Warner Music Group Corp.
Form S-4/A
July 29, 2005

As filed with the Securities and Exchange Commission on July 29, 2005

Registration Nos. 333-126786 and 333-126786-1

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

WMG HOLDINGS CORP.

(Exact Name of Registrant as Specified in Its Charter)

(SEE ADDITIONAL REGISTRANT GUARANTOR)

Delaware	**7929**	**13-4271878**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

75 Rockefeller Plaza

New York, NY 10019

(212) 275-2000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

David H. Johnson, Esq.

Executive Vice President and

General Counsel

Warner Music Group Corp.

75 Rockefeller Plaza

New York, NY 10019

(212) 275-2030

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Edward P. Tolley III, Esq.

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, New York 10017-3954

(212) 455-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class Of Securities to be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount Of Registration Fee
9.5% Senior Discount Notes due 2014	$ 257,927,000(1)	100%(2)	$ 257,927,000(2)	$ 30,359(3)
Guarantee of 9.5% Senior Discount Notes due 2014(4)	(5)	(5)	(5)	(5)

(1) Aggregate principal amount at maturity.
(2) Estimated solely for the purpose of calculating the registration fee under Rule 457 of the Securities Act of 1933, as amended.
(3) Previously paid.
(4) See inside facing page for additional registrant guarantor.
(5) Pursuant to Rule 457(n) under the Securities Act of 1933, as amended, no separate fee for the guarantee is payable.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in

accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

ADDITIONAL REGISTRANT GUARANTOR

Exact Name of Registrant Guarantor As Specified In Its Charter	State or other Jurisdiction of Incorporation or Organization	IRS Employer Identification Number	Address, Including ZIP Code, And Telephone Number, Including Area Code, Of Registrant s Principal Executive Offices	Phone Number
Warner Music Group Corp.	Delaware	13-4271875	75 Rockefeller Plaza New York, NY 10019	(212) 275-2000

Table of Contents

PROSPECTUS

Offer to Exchange

$257,927,000 aggregate principal amount at maturity of 9.5% Senior Discount Notes due 2014 of WMG Holdings Corp. which have been registered under the Securities Act of 1933 for any and all outstanding 9.5% Senior Discount Notes due 2014

The exchange notes will be fully and unconditionally guaranteed on an unsecured, senior basis by Warner Music Group Corp., the parent company of WMG Holdings Corp.

WMG Holdings Corp. is conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered outstanding notes for freely tradeable exchange notes that have been registered under the Securities Act.

The Exchange Offer

- WMG Holdings Corp. will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradeable.

- You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.

- The exchange offer expires at 12:00 a.m. midnight, New York City time, on August 29, 2005, unless extended.

- The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

- The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradeable.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, WMG Holding Corp. does not currently anticipate that it will register the outstanding notes under the Securities Act.

You should carefully consider the Risk Factors beginning on page 18 of this prospectus before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offer or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 29, 2005

TABLE OF CONTENTS

We have not authorized any dealer, salesperson or other person to give any information or represent anything to you other than the information contained in this prospectus. You must not rely on unauthorized information or representations.

This prospectus does not offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who can not legally be offered the securities. The information in this prospectus is current only as of the date on its cover, and may change after that date.

MARKET AND INDUSTRY DATA AND FORECASTS

This prospectus includes industry data and forecasts that we have prepared based, in part, upon industry data and forecasts obtained from industry publications and surveys and internal company surveys. As noted in this prospectus, International Federation of the Phonographic Industry (IFPI), Recording Industry Association of America (RIAA), Nielsen SoundScan (SoundScan), Informa Media Research, Music &

Copyright Report (Music & Copyright), National Music Publishers Association (NMPA), The NPD Group, Enders Analysis and the U.S. Department of Commerce, U.S. Census Bureau, Bureau of Labor Statistics were the primary sources for third-party industry data and forecasts. These third-party industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but they can give no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, while we believe the industry forecasts and market research are reliable, we have not independently verified such forecasts and research.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that is important to you. We urge you to read this entire prospectus, including the Risk Factors section and the combined financial statements and related notes, before participating in the exchange offer.

We acquired the business of WMG from Time Warner effective March 1, 2004. In this prospectus, the term Holdings refers to WMG Holdings Corp., which does business under that name, and not its subsidiaries and the terms we, our, ours, us, the Company and WMG refer collectively to Warner Music Group Corp. (Parent), the parent of Holdings, and Holdings and its consolidated or combined subsidiaries, except where otherwise indicated. Each of Parent and Holdings is a holding company. Parent s only asset is the ownership of all outstanding shares of Holdings. Holdings only asset is the ownership of all outstanding shares of WMG Acquisition Corp., which we refer to as Acquisition Corp. We conduct all of our business through Acquisition Corp. The use of these terms is not intended to imply that Parent, Holdings and Holdings subsidiaries are not separate and distinct legal entities. Holdings and Parent, through its guarantee, are the sole obligors on the notes, and their subsidiaries do not have any obligation with respect to the notes. In 2004, we changed our fiscal year end from November 30 to September 30. Accordingly, the fiscal year ended September 30, 2004 is a ten-month period. In addition, as a result of our acquisition from Time Warner, and as described further in the Parent financial statements and the notes thereto included elsewhere in this prospectus, results discussed for the ten months ended September 30, 2004 represent the mathematical addition of our pre-acquisition three-month period ended February 29, 2004 and our post-acquisition seven-month period ended September 30, 2004. Results discussed for the six months ended March 31, 2004 are the mathematical addition of our pre-acquisition five month period ended February 29, 2004 and our post-acquisition one month period ended March 31, 2004. Calculations of market share are based on revenues, except as otherwise noted.

Our Company

We are one of the world s major music companies. Our company is composed of two businesses: Recorded Music and Music Publishing. We are a global company, generating over half of our revenues in more than 50 countries outside of the U.S. Acquisition Corp. acquired substantially all of Time Warner Inc. s music division from Time Warner on March 1, 2004 for $2.595 billion in cash and non-cash consideration. See The Transactions.

