stock ($0.001 par value; 500,000,000 shares authorized; 153,919,646 and 149,524,737 shares issued and outstanding)		
Additional paid-in capital	586	579
Accumulated deficit	(692)	(614)
Accumulated other comprehensive income (loss), net	7	(1)

Total shareholders deficit	$ (99)	$ (36)
Total liabilities and shareholders deficit	$ 4,519	$ 4,572

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
	(in millions, except per share data)			
Revenues (b)	$ 848	$ 804	$ 2,637	$ 2,516
Costs and expenses:				
Cost of revenues (a)(b)	(441)	(429)	(1,399)	(1,364)
Selling, general and administrative expenses (a)(b)	(300)	(297)	(935)	(862)
Other income, net		52	3	52
Restructuring costs		(32)		(44)
Amortization of intangible assets	(56)	(52)	(165)	(153)
Total costs and expenses	(797)	(758)	(2,496)	(2,371)
Operating income from continuing operations	51	46	141	145
Interest expense, net (b)	(43)	(45)	(138)	(137)
Minority interest expense	(2)	(2)	(4)	(2)
Other loss, net	(2)	(4)	(4)	(4)
Income (loss) from continuing operations before income taxes	4	(5)	(5)	2
Income tax expense	(13)	(11)	(36)	(27)
Loss from continuing operations	$ (9)	$ (16)	$ (41)	$ (25)
Loss from discontinued operations, net of taxes		(1)	(21)	(1)
Net loss	$ (9)	$ (17)	$ (62)	$ (26)
Net loss per common share:				
Basic earnings per share:				
Loss from continuing operations	$ (0.06)	$ (0.11)	$ (0.28)	$ (0.17)
Loss from discontinued operations		(0.01)	(0.14)	(0.01)
Net loss	$ (0.06)	$ (0.12)	$ (0.42)	$ (0.18)
Diluted earnings per share:				
Loss from continuing operations	$ (0.06)	$ (0.11)	$ (0.28)	$ (0.17)
Loss from discontinued operations		(0.01)	(0.14)	(0.01)
Net loss	$ (0.06)	$ (0.12)	$ (0.42)	$ (0.18)
Weighted average common shares:				
Basic	148.9	146.9	148.0	145.9
Diluted	148.9	146.9	148.0	145.9
(a) Includes depreciation expense of:	$ (9)	$ (10)	$ (35)	$ (30)
(b) Includes the following income (expenses) resulting from transactions with related companies				
Revenues	$ 1	$ 1	$ 2	$ 4
Cost of revenues			1	(1)

Selling, general and administrative expenses	(4)

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2008	Nine Months Ended June 30, 2007
	(in millions)	
Cash flows from operating activities		
Net loss	$ (62)	$ (26)
Loss from discontinued operations, net of tax	21	1
Loss from continuing operations	$ (41)	$ (25)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	200	183
Deferred taxes	(5)	2
Non-cash interest expense	35	46
Non-cash stock-based compensation expense	7	7
Other non-cash items	(1)	(4)
Minority interest expense	4	2
Changes in operating assets and liabilities:		
Accounts receivable	93	101
Inventories	4	(2)
Royalty advances	(29)	(32)
Accounts payable and accrued liabilities	(59)	(63)
Other balance sheet changes	(23)	(18)
Net cash provided by operating activities	185	197
Cash flows from investing activities		
Investments and acquisition of businesses	(122)	(75)
Acquisition of publishing copyrights	(21)	(5)
Loans to third parties	(3)	(26)
Proceeds from the sale of buildings		7
Proceeds from the sale of investments	24	18
Capital expenditures	(26)	(21)
Net cash used in investing activities	(148)	(102)
Cash flows from financing activities		
Debt repayments	(13)	(13)
Proceeds from the exercise of stock options		2
Dividends paid	(42)	(59)
Net cash used in financing activities	(55)	(70)
Effect of foreign currency exchange rate changes on cash	23	4
Net increase in cash and equivalents	5	29
Cash and equivalents at beginning of period	333	367
Cash and equivalents at end of period	$ 338	$ 396

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statement of Shareholders Deficit (Unaudited)

	Common Stock					
	Shares	($ 0.001 per share)	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Deficit
			(in millions, except number of common shares)			
Balance at September 30, 2007	149,524,737		$ 579	$ (614)	$ (1)	$ (36)
Comprehensive loss:						
Net loss				(62)		(62)
Foreign currency translation adjustment					17	17
Deferred losses on derivative financial instruments					(9)	(9)
Total comprehensive loss				(62)	8	(54)
Dividends				(19)		(19)
Impact of change in accounting (a)				3		3
Exercises of stock options	42,700					
Issuance of stock options and restricted shares of common stock	4,352,209		7			7
Balance at June 30, 2008	153,919,646		$ 586	$ (692)	$ 7	$ (99)

(a) See Note 2, Basis of Presentation.

See accompanying notes.

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the Company or Parent) was formed by a private equity consortium of investors (the Investor Group) on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (Holdings), which is the direct parent of WMG Acquisition Corp. (Acquisition Corp.). Acquisition Corp. is one of the world s major music-based content companies and the successor to substantially all of the interests of the Recorded Music and Music Publishing businesses of Time Warner Inc. (Time Warner). Effective March 1, 2004, Acquisition Corp. acquired such interests from Time Warner for approximately $2.6 billion (the Acquisition). The original Investor Group included affiliates of Thomas H. Lee Partners L.P. (THL), affiliates of Bain Capital Investors, LLC (Bain), affiliates of Providence Equity Partners, Inc. (Providence) and Music Capital Partners, L.P. (Music Capital). Music Capital s partnership agreement required that the Music Capital partnership dissolve and commence winding up by the second anniversary of the Company s May 2005 initial public offering. As a result, on May 7, 2007, Music Capital made a pro rata distribution of all shares of common stock of the Company held by it to its partners. The shares held by Music Capital had been subject to a stockholders agreement among Music Capital, THL, Bain and Providence and certain other parties. As a result of the distribution, the shares distributed by Music Capital ceased to be subject to the voting and other provisions of the stockholders agreement and Music Capital was no longer part of the Investor Group subject to the stockholders agreement.

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

Recorded Music Operations

The Company s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. In addition to the more traditional methods of discovering and developing artists, following the Acquisition the Company established the Independent Label Group (ILG) to discover artists earlier in the process and at lower cost by leveraging the Company s independent distribution network.

The Company is also diversifying its revenues beyond its traditional businesses by partnering with artists in other areas of their careers. The Company is building capabilities and platforms for exploiting a broader set of music-related rights to participate across the artist brands it helps create. Expansion of the Company s capabilities in this area have included strategic acquisitions and partnerships with companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, touring, fan clubs, original programming and video entertainment. The Company believes enhancement of these capabilities will permit it to diversify revenue streams to better capitalize on the growth areas of the music industry, permit it to build stronger, long-term relationships with artists and more effectively connect artists and fans.

In the U.S., Recorded Music operations are conducted principally through the Company s major record labels Warner Bros. Records and The Atlantic Records Group. The Company s Recorded Music operations also include Rhino Entertainment (Rhino), a division that specializes in marketing the Company s music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to and from third parties for various uses, including film and television soundtracks.

In January 2007, the Company acquired a majority interest in Roadrunner, which includes Roadrunner Records, one of the leading hard rock and heavy metal labels (see Note 5). The Company also conducts its Recorded Music operations through a collection of additional record labels, including, among others, Asylum, Bad Boy, Cordless, East West, Elektra, Lava, Nonesuch, Reprise, Rykodisc, Sire and Word.

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

Recorded Music distribution operations include WEA Corp., which markets and sells music and DVD products to retailers and wholesale distributors in the U.S.; ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; Ryko Distribution, which distributes music and DVD releases from Rykodisc, Ryko s record label, and third-party record and video labels; various distribution centers and ventures operated internationally; an 80% interest in Word Entertainment, which specializes in the distribution of music

products in the Christian retail marketplace; and ADA Global, which provides ADA s distribution services to independent labels outside of the U.S. through a network of affiliated and non-affiliated distributors.

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The Company plays an integral role in virtually all aspects of the music value chain from discovering and developing talent, to producing albums and promoting artists and their products. After an artist has entered into a contract with one of the Company s record labels, a master recording of the artist s music is created. The recording is then replicated for sale to consumers primarily in the CD and digital formats. In the U.S., WEA Corp., ADA, Ryko Distribution and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to thousands of record stores, mass merchants and other retailers. The Company s recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint.

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

Music Publishing Operations

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

The Company s Music Publishing operations include Warner/Chappell its global Music Publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, Disney Music Publishing, New Line Cinema and Warner Bros. Studios. In 2007, the Company entered the production music library business with the acquisition of Non-Stop Music. Production music is a complementary alternative to licensing standards and contemporary hits for television, film and advertising producers.

Publishing revenues are derived from four main sources:

Mechanical: the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including physical recordings (*e.g.*, CDs, DVDs, video-cassettes), online and wireless downloads and mobile phone ringtones.

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

Synchronization: the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames.

Other: the licensor receives royalties from other uses such as in toys or novelty items and for use in sheet music.

2. Basis of Presentation

Interim Financial Statements

The accompanying 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

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10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Our business is seasonal, therefore, operating results for the three- and nine-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008.

The consolidated balance sheet at September 30, 2007 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, 2007 (Registration No. 001-32502).

Basis of Consolidation

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

New Accounting Pronouncements

In October 2007, the Company adopted the provisions of FASB Statement No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing application of a more likely than not threshold to the recognition and derecognition of uncertain tax positions. FIN 48 also prescribes guidance on measurement, classification, interest and penalties, accounting for interim periods, and disclosures. Upon adoption of FIN 48, the Company recorded a cumulative adjustment of $3 million, with a corresponding adjustment to the opening balance of accumulated deficit. As of the date of adoption, the Company had $1 million of unrecognized tax benefits, all of which would affect the effective tax rate if recognized. The Company classifies interest and penalties related to uncertain tax positions as a component of income tax expense. As of the date of adoption and June 30, 2008, the Company had accrued no material interest or penalties.

The Company and its subsidiaries file income tax returns in the U.S. and various foreign jurisdictions. The Internal Revenue Service has commenced a routine examination of the Company s U.S. income tax returns for the fiscal years ended September 30, 2004 through September 30, 2006.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The impact of this standard is not expected to be material to the Company s consolidated financial statements. The Company will adopt the provisions of FAS 157 in fiscal 2009.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, (* FAS 159 *)* including an Amendment of SFAS 115, which permits but does not require the Company to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The impact of this standard is not expected to be material to the Company s consolidated financial statements. The Company will adopt the provisions of FAS 159 in fiscal 2009.

3. Comprehensive Income (loss)

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

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	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net loss	$ (9)	$ (17)	$ (62)	$ (26)
Foreign currency translation gains (losses) (a)	(1)	3	17	(3)
Derivative financial instruments gains (losses)	11	4	(9)	(3)
Comprehensive income (loss)	$ 1	$ (10)	$ (54)	$ (32)

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

4. Net Loss Per Common Share

The Company computes net loss per common share in accordance with FASB Statement No. 128, *Earnings per Share* (FAS 128). Under the provisions of FAS 128, basic net loss per common share is computed by dividing the net loss applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Diluted net loss per common share adjusts basic net loss per common share for the effects of stock options, warrants and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

The calculation of diluted net loss per common share excludes an adjustment to the weighted-average common shares outstanding for the potential dilution that would occur if the Company s stock options were exercised or the Company s restricted stock had vested. In the periods reported, the effect of the assumed exercise of any outstanding stock options and the assumed vesting of shares of restricted shares would have been antidilutive and accordingly, the following share amounts were excluded from the calculation of diluted net loss per share (in millions):

	Three Months Ended		Nine months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Stock options	2.0	2.0	2.0	2.0
Restricted stock	2.0	2.0	1.0	3.0

5. Significant Acquisitions and Dispositions

Acquisition of Interest in Frank Sinatra Estate

The Company acquired a 50% interest in Frank Sinatra Enterprises, LLC (FSE) on November 19, 2007 for $50 million. FSE is a limited liability company established to administer licenses for use of Frank Sinatra s name and likeness and manage all aspects of his music, film and stage content. The transaction was accounted for under the purchase method of accounting, based on the provisions of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* and the results of operations of FSE have been included in the Company s results of operations from the date of the acquisition. The purchase price has been preliminarily allocated to the underlying net assets acquired in proportion to the estimated fair value, principally as follows: recorded music catalog, $33 million; trademarks, $10 million; and goodwill $7 million.

Acquisition of Roadrunner Music Group

On January 29, 2007, the Company acquired 73.5% of Roadrunner, which includes Roadrunner Records, a leading hard rock and heavy metal label. The transaction was accounted for under the purchase method of accounting, and the results of operations of Roadrunner have been included in the Company s results of operations from the date of acquisition. The purchase price has been allocated to the underlying net assets acquired in proportion to the estimated fair value, principally recorded music catalog, artist contracts and goodwill. The accompanying consolidated financial statements include the following allocation of the approximately $83 million purchase price, consisting of a cash payment of $59 million and estimated future payment obligations of $24 million: recorded music catalog, $15 million; artists contracts, $26 million; goodwill, $39 million; tangible assets, $36 million; and tangible liabilities, $33 million.

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

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Discontinued Operations

During the nine months ended June 30, 2008, the Company determined that it would shut down the operations of Bulldog Entertainment (Bulldog), an entertainment services company. As a result of this triggering event, the Company performed an impairment test at December 31, 2007 and determined that an $18 million impairment charge was necessary to adjust the assets to fair market value, based on the discounted value of future cash flows. The Company shut down these operations in January 2008 and as such Bulldog is reported as a discontinued operation in the consolidated financial statements of the Company. In the nine months ended June 30, 2008, the Company recorded a loss related to its discontinued operation of $21 million, which included costs to shut down the operations and an impairment charge related to goodwill of the operation of $18 million.