Our Recorded Music business produces revenue through the marketing, sale and licensing of recorded music in physical and digital formats. We believe we have one of the world s largest and most varied recorded music catalogs, including 27 of the top 100 U.S. best-selling albums of all time more than any other recorded music company. Our roster of over 38,000 artists spans all musical genres and includes Led Zeppelin, The Eagles, Madonna, Metallica and Fleetwood Mac. Our more recent successes include Linkin Park, Simple Plan, Jet, Michelle Branch, Sean Paul and Josh Groban. Our Recorded Music business generated 83% of our consolidated revenues during the twelve months ended March 31, 2005.

Our Music Publishing business owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. We hold rights in over one million copyrights across a broad range of musical styles from over 65,000 songwriters and composers. Our library includes titles such as Summertime by George and Ira Gershwin and DuBose Heyward, Happy Birthday to You by Mildred and Patty Hill, Night and Day by Cole Porter, When a Man Loves a Woman by Calvin Lewis and Andrew Wright, and Star Wars Theme by John Williams, as well as more recent popular titles such as Smooth by Itaal Shur and Rob Thomas and Thank You by Dido Armstrong and Paul Herman. Our Music Publishing business generated 17% of our consolidated revenues during the twelve months ended March 31, 2005.

1

Table of Contents

Industry Overview

Recorded music and music publishing focus on different products and benefit from different sources of revenues. The following table summarizes the product, the artist that is responsible for creating the product and the means by which the product generates revenue:

	Recorded Music	Music Publishing
The Product	The recording	The song
The Artist	Recording artist	Songwriter or composer
How revenues are generated	When a recording (in physical or digital format) is sold or licensed	When a recording (in physical or digital format) of the song is sold or licensed When a song is performed publicly (e.g., radio, television, concert or nightclub) When a song is synchronized with visual images (e.g., movies and advertisements) When a song s printed sheet music is sold

The recorded music business is the business of discovering and developing recording artists and promoting, selling and licensing their works. In 2004, the recorded music industry generated $32.1 billion in retail sales worldwide. The industry experienced robust growth in the 1990s but in recent years has seen a decline due primarily to the increase in digital piracy. In an effort to curb this decline, the industry launched an intensive campaign in 2003 to limit digital piracy. We believe these anti-piracy efforts are beginning to produce results as evidenced by increased consumer awareness, reduced illegal downloading activity and growth for the one-year period ended January 2, 2005 in U.S. music physical unit sales of approximately 1% relative to the comparable one-year period ended December 28, 2003, as reported by SoundScan. Moreover, the industry has been encouraged by the recent proliferation and early success of legitimate digital music distribution channels, as evidenced by the 141 million digital tracks sold in the U.S. through the one-year period ended January 2, 2005. See Industry Overview Recorded Music.

According to the most recent published estimates by Enders Analysis, the worldwide music publishing industry accounted for $3.7 billion in revenues in 2003. See Industry Overview Music Publishing.

Competitive Strengths

While we have recorded net losses on a historical and pro forma basis, primarily due to the decline since 1999 of recorded music sales, increased operating costs, increased competition, and such items as currency fluctuations and impairment charges, we believe we benefit from the following competitive strengths:

Industry Leading Recording Artists and Songwriters. We have been able to consistently attract, develop and retain successful recording artists and songwriters. This has enabled us to accumulate over decades a large and varied portfolio of recorded music and music publishing assets that generate stable and recurring cash flows.

Stable, Highly Diversified Revenue Base. Our revenue base is derived primarily from relatively stable and recurring sources such as our music publishing library, our catalog of recorded music and new releases from our existing base of established artists. In any given year, we believe that less than 10% of our total revenues depend on artists without established track records, with each of these artists typically representing less than 1% of our revenues. We have built a large and diverse catalog of recordings and compositions that covers a wide breadth of musical styles and are a significant player in each of our major geographic regions.

High Cash Flow Business Model. We generate relatively high levels of cash flow from operations as a result of our highly variable cost structure, our minimal capital requirements and our ability to adjust the timing and amount of much of our spending. Through our recent restructuring effort, we have substantially streamlined our cost structure. In addition, outsourcing arrangements entered into in October 2003 with Cinram International Inc. (Cinram) have significantly reduced our exposure to fixed costs and are expected to continue to reduce our future capital expenditure requirements.

Well Positioned For Growth in Digital Distribution and Emerging Technologies. For the one-year period ended January 2, 2005, our market share of digital recorded music track sales in the U.S. as measured by SoundScan was higher than our overall recorded music album market share in the U.S., which we believe reflects the relative strength of our content and in particular our catalog content. In addition, we are highly focused on several new media initiatives: supporting existing and new online services in the U.S. and abroad, working with legitimate P2P providers, influencing the evolution of new mobile phone services and formats and simplifying the clearance of all of our content for digital distribution.

Proven and Committed Management Team. We are led by an experienced senior management team with an average of approximately 20 years of entertainment industry expertise. Edgar Bronfman, Jr. is our Chairman of the Board and Chief Executive Officer. Mr. Bronfman, while President and CEO of The Seagram Company Ltd. (Seagram), oversaw the merger of Universal Music Group (Universal) and PolyGram N.V. (PolyGram), and successfully managed the combined business, the world s then largest recorded music company.

Strong Equity Sponsorship. Thomas H. Lee Partners, L.P. and its affiliates (THL), Bain Capital and its affiliates (Bain Capital), and Providence Equity Partners Inc. and its affiliates (Providence Equity) are each leading private equity firms with established track records of successful investments and extensive experience in managing investments in entertainment and media assets and Music Capital Partners, L.P. (Music Capital and together with THL and Bain Capital and Providence Equity, the Investor Group) brings significant and directly relevant management experience in the music industry.

Business Strategy

We intend to increase revenues, operating income and cash flow through the following business strategies:

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical element of our strategy is to continue to find, develop and retain recording artists and songwriters who achieve long-term profitable success. We believe our relative size, the strength of our management team, our ability to respond to industry and consumer trends and challenges, our diverse array of genres, our large catalog of hit releases and our valuable music publishing library will help us continue to successfully build our roster of artists and songwriters.

Maximize the Value of Our Music Assets. Our Recorded Music business focuses on marketing our artists and catalog in new ways to retain existing fans of established artists and to generate new demand for our proven hits. Our Music Publishing business seeks to capitalize on the growing demand for the use of musical compositions in media products such as videogames, commercials, other musical works (such as authorized sampling), films, DVDs, mobile phone ring tones and Internet and wireless streaming and downloads by marketing and promoting our libraries to producers of these media in new and innovative ways.

Focus on Continued Management of Our Cost Structure. Immediately following the acquisition by Acquisition Corp. of substantially all of Time Warner s music division on March 1, 2004, we commenced a broad-based restructuring plan (the Restructuring Plan). We intend to continue to maintain a disciplined approach to cost management in our business, and to pursue additional cost savings. We have completed

Table of Contents

substantially all of the Restructuring Plan with annualized cost savings of approximately $250 million of which approximately $202 million has been reflected in our statement of operations through March 31, 2005. We project the one-time costs associated with the Restructuring Plan to be $225 million to $250 million, of which approximately $165 million has been paid through March 31, 2005. This projection is substantially less than the $310 million original estimate. We expect to pay a majority of the remaining costs in 2005 and 2006. There are still significant risks associated with the Restructuring Plan. See Risk Factors and Business.

Invest in Accordance with an Improved Asset Allocation Strategy. Our new management has undertaken a rigorous company-wide initiative in conjunction with outside consultants in order to enhance our financial performance through developing a more targeted approach to investments. Implementing the results of this study, we will primarily seek to invest in lines of business, geographic locations and individual projects where we believe we can optimize our return on capital.

Develop and Optimize Our Physical Distribution Channel Strategies. We will continue to develop innovative programs with our physical distribution channel partners in order to implement forward-looking strategies for our mutual benefit. We will invest to meet the needs of our partners to create more efficient collaboration, such as direct-to-retail distribution strategies and vendor managed inventory.

Capitalize on Digital Distribution and Emerging Technologies. We believe new technology formats should represent a fast-growing and high-margin channel for the distribution and exploitation of our music. In particular, new and emerging third-party digital distribution outlets are not only reasonably priced, but also offer a superior customer experience to illegal alternatives, as they are easy to use, offer uncorrupted song files and integrate seamlessly with increasingly popular portable music players such as the Apple iPod, the Dell Digital Jukebox and the iRiver iHP. In addition, as networks and phone handsets become more sophisticated, our music is increasingly becoming available through mobile and other wireless service providers as ring tones, ringback tones and audio and music video downloads.

Contain Digital Piracy. We, along with the rest of the music industry, are actively combating piracy through technological innovation, litigation, education and the promotion of legislation both in the U.S. and internationally.

Recent Developments

Return of Capital and Dividend on Preferred. In September 2004, we returned $342 million of capital (the Return of Capital) to the Investor Group and paid a dividend of $8 million on the preferred equity of Holdings held by the Investor Group (the Dividend on Preferred). The Return of Capital and Dividend on Preferred were funded out of our cash balance and not from the incurrence of additional debt. We obtained an amendment to Acquisition Corp. s senior secured credit agreement to provide for the Return of Capital and Dividend on Preferred.

Debt Incurrence and Payment to Investor Group. On December 23, 2004, we incurred approximately $700 million of new debt, consisting of $250 million of Floating Rate Notes due 2011 (the Holdings Floating Rate Notes), $200 million of Floating Rate Senior PIK Notes due 2014 (the Holdings PIK Notes) and $250 million in gross proceeds of the 9.5% Senior Discount Notes due 2014 described herein (the Holdings Discount Notes) (with aggregate principal amount at maturity of $396.8 million) (collectively, the Original Holdings Notes). The proceeds from the issuance of the Original Holdings Notes were used to fund a return of approximately $681 million to Holdings shareholders and the shareholders of Parent (the Holdings Payment to Investor Group and along with the offering of the Original Holdings Notes, the Holdings Refinancing) through a combination of dividends on our preferred stock and repurchases of our common and preferred stock. Of the total of $681 million, approximately $209 million was used to redeem our remaining shares of cumulative preferred stock,

4

Table of Contents

including $9 million of accrued dividends, and approximately $472 million was used to pay a return of capital to Parent, of which all but $50 million was distributed to its shareholders in December 2004. Parent distributed $43 million of such $50 million to the Investor Group on March 28, 2005 and distributed the remaining $7 million to the Investor Group on May 9, 2005. We previously obtained an amendment to Acquisition Corp. s senior secured credit agreement to provide for the Holdings Payment to Investor Group, including the distribution of the remaining $50 million to the Investor Group.

Parent IPO, Concurrent Transactions and Redemption of Portion of Original Holdings Notes. On May 13, 2005, Parent consummated the initial public offering of its common stock (the offering of common stock by Parent and the use of proceeds therefrom including the repayment of a portion of the Original Holding Notes as described below, collectively, the Initial Public Offering). In connection with such Initial Public Offering, Parent terminated its management agreement and paid a $73 million termination fee to the Investor Group. Parent also purchased from an affiliate of Time Warner Inc. their Three-Year Warrants for an aggregate purchase price of approximately $138 million. Parent also paid, or expects to pay, approximately $33 million in special one-time bonuses consisting of (a) approximately $20 million to holders of restricted stock and stock options to make employees whole for certain unfavorable tax consequences, (b) approximately $3 million to holders of stock options representing an adjustment for outstanding options as a result of a special cash dividend on Parent s capital stock and (c) approximately $10 million to substantially all of our employees who will have no equity participation in Parent.

Prior to the Initial Public Offering, Parent converted all of its outstanding Class L Common Stock into shares of Class A Common Stock on a one-for-one basis, renamed all of its outstanding Class A common stock common stock and enacted a 1,139 for 1 split of its common stock. Together, these transactions are referred to in this prospectus as the Recapitalization.