6. Inventories

Inventories consist of the following (in millions):

	June 30, 2008 (unaudited)	September 30, 2007 (audited)
Compact discs, cassettes and other music-related products	$ 55	$ 56
Published sheet music and song books	2	2
	$ 57	$ 58

7. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the nine months ended June 30, 2008 (in millions):

	Recorded Music	Music Publishing	Total
Balance at September 30, 2007 (audited)	**$ 474**	**$ 591**	**$ 1,065**
Acquisitions (a)	18		18
Disposition (b)	(18)		(18)
Other adjustments (c)	7		7
Balance at June 30, 2008 (unaudited)	**$ 481**	**$ 591**	**$ 1,072**

(a) Acquisitions include $7 million of goodwill acquired as part of an investment in FSE as more fully described in Note 5, as well as $9 million related to the acquisition during the quarter ended March 31, 2008 of a tour, production, promotion and booking company.
(b) Disposition relates to the impairment and discontinued operation of Bulldog as more fully described in Note 5.
(c) Other adjustments primarily represent foreign currency translation adjustments.

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Other Intangible Assets

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

	September 30, 2007 (audited)	Acquisitions (a)	Other (b)	June 30, 2008 (unaudited)
Intangible assets subject to amortization:				
Recorded music catalog	$ 1,319	45	7	$ 1,371
Music publishing copyrights	916	21	36	973
Artist contracts	66	7	2	75
Trademarks	11	10		21
Other intangible assets	6	1		7
	2,318	84	45	2,447
Accumulated amortization	(686)			(851)
Total net intangible assets subject to amortization	1,632			1,596
Intangible assets not subject to amortization:				
Trademarks and brands	100			100
Total net other intangible assets	$ 1,732			$ 1,696

(a) The acquisitions primarily relate to $33 million of music catalog and $10 million of trademarks acquired in the connection with the investment in FSE as more fully described in Note 5.

(b) Other represents foreign currency translation adjustments.

8. Restructuring Costs

Realignment Plan for Fiscal Year 2007

In the second quarter of fiscal year 2007, the Company announced plans to implement changes intended to better align the Company s workforce with the changing nature of the music industry. These changes are part of the Company s continued evolution from a traditional record and songs-based business to a music-based content company and its ongoing management of its cost structure. The changes included a continued redeployment of resources to focus on new business initiatives to help the Company diversify its revenue streams, including digital opportunities. The realignment plan was also designed to improve the operating effectiveness of the Company s current businesses and to realign its management structure to, among other things, effectively address the continued development of digital distribution channels along with the decline of industry-wide CD sales.

The plan consisted of the reorganization of management structures to more adequately and carefully address regional needs and new business requirements, to reduce organizational complexity and to improve leadership channels. The Company also continued to shift resources from the physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams. Part of the plan also resulted in the outsourcing of some back-office functions as a cost-savings measure.

The changes described above were implemented in fiscal year 2007. The Company incurred substantially all of the costs associated with the realignment plan in fiscal 2007. This included approximately $50 million of restructuring costs and $13 million of implementation costs. In connection with the plan, the Company reduced headcount by approximately 400 employees. The Company expects that the majority of any cost savings will be offset by new business initiatives in areas related to digital distribution and video. Restructuring costs consist of the following (in millions):

	Employee Terminations	Other Exit Costs	Total
Liability as of September 30, 2007	**$ 16**	**$ 1**	**$ 17**
Cash paid during the nine months ended June 30, 2008	(12)		(12)
Liability as of June 30, 2008	**$ 4**	**$ 1**	**$ 5**

Acquisition-Related Restructuring Costs

As of June 30, 2008, the Company had approximately $18 million of liabilities for Acquisition-related restructuring costs. These primarily relate to restructuring efforts implemented in fiscal 2005 following the Acquisition. These liabilities represent estimates of future cash obligations for all restructuring activities that have been implemented, as well as for all restructuring activities that have been committed to by management but have yet to occur. The outstanding balance of these liabilities primarily relates to extended payment terms for severance obligations and long-term lease obligations for vacated facilities. These remaining lease obligations are expected to be settled by 2019. The Company expects to pay the majority of the remaining costs by the end of fiscal year 2008. Restructuring costs consist of the following (in millions):

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	Employee Terminations	Other Exit Costs	Total
Liability as of September 30, 2007	**$ 3**	**$ 19**	**$ 22**
Cash paid during the nine months ended June 30, 2008			
Non-cash reductions during the nine months ended June 30, 2008 (a)		(4)	(4)
Liability as of June 30, 2008	**$ 3**	**$ 15**	**$ 18**

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

9. Debt

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

	June 30, 2008 (unaudited)	September 30, 2007 (audited)
Senior secured credit facility due 2011:		
Term loan (a)	$ 1,383	$ 1,396
7.375% U.S. dollar-denominated Senior Subordinated Notes due 2014 Acquisition Corp.	465	465
8.125% Sterling-denominated Senior Subordinated Notes due 2014 Acquisition Corp. (b)	199	202
9.5% Senior Discount Notes due 2014 Holdings (c)	225	210
Total debt	2,272	2,273
Less current portion	(17)	(17)
Total long-term debt	$ 2,255	$ 2,256

(a) Decrease in debt is a result of quarterly principal amortization payments of our term loans under our senior secured credit facility.
(b) Change represents the impact of foreign currency exchange rates on the carrying value of the Sterling-denominated notes.
(c) Change represents the accrual of interest on the discount notes in the form of an increase in the accreted value of the discount notes.

Restricted Net Assets

The Company is a holding company that conducts substantially all its business operations through its subsidiary, Acquisition Corp. and its subsidiaries. Accordingly, the ability of the Company to obtain funds from its subsidiaries is restricted by the senior secured credit facility of Acquisition Corp., the indenture for the 7.375% U.S. dollar-denominated Senior Subordinated Notes due 2014 and the 8.125% Sterling-denominated Senior Subordinated Notes due 2014 issued by Acquisition Corp. (collectively, the Acquisition Corp. Senior Subordinated Notes) and the indenture for the 9.5% Senior Discount Notes due 2014 issued by Holdings (the Holdings Discount Notes).

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10. Stock-based Compensation

The following table represents the expense recorded by the Company with respect to its stock-based awards for the three and nine months ended June 30, 2008 and June 30, 2007 (in millions):

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Recorded Music	$ 2	$ 1	$ 4	$ 5
Music Publishing				(1)
Corporate expenses	1	1	3	3
Total	$ 3	$ 2	$ 7	$ 7

During the three months ended June 30, 2008, the Company awarded 275,000 stock options stock to its employees. During the nine months ended June 30, 2008, the Company awarded 6,387,010 stock options and 4,546,312 shares of restricted stock to its employees.

11. Shareholders Deficit

Return of Capital and Dividends Paid

On February 6, 2008, the Company declared a dividend on its outstanding common stock at a rate of $0.13 per share, or approximately $19 million in the aggregate, which was paid on February 29, 2008 to the Company s shareholders, except for the portion of the dividends with respect to the unvested restricted stock, which will be paid at such time as such shares become vested.

On September 4, 2007, the Company declared a dividend on its outstanding common stock at a rate of $0.13 per share, or approximately $19 million in the aggregate, which was paid on October 24, 2007 to the Company s shareholders, except for the portion of the dividends with respect to the unvested restricted stock, which will be paid at such time as such shares become vested.

Dividend Policy

The Company has discontinued its previous policy of paying a regular quarterly dividend. On February 29, 2008, the Company paid its final quarterly dividend of $0.13 per share under the discontinued policy. The Company currently intends to retain future earnings to build cash on the balance sheet and invest in its business, particularly in A&R. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

Vesting of Restricted Stock

During the nine months ended June 30, 2008, 1,797,437 shares of restricted stock purchased by or awarded to certain employees vested.

12. Commitments and Contingencies

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served the Company with a request for information in the form of a Civil Investigative Demand as to whether its activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. The Company has provided documents and other information in response to these requests and intends to continue to fully cooperate with the New York Attorney General s and Department of Justice s industry-wide inquiries. Subsequent to the

announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads have been filed. On August 15, 2006, the Judicial Panel on Multidistrict Litigation consolidated these actions for pre-trial proceedings in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix

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prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. All defendants, including the Company, filed a motion to dismiss the consolidated amended complaint on July 30, 2007. The Court heard an argument on this motion on March 25, 2008 and reserved decision. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Any litigation the Company may become involved in as a result of the inquiries of the Attorney General and Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

Other Matters

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

13. Derivative Financial Instruments

During the nine months ended June 30, 2008, the Company did not enter into additional interest rate swap agreements to hedge the variability of its expected future cash interest payments. However, the Company entered into additional foreign exchange contracts to hedge its foreign currency royalty payments through the fourth quarter of fiscal year 2008. As of June 30, 2008, the Company had interest rate swap agreements to hedge a total notional debt amount of $897 million and recorded deferred losses in comprehensive income of $12 million, as well as $3 million of deferred net gains in comprehensive income related to foreign currency hedging.

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14. Segment Information

As discussed more fully described 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 elsewhere herein. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While intercompany transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, therefore, do not themselves impact its consolidated results. All income statement categories exclude the results of discontinued operations. Segment information consists of the following (in millions):

Three Months Ended	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
June 30, 2008				
Revenues	$ 686	168	(6)	**$ 848**
OIBDA	110	33	(27)	**116**
Depreciation of property, plant and equipment	(5)	(1)	(3)	**(9)**
Amortization of intangible assets	(39)	(17)		**(56)**
Operating income (loss) from continuing operations	$ 66	15	(30)	**$ 51**
June 30, 2007				
Revenues	$ 653	157	(6)	**$ 804**
OIBDA	110	33	(35)	**108**
Depreciation of property, plant and equipment	(7)		(3)	**(10)**
Amortization of intangible assets	(37)	(15)		**(52)**
Operating income (loss) from continuing operations	$ 66	18	(38)	**$ 46**

Nine Months Ended	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
June 30, 2008				
Revenues	$ 2,188	467	(18)	**$ 2,637**
OIBDA	316	108	(83)	**341**
Depreciation of property, plant and equipment	(24)	(3)	(8)	**(35)**
Amortization of intangible assets	(115)	(50)		**(165)**
Operating income (loss) from continuing operations	$ 177	55	(91)	**$ 141**
June 30, 2007				
Revenues	$ 2,101	433	(18)	**$ 2,516**
OIBDA	306	105	(83)	**328**
Depreciation of property, plant and equipment	(19)	(2)	(9)	**(30)**
Amortization of intangible assets	(109)	(44)		**(153)**
Operating income (loss) from continuing operations	$ 178	59	(92)	**$ 145**

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15. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $127 million and $121 million during the nine months ended June 30, 2008 and June 30, 2007, respectively. The Company paid approximately $58 million and $51 million of income and withholding taxes in the nine months ended June 30, 2008 and June 30, 2007, respectively. The Company received $9 million and $7 million of income tax refunds in the nine months ended June 30, 2008 and June 30, 2007, respectively.

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

The Company and Holdings are holding companies that conduct substantially all their business operations through Acquisition Corp. and its subsidiaries. Accordingly, the ability of the Company to obtain funds from its subsidiaries is restricted by the senior secured credit facility of Acquisition Corp., the indenture for the Acquisition Corp. Senior Subordinated Notes and the indenture for the Holdings Discount Notes.

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (unaudited)

June 30, 2008

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Assets:					
Current assets:					
Cash and equivalents	$ 98	$	$ 240	$	$ 338
Accounts receivable, net			481		481
Inventories, net			57		57
Royalty advances expected to be recouped within one year			192		192
Deferred tax assets			38		38
Other current assets			36		36
Total current assets	98		1,044		1,142
Royalty advances expected to be recouped after one year			235		235
Investments	(197)	24	166	173	166
Property, plant and equipment, net			125		125
Goodwill			1,072		1,072
Intangible assets subject to amortization, net			1,596		1,596
Intangible assets not subject to amortization			100		100
Other assets		4	79		83
Total assets	$ (99)	$ 28	$ 4,417	$ 173	$ 4,519
Liabilities and shareholders (deficit) equity:					
Current liabilities:					
Accounts payable	$	$	$ 178	$	$ 178
Accrued royalties			1,291		1,291
Taxes and other withholdings	1		20		21
Dividends payable	1				1
Current portion of long-term debt			17		17
Deferred revenue			109		109
Other current liabilities	1		274		275
Total current liabilities	3		1,889		1,892
Long-term debt		225	2,030		2,255
Deferred tax liabilities, net			245		245
Other noncurrent liabilities	(3)		229		226
Total liabilities		225	4,393		4,618
Shareholders (deficit) equity	(99)	(197)	24	173	(99)
Total liabilities and shareholders (deficit) equity	$ (99)	$ 28	$ 4,417	$ 173	$ 4,519

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (audited)

September 30, 2007

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Assets:					
Current assets:					
Cash and equivalents	$ 74	$	$ 259	$	$ 333
Due (to) from affiliates	(2)		2		
Accounts receivable, net			555		555
Inventories, net			58		58
Royalty advances expected to be recouped within one year			176		176
Deferred tax assets			40		40
Other current assets			33		33
Total current assets	72		1,123		1,195
Royalty advances expected to be recouped after one year			216		216
Investments in and advances (from) to consolidated subsidiaries	(85)	121		(36)	
Investments			146		146
Property, plant and equipment			133		133
Goodwill			1,065		1,065
Intangible assets subject to amortization			1,632		1,632
Intangible assets not subject to amortization			100		100
Other assets		4	81		85
Total assets	$ (13)	$ 125	$ 4,496	$ (36)	$ 4,572
Liabilities and Shareholders (Deficit) Equity:					
Current liabilities:					
Accounts payable	$	$	$ 225	$	$ 225
Accrued royalties			1,226		1,226
Taxes and other withholdings	2		31		33
Dividends payable	23				23
Current portion of long-term debt			17		17
Deferred revenue			56		56
Other current liabilities			302		302
Total current liabilities	25		1,857		1,882
Long-term debt		210	2,046		2,256
Dividends payable	1				1
Deferred tax liabilities, net			244		244
Other noncurrent liabilities	(3)		228		225

Total liabilities	23	210	4,375		4,608
Shareholders (deficit) equity	(36)	(85)	121	(36)	(36)
Total liabilities and shareholders (deficit) equity	$ (13)	$ 125	$ 4,496	$ (36)	$ 4,572

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (unaudited)