In addition, concurrent with the Initial Public Offering, an amendment to Acquisition Corp. s senior secured credit facility was obtained to, among other things, increase the size of the term loan available. Concurrent with the Initial Public Offering, we used a portion of our cash on hand, plus the proceeds from $250 million of new term loan borrowings under Acquisition Corp. s new amendment to its senior secured credit facility to pay a dividend of $320 million to Parent, which was used to repay $8.5 million of remaining promissory notes, to pay the $73 million termination fee, to pay $100.5 million in cash dividends to shareholders of Parent (including approximately $7 million relating to the holders of unvested shares of restricted stock, which will be paid at a later date), to pay approximately $33 million in special one-time bonuses and to pay approximately $138 million for the repurchase of the Three-Year Warrants. We refer to the $250 million of new term loan borrowings, the termination of the management agreement, the purchase of the Three-Year Warrants, the payment of the special one-time bonuses and dividends of approximately $109 million declared prior to Parent s Initial Public Offering, collectively, as the Concurrent Transactions.

On May 16, 2005 Holdings received a capital contribution from Parent of $517 million. Holdings used the proceeds from such capital contribution to redeem all of the Holdings Floating Rate Notes and Holdings PIK Notes, and 35% of the aggregate principal amount at maturity of the Holdings Discount Notes on June 15, 2005. In addition Parent recently entered into a guarantee whereby it agreed to guarantee the payments of Holdings on the remaining outstanding notes of Holdings. The outstanding notes and guarantee by Parent are being registered hereby.

New Chief Financial Officer. In December 2004, we announced that Michael D. Fleisher had been named as our permanent Chief Financial Officer. He replaced Michael Ward who was our acting Chief Financial Officer while we conducted a search to fill the position on a permanent basis. See Management.

New Head of Warner/Chappell Music. On February 17, 2005, Acquisition Corp. announced that Les Bider, Chairman and CEO of its music-publishing arm, Warner/Chappell Music, Inc., had decided to step down following the appointment of a successor and a transition period. Mr. Bider had been CEO of Warner/Chappell Music since

Table of Contents

1987. On May 28, 2005, Richard Blackstone began to serve as Chairman and CEO of Warner/Chappell Music, Inc. as Mr. Bider s successor. Mr. Blackstone had previously been President and Chief Executive Officer of Zomba Music Publishing. Mr. Blackstone has 15 years of experience in the music publishing industry. See Management.

New Joint Venture. On April 8, 2005, we entered into an agreement with an affiliate of Sean P. Diddy Combs to form Bad Boy Records LLC, a joint venture in recorded music owned 50% by us and 50% by the affiliate. We purchased our 50% membership interest in Bad Boy Records LLC for approximately $30 million in cash. The joint venture includes catalog and roster artists such as Notorious B.I.G., Mario Winans, M.A.S.E., Carl Thomas, B5 and P. Diddy. Mr. Combs will be the CEO of the joint venture and will supervise its staff and day-to-day operations. We will provide funding, marketing, promotion and certain back-office services for the joint venture.

Parent was incorporated under Delaware law on November 21, 2003. Holdings was incorporated under Delaware law on November 20, 2003. Our principal executive offices are located at 75 Rockefeller Plaza, New York, NY 10019. Our telephone number is (212) 275-2000.

Table of Contents

Summary of the Terms of Exchange Offer

On December 23, 2004, Holdings completed a private offering of the Original Holdings Notes, of which approximately $258 million aggregate principal amount at maturity of 9.5% Senior Discount Notes due 2014 remain outstanding. References to the notes in this prospectus are references to both such outstanding notes and the exchange notes offered hereby.

General	In connection with the private offering, Holdings entered into a registration rights agreement with Banc of America Securities LLC, Deutsche Bank Securities Inc. and Goldman, Sachs & Co. (collectively, the initial purchasers) the initial purchasers of the outstanding notes in which Holdings agreed, among other things, to deliver this prospectus to you and to use its reasonable best efforts complete the exchange offer for the outstanding notes within 270 days after the date of issuance of the outstanding notes.
	You are entitled to exchange in the exchange offer your outstanding notes for exchange notes, which are identical in all material respects to the outstanding notes except:
	the exchange notes have been registered under the Securities Act of 1933, as amended, which we refer to as the Securities Act ;
	the exchange notes are not entitled to certain registration rights which are applicable to the outstanding notes under the registration rights agreement; and
	certain additional interest rate provisions are no longer applicable.
The Exchange Offer	Holdings is offering to exchange up to:
	$257,927,000 aggregate principal amount at maturity of its 9.5% Senior Discount Notes due 2014, which have been registered under the Securities Act, for a like aggregate principal amount at maturity of the outstanding 9.5% Senior Discount Notes due 2014.

You may only exchange outstanding notes in denominations of $1,000 and integral multiples of $1,000.

Subject to the satisfaction or waiver of specified conditions, Holdings will exchange the exchange notes for all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer. Holdings will cause the exchange to be effected promptly after the expiration of the exchange offer.

Upon completion of the exchange offer, there may be no market for the outstanding notes and you may have difficulty selling them.

Resales	Based on interpretations by the staff of the Securities and Exchange Commission, or the SEC , set forth in no-action letters issued to third parties referred to below, Holdings believes that you may resell or otherwise transfer exchange notes issued in the exchange offer

7

Table of Contents

without complying with the registration and prospectus delivery requirements of the Securities Act, if:

(1) you are acquiring the exchange notes in the ordinary course of your business.

(2) you do not have an arrangement or understanding with any person to participate in a distribution of the exchange notes;

(3) you are not an affiliate of Holdings within the meaning of Rule 405 under the Securities Act; and

(4) you are not engaged in, and do not intend to engage in, a distribution of the exchange notes.

If you are not acquiring the exchange notes in the ordinary course of your business, or if you are engaging in, intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or if you are an affiliate of Holdings, then:

(1) you cannot rely on the position of the staff of the SEC enunciated in Morgan Stanley & Co., Inc. (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC s letter to *Shearman & Sterling* dated July 2, 1993, or similar no- action letters; and

(2) in the absence of an exception from the position of the SEC stated in (1) above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes.

If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, you must acknowledge that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of the exchange notes that you receive in the exchange offer. See Plan of Distribution.

Expiration Dates	The exchange offer will expire at 12:00 a.m. midnight, New York City time, on August 29, 2005, unless extended by Holdings. Holdings does not currently intend to extend the expiration date of the exchange offer.
Withdrawal	You may withdraw the tender of your outstanding notes at any time prior to the expiration date of the exchange offer. Holdings will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which Holdings may assert or waive. See The Exchange Offer Conditions to the Exchange Offer.

Table of Contents

Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal. If you hold outstanding notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things: (1) you are acquiring the exchange notes in the ordinary course of your business; (2) you do not have an arrangement or understanding with any person to participate in a distribution of the exchange notes; (3) you are not an affiliate of Holdings within the meaning of Rule 405 under the Securities Act; and (4) you are not engaged in, and do not intend to engage in, a distribution of the exchange notes. If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, you must represent to us that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of such exchange notes. If you are not acquiring the exchange notes in the ordinary course of your business, or if you are engaged in, or intend to engage in, or have an arrangement or understanding with any person to participate in, a distribution of the exchange notes, or if you are an affiliate of Holdings, then you cannot rely on the applicable positions and interpretations of the staff of the SEC and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are held in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those outstanding notes in the exchange offer, you should contact such person promptly and instruct such person to tender those outstanding notes on your behalf.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your

Table of Contents

outstanding notes, the letter of transmittal and any other documents required by the letter of transmittal or you cannot comply with the DTC procedures for book-entry transfer prior to the expiration date, then you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed Delivery Procedures.

Effect on Holders of Outstanding Notes	In connection with the sale of the outstanding notes, Holdings entered into a registration rights agreement with the initial purchasers of the outstanding notes that grants the holders of outstanding notes registration rights. By making the exchange offer, Holdings will have fulfilled most of its obligations under the registration rights agreement. Accordingly, Holdings will not be obligated to pay additional interest as described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture, except Holdings will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement and Holdings will not be obligated to pay additional interest as described in the registration rights agreement, except in certain limited circumstances. See Exchange Offer; Registration Rights.

To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes could be adversely affected.

Consequences of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Holdings does not currently anticipate that it will register the outstanding notes under the Securities Act.
Material Income Tax Considerations	The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for United Stated federal income tax purposes. See Material U.S. Federal Income Tax Consequences.
Use of Proceeds	Holdings will not receive any cash proceeds from the issuance of exchange notes in the exchange offer.
Exchange Agent	Wells Fargo Bank, National Association whose address and telephone number is set forth in the section captioned The Exchange Offer Exchange Agent of this prospectus, is the exchange agent for the exchange offer for the outstanding notes.

Table of Contents

Summary of the Terms of the Exchange Notes

In this prospectus, the term outstanding notes refers to the outstanding $257,927,000 aggregate principal amount at maturity of 9.5% Senior Discount Notes due 2014 issued in the private offering; the term exchange notes refers to the aggregate principal amount at maturity of Holdings 9.5% Senior Discount Notes due 2014 as registered under the Securities Act of 1933, as amended (the Securities Act); and the term notes refers to both the outstanding notes and the exchange notes. The terms of the exchange notes will be identical in all material respects to the terms of the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of Holdings obligations under the registration rights agreement. The exchange notes will evidence the same debt as the outstanding notes. The exchange notes will be governed by the same indenture under which the outstanding notes were issued, and the exchange notes and the outstanding notes will constitute a single class and series of notes for all purposes under the indenture. The following summary is not intended to be a complete description of the terms of the notes. For a more detailed description of the notes, see Description of Notes.

Issuer	WMG Holdings Corp.
Notes Offered	$257,927,000 aggregate principal amount at maturity of 9.5% Senior Discount Notes due 2014. As of March 31, 2005, the accreted value of the notes was $167 million.
Maturity	December 15, 2014.
Original Issue Discount on the Discount Notes	The outstanding notes were offered with original issue discount for U.S. federal income tax purposes. Thus, although cash interest will not be payable on the notes prior to June 15, 2010, interest will accrue from the issue date of the notes based on the yield to maturity of the notes and will generally be included as interest income (including for periods ending prior to December 15, 2009) for U.S. federal income tax purposes in advance of receipt of the cash payments to which the income is attributable.
Ranking	The outstanding notes are, and the exchange notes will be, senior unsecured obligations of Holdings and will:

- rank equally in right of payment to all of Holdings unsecured senior indebtedness;
- rank senior in right of payment to any of Holdings future senior subordinated unsecured indebtedness and future subordinated unsecured indebtedness; and
- be effectively subordinated in right of payment to all of Holdings existing and future secured debt (including Holdings guarantee of $1,188 million of borrowings under Acquisition Corp. s senior credit facilities as of March 31, 2005 and the additional $250 million of borrowings as of May 13, 2005 under Acquisition Corp. s amended senior secured credit facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity), to the extent of the value

Table of Contents

of the assets securing such debt, and will be structurally subordinated to all obligations of each of Holdings existing and future subsidiaries (including Acquisition Corp. s $465 million of 7 ^{3}/8% senior subordinated notes due 2014, £100 million 8 ^{1}/8% senior subordinated notes due 2014, $1,188 million of borrowings under its senior credit facilities as of March 31, 2005 and the additional $250 million of borrowings as of May 13, 2005 under Acquisition Corp. s amended senior secured credit facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity).

As of March 31, 2005:

Holdings had approximately $1,188 million of senior indebtedness (other than the notes), all of which represented the secured guarantee by Holdings of borrowings by Acquisition Corp. under its senior credit facility. This amount does not include the guarantee by Holdings of the remaining $250 million of additional borrowings available under Acquisition Corp. s revolving credit facility or the additional $250 million of new term loan borrowings under Acquisition Corp. s senior secured credit facility, which was amended in May 2005 as part of the Concurrent Transactions. The guarantee by Holdings of borrowings under the credit facility is secured by a pledge of all the stock it owns in Acquisition Corp. and thus is effectively senior to the notes to the extent of the assets securing such guarantee;

Holdings would not have had any senior subordinated indebtedness; and

Holdings would not have had any subordinated indebtedness.