For the Three Months Ended June 30, 2008 and 2007

	Three Months Ended June 30, 2008				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 848	$	$ 848
Costs and expenses:					
Cost of revenues			(441)		(441)
Selling, general and administrative expenses			(300)		(300)
Amortization of intangible assets			(56)		(56)
Total costs and expenses			(797)		(797)
Operating income from continuing operations			51		51
Interest expense, net		(5)	(38)		(43)
Minority Interest			(2)		(2)
Other loss	(9)	(4)	(2)	13	(2)
(Loss) income from continuing operations before income taxes	(9)	(9)	9	13	4
Income tax expense			(13)		(13)
(Loss) income from continuing operations	$ (9)	$ (9)	$ (4)	$ 13	$ (9)
Loss from discontinued operations, net of taxes					
Net (loss) income	$ (9)	$ (9)	$ (4)	$ 13	$ (9)

	Three Months Ended June 30, 2007				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 804	$	$ 804
Costs and expenses:					
Cost of revenues			(429)		(429)
Selling, general and administrative expenses			(297)		(297)
Other income			52		52
Restructuring costs			(32)		(32)
Amortization of intangible assets			(52)		(52)
Total costs and expenses			(758)		(758)

Operating income			46		46
Interest income (expense), net	1	(5)	(41)		(45)
Minority interest			(2)		(2)
Other expense, net	10	1	(4)	(11)	(4)
(Loss) income from continuing operations before income taxes	11	(4)	(1)	(11)	(5)
Income tax expense			(11)		(11)
Net (loss) income	$ 11	$ (4)	$ (12)	$ (11)	$ (16)
Loss from discontinued operations, net of taxes			(1)		(1)
Net (loss) income	$ 11	$ (4)	$ (13)	$ (11)	$ (17)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (unaudited)

For the Nine months ended June 30, 2008 and 2007

	Nine Months Ended June 30, 2008				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 2,637	$	$ 2,637
Costs and expenses:					
Cost of revenues			(1,399)		(1,399)
Selling, general and administrative expenses			(935)		(935)
Other Income			3		3
Restructuring costs					
Amortization of intangible assets			(165)		(165)
Total costs and expenses			(2,496)		(2,496)
Operating income from continuing operations			141		141
Interest income (expense), net		(15)	(123)		(138)
Minority interest			(4)		(4)
Other expense, net	(62)	(47)	(4)	113	(4)
(Loss) income from continuing operations before income taxes	(62)	(62)	10	113	(5)
Income tax expense			(36)		(36)
(Loss) income from continuing operations	$ (62)	$ (62)	$ (26)	$ 113	$ (41)
Loss from discontinued operations, net of taxes			(21)		(21)
Net (loss) income	$ (62)	$ (62)	$ (47)	$ 113	$ (62)

	Nine Months Ended June 30, 2007				
	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Warner Music Group Corp. Consolidated
			(in millions)		
Revenues	$	$	$ 2,516	$	$ 2,516
Costs and expenses:					
Cost of revenues			(1,364)		(1,364)
Selling, general and administrative expenses			(862)		(862)
Other Income			52		52
Restructuring costs			(44)		(44)
Amortization of intangible assets			(153)		(153)

Total costs and expenses			(2,371)		(2,371)
Operating income			145		145
Interest income (expense), net	2	(14)	(125)		(137)
Minority interest			(2)		(2)
Other expense, net			(4)		(4)
(Loss) income from continuing operations before income taxes	2	(14)	14		2
Income tax expense			(27)		(27)
(Loss) income from continuing operations	$ 2	$ (14)	$ (13)	$	$ (25)
Loss from discontinued operations, net of taxes			(1)		(1)
Net (loss) income	$ 2	$ (14)	$ (14)	$	$ (26)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (unaudited)

For the Nine Months Ended June 30, 2008

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Consolidated
			(in millions)		
Cash flows from operating activities:					
Net (loss) income	$ (62)	$ (62)	$ (47)	$ 109	$ (62)
Loss from discontinued operations, net of tax			21		21
(Loss) income from continued operations	$ (62)	$ (62)	$ (26)	$ 109	$ (41)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization			200		200
Deferred taxes			(5)		(5)
Non-cash interest expense		15	20		35
Non-cash stock compensation expense			7		7
Other non-cash items	62	47	(1)	(109)	(1)
Minority interest			4		4
Changes in operating assets and liabilities:					
Accounts receivable			93		93
Royalty advances			(29)		(29)
Inventories			4		4
Accounts payable and accrued liabilities			(59)		(59)
Other balance sheet changes	(9)		(14)		(23)
Net cash (used in) provided by operating activities	(9)		194		185
Cash flows from investing activities:					
Investments and acquisitions of businesses			(122)		(122)
Acquisition of publishing rights			(21)		(21)
Loans to third parties			(3)		(3)
Proceeds from the sale of shares			24		24
Capital expenditures			(26)		(26)
Net cash (used in) provided by investing activities			(148)		(148)
Cash flows from financing activities:					
Quarterly debt repayments			(13)		(13)
Increase in intercompany	7		(7)		
Return of capital and dividends paid	(42)	(68)	(68)	136	(42)
Return of capital received	68	68		(136)	
Net cash provided by (used in) financing activities	33		(88)		(55)
Effect of foreign currency exchange rate changes on cash			23		23

Net increase (decrease) in cash and equivalents	24	(19)	5
Cash and equivalents at beginning of period	74	259	333
Cash and equivalents at end of period	$ 98	$ 240	$ 338

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (unaudited)

For the Nine Months Ended June 30, 2007

	Warner Music Group Corp.	WMG Holdings Corp. (issuer)	WMG Acquisition Corp.	Eliminations	Consolidated
			(in millions)		
Cash flows from operating activities:					
Net (loss) income	$ 2	$ (14)	$ (14)	$	$ (26)
Loss from discontinued operations, net of tax			1		$ 1
Income (loss) from continued operations	$ 2	$ (14)	$ (13)	$	$ (25)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation and amortization			183		183
Deferred taxes			2		2
Non-cash interest expense		14	32		46
Non-cash stock compensation expense			7		7
Non-cash non-recurring charges			(4)		(4)
Minority interest			2		2
Changes in operating assets and liabilities:					
Accounts receivable			101		101
Inventories			(2)		(2)
Royalty advances			(32)		(32)
Accounts payable and accrued liabilities			(63)		(63)
Other balance sheet changes			(18)		(18)
Net cash provided by operating activities	2		195		197
Cash flows from investing activities:					
Investments and acquisitions			(75)		(75)
Acquisition of publishing rights			(5)		(5)
Loan to third parties			(26)		(26)
Proceeds from the sale of buildings			7		7
Proceeds from the sale of investments	18				18
Capital expenditures			(21)		(21)
Net cash provided by (used in) investing activities	18		(120)		(102)
Cash flows from financing activities:					
Quarterly debt repayments			(13)		(13)
Change in intercompany	(1)		1		
Return of capital received	80	80		(160)	
Return of capital and dividends paid	(59)	(80)	(80)	160	(59)
Proceeds from the exercise of stock options	2				2
Net cash provided by (used in) financing activities	22		(92)		(70)

Effect of foreign currency exchange rate changes on cash			4		4
Net increase (decrease) in cash and equivalents	42		(13)		29
Cash and equivalents at beginning of period	41		326		367
Cash and equivalents at end of period	$ 83	$	$ 313	$	$ 396

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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 June 30, 2008 (the Quarterly Report). This discussion contains forward-looking statements and involves numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements.

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

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements within the meaning of 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 ter Such statements include, among others, statements regarding our ability to develop talent and attract future talent, to monetize our music content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, to effectively deploy our capital including the level and success of future A&R investments, the development of digital music and the effect of digital distribution channels on our business, including whether or not the Internet will become an important sales channel and whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music industry, 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 intentions with respect to our dividend policy, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

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

- the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;
- the threat posed to our business by piracy of music by means of home CD-R activity, Internet peer-to-peer file-sharing and sideloading of unauthorized content;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;

the diversity and quality of our portfolio of songwriters;

the diversity and quality of our album releases;

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

our involvement in intellectual property litigation;

the possible downward pressure on our pricing and profit margins;

the seasonal and cyclical nature of recorded music sales;

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

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the ability to develop a successful business model applicable to a digital environment;

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

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

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

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

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

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

risks associated with the fluctuations in foreign currency exchange rates;

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

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

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

changes in law and government regulations;

legal or other developments related to pending litigation or investigations by the Attorney General of the State of New York and the Department of Justice;

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

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

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

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

the impact of our realignment plan on our business;

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

failure to attract and retain key personnel.

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

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

INTRODUCTION

Warner Music Group Corp. was formed by the Investor Group on November 21, 2003. The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Acquisition Corp is one of the world s major music companies and the successor to substantially all of the interests of the Recorded Music and Music Publishing businesses of Time Warner. Effective March 1, 2004, Acquisition Corp acquired such interests from Time Warner for approximately $2.6 billion. The original Investor Group included affiliates of THL, affiliates of Bain, affiliates of Providence and Music Capital. Music Capital s partnership agreement required that the Music Capital partnership dissolve and commence winding up by the second anniversary of the Company s May 2005 initial public offering. As a result, on May 7, 2007, Music Capital made a pro rata distribution of all shares of common stock of the Company held by it to its partners. The shares held by Music Capital had been subject to a stockholders agreement among Music Capital, THL, Bain and Providence and certain other parties. As a result of the distribution, the shares distributed by Music Capital ceased to be subject to the voting and other provisions of the stockholders agreement and Music Capital was no longer part of the Investor Group subject to the stockholders agreement.

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

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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 footnotes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

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

Results of operations. This section provides an analysis of our results of operations for the three and nine months ended June 30, 2008 and June 30, 2007. This analysis is presented on both a consolidated and segment basis.

Financial condition and liquidity. This section provides an analysis of our cash flows for the nine months ended June 30, 2008 and June 30, 2007, as well as a discussion of our financial condition and liquidity as of June 30, 2008. The discussion of our financial condition and liquidity includes (i) our available financial capacity under the revolving credit portion of our senior secured credit facility and (ii) a summary of our key debt compliance measures under our debt agreements.

Use of OIBDA

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

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 the Company's operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant-currency by calculating prior-year results using current-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant-currency basis as excluding the impact of foreign currency exchange rates . These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with U.S. GAAP.

OVERVIEW

Description of Business

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

Our business is seasonal, therefore, operating results for the three and nine months ended June 30, 2008 are not necessarily indicative of the results that may be expected for fiscal year ending September 30, 2008.

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. In addition to the more traditional methods of discovering and developing artists, following the Acquisition we established ILG to discover artists earlier in their careers and at a lower cost by leveraging our independent distribution network.

The Company is also diversifying its revenues beyond its traditional businesses by partnering with artists in other areas of their careers. The Company is building capabilities and platforms for exploiting a broader set of music-related rights to participate across the artist brands it helps create. Expansion of the Company s capabilities in this area have included strategic acquisitions and partnerships with companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, touring, fan clubs, original programming and video entertainment. The Company believes enhancement of these capabilities will permit it to diversify revenue streams to better capitalize on the growth areas of the music industry, permit it to build stronger, long-term relationships with artists and more effectively connect artists and fans.

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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.

On January 29, 2007, the Company acquired a majority interest in Roadrunner, which includes Roadrunner Records, one of the leading hard rock and heavy metal labels. We also conduct our Recorded Music operations through a collection of additional record labels, including, among others, Asylum, Bad Boy, Cordless, East West, Elektra, Lava, Nonesuch, Reprise, Rykodisc, Sire and Word.

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

Our Recorded Music distribution operations include WEA Corp, which markets and sells music and DVD products to retailers and wholesale distributors in the U.S.; ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; Ryko Distribution, which distributes music and DVD releases from Rykodisc, Ryko s record label, and third-party record and video labels; various distribution centers and ventures operated internationally; an 80% interest in Word Entertainment, which specializes in the distribution of music products in the Christian retail marketplace; and the ADA U.K., which provides ADA s distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

We play an integral role in virtually all aspects of the music value chain from discovering and developing talent, to producing albums and promoting artists and their products. After an artist has entered into a contract with one of our record labels, a master recording of the artist s music is created. The recording is then replicated for sale to consumers primarily in the CD and digital formats. In the U.S., WEA Corp., ADA, Ryko Distribution and Word market, sell and deliver product, either directly or through sub-distributors and wholesalers, to thousands of record stores, mass merchants and other retailers. Our recorded music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital retailers like Apple s iTunes and mobile full-track download stores such as those operated by Verizon or Sprint.

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. Our new media executives work closely with the A&R departments of our labels to make sure that while a record is being made, digital assets are also created with all of our distribution channels in mind, including subscription services such as Rhapsody and satellite radio, social networking sites such as MySpace, user-generated content sites such as YouTube, Internet portals and music-centered destinations, such as Slacker. We also work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for the next several years and will provide new opportunities to monetize our assets and create new revenue streams. As a music content company, we have assets that go beyond our recorded music and music publishing catalogs, such as our music video library, that we now have the opportunity to monetize through digital channels. In general, digital music content is sold through two primary channels: online and mobile. The proportion of digital revenues attributed to each distribution channel varies by region and since digital music is in the early stages of growth, these 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 partnering with artists in other areas of their career. We are building capabilities and platforms for exploiting a broader set of music-related rights to participate across the artist brands we help create. Expansion of our capabilities in this area have included strategic acquisitions and partnerships with companies involved in artist management, merchandising, strategic marketing and brand management, ticketing, touring, fan clubs, original programming and video entertainment. We believe enhancement of these capabilities will permit us to diversify revenue streams to better capitalize on the growth areas of the music industry, permit us to build stronger, long-term relationships with artists and more effectively connect artists and fans.

Our principal Recorded Music revenue sources are sales of CDs, online digital downloads, mobile phone downloads and ringtones and other recorded music products and license fees received for the ancillary uses of our Recorded Music catalog. The principal costs associated with our Recorded Music operations are as follows:

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

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product costs the costs to manufacture, package and distribute product to wholesale and retail distribution outlets;

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

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

Music Publishing Operations

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

Our Music Publishing operations include Warner/Chappell, our global Music Publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment, Disney Music Publishing, New Line Cinema and Warner Bros. Studios. In 2007, we entered the production music library business with the acquisition of Non-Stop Music. Production music is a complementary alternative to licensing standards and contemporary hits for television, film and advertising producers.