As of March 31, 2005, Holdings subsidiary, Acquisition Corp., had $1,188 million of debt outstanding under its credit agreement and an additional $250 million available under its revolving credit facility, plus $465 million of 7 ^{3}/8% senior subordinated notes due 2014 and £100 million of 8 ^{1}/8% senior subordinated notes due 2014, all of which would be structurally senior to the notes. In addition, on May 13, 2005, we borrowed an additional $250 million under the amended Acquisition Corp. senior secured credit facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity .

Guarantee

Parent has unconditionally guaranteed the outstanding notes, and will unconditionally guarantee the exchange notes, on an unsecured, senior basis.

Optional Redemption

Prior to December 15, 2009, Holdings may redeem some or all of the notes at a price equal to 100% of the accreted value of the notes plus a make whole premium as set forth under Description of Notes Optional Redemption.

Table of Contents

Additionally, Holdings may redeem the notes, in whole or in part, at any time on or after December 15, 2009 at the redemption prices set forth under Description of Notes Optional Redemption.

Optional Redemption After Certain Equity Offerings	At any time (which may be more than once) before December 15, 2007, Holdings may choose to redeem up to 35% of the notes with proceeds that it or one of its parent companies raises in one or more equity offerings, as long as: Holdings pays 109.5% of the accreted value of the notes, plus accrued and unpaid interest; Holdings redeems the notes within 90 days of completing the equity offering; and at least 65% of the aggregate principal amount at maturity of the notes issued remains outstanding afterwards. Unless Holdings issues additional notes, Holdings will not be able to redeem any of the notes pursuant to this provision.

See Description of Notes Optional Redemption.

Change of Control Offer	Upon the occurrence of a change in control, you will have the right, as holders of the notes, to require Holdings to repurchase some or all of your notes at 101% (100% in certain circumstances) of their accreted value plus accrued interest. See Description of Notes Change of Control.

Holdings may not be able to pay you the required price for notes you present to it at the time of a change of control, because:

- Holdings may not have enough funds at that time; or
- terms of its debt may prevent it from paying.

Asset Sale Proceeds	If Holdings or its restricted subsidiaries engage in asset sales, Holdings generally must either invest the net cash proceeds from such sales in its business within a period of time, prepay subsidiary debt or bank debt or make an offer to purchase a principal amount of the notes equal to the excess net cash proceeds. The purchase price of the notes will be 100% of their accreted value plus accrued and unpaid interest.
Certain Indenture Provisions	The indenture governing the notes contains covenants limiting Holdings ability and the ability of most or all of its subsidiaries to:

incur additional debt or issue certain preferred shares;

pay dividends on or make distributions in respect of their capital stock or make other restricted payments;

make certain investments;

sell certain assets;

create liens on certain debt without securing the notes;

Table of Contents

- consolidate, merge, sell or otherwise dispose of all or substantially all of their assets;
- enter into certain transactions with their affiliates; and
- designate their subsidiaries as unrestricted subsidiaries.

These covenants are subject to a number of important limitations and exceptions. See Description of Notes.

Absence of Public Market	The exchange notes will generally be freely transferable (subject to certain restrictions discussed in Exchange Offer; Registration Rights) but will be a new issue of securities for which there will not initially be a market. Accordingly, there can be no assurance as to the development or liquidity of any market for the exchange notes. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market for the exchange notes, as permitted by applicable laws and regulations. However, they are not obligated to do so and may discontinue any such market making activities at any time without notice. We do not intend to apply for a listing of the exchange notes on any securities exchange or automated dealer quotation system.
Listing	As noted above, Holdings does not intend to apply for a listing of the exchange notes on any securities exchange or automated dealer quotation system. The exchange notes are expected to trade in the over-the-counter market.
Use of Proceeds	Holdings will not receive any cash proceeds from the exchange offer. For a description of the use of proceeds from the private offering of the outstanding notes, see Use of Proceeds .
Risk Factors	See Risk Factors for a description of some of the risks you should consider before deciding to participate in the exchange offer.

Table of Contents

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA

Holdings, the issuer of the outstanding notes, is a holding company that conducts substantially all of its business operations through its only asset and wholly owned subsidiary, Acquisition Corp. Holdings is a wholly owned subsidiary of Parent. Parent has fully and unconditionally guaranteed the outstanding notes and will fully and unconditionally guarantee the exchange notes. Accordingly, we have presented the financial information of Parent. See Supplementary Information Condensed Consolidating Financial Statements to Parent s audited historical financial statements and unaudited interim financial statements, included elsewhere in this prospectus, for Holdings financial information on a stand-alone basis.

The following table sets forth Parent s summary historical and pro forma financial and other data as of the dates and for the periods indicated. Parent s summary balance sheet data as of September 30, 2004 and November 30, 2003 and the statement of operations and other data for each of (i) the seven months ended September 30, 2004, (ii) the three months ended February 29, 2004 and, (iii) the years ended November 30, 2003 and 2002 have been derived from Parent s audited financial statements included elsewhere in this prospectus. Parent s summary balance sheet data as of March 31, 2005 and the statement of operations and other data for each of the (i) ten months ended September 30, 2003, (ii) the five months ended February 29, 2004, (iii) the one month ended March 31, 2004 and the six months ended March 31, 2005 have been derived from Parent s unaudited financial statements included elsewhere in this prospectus. Parent s balance sheet data as of November 30, 2002 is derived from Parent s audited financial statements that are not included in this prospectus. Parent s summary historical balance sheet data as of September 30, 2003 and Parent s summary historical financial data as of and for each of the two years ended November 30, 2001 and 2000 have been derived from Parent s unaudited financial statements that are not included in this prospectus.