Publishing revenues are derived from four main sources:

Mechanical: the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including physical recordings (*e.g.*, CDs, DVDs, video-cassettes), online and wireless downloads and mobile phone ringtones.

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

Synchronization: the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames.

Other: the licensor receives royalties from other uses such as in toys or novelty items and for use in sheet music.

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

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

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

Factors Affecting Results of Operations and Financial Condition

Market Factors

Since 1999, the recorded music industry has been unstable 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, significant revenue streams from these new formats are just beginning to emerge and have not yet reached a level where they offset the declines in CD sales. The recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on the music publishing business. This is because our Music Publishing business generates a portion of its revenues from mechanical royalties received from the sale of music in physical recorded music formats such as the CD.

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Realignment Plan for Fiscal Year 2007

In the second quarter of fiscal year 2007, the Company announced plans to implement changes intended to better align the Company s workforce with the changing nature of the music industry. These changes are part of the Company s continued evolution from a traditional record and songs-based business to a music-based content company and its ongoing management of its cost structure. The changes included a continued redeployment of resources to focus on new business initiatives to help the Company diversify its revenue streams, including digital opportunities. The realignment plan was also designed to improve the operating effectiveness of our current businesses and to realign our management structure to, among other things, effectively address the continued development of digital distribution channels along with the decline of industry-wide CD sales.

The plan consisted of the reorganization of management structures to more adequately and carefully address regional needs and new business requirements, to reduce organizational complexity and to improve leadership channels. The Company also continued to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams. Part of the plan also resulted in the outsourcing of some back-office functions as a cost-savings measure.

The changes described above were implemented in fiscal year 2007. The Company incurred substantially all of the costs associated with the realignment plan in fiscal year 2007. This included approximately $50 million of restructuring costs and $13 million of implementation costs, primarily all of which were paid in cash. In connection with the plan, the Company reduced headcount by approximately 400 employees. The Company expects that the majority of any cost savings will be offset by new business initiatives in areas related to digital distribution and video.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Consolidated Historical Results

Revenues

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Revenue by Type				
Physical sales	$ 469	$ 493	$ (24)	-5%
Digital	156	112	44	39%
Licensing	61	48	13	27%
Total Recorded Music	**686**	**653**	**33**	**5%**
Mechanical	59	63	(4)	-6%
Performance	69	59	10	17%
Synchronization	25	23	2	9%
Digital	10	7	3	43%
Other	5	5		
Total Music Publishing	**168**	**157**	**11**	**7%**
Intersegment elimination	(6)	(6)		
Total Revenue	**$ 848**	**$ 804**	**$ 44**	**5%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 319	$ 345	$ (26)	-8%
U.S. Publishing	58	58		
Total U.S.	**377**	**403**	**(26)**	**-6%**
International Recorded Music	367	308	59	19%
International Publishing	110	99	11	11%
Total International	**477**	**407**	**70**	**17%**
Intersegment eliminations	(6)	(6)		
Total Revenue	**$ 848**	**$ 804**	**$ 44**	**5%**

Total Revenue

Total revenues increased by $44 million, or 5%, to $848 million, from $804 million for the three months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total revenues decreased $9 million or 1%. Recorded Music and Music Publishing revenues comprised 80% and 20% of the total revenues for the three months ended June 30, 2008, respectively, compared to 81% and 19% for the three months ended June 30, 2007, respectively. U.S. and international revenues comprised 44% and 56% of total revenues for the three months ended June 30, 2008, compared to 50% for both U.S. and international for the three months ended June 30, 2007, respectively. These percentages are calculated prior to intersegment eliminations.

Total digital revenues increased by $47 million, or 39%, to $166 million from $119 million for the three months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total digital sales increased by $43 million. Total digital revenue represented 20% and 15% of consolidated revenues for the three months ended June 30, 2008 and June 30, 2007, respectively. Total digital revenues for the three months ended June 30, 2008 were comprised of U.S. revenues of $107 million, or 64% of total digital revenues, and international revenues of $59 million, or 36% of total digital revenues. Total digital revenues for the three months ended June 30, 2007 were comprised of U.S. revenues of $82 million, or 69% of total digital revenues, and international revenues of $37 million, or 31% of total digital revenues.

Recorded Music revenues increased by $33 million, or 5% to $686 million for the three months ended June 30, 2008. Excluding the impact of foreign currency exchange rates, total Recorded Music revenues decreased $8 million, or 1% for the three months ended June 30, 2008. This performance was tempered by the ongoing transition in the recorded music industry, which is characterized by a shift in consumption patterns from an increase in physical sales to new forms of digital music and the continued impact of digital piracy. The increase was primarily attributable to digital revenues of $44 million and strengthening in international revenues, primarily Europe. The increase in digital revenues reflects continued growth and development of new distribution channels and continued proliferation of digital as a preferred means of consumption and digital marketing efforts. This increase was partially offset by the decrease of $24 million in physical sales. The decrease in

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physical CD sales was driven by the timing of releases and the overall market declines in physical sales. In addition, U.S. retailers continue to actively manage their inventory levels in response to the tougher economy and credit markets as well as the changing underlying demand for physical recorded music product resulting in lower physical inventory levels.

Music Publishing revenues increased to $168 million for the three months ended June 30, 2008 as compared to $157 million for the three months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $1 million or 1%.

Revenue by Geographical Location

U.S. revenues decreased by $26 million, or 6%, to $377 million from $403 million for the three months ended June 30, 2008 due to a decrease of $49 million in physical sales. Prior period differences in the U.S. Recorded Music business were due to the timing of releases and declines in the physical business. This was offset by an increase of $24 million in digital revenues which was due primarily to the continued growth of digital distribution channels, and digital marketing efforts.

International revenues increased by $70 million, or 17% to $477 million for the three months ended June 30, 2008 from $407 million for the three months ended June 30, 2007. This increase was primarily related to an increase of $39 million in physical and licensing revenues and an increase of $20 million in digital revenues. The increase in physical sales primarily relates to a strong local international repertoire and a larger number of top-selling albums in international territories, primarily in Europe. The increase in digital revenues reflects continued growth and development of new distribution channels and continued proliferation of digital as a preferred means of consumption. Excluding the favorable impact of foreign currency exchange rates, total international revenue increased by $17 million, or 4%. In addition, Music Publishing revenues increased primarily due to an increase in performance revenue.

Cost of revenues

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Artist and repertoire costs	$ 298	$ 298	$	
Product costs	132	115	17	15%
Licensing costs	11	16	(5)	-31%
Total cost of revenues	**$ 441**	**$ 429**	**$ 12**	**3%**

Our cost of revenues increased by $12 million, or 3%, from $429 million for the three months ended June 30, 2007. Expressed as a percent of revenues, cost of revenues was 52% and 53% for the three months ended June 30, 2008 and June 30, 2007, respectively.

Artist and repertoire costs decreased as a percentage of revenues to 35% in the current year from 37% in the prior year driven primarily by lower royalty rates on products sold in the current-year period compared with those in the prior-year period.

Product costs increased from 14% of revenues in the three months ended June 30, 2007 to 16% of revenues in the three months ended June 30, 2008. The increase was primarily due to changes in product mix and higher distribution fees on third-party distribution revenues.

Selling, general and administrative expenses

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**

General and administrative expense (1)	$ 145	$ 142	$ 3	2%
Selling and marketing expense	136	130	6	5%
Distribution expense	19	25	(6)	-24%
Total selling, general and administrative expense	**$ 300**	**$ 297**	**$ 3**	**1%**

(1) Includes depreciation expense of $9 million and $10 million for the three months ended June 30, 2008, and 2007, respectively.

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Selling, general and administrative expenses increased by $3 million, or 1%, to $300 million for the three months ended June 30, 2008. Expressed as a percent of revenues, selling, general and administrative expenses were 36% and 37% for the three months ended June 30, 2008 and June 30, 2007, respectively.

General and administrative costs increased by $3 million compared to the three months ended June 30, 2007. The increase in general and administrative costs reflects recent acquisitions and various upgrades to our IT infrastructure, including financial reporting systems.

Selling and marketing remained flat as a percentage of revenues at 16% for the three months ended June 30, 2008 and June 30, 2007.

Distribution costs decreased by $6 million compared to the three months ended June 30, 2007. The decrease distribution costs primarily reflects the decline in the physical distribution of products as well as a decrease in bad debt expense from the prior year.

Other income

Other income was $52 million for the three months ended June 30, 2007. The income related to the settlement of contingent claims held by us relating to Bertelsmann s relationships with Napster in 2000-2001 that occurred during the three months ended June 30, 2007. We recorded the income based on the settlement amount, net of estimated amounts payable to our recording artists and songwriters with respect to royalties. We did not record any other income for the three months ended June 30, 2008.

Restructuring costs

Our restructuring costs were $32 million for the three months ended June 30, 2007. These were mainly severance costs incurred in connection with our realignment plan. We did not record any restructuring costs in the three months ended June 30, 2008.

Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Loss

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
OIBDA	$ 116	$ 108	$ 8	7%
Depreciation expense	(9)	(10)	1	-10%
Amortization expense	(56)	(52)	(4)	8%
Operating income from continuing operations	**51**	**46**	**5**	**11%**
Interest expense, net	(43)	(45)	2	-4%
Minority interest, net	(2)	(2)		
Other expense, net	(2)	(4)	2	-50%
Income (loss) from continuing operations before income taxes	**4**	**(5)**	**9**	**n/a**
Income tax expense	(13)	(11)	(2)	18%
Loss from continuing operations	**(9)**	**(16)**	**7**	**-44%**
Loss from discontinued operations, net of taxes		(1)	1	-100%
Net loss	**$ (9)**	**$ (17)**	**$ 8**	**-47%**

OIBDA

Our OIBDA increased by $8 million to $116 million for the three months ended June 30, 2008 as compared to $108 million for the three months ended June 30, 2007. Excluding the impact of foreign currency exchange rates, OIBDA increased $1 million, or 1%, for the three months ended June 30, 2008. Expressed as a percentage of revenues, total OIBDA margin was 14% for the three months ended June 30, 2008 and June 30, 2007. The increase in OIBDA primarily relates to decreased cost of revenues as a percentage of revenues to 52% for the three months ended June 30, 2008 from 53% for the three months ended June 30, 2007, and decreased selling, general and administrative costs as a percentage of revenues to 35% for the three months ended June 30, 2008 from 37% for the three months ended June 30, 2007.

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

Depreciation expense

Our depreciation expense decreased by $1 million, to $9 million for three months ended June 30, 2008.

Amortization expense

Amortization expense for the three months ended June 30, 2008 increased by $4 million, or 8%, to $56 million. The increase in amortization expense relates to the acquisition of various music publishing copyrights and our acquisition rights related to Frank Sinatra Enterprises in the first quarter of fiscal year 2008.

Operating income from continuing operations

Our operating income from continuing operations increased $5 million, to $51 million for the three months ended June 30, 2008 as compared to $46 million for the prior year. The increase in operating income primarily relates to the decreased cost of revenues as a percentage of revenues to 52% for the three months ended June 30, 2008 from 53% for the three months ended June 30, 2007, and decreased selling, general and administrative costs as a percentage of revenues to 35% for the three months ended June 30, 2008 compared from 37% for the three months ended June 30, 2007.

Interest expense, net

Our interest expense, net, decreased $2 million to $43 million for the three months ended June 30, 2008 as compared to $45 million for the three months ended June 30, 2007. This was the result of the fluctuations in interest income earned on our cash balances.

See Financial Condition and Liquidity for more information.

Minority interest expense, net

Minority interest expense for the three months ended June 30, 2008 and for June 30, 2007 was $2 million, which related to the acquisition of several majority-owned affiliates during the prior-year period.

Other expense, net

Other expense, net for the three months ended June 30, 2008 reflects currency exchange movements associated with inter-company receivables and payables that are short term in nature and realized gains and losses on certain foreign currency hedging activities.

Income tax expense

Income tax expense was $13 million for the three months ended June 30, 2008 compared to $11 million for the three months ended June 30, 2007. The increase in tax expense is primarily related to an increase in income earned by our foreign affiliates compared to the prior-year quarter. There is no tax benefit realized from any related U.S. losses as a full valuation allowance exists.

Loss from continuing operations

Our loss from continuing operations decreased by $7 million to $9 million for the three months ended June 30, 2008 as compared to loss of $16 million for the three months ended June 30, 2007. The decrease in the loss from continuing operations is primarily the result of an increase in operating income from continuing operations and a decrease in interest expense and improvements in OIBDA and operating income discussed above.

Net loss

Our net loss decreased by $8 million, to $9 million for the three months ended June 30, 2008 as compared to a net loss of $17 million for the three months ended June 30, 2007. The decrease in the net loss is primarily the result of an increase in operating income from continuing

operations and a decrease in interest expense, net.

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Business Segment Results

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Recorded Music				
Revenue	$ 686	$ 653	$ 33	5%
OIBDA	110	110		
Operating income from continuing operations	66	66		
Music Publishing				
Revenue	$ 168	$ 157	$ 11	7%
OIBDA	33	33		
Operating income from continuing operations	15	18	(3)	-17%
Corporate expenses and eliminations				
Revenue	$ (6)	$ (6)	$	
OIBDA	(27)	(35)	8	-23%
Operating loss from continuing operations	(30)	(38)	8	-21%
Total				
Revenue	$ 848	$ 804	$ 44	5%
OIBDA	116	108	8	7%
Operating income from continuing operations	51	46	5	11%

Recorded Music

Revenues

Recorded Music revenues increased by $33 million, or 5%, to $686 million for the three months ended June 30, 2008 from $653 million for the three months ended June 30, 2007. Excluding the impact of foreign currency exchange rates, total Recorded Music revenues decreased $8 million, or 1% for the three months ended June 30, 2008. Recorded Music revenues represented 80% and 81% of consolidated revenues, prior to corporate and revenue eliminations, for the three months ended June 30, 2008 and June 30, 2007, respectively. International Recorded Music revenues were $367 million and $308 million, or 53% and 47% of consolidated Recorded Music revenues for the three months ended June 30, 2008 and June 30, 2007, respectively.

The increase in Recorded Music revenues was primarily attributable to an increase in digital sales of $44 million, or 39%. The increase in digital revenue reflects the continued growth and development of new distribution channels and the continued proliferation of digital as a preferred means of consumption and digital marketing efforts. The increase was comprised of an increase in U.S. digital sales of $24 million and an increase in international digital sales of $20 million. Digital sales comprised approximately 23% of Recorded Music revenues for the three months ended June 30, 2008, up from 17% of Recorded Music revenues in the three months ended June 30, 2007 which is reflective of the shifting of the market to digital media from physical media. Licensing revenue also increased by $13 million, or 27%, to $61 million for the three months ended June 30, 2008 from $48 million for the three months ended June 30, 2007. The increases to Recorded Music digital and licensing revenues were partially offset by a decrease in physical sales of $24 million for the three months ended June 30, 2008. The decrease in physical sales was driven by the timing of releases and declines in the physical business not being offset by growth in the digital business. In addition, U.S. retailers continue to actively manage their inventory levels in response to the tougher economy and credit markets as well as the changing underlying demand for physical recorded music product. The U.S. physical declines were partially offset by strong international results, particularly in Europe.

OIBDA and Operating income from continuing operations

Recorded Music OIBDA was $110 million for both the three months ended June 30, 2008 and June 30, 2007. Recorded Music operating income from continuing operations included the following (in millions):

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	For the Three Months Ended June 30,		2008 vs 2007	
	2008	2007	$ Change	% Change
OIBDA	$ 110	$ 110	$	
Depreciation and amortization	(44)	(44)		
Operating income from continuing operations	**$ 66**	**$ 66**	**$**	

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

	For the Three Months Ended June 30,		2008 vs 2007	
	2008	2007	$ Change	% Change
Artist and repertoire costs	$ 185	$ 193	$ (8)	-4%
Product costs	132	115	17	15%
Licensing	10	17	(7)	-41%
Total cost of revenues	**$ 327**	**$ 325**	**$ 2**	**1%**

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

	For the Three Months Ended June 30,		2008 vs 2007	
	2008	2007	$ Change	% Change
General and administrative expense (1)	$ 103	$ 92	$ 11	12%
Selling and marketing expense	133	127	6	5%
Distribution expense	18	25	(7)	-28%
Total selling, general and administrative expense	**$ 254**	**$ 244**	**$ 10**	**4%**

(1) Includes depreciation expense of $5 million and $7 million for the three months ended June 30, 2008 and June 30, 2007, respectively.

Recorded Music operating income from continuing operations remained flat year-over-year.

Recorded Music OIBDA remained flat year-over year at $110 million for both the three months ended June 30, 2008 and June 30, 2007. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA was 16% and 17% for the three months ended June 30, 2008 and June 30, 2007, respectively. Excluding the impact of foreign currency exchange rates, OIBDA decreased by $5 million due primarily to the decrease in other income related to the Recorded Music portion of the Napster Settlement of $49 million.

Cost of revenues

Recorded Music cost of revenues increased $2 million, or 1% for the three months ended June 30, 2008. This was comprised of an increase in product costs of $17 million, offset by decreases in artist and repertoire costs of $8 million and licensing costs of $7 million. The increase was primarily due to changes in product mix and higher distribution fees on third-party distribution revenues. Artist and repertoire costs decreased by 3% as a percentage of revenues. This decrease was in line with the decrease in physical sales and lower artist and product mix consisting of copyright royalty rates.

Selling, general and administrative costs

Recorded Music selling, general and administrative costs increased $10 million, or 4%, for the three months ended June 30, 2008. This increase was primarily the result of an increase in distribution costs as previously described and an increase in general and administrative costs associated with several recent acquisitions and reflects various investments in IT infrastructure. These increases were offset in part by a decrease in marketing costs due to continued cost management efforts and timing of releases.

Music Publishing

Revenues

Music Publishing revenues increased 7% to $168 million for the three months ended June 30, 2008 as compared to $157 million for the three months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $1 million or 1%.

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Mechanical revenue decreased by $4 million as a result of continued industry-wide declines in physical sales. The mechanical revenue declines were offset by an increase in performance revenue, which increased by $10 million primarily related to the popularity of certain compositions and synchronization revenue, which increased by $2 million related to additional proliferation into new media. Digital revenues increased $3 million as the transition in the recorded music industry continues.

Digital sales represented 6% and 5% of Music Publishing revenues for the three months ended June 30, 2008 and June 30, 2007, respectively. Music Publishing revenues represented 20% and 19% of consolidated revenues, prior to corporate and revenue eliminations, for the three months ended June 30, 2008 and June 30, 2007, respectively.

OIBDA and Operating income from continuing operations

Music Publishing OIBDA remained flat year-over year. Music Publishing operating income from continuing operations includes the following (in millions):

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
OIBDA	$ 33	$ 33	$	
Depreciation and amortization	(18)	(15)	(3)	20%
Operating income from continuing operations	**$ 15**	**$ 18**	**$ (3)**	**-17%**

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Artist and repertoire costs	$ 121	$ 111	$ 10	9%
Total cost of revenues	**$ 121**	**$ 111**	**$ 10**	**9%**

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

	For the Three Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
General and administrative expense (1)	$ 15	$ 15	$	
Total selling, general and administrative expense	**$ 15**	**$ 15**	**$**	

(1) Includes depreciation expense of $1 million for the three months ended June 30, 2008.

Music Publishing operating income from continuing operations decreased $3 million or 17% for the three months ended June 30, 2008 reflecting a portion of prior-year items, including $1 million in expenses related to the company s fiscal 2007 realignment initiatives and a $3 million benefit related to our settlement with Bertelsmann AG regarding Napster.

Music Publishing OIBDA remained flat year-over-year for the three months ended June 30, 2008 and June 30, 2007. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA was 20% and 21% for the three months ended June 30, 2008 and June 30, 2007, respectively. Excluding a $4 million favorable impact of foreign currency exchange rates, Music Publishing OIBDA decreased by $4 million.

Cost of revenues

Music Publishing artist and repertoire costs increased by $10 million, or 9% which was primarily related to the change in revenue mix discussed above as different royalty rates apply to the different revenue streams.

Selling, general and administrative expenses

Music Publishing selling, general and administrative costs remained flat year-over-year.

Corporate Expenses and Eliminations

Corporate expenses before depreciation and amortization expense decreased by $8 million, to $27 million for the three months ended June 30, 2008 as compared to $35 million for the three months ended June 30, 2007.

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Nine months ended June 30, 2008 Compared to Nine months ended June 30, 2007

Consolidated Historical Results

Revenues

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Revenue by Type				
Physical sales	$ 1,576	$ 1,626	$ (50)	-3%
Digital	443	310	133	43%
Licensing	169	165	4	2%
Total Recorded Music	**2,188**	**2,101**	**87**	**4%**
Mechanical	177	180	(3)	-2%
Performance	180	159	21	13%
Synchronization	67	62	5	8%
Digital	28	20	8	40%
Other	15	12	3	25%
Total Music Publishing	**467**	**433**	**34**	**8%**
Intersegment elimination	(18)	(18)		
Total Revenue	**$ 2,637**	**$ 2,516**	**$ 121**	**5%**
Revenue by Geographical Location				
U.S. Recorded Music	$ 1,016	$ 1,065	$ (49)	-5%
U.S. Publishing	169	162	7	4%
Total U.S.	**1,185**	**1,227**	**42**	**-3%**
International Recorded Music	1,172	1,036	136	13%
International Publishing	298	271	27	10%
Total International	**1,470**	**1,307**	**163**	**12%**
Intersegment eliminations	(18)	(18)		
Total Revenue	**$ 2,637**	**$ 2,516**	**$ 121**	**5%**

Total Revenue

Total revenues increased by $121 million, or 5%, to $2,637 million, from $2,516 million for the nine months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total revenues decreased $32 million or 1%. Recorded Music and Music Publishing revenues comprised 82% and 18% of total revenues for the nine months ended June 30, 2008, respectively, compared to 83% and 17% for the nine months ended June 30, 2007. U.S and international revenues comprised 45% and 55% for the nine months ended June 30, 2008, compared to 49% and 51% for the nine months ended June 30, 2007, respectively.

Total digital revenues increased by $141 million, or 43% to $471 million, from $330 million for the nine months ended June 30, 2007. Excluding the impact of foreign currency rates, total digital revenues increased by $131 million, or 39% to $471 million, from $340 million for the nine months ended June 30, 2007. Total digital revenues represented 18% and 13% of consolidated revenues for the nine months ended June 30, 2008 and June 30, 2007, respectively. Total digital revenues for the nine months ended June 30, 2008 were comprised of U.S. revenues of $305 million, or 65% of total digital revenues, and international revenues of $166 million, or 35% of total digital revenues. Total digital revenues for the nine months ended June 30, 2007 were comprised of U.S. revenues of $226 million, or 68% of total digital revenues, and international revenues of $104 million, or 32% of total digital revenues.

Recorded Music revenues increased by $87 million, or 4%, from $2,101 million for the nine months ended June 30, 2007. Excluding the impact of foreign currency exchange rates, total Recorded Music revenues decreased $31 million, or 1% for the nine months ended June 30, 2008. The increase was primarily attributable to the increase in digital sales of $133 million and $4 million in licensing revenue, offset by a decrease in physical sales of $50 million. The increase in digital revenues reflects continued growth and development of new distribution channels and continued proliferation of digital as a preferred means of consumption and digital marketing efforts, as well as a rate increase on revenue from satellite radio services in the U.S. The decrease in physical sales was driven by the timing of releases and overall declines in the physical market. In addition, U.S. retailers are more actively managing their inventory levels in response to the tougher economy and credit markets as well as the changing underlying demand for physical recorded music product.

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Music Publishing revenues increased to $467 million for the nine months ended June 30, 2008 as compared to $433 million for the nine months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $1 million, or less than a percentage point.

Revenue by Geographical Location

U.S. revenues decreased by $42 million, or 3%, due to a decrease of $97 million in physical sales and $26 million in licensing revenues. Period over period variances in the U.S. Recorded Music business were due to the timing of releases and declines in the physical business which are not currently being offset by growth in the digital business, though digital performance was quite strong. In addition, U.S. retailers are more actively managing their inventory levels in response to the tougher economy and credit markets as well as the changing underlying demand for physical recorded music product. The decrease in U.S. licensing revenues is primarily due to the signing of several significant licensing deals in the prior-year quarter. This was offset by an increase in Recorded Music digital revenue of $74 million which was driven by continued growth and development of new distribution channels as well as a rate increase on revenue from satellite radio services in the U.S. In addition, there was an increase in U.S. Music Publishing revenues of $7 million.

International revenues increased by $163 million, or 12% to $1,470 million, from $1,307 million for the nine months ended June 30, 2007. Excluding the favorable impact of foreign currency, international revenues increased $10 million, or 1%, from $1,460 in the nine months ended June 30, 2007. The increase was related to the increase in international physical sales of $47 million and $59 million of international digital sales. In addition, licensing revenues increased by $30 million and Music Publishing revenues increased by $27 million. The increase in physical sales primarily relates to a stronger local repertoire and larger number of top-selling albums in international territories, primarily in Asia and Europe. The increase in digital revenues reflects continued growth and development of new distribution channels and continued proliferation of digital as a preferred means of consumption and digital marketing efforts. Licensing revenue increased related to an increase in broadcasting fees. In addition, Music Publishing revenues increased primarily due to an increase in performance revenue.

Cost of revenues

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Artist and repertoire costs	$ 910	$ 890	$ 20	2%
Product costs	434	420	14	3%
Licensing costs	55	54	1	2%
Total cost of revenues	**$ 1,399**	**$ 1,364**	**$ 35**	**3%**

Our cost of revenues increased by $35 million, or 3%, from $1,364 million for the nine months ended June 30, 2007. Expressed as a percent of revenues, cost of revenues was 53% and 54% for the three months ended June 30, 2008 and June 30, 2007, respectively.

Artist and repertoire costs remained flat as a percentage of revenues year-over-year at 35% for the nine months ended June 30, 2008 and June 30, 2007.

Product costs decreased slightly as a percentage of revenues from 17% of revenues in the nine months ended June 30, 2007 to 16% of revenues in the nine months ended June 30, 2008. The decrease reflects a change in the product mix.

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Selling, general and administrative expenses

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
General and administrative expense (1)	$ 444	$ 392	$ 52	13%
Selling and marketing expense	429	413	16	4%
Distribution expense	62	57	5	9%
Total selling, general and administrative expense	**$ 935**	**$ 862**	**$ 73**	**8%**

(1) Includes depreciation expense of $35 million and $30 million for the nine months ended June 30, 2008, and 2007, respectively.

Selling, general and administrative expenses increased by $73 million, or 8%, to $935 million for the nine months ended June 30, 2008. Expressed as a percent of revenues, selling, general and administrative expenses were 35% and 34% for the nine months ended June 30, 2008 and June 30, 2007, respectively.

General and administrative costs increased by $52 million or 13%, which was primarily driven by an increase in general and administrative costs reflects various upgrades to our IT infrastructure, including financial reporting systems, as well as an increase related to recent acquisitions.

Selling and marketing remained flat as a percentage of revenues at 16% for the nine months ended June 30, 2008 and June 30, 2007.

Distribution costs increased by $5 million, or 9%, for the nine months ended June 30, 2007. Expressed as a percentage of revenues, distribution costs remained flat year over year.

Other income

Other income was $3 million and $52 million for the nine months ended June 30, 2008 and June 30, 2007, respectively. Other income of $3 million for the nine months ended June 30, 2008 relates primarily to our share of a contingent payment related to the settlement with Kazaa recorded in the first quarter of this fiscal year. Other income of $52 million for the nine months ended June 30, 2007 million related to the settlement of contingent claims held by us relating to Bertelsmann s relationships with Napster in 2000-2001. We recorded the income based on the settlement amount, net of estimated amounts payable to our recording artists and songwriters with respect to royalties.

Restructuring costs

Our restructuring costs were $44 million for the nine months ended June 30, 2007. These were mainly severance costs incurred in connection with our realignment plan of which $32 million was recorded in the three months ended June 30, 2007. We did not record any restructuring costs in the three months ended June 30, 2008.