The comparability of Parent s summary historical financial data has been affected by a number of significant events and transactions. These include the Acquisition (as defined below) in 2004, a related change in Parent s fiscal year to September 30 from November 30, which was enacted in 2004, and the acquisition of Time Warner by AOL in 2001 (the AOL Time Warner Merger). Due to the change in Parent s year-end, financial information for 2004 is a transition period and reflects a shortened ten-month period ended September 30, 2004. This period is also separated into pre-acquisition and post-acquisition periods as a result of the change in accounting basis that occurred relating to the Acquisition. For all periods prior to the Acquisition, the music and publishing businesses formerly owned by Time Warner are referred to as Old WMG or the Predecessor. For all periods subsequent to the Acquisition, the business is referred to as the Company or the Successor. In addition, summary historical financial data for 2000 does not reflect the pushdown of a portion of the purchase price relating to the AOL Time Warner Merger that occurred in 2001 to Parent s financial statements.

Parent s summary unaudited pro forma financial data for the twelve months ended September 30, 2004 give effect, in the manner described under Pro Forma Consolidated Condensed Financial Statements and the notes thereto, to (i) the acquisition of the business by Acquisition Corp. effective as of March 1, 2004 (the Acquisition) and the borrowings under the senior secured credit facility and bridge loan and an initial capital investment by the Investor Group (the Original Financing), (ii) the use of the proceeds from the issuance of Acquisition Corp. s $465 million 7 3/8% senior subordinated notes due 2014 (the dollar notes) and £100 million 1/8% senior subordinated notes due 2014 (the sterling notes , and collectively with the dollar notes the Acquisition Corp. Notes), additional borrowings under the senior secured credit facility and cash on hand to repay or return certain amounts incurred in connection with the Original Financing (the Refinancing), (iii) our CD and DVD manufacturing, packaging and physical distribution agreements (the Cinram Agreements) with Cinram, (iv) the Holdings Refinancing, (v) the Recapitalization and the Initial Public Offering and (vi) the Concurrent Transactions as if they all occurred as of October 1, 2003. The summary pro forma financial data are presented for informational purposes only and are not necessarily indicative of Parent s financial position or results of operations that would have occurred had the transactions been consummated as of the dates indicated. In addition, the summary pro forma combined financial data are not necessarily indicative of Parent s future financial condition or operating results.

Table of Contents

The following Parent unaudited pro forma consolidated condensed statement of operations for the six months ended March 31, 2005 gives effect to (i) the Holdings Refinancing, (ii) the Initial Public Offering and (iii) the Concurrent Transactions, as of October 1, 2003. All financial effects resulting from the Acquisition and the Original Financing, the Cinram Agreements and the Refinancing are already reflected in Parent s historical statement of operations for the six months ended March 31, 2005, and accordingly, no pro forma adjustments to the statement of operations for such period are necessary.

You should read the information contained in this table in conjunction with Pro Forma Consolidated Condensed Financial Statements, Selected Historical Consolidated Financial and Other Data, Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations, The Transactions and Parent s historical financial statements and the accompanying notes thereto included elsewhere in this prospectus.

	Historical										Pro Forma	
	Predecessor							Successor				
	Fiscal Years Ended November 30,				Ten Months Ended September 30,	Three Months Ended February 29,	Five Months Ended February 29,	One Month Ended March 31,	Seven Months Ended September 30,	Six Months Ended March 31,	Twelve Months Ended September 30,	Six Months Ended March 31,
	2000	2001	2002	2003	2003	2004	2004	2004	2004	2005	2004(2)	2005(2)
	(unaudited)	(unaudited)	(audited) (1)	(audited) (1)	(unaudited)	(audited) (1)	(unaudited)	(unaudited)	(audited) (1)	(unaudited)	(unaudited)	(unaudited)
	(in millions)											
Statement of Operations Data:												
Revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 779	$ 1,668	$ 245	$ 1,769	$ 1,855	$ 3,436	$ 1,855
Cost of revenues	(1,960)	(1,731)	(1,873)	(1,940)	(1,449)	(415)	(906)	(130)	(944)	(981)	(1,843)	(981)
Selling, general and administrative expenses	(1,297)	(1,402)	(1,282)	(1,286)	(995)	(319)	(610)	(97)	(677)	(624)	(1,291)	(624)
Impairment of goodwill and other intangible assets			(1,500)	(1,019)			(1,019)				(1,019)	
Depreciation and amortization	(282)	(868)	(249)	(328)	(272)	(72)	(128)	(21)	(140)	(121)	(245)	(121)
Operating income (loss)	(36)	(766)	(1,542)	(1,158)	(197)	(11)	(972)	3	18	157	(929)	157
Interest expense, net	(13)	(34)	(23)	(5)	(5)	(2)	(2)	(10)	(80)	(90)	(150)	(83)
Income (loss) before cumulative effect of accounting change	(408)	(910)	(1,230)	(1,353)	(201)	(32)	(1,184)	(10)	(238)	40	(901)	35
Net income (loss)	$ (408)	$ (910)	$ (6,026)	$ (1,353)	$ (201)	$ (32)	$ (1,184)	$ (10)	$ (238)	$ 40	(901)	35
Segment Data:												
Revenues:												
Recorded Music	$ 2,929	$ 2,701	$ 2,752	$ 2,839	$ 2,039	$ 630	$ 1,430	190	$ 1,429	1,561	N/A	N/A
Music Publishing	554	547	563	563	467	157	253	55	348	309	N/A	N/A
Intersegment eliminations	(22)	(22)	(25)	(26)	(19)	(8)	(15)		(8)	(15)	N/A	N/A
Total revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 779	$ 1,668	245	$ 1,769	$ 1,855	$ 3,436	$ 1,855
Operating income (loss):												
Recorded Music	$ (22)	$ (733)	$ (1,206)	$ (1,130)	$ (181)	$ (9)	(958)	(2)	$ 24	182	N/A	N/A
Music Publishing	47	23	(273)	23	19	17	21	9	53	42	N/A	N/A