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Reconciliation of Consolidated Historical OIBDA to Operating Income and Net Income (Loss)

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
OIBDA	$ 341	$ 328	$ 13	4%
Depreciation expense	(35)	(30)	(5)	17%
Amortization expense	(165)	(153)	(12)	8%
Operating income from continuing operations	**$ 141**	**$ 145**	**(4)**	**-3%**
Interest expense, net	(138)	(137)	(1)	1%
Minority interest expense	(4)	(2)	(2)	100%
Other expense, net	(4)	(4)		
(Loss) income from continuing operations before income taxes	**$ (5)**	**$ 2**	**(7)**	**n/a**
Income tax expense	(36)	(27)	(9)	33%
Loss from continuing operations	**$ (41)**	**$ (25)**	**(16)**	**64%**
Loss from discontinued operations	(21)	(1)	(20)	n/a
Net loss	**$ (62)**	**$ (26)**	**$ (36)**	**n/a**

OIBDA

Our OIBDA increased by $13 million to $341 million for the nine months ended June 30, 2008 as compared to $328 million for the nine months ended June 30, 2007. Excluding the impact of foreign currency exchange rates, OIBDA decreased $9 million, or 3%, for the nine months ended June 30, 2008. Expressed as a percentage of revenues, total OIBDA margin was 13% for both the nine months ended June 30, 2008 and June 30, 2007, respectively. The increase in OIBDA primarily relates to decreased cost of revenues, 53% as a percentage of revenue as compared to 54% for the three months ended June 30, 2007. See Business Segment Results presented hereinafter for a discussion of OIBDA by business segment.

Depreciation expense

Our depreciation expense increased by $5 million to $35 million for the nine months ended June 30, 2008. The increase primarily relates to additional depreciation related to new assets resulting from capital expenditures along with acquisitions and investments in IT infrastructure.

Amortization expense

Amortization expense for the nine months ended June 30, 2008 increased by $12 million, or 8%, to $165 million, which relates to additional amortization associated with recent acquisitions of certain recorded music catalog assets, including Roadrunner and Frank Sinatra Enterprises, and the acquisition of various music publishing copyrights.

Operating income from continuing operations

Our operating income from continuing operations decreased $4 million, to $141 million for the nine months ended June 30, 2008 as compared to $145 million for the prior year period based on increased depreciation and amortization expense offset by the increase in OIBDA as described above.

Interest expense, net

Our interest expense, net, increased $1 million to $138 million for the nine months ended June 30, 2008 as compared to $137 million for the nine months ended June 30, 2007. This was the result of interest rate fluctuations in interest income earned on our cash balances.

See Financial Condition and Liquidity for more information.

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Minority interest expense

Minority interest expense for the nine months ended June 30, 2008 was $4 million compared to $2 million for the nine months ended June 30, 2007. The minority expense relates to the acquisition of several majority-owned affiliates during the prior-year period.

Other expense, net

Other expense, net for the nine months ended June 30, 2008 and June 30, 2007 reflects currency exchange movements associated with inter-company receivables and payables that are short term in nature and realized gains and losses on certain foreign currency hedging activities.

Income tax expense

Income tax expense was $36 million for the nine months ended June 30, 2008 compared to $27 million for the nine months ended June 30, 2007. The increase in tax expense is primarily related to an increase in income earned by our foreign affiliates compared to the prior year. There is no tax benefit realized from any U.S. losses as a full valuation allowance exists.

Loss from continuing operations

Our loss from continuing operations increased by $16 million, to a loss of $41 million for the nine months ended June 30, 2008 as compared to loss of $25 million for the nine months ended June 30, 2007. The increase in loss from continuing operations is primarily the result of the increase in income tax expense as discussed above, as well as a decrease in other income offset by restructuring costs from the prior year.

Loss from discontinued operations

We recorded a loss from discontinued operations related to the decision to shut down the operations of Bulldog for the nine months ended June 30, 2008. In connection with shutting down the operations of Bulldog, the Company incurred a loss of $18 million related to the impairment of goodwill recorded at the time of the initial acquisition. In addition, the loss from discontinued operations includes $3 million severance and other costs incurred in order to shut down the operations of Bulldog.

Net loss

Our net loss increased by $36 million, to a net loss of $62 million for the nine months ended June 30, 2008 as compared to net loss of $26 million for the nine months ended June 30, 2007. The increase in net loss is primarily the loss from discontinued operations and income tax expense as discussed above.

Business Segment Results

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Recorded Music				
Revenue	$ 2,188	$ 2,101	$ 87	4%
OIBDA	316	306	10	3%
Operating income from continuing operations	177	178	(1)	-1%
Music Publishing				
Revenue	$ 467	$ 433	$ 34	8%
OIBDA	108	105	3	3%
Operating income from continuing operations	55	59	(4)	-7%
Corporate expenses and eliminations				

Revenue	$ (18)	$ (18)	$	
OIBDA	(83)	(83)		
Operating loss from continuing operations	(91)	(92)	1	-1%
Total				
Revenue	$ 2,637	$ 2,516	$ 121	5%
OIBDA	341	328	13	4%
Operating income from continuing operations	141	145	(4)	-3%

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Recorded Music

Revenues

Recorded Music revenues increased by $87 million, or 4%, to $2,188 million for the nine months ended June 30, 2008 from $2,101 million for the nine months ended June 30, 2007. Excluding the impact of foreign currency exchange rates, total Recorded Music revenues decreased $31 million, or 1% for the nine months ended June 30, 2008. Recorded Music revenues represented 83% and 84% of consolidated revenues, prior to corporate and revenue eliminations, for the nine months ended June 30, 2008 and June 30, 2007, respectively. International Recorded Music revenues were $1,172 million and $1,036 million, or 54% and 49% of consolidated Recorded Music revenues for the nine months ended June 30, 2008 and June 30, 2007, respectively.

The increase in Recorded Music revenues was primarily attributable to an increase in digital sales of $133 million, or 43%, and an increase in licensing revenue of $4 million, or 2%, offset by a decrease in physical sales of $50 million, or 3%. The increase in digital revenue reflects the continued growth and development of new distribution channels and the continued proliferation of digital as a preferred means of consumption and digital marketing efforts. The increase in digital revenue was comprised of an increase in U.S. digital sales of $74 million and an increase in international digital sales of $59 million. Digital sales comprised approximately 20% of Recorded Music revenues for the nine months ended June 30, 2008, up from 15% of Recorded Music revenues in the nine months ended June 30, 2007, which is reflective of the shifting of the market to digital media from physical media. The increase in licensing revenues relates to an increase in broadcast licensing revenues. The decrease in physical sales was driven by the timing of releases and declines in the physical business. In addition, U.S. retailers are more actively managing their inventory levels in response to the tougher economy and credit markets as well as the changing underlying demand for physical recorded music product.

OIBDA and Operating income from continuing operations

Recorded Music OIBDA was $316 million for the nine months ended June 30, 2008 as compared to $306 million for the nine months ended June 30, 2007. Recorded Music operating income from continuing operations included the following (in millions):

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
OIBDA	$ 316	$ 306	$ 10	3%
Depreciation and amortization	(139)	(128)	(11)	9%
Operating income from continuing operations	**$ 177**	**$ 178**	**$ (1)**	**-1%**

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
Artist and repertoire costs	$ 615	$ 619	$ (4)	-1%
Product costs	434	420	14	3%
Licensing	55	54	1	2%
Total cost of revenues	**$ 1,104**	**$ 1,093**	**$ 11**	**1%**

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

	For the Nine Months Ended June 30,		*2008 vs 2007*	
	2008	**2007**	**$ Change**	**% Change**
General and administrative expense (1)	$ 317	$ 267	$ 50	19%
Selling and marketing expense	417	405	12	3%
Distribution expense	61	57	4	7%

Total selling, general and administrative expense	**$ 795**	**$ 729**	**$ 66**	**9%**

(1) Includes depreciation expense of $24 million and $19 million for the nine months ended June 30, 2008 and June 30, 2007, respectively.

Recorded Music operating income from continuing operations decreased by $1 million, or 1% due to the decreases in OIBDA described below.

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Recorded Music OIBDA increased by $10 million, or 3%, to $316 million for the nine months ended June 30, 2008 compared to $306 million for the nine months ended June 30, 2007. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA was 14% and 15% for the nine months ended June 30, 2008 and June 30, 2007, respectively. The increase was largely due to the prior year effect of the restructuring costs of $41 million and other income related to the Napster Settlement of $49 million. Excluding the impact of foreign currency exchange rates, OIBDA decreased by $6 million.

Cost of revenues

Recorded Music cost of revenues increased $11 million, or 1% for the nine months ended June 30, 2008. This was comprised of an increase in product costs of $14 million and licensing costs of $1 million, offset by a decrease in artist and repertoire costs of $4 million. Product costs as a percentage of revenues was 20% for both the nine months ended June 30, 2008 and June 30, 2007, respectively. Artist and repertoire costs as a percentage of total revenue decreased 1% which is reflected in the change in product mix, including an increased number of digital products.

Selling, general and administrative costs

Recorded Music selling, general and administrative costs increased $66 million, or 9%, for the nine months ended June 30, 2008. This increase was primarily the result of an increase in general and administrative costs which reflects various investments in IT infrastructure and the impact of recent acquisitions.

Music Publishing

Revenues

Music Publishing revenues increased 8% to $467 million for the nine months ended June 30, 2008 as compared to $433 million for the nine months ended June 30, 2007. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenues decreased $2 million, or less than a percentage point.

Mechanical revenues decreased by $3 million as a result of continued industry-wide declines in physical sales. The mechanical revenue declines were primarily offset by performance revenues, which increased by $21 million primarily related to the popularity of certain compositions and digital revenues, which increased $8 million as the transition in the recorded music industry continues.

Digital revenues represented 6% and 5% of Music Publishing revenues for the nine months ended June 30, 2008 and June 30, 2007, respectively. Music Publishing revenues represented 18% and 17% of consolidated revenues, prior to corporate and revenue eliminations, for the nine months ended June 30, 2008 and June 30, 2007, respectively.

OIBDA and Operating income from continuing operations

Music Publishing operating income from continuing operations decreased to $55 million for the nine months ended June 30, 2008 as compared to $59 million for the nine months ended June 30, 2007. Music Publishing operating income from continuing operations includes the following (in millions):

	For the Nine Months Ended June 30,		***2008 vs 2007***	
	2008	**2007**	**$ Change**	**% Change**
OIBDA	$ 108	$ 105	$ 3	3%
Depreciation and amortization	(53)	(46)	(7)	15%
Operating income from continuing operations	**$ 55**	**$ 59**	**$ (4)**	**-7%**

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

	For the Nine Months Ended June 30,		2008 vs 2007	
	2008	2007	$ Change	% Change
Artist and repertoire costs	$ 315	$ 289	$ 26	9%
Total cost of revenues	**$ 315**	**$ 289**	**$ 26**	**9%**

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

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	For the Nine Months Ended June 30,		2008 vs 2007	
	2008	2007	$ Change	% Change
General and administrative expense (1)	$ 47	$ 43	$ 4	9%
Total selling, general and administrative expense	**$ 47**	**$ 43**	**$ 4**	**9%**

(1) Includes depreciation expense of $3 million and $2 million for the nine months ended June 30, 2008 and June 30, 2007, respectively.

Music Publishing operating income from continuing operations decreased by $4 million due to an increase in depreciation and amortization expense offset by an increase in OIBDA described below.

Music Publishing OIBDA increased $3 million to $108 million for the nine months ended June 30, 2008 as compared to $105 million for the nine months ended June 30, 2007. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA was 23% and 24% for the nine months ended June 30, 2008 and June 30, 2007, respectively. Excluding a $6 million favorable impact of foreign currency exchange rates, Music Publishing OIBDA decreased by $3 million.

Cost of revenues

Music Publishing artist and repertoire costs increased by $26 million, which was primarily related to the change in revenue mix discussed above as different royalty rates apply to the different revenue streams.

Selling, general and administrative expenses

Music Publishing selling, general and administrative costs increased $4 million. This increase was primarily the result of an increase in general and administrative costs of $4 million related primarily to a newly acquired business.

Corporate Expenses and Eliminations

Corporate expenses before depreciation and amortization expense were flat at $83 million for the nine months ended June 30, 2008 and June 30, 2007.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At June 30, 2008, we had $2.272 billion of debt, $338 million of cash and equivalents (net debt of $1.934 billion, defined as total debt less cash and equivalents) and a $99 million shareholders deficit. This compares to $2.273 billion of debt, $333 million of cash and equivalents, net debt of $1.940 billion, (defined as total debt less cash and equivalents and short-term investments) and a $36 million shareholders deficit at September 30, 2007. Net debt decreased $6 million primarily as a result of a $5 million increase in cash and equivalents as more fully described below, a decrease in debt of $13 million as a result of quarterly principal amortization of our long-term loans under our senior secured credit facility and a $3 million decrease in foreign exchange rates on our Acquisition Corp. Sterling-denominated Senior Subordinated Notes due 2014.

The $63 million increase in shareholders deficit during the nine months ended June 30, 2008 consisted of $62 million of net losses for the nine months ended June 30, 2008, a $19 million dividend declared and paid, and deferred losses on derivative financial instruments of $9 million, offset by $7 million of stock compensation, $3 million related to the adoption of FIN 48 and foreign currency exchange movements of $17 million.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the nine months ended June 30, 2008 and June 30, 2007 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is comprised of the following in millions:

	Nine Months Ended June 30, 2008 (unaudited)	Nine Months Ended June 30, 2007 (unaudited)
Cash provided by (used in):		
Operating activities	$ 185	$ 197
Investing activities	(148)	(102)
Financing activities	(55)	(70)

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Operating Activities

Cash provided by operations was $185 million for the nine months ended June 30, 2008 compared to cash provided of $197 million for the nine months ended June 30, 2007. The $12 million decrease in cash provided by operations reflects the decrease in physical sales for the first nine months of fiscal year 2008 compared to the first nine months of fiscal year 2007. This resulted in lower cash collections in the first nine months of fiscal year 2008. This decrease was offset in part by the variable timing of our working capital requirements.

Investing Activities

Cash used in investing activities was $148 million for the nine months ended June 30, 2008 as compared to $102 million for the nine months ended June 30, 2007. The $148 million of cash used in investing activities in the nine months ended June 30, 2008 consisted primarily of the $50 million investment in FSE, and additional smaller acquisitions totaling $37 million, net of cash acquired, and $21 million to acquire music publishing rights. In addition, cash used in investing activities reflects $35 million invested in cost-method investments including $20 million in lala.com and $15 million in imeem, $26 million in capital expenditures and proceeds of $24 million in part related to the sale of a small portion of our investment in Frontline, which was mandated by the terms of the July 2007 transaction, pursuant to which we acquired a minority stake in Frontline. The $102 million of cash used in investing activities in the nine months ended June 30, 2007 consisted primarily of payments to acquire Roadrunner, which included $36 million paid to acquire 73.5% of Roadrunner, net of cash acquired of $23 million, and a loan to the seller of approximately $14 million. We also paid a total of approximately $37 million, net of cash acquired, to acquire several smaller companies including an entertainment services company, a video production company in the U.K., and a digital distribution company in Germany. We also had capital expenditures of $21 million and loaned approximately $12 million to third parties in connection with several small business ventures. This was offset by the receipt of approximately $7 million related to the sale of certain buildings and $18 million related to the liquidation of short-term investments, including auction-rate securities.

Financing Activities

Cash used in financing activities was $55 million for the nine months ended June 30, 2008 compared to $70 million for the nine months ended June 30, 2007. The $55 million of cash used in financing activities in the nine months ended June 30, 2008 consisted of our $13 million quarterly repayments of debt and approximately $42 million of dividend payments. The $70 million of cash used in financing activities in the nine months ended June 30, 2007 consisted of $13 million of our quarterly repayments of debt and dividend payments of approximately $59 million offset by the receipt of cash for stock option exercises.

Liquidity

Our primary sources of liquidity are the cash flow generated from our subsidiaries operations, availability under the $250 million (less $4 million of outstanding letters of credit as of June 30, 2008) revolving line of credit of our senior secured credit facility and available cash and equivalents and short-term investments. These sources of liquidity are needed to fund our debt service requirements, working capital requirements and capital expenditure requirements. We believe that our existing sources of cash will be sufficient to support our existing operations over the next twelve months.

As of June 30, 2008, our long-term debt consisted of $1.383 billion of borrowings (including $17 million of debt that is classified as a current obligation) under the term loan portion of our senior secured credit facility, $664 million of Acquisition Corp. Senior Subordinated Notes and $225 million of Holdings Discount Notes. There were no borrowings under the revolving portion of our senior secured credit facility as of June 30, 2008.

Senior Secured Credit Facility

The senior secured credit facility consists of a $1.383 billion outstanding term loan portion and a $250 million revolving credit portion. The term loan portion of the facility matures in February 2011. We are required to prepay outstanding term loans, subject to certain exceptions and conditions, with excess cash flow or in the event of certain asset sales and casualty and condemnation events and incurrence of debt. We are required to make minimum principal amortization payments under the term loan portion of our facility in quarterly principal amounts of approximately $4 million through November 2010, with a remaining balloon payment in February 2011. The revolving credit portion of the senior secured credit facility matures in February 2010. There are no mandatory reductions in borrowing availability for the revolving credit portion of the facility through its term.

Borrowings under both the term loan and revolving credit portion of the senior secured credit facility currently bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Bank of America,

N.A. and (2) the federal funds rate plus 0.5% of 1% or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs. As of June 30, 2008, the applicable margins with respect to base rate borrowings and LIBOR borrowings were 1.25% and 2.25%, respectively, for borrowings under the revolving credit facility. The applicable margins are variable subject to changes in certain leverage ratios. For borrowings under the term loan facility, the margins with respect to the base rate borrowings and LIBOR borrowings are 1.00% and 2.00%, respectively, but will be 0.75% and 1.75%, respectively, if the senior secured debt of Acquisition Corp. is rated at least BB by S&P and Ba2 by Moody s. As of August 5, 2008, our term loan facility was rated BB- by S&P and Ba3 by Moody s.

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In addition to paying interest on outstanding principal under the senior secured credit facility, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments. The initial commitment fee rate was 0.5%. As of June 30, 2008, the commitment fee rate was 0.375%. The commitment fee rate is variable subject to changes in our leverage ratio. We also are required to pay customary letter of credit fees, as necessary.

The senior secured credit facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability and the ability of our subsidiaries to sell assets, incur additional indebtedness or issue preferred stock, repay other indebtedness, pay dividends and distributions or repurchase capital stock, create liens on assets, make investments, loans or advances, make certain acquisitions, engage in mergers or consolidations, engage in certain transactions with affiliates, amend certain material agreements, change the business conducted by us and enter into agreements that restrict dividends from subsidiaries. In addition, the senior secured credit facility requires us to maintain the following financial covenants: a maximum total leverage ratio and a minimum interest coverage ratio, which are both tested quarterly for compliance, and a maximum annual capital expenditures covenant. The maximum total leverage ratio, which decreases over time, is 4:25:1 for the quarters ended June 30 and September 30, 2008 and decreases from 4.25:1 to 4.0:1 for the two quarters ending December 31, 2008 and March 31, 2009.

Senior Subordinated Notes of Acquisition Corp.

Acquisition Corp. has outstanding two tranches of senior subordinated notes due 2014: $465 million principal amount of U.S. dollar-denominated notes and £100 million principal amount of Sterling-denominated notes (collectively, the Subordinated Notes). The Subordinated Notes mature on April 15, 2014. The Subordinated Notes bear interest at a fixed rate of 7.375% per annum on the $465 million dollar notes and 8.125% per annum on the £100 million in sterling-denominated notes. The indenture governing the notes limits our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; to pay dividends on or make other distributions in respect of its capital stock or make other restricted payments; to make certain investments; to sell certain assets; to create liens on certain debt without securing the notes; to consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; to enter into certain transactions with affiliates; and to designate our subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness, and to make certain restricted payments and investments.

Holdings Notes

As of June 30, 2008, Holdings had $225 million of debt on its balance sheet relating to the Holdings Discount Notes, net of issuance discounts. The Holdings Discount Notes were issued at a discount and had an initial accreted value of $630.02 per $1,000 principal amount at maturity. Prior to December 15, 2009, no cash interest payments are required. However, interest accrues on the Holdings Discount Notes in the form of an increase in the accreted value of such notes such that the accreted value of the Holdings Discount Notes will equal the principal amount at maturity of $257 million on December 15, 2009. Thereafter, cash interest on the Holdings Discount Notes is payable semi-annually at a fixed rate of 9.5% per annum with the initial cash interest payment payable on June 15, 2010. The Holdings Discount Notes mature on December 15, 2014. The indenture governing the notes limits our ability and the ability of our restricted subsidiaries to incur additional indebtedness or issue certain preferred shares; to pay dividends on or make other distributions in respect of its capital stock or make other restricted payments; to make certain investments; to sell certain assets; to create liens on certain debt without securing the notes; to consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; to enter into certain transactions with affiliates; and to designate our subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness, and to make certain restricted payments and investments.

Dividends

The Company has discontinued its previous policy of paying a regular quarterly dividend. On February 29, 2008, the Company paid its final quarterly dividend of $0.13 per share under the now discontinued policy. The Company currently intends to retain future earnings to build cash on the balance sheet and invest in its business, particularly in A&R. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

Covenant Compliance

Our senior secured credit facility requires us to maintain certain covenants including a maximum Leverage Ratio and a minimum Interest Coverage Ratio, as such terms are defined in the credit facility, and also contains a maximum annual capital expenditures limitation. The maximum total leverage ratio, which decreases over time, is 4.25:1 for the quarters ended June 30 and September 30, 2008 and decreases from

4.25:1 to 4.0:1 for the two quarters ending December 31, 2008 and March 31, 2009.

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The credit facility also contains covenants that, among other things, restrict our ability to incur additional debt. The occurrence of an event of default under the credit facility could result in all amounts outstanding under the facility to be immediately due and payable, which could have a material adverse impact on our results of operations, financial position and cash flow. As of June 30, 2008, we were in compliance with all covenants under the credit facility.

Our borrowing arrangements, including the Holdings Discount Notes and the Acquisition Corp. Senior Subordinated Notes contain certain financial covenants, which limit the ability of our restricted subsidiaries as defined in the indentures governing the notes to, among other things, incur additional indebtedness, issue certain preferred shares, pay dividends, make certain investments, sell certain assets, and consolidate, merge, sell or otherwise dispose of all, or some of, our assets. In order for Acquisition Corp. and Holdings Corp. to incur additional debt or make certain restricted payments using certain exceptions provided for in the indentures governing the Acquisition Corp. Senior Subordinated Notes and the Holdings Discount Notes, the Fixed Charge Coverage Ratio, as defined in such indentures, must exceed a 2.0 to 1.0 ratio. Fixed Charges are defined in such indentures as consolidated interest expense excluding certain non-cash interest expense.

The terms of the indentures governing the Acquisition Corp. Senior Subordinated Notes and Holdings Discount Notes significantly restrict Acquisition Corp., Holdings and other subsidiaries from paying dividends and otherwise transferring assets to us. For example, the ability of Acquisition Corp. and Holdings to make such payments is governed by a formula based on 50% of each of their consolidated net income (which, as defined in the indentures governing such notes, excludes goodwill impairment charges and any after-tax extraordinary, unusual or nonrecurring gains and losses) accruing from June 1, 2004 and July 1, 2004, respectively. In addition, as a condition to making such payments to us based on such formula, Acquisition Corp. and Holdings must each have an adjusted EBITDA, as defined, to interest expense ratio of at least 2.0 to 1 after giving effect to any such payments. Acquisition Corp. may also make a restricted payment prior to April 15, 2009 if, immediately after giving pro forma effect to such restricted payment and certain indebtedness incurred to finance such restricted payment, its net indebtedness to adjusted EBITDA ratio, as defined, would not exceed 3.75 to 1 and its net senior indebtedness to adjusted EBITDA ratio, as defined, would not exceed 2.50 to 1. In addition, Holdings may make a restricted payment if, immediately after giving pro forma effect to such restricted payment and certain indebtedness incurred to finance such restricted payment, its net indebtedness to adjusted EBITDA ratio, as defined, would not exceed 4.25 to 1. Notwithstanding such restrictions, the indentures permit an aggregate of $45.0 million and $75.0 million of such payments to be made by Acquisition Corp. and Holdings, respectively, whether or not there is availability under the formula or the conditions to its use are met. Acquisition Corp. s senior secured credit facility permits Acquisition Corp. to make additional restricted payments to Holdings, the proceeds of which may be utilized by Holdings to make additional restricted payments, in an aggregate amount not to exceed $10.0 million (such amount subject to increase to $35.0 million if the leverage ratio as of the last day of the immediately preceding four fiscal quarters was less than 4.0 to 1 and to $50.0 million if the leverage ratio as of the last day of the immediately preceding four fiscal quarters was less than 3.5 to 1), and subject to further increase in an amount equal to 50% of cumulative excess cash flow that is not otherwise applied pursuant to Acquisition Corp. s senior secured credit facility, and, in addition, permits Acquisition Corp. to make restricted payments to Holdings, the proceeds of which may be utilized by Holdings to make additional restricted payments not to exceed $90 million in any fiscal year, provided that the proceeds of such restricted payments shall be applied solely to pay cash dividends on the Company s common stock. Furthermore, Holdings subsidiaries will be permitted under the terms of Acquisition Corp. s existing senior secured credit facility, as it may be amended, and under other indebtedness, to incur additional indebtedness that may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to Holdings.

Acquisition Corp. and Holdings may make additional restricted payments using certain other exceptions provided for in the indentures governing the Acquisition Corp. Senior Subordinated Notes and Holdings Notes, respectively.

Summary

Management believes that future funds generated from our operations and available borrowing capacity will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. However, our ability to continue to fund these items and to reduce debt may be affected by contractual restrictions, general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued decline of industry-wide CD sales.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 19 to our audited consolidated financial statements for the year ended September 30, 2007, the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of June 30, 2008, other than as described below, there have been no material changes to the Company s exposure to market risk since September 30, 2007.

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We use foreign exchange forward contracts and foreign exchange option contracts, primarily to hedge the risk that unremitted or future royalties and license fees owed to our domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on our major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Mexican peso, Swedish krona and Australian dollar. During the three months ended June 30, 2008, the Company entered into additional foreign exchange hedge contracts and, as of June 30, 2008, the Company has outstanding hedge contracts for the sale of $641 million and the purchase of $184 million of foreign currencies at fixed rates. The Company did not enter into any significant foreign exchange contracts subsequent to June 30, 2008.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments.

We are exposed to foreign currency exchange rate risk with respect to our Acquisition Corp. £100 million principal amount of Sterling-denominated notes that were issued in April 2004. These Sterling notes mature on April 15, 2014. As of June 30, 2008, these Sterling-denominated notes had a carrying value of approximately $199 million. However, a weakening or strengthening of the U.S. dollar compared to the British Pound Sterling would not have an impact on the fair value of these Sterling notes, as these notes are completely hedged as of June 30, 2008. We did not enter into any additional hedges related to this debt subsequent to June 30, 2008.

We are exposed to interest rate risk with respect to our floating rate debt. The Company did not enter into additional interest rate swap agreements to hedge the variability of its expected future cash interest payments during the quarter ended June 30, 2008. The total notional amount of debt hedged as of June 30, 2008 was $897 million. We did not enter into any additional interest rate swap agreements subsequent to June 30, 2008.

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

ITEM 4. CONTROLS AND PROCEDURES

Certification

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

Introduction

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

The Securities and Exchange Commission s rules define internal control over financial reporting as a process designed by, or under the supervision of, a public company s principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of

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records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes in our Internal Controls over financial reporting or other factors during the period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to whether the practices of industry participants concerning the pricing of digital music downloads violate Section 1 of the Sherman Act, New York State General Business Law §§ 340 et seq., New York Executive Law §63(12), and related statutes. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served the Company with a request for information in the form of a Civil Investigative Demand as to whether its activities relating to the pricing of digitally downloaded music violate Section 1 of the Sherman Act. The Company has provided documents and other information in response to these requests and intends to continue to fully cooperate with the New York Attorney General s and Department of Justice s industry-wide inquiries. Subsequent to the announcements of the above governmental investigations, more than thirty putative class action lawsuits concerning the pricing of digital music downloads have been filed. On August 15, 2006, the Judicial Panel on Multidistrict Litigation consolidated these actions for pre-trial proceedings in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. All defendants, including the Company, filed a motion to dismiss the consolidated amended complaint on July 30, 2007. The Court heard oral arguments on this motion on March 25, 2008 and reserved decision. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Any litigation the Company may become involved in as a result of the inquiries of the Attorney General and Department of Justice, regardless of the merits of the claim, could be costly and divert the time and resources of management.