Corporate expenses	(61)	(56)	(63)	(51)	(35)	(19)	(35)	(4)	(59)	(67)	N/A	N/A
Total operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (11)	$ (972)	3	$ 18	$ 157	$ (929)	$ 157
OIBDA(3):												
Recorded Music	$ 214	$ 73	$ 173	$ 116	$ 8	$ 38	146	12	$ 120	266	N/A	N/A
Music Publishing	91	81	88	107	88	38	57	15	87	71	N/A	N/A
Corporate expenses	(59)	(52)	(54)	(34)	(21)	(15)	(28)	(3)	(49)	(59)	N/A	N/A
Total OIBDA(3)	$ 246	$ 102	$ 207	$ 189	$ 75	$ 61	$ 175	24	$ 158	$ 278	$ 335	$ 278
Other Financial Data:												
Deficiency in earnings over fixed charges(4)	$ (365)	$ (1,066)	$ (1,570)	$ (1,317)	$ (268)	$ (15)	$ (1,064)	$ (11)	$ (74)	N/A	$ (1,176)	N/A
Ratio of earnings to fixed charges	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.78	N/A	1.83
Cash Flow Data:												
Cash flows provided by (used in):												
Operating activities	$ 75	$ (122)	$ (13)	$ 278	$ 257	$ 321	$ 352	$ (2)	$ 86	$ 292	N/A	N/A
Investing activities	(153)	(175)	(365)	(65)	(73)	14	17	(2,640)	(2,663)	(61)	N/A	N/A
Financing activities	61	227	385	(121)	(151)	(10)	18	2,700	2,661	(342)	N/A	N/A
Capital expenditures	(64)	(91)	(88)	(51)	(30)	(3)	(24)		(15)	(14)	N/A	N/A
Balance Sheet Data (at period end):												
Cash and equivalents	$ 106	$ 34	$ 41	$ 144	$ 80	$ 471	$ 471	$ 529	$ 555	$ 447	N/A	$ 284
Total assets	6,791	17,642	5,679	4,484	5,255	4,560	4,560	5,185	5,090	4,742	N/A	$ 4,570
Total debt (including current portion of long-term debt)	102	115	101	120	115	132	132	1,650	1,840	2,550	N/A	$ 2,264
Shareholder s equity (deficit)	5,228	14,588	3,001	1,587	2,673	1,691	1,691	838	280	(137)	N/A	113

(1) Audited, except for other Financial Data.
(2) See Pro Forma Consolidated Condensed Financial Statements.
(3) We evaluate segment and consolidated performance based on several factors, of which the primary 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 (which we refer to as OIBDA). See Use of OIBDA under Management s Discussion and Analysis of Financial Condition and Results of Operations elsewhere herein. Note that OIBDA is different from Adjusted EBITDA as defined in Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition and Liquidity Covenant Compliance , which is presented on a consolidated and combined basis therein as a covenant compliance measure. The following is a reconciliation of operating income, which is a GAAP measure of our operating results, to OIBDA.

	Historical										Pro Forma	
	Predecessor							Successor				
	Fiscal Years Ended November 30,				Ten Months Ended September 30,	Three Months Ended February 29,	Five Months Ended February 29,	One Month Ended March 31,	Seven Months Ended September 30,	Six Months Ended March 31,	Twelve Months Ended September 30,	Six Months Ended March 31,
	2000	2001	2002	2003	2003	2004	2004	2004	2004	2005	2004(1)	2005(1)
	(unaudited)	(unaudited)	(audited)	(audited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
	(in millions)											
Operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (11)	$ (972)	$ 3	$ 18	$ 157	$ (929)	$ 157
Depreciation and amortization expense	282	868	249	328	272	72	128	21	140	121	245	121
			1,500	1,019			1,019				1,019	

Impairment of goodwill and other intangible assets												
OIBDA	$ 246	$ 102	$ 207	$ 189	$ 75	$ 61	$ 175	$ 24	$ 158	$ 278	$ 335	$ 278

16

Table of Contents

(4) For purposes of calculating the earnings to fixed charges, earnings represent income (loss) before income taxes plus fixed charges. Fixed charges consist of interest expense and one-third of rental expense under operating leases (the portion that has been deemed by management to be representative of the interest factor). In periods where earnings were insufficient to cover fixed charges, the deficiency of earnings over fixed charges has been disclosed. Pretax earnings for 2002 and 2003 have been reduced by a $1.5 billion and $1.0 billion, respectively, non-cash charge to reduce the carrying value of our goodwill and other intangible assets. Accordingly, because this charge was non-cash, it is not indicative of our ability to cover our fixed charges with pretax earnings. Excluding the non-cash impairment charge for 2002 and 2003 on a historical basis, and the twelve months ended September 30, 2004 on a pro forma basis, would result in a deficiency of earnings over fixed charges of $70 million in 2002, $298 million in 2003 and $207 for the twelve months ended September 30, 2004. In addition, deficiency of earnings over fixed charges in each period includes significant non-cash amortization expenses on intangible assets of $93 million, $178 million, $93 million, $104 million, $15 million, $97 million, $56 million, $201 million, $242 million, $182 million, $821 million and $240 million in each of the pro forma six months ended March 31, 2005, pro forma twelve months ended September 30, 2004, the six months ended March 31, 2005, the seven months ended September 30, 2004, the one month ended March 31, 2004, the five months ended February 29, 2005, the three months ended February 29, 2004, the ten months ended September 30, 2003 and fiscal 2003, 2002, 2001 and 2000, respectively.

Table of Contents

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before participating in the exchange offer. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In such a case, you may lose all or part of your original investment.

Risks Related to the Exchange Offer

If you choose not to exchange your outstanding notes in the exchange offer, the transfer restrictions currently applicable to your outstanding notes will remain in force and the market price of your outstanding notes could decline.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, then you will continue to be subject to the transfer restrictions on the outstanding notes as set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, Holdings does not intend to register resales of the outstanding notes under the Securities Act. You should refer to Prospectus Summary Summary of the Terms of the Exchange Offer and The Exchange Offer for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the principal amount of the outstanding notes outstanding, which may have an adverse effect upon and increase the volatility of, the market price of the outstanding notes due to reduction in liquidity.

Risks Related to the Business

Increased costs associated with corporate governance compliance