Other Matters

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

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ITEM 1A. RISK FACTORS

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

Risks Related to our Business

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

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

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

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

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

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

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acts with long-term appeal, both in terms of catalog sales and future releases, has declined in recent years. Additionally, our financial results are generally affected by the general economic and retail environment of the countries in which we operate, as well as the appeal of our Recorded Music catalog and our Music Publishing library.

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

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to create unauthorized copies of our recordings in the form of, for example, burned CDs and MP3 files. Tens of billions of illegal files were swapped in 2007, with the ratio of unlicensed tracks downloaded to legal tracks sold of about 20 to 1, according to IFPI. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to certain risks from behaviors such as sideloading of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread dissemination on the Internet without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal file-sharing has a substantial negative impact on music sales. We are working to control this problem through litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws and technological means and by establishing legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to the music industry. Worldwide, industrial pirated music (which encompasses unauthorized physical copies manufactured for sale but does not include Internet downloads or home CD burning) is estimated to have generated around $4.5 billion in revenues in 2006, according to IFPI. IFPI estimates that 1.2 billion pirated units were purchased in 2006. According to IFPI estimates, approximately one in three music CDs sold worldwide in 2006 were pirated. Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales and put pressure on the price of legitimate sales. They have had, and may continue to have, an adverse effect on our business.

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

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

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

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

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

Our business has historically been seasonal. For the fiscal year ended September 30, 2007, we derived approximately 84% of our revenues from our Recorded Music business. In the recorded music business, purchases have historically been heavily weighted towards the last three months of the calendar year, which represent our first quarter under our September 30 fiscal year. Historically, we have realized approximately 35% of Recorded Music net sales worldwide during the last three months of the calendar year, making those three months (*i.e.*, our first fiscal quarter) material to our full-year performance. Since the emergence of digital sales, we have noted some shift in this seasonality. We realized 29%, 28%

and 32% of Recorded Music calendar year net sales during the last three months of calendar 2007, 2006 and 2005, respectively. This sales seasonality affects our operating cash flow from quarter to quarter. We cannot assure you that our Recorded Music net sales for the last three months and subsequent quarters of any calendar year will continue to be sufficient to meet our obligations or that they will be higher than such net sales

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for our other quarters. In the event that we do not derive sufficient Recorded Music net sales in such last three months, we may not be able to meet our debt service requirements, working capital requirements, capital expenditure requirements and other obligations. As digital revenue increases as a percentage of our total revenue, this may continue to affect the overall seasonality of our business. For example, sales of MP3 players or gift cards to purchase digital music sold in the holiday season tend to result in sales of digital music in subsequent periods. However, seasonality with respect to the sale of music in new formats, such as digital, is still developing.

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

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

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

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

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- fluctuations in interest and foreign exchange rates;
- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;
- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
- exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;

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

tariffs, duties, export controls and other trade barriers;

longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;

recessionary trends, inflation and instability of the financial markets;

higher interest rates; and

political instability.

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

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

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

We intend to increase revenues and cash flow through a business strategy which requires us to, among other things, continue to maximize the value of our music assets, significantly reduce costs to maximize flexibility and adjust to new realities of the market, continue to act to contain digital piracy, to diversify our revenue streams and capitalize on digital distribution and emerging technologies.

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

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

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

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

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

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

We derive an increasing portion of our revenue from sales of music through digital distribution channels. We are currently dependent on a small number of leading online music stores that sell to consumers digital music. Currently, the largest U.S. online music store, iTunes, charges U.S. consumers $0.99 per single track download. We have limited ability to increase our wholesale prices to digital service providers for digital downloads as we believe Apple s iTunes controls more than two-thirds of the legitimate digital music track download business. If iTunes were to adopt a lower pricing model for our music recordings or if there is a structural change to other download pricing models, we may receive substantially less per download for our music recordings, which could cause a material reduction in our revenue, unless it is offset by a corresponding increase in the number of downloads. Additionally, Apple s iTunes and other online music stores at present accept and post for sale all the recordings that we and other distributors deliver to them. However, if online stores in the future decide to limit the types or amount of music they will accept from music content owners like us, our revenue could be significantly reduced.

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

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

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

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. For the fiscal year ended September 30, 2007, approximately 51% of our revenues related to operations in foreign territories. For the nine months ended June 30, 2008, approximately 56% of our revenues related to operations in foreign territories. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of June 30, 2008, we have partially hedged our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates for the next fiscal year.

We may not have full control and ability to direct the operations we conduct through joint ventures and we do not control minority (equity method) investments.

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

We also have several cost-method equity investments. We have invested in privately-held companies, some of which are in the startup or development stages. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. We do not control these investments and could lose some or all of our investment in these entities. While we have made several minority investments in the past year and may make further investments in the future, such investments are not material to the overall financial position of our operating results. Our evaluation of investments in private companies is based on the fundamentals of the business, including, among other factors, the nature of their technologies and potential for financial returns.

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

California Labor Code Section 2855 (Section 2855) limits the duration of time any individual can be bound under a contract for personal services to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation has been introduced in New York in January 2007 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of three years, potentially affecting the duration of artist contracts. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) of Section 2855 and/or the passage of legislation similar to Section 2855 by other states could materially affect our results of operations and financial position.

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

The U.S. Copyright Act provides authors (or their heirs) a right to terminate licenses or assignments of rights in their copyrighted works. This right does not apply to works that are works made for hire . Since the effective date of U.S. copyright liability for sound recordings (February 15, 1972), virtually all of our agreements with recording artists provide that such recording artists render services under an employment-for-hire relationship. A termination right exists under the U.S. Copyright Act for musical compositions that are not works made for hire . If any of our commercially available recordings were determined not to be works made for hire , then the recording artists (or their heirs) could have the right to terminate the rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of a post-1977 license or assignment (or, in the case of a pre-1978 grant in a pre-1978 recording, generally during a five-year period starting either at the end of 56 years from the date of copyright or on January 1, 1978, whichever is later). A termination of rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) can terminate our rights in musical compositions. However, we believe the effect of those terminations is already reflected in the financial results of our Music Publishing business.

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

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

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

In fiscal 2007 we implemented a realignment plan aimed at better aligning our workforce with the changing nature of the music industry. These changes are part of the continued evolution from a traditional record- and songs-based business to a music-based content company and the ongoing management of our cost structure. The changes included a continued redeployment of resources to focus on new business initiatives to help us diversify our revenue streams, including digital opportunities. The realignment plan was designed to improve the operating effectiveness of our current businesses and to realign our management structure to, among other things, effectively address the continued development of digital distribution channels along with declining physical sales. Our future competitiveness depends upon our continued success in implementing these initiatives throughout our operations. Although we will seek to successfully implement these actions in a manner that does not negatively impact our results of operations or impair our ability to compete successfully, we cannot be certain that these actions will accomplish their intended objective. Substantially all of the restructuring charges associated with the realignment plan have required or will require the outlay of cash.

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

The Investor Group controls a majority of our common stock on a fully diluted basis. In addition, representatives of the Investor Group occupy substantially all of the seats on our board of directors and pursuant to a stockholders agreement, will have the right to appoint all of the independent directors to our board. As a result, the Investor Group has the ability to control our policies and operations, including the appointment of management, the entering into of mergers, acquisitions, sales of assets, divestitures and other extraordinary transactions, future issuances of our common stock or other securities, the payments of dividends, if any, on our common stock, the incurrence of debt by us and the amendment of our certificate of incorporation and bylaws. The Investor Group will have the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors or stockholders believe that any such transaction is in their own best interests. For example, the Investor Group could cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets. Additionally, the Investor Group is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Investor Group may also

pursue acquisition opportunities that may be complementary to our business, and, as a result, those

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acquisition opportunities may not be available to us. So long as the Investor Group continues to hold a majority of our outstanding common stock the Investor Group will be entitled to nominate a majority of our board of directors, and will have the ability to effectively control the vote in any election of directors. In addition, so long as the Investor Group continues to own a significant amount of our equity, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control our decisions.

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

Cinram is currently our exclusive supplier of manufacturing, packaging and physical distribution services in North America and most of Europe. Accordingly, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram s continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, we would have difficulty satisfying our commitments to our wholesale and retail customers, which could have an adverse impact on our revenues. Even though our agreements with Cinram give us a right to terminate based upon failure to meet mandated service levels, and there are several capable substitute suppliers, it might be difficult for us to switch to substitute suppliers for any such services, particularly in the short term, and the delay and transition time associated with finding substitute suppliers could itself have an adverse impact on our revenues.

On March 13, 2007, we entered into amendments to our existing manufacturing, packaging and physical distribution arrangements with Cinram for our physical products in North America and most of Europe. Cinram will remain our exclusive supplier of manufacturing, packaging and physical distribution services in North America and most of Europe. The terms of the Cinram agreements remain substantially the same as the terms of the original agreements. We believe that the terms of these agreements, as amended, continue to reflect market rates. The agreements, as amended, now expire on June 30, 2010.

Risks Related to our Leverage

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

We are highly leveraged. As of June 30, 2008, our total consolidated indebtedness was $2.272 billion. In addition, as of June 30, 2008, we had an additional $250 million available for borrowing under the revolving portion of our senior secured credit facility (less $4 million in letters of credit).

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

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

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

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

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

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

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

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

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

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

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

In addition, under our senior secured credit facility, our subsidiaries are required to satisfy and maintain specified financial ratios and other financial condition tests and also have a maximum annual capital expenditures limitation. Their ability to meet those financial ratios and tests can be affected by events beyond our control, and they may not be able to meet those ratios and tests. The senior secured credit facility ratio test assumes that over time EBITDA increases and/or total debt decreases. For example, the maximum total leverage ratio decreases from 4.25:1 to 4.0:1 for the two quarters ending December 31, 2008 and March 31, 2009. If EBITDA does not increase and/or if debt does not decrease over time and if we are unable to renegotiate the covenants, we would not comply with these provisions of the senior secured credit facility. A breach of any of these or any other covenants could result in a default under our senior secured credit facility. Upon the occurrence of an event of default under our senior secured credit facility, the lenders could elect to declare all amounts outstanding under our senior secured credit facility to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our senior secured credit facility could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our senior secured credit facility. If the lenders under our senior secured credit facility

accelerate the repayment of borrowings, we may not have sufficient assets to repay our senior secured credit facility as well as any unsecured indebtedness. All of these restrictions could affect our ability to operate our business or may limit our ability to take advantage of potential business opportunities as they arise.

Our credit ratings could impact our cost of capital.

On February 12, 2008, Moody s Investor Services lowered our debt ratings. Although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

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Risks Related to our Common Stock

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

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of June 30, 2008 we had approximately 153.9 million shares of common stock outstanding. Approximately 93.3 million shares are held by the Investor Group and are eligible for resale from time to time, subject to contractual and Securities Act restrictions. The Investor Group has the ability to cause us to register the resale of their shares and certain other holders of our common stock, including members of our management and certain other parties that have piggyback registration rights, will be able to participate in such registration. In addition, in 2005, we registered approximately 8.3 million shares of restricted common stock and approximately 8.4 million shares underlying options issued and securities that may be issued in the future pursuant to our benefit plans and arrangements on registration statements on Form S-8. Shares registered on these registration statements on Form S-8 may be sold as provided in the respective registration statements on Form S-8. In April 2008, we registered an additional 16.5 million shares underlying options issued, and securities that might be issued in the future pursuant to our benefit plans and arrangements, on an additional Form S-8.

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

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

- actual or anticipated variations in operating results;
- changes in dividend policy;
- changes in financial estimates or investment recommendations by research analysts;
- actual or anticipated changes in economic, political or market conditions, such as recessions or international currency fluctuations;

actual or anticipated changes in the regulatory environment affecting the music industry;

changes in the retailing environment;

changes in the market valuations of other content on media companies or diversified media companies that are also engaged in some of the business in which we are engaged that may be deemed our peers; and

announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives.

See Risk Factors Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period. In the past, following periods of volatility in the market price of a company s securities, stockholders have

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often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management attention and resources, which could significantly harm our profitability and reputation.

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

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

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

The following table provides information about purchases by us during the nine months ending June 30, 2008 of equity securities that are registered by us pursuant to Section 12 of the Securities Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/07-10/31/07	10,804(1)	10.25		
12/1/07-12/31/07	1(1)	6.17		
2/1/08-2/29/08	16,939(1)	6.05		
3/1/08-3/31/08	10,586(1)	4.95		
6/1/08-6/30/08	29,874(2)	1.04		
Total	68,204	4.35		

(1) Reflects shares of common stock withheld from restricted stock that vested during fiscal year 2008 that were surrendered to the Company to satisfy withholding tax requirements related to the vesting of the awards. The value of these shares was determined based on the closing price of our common stock on the date of vesting.

(2) Reflects the repurchase of restricted stock from an employee that was unvested at the time of termination of employment. The purchase price represents the original price paid for the shares by the employee.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Item 3 is not applicable and has been omitted.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Item 4 is not applicable and has been omitted.

ITEM 5. OTHER INFORMATION

Item 5 is not applicable and has been omitted.

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ITEM 6. EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of Warner Music Group Corp. (1)
3.2	Amended and Restated Bylaws of Warner Music Group Corp. (2)
10.1	Employment Agreement, dated as of May 14, 2008, between Warner/Chappell Music, Inc. and David H. Johnson (3)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

* Filed herewith.

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

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

(2) Incorporated by reference to Warner Music Group Corp. s Current Report on Form 8-K filed on December 20, 2007 (File No. 001-32502).

(3) Incorporated by reference to Warner Music Group Corp. s Current Report on Form 8-K filed on May 16, 2008 (File No. 001-32502).

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SIGNATURES

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

August 7, 2008

WARNER MUSIC GROUP CORP.

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

By: /s/ MICHAEL D. FLEISHER
Name: Michael D. Fleisher
Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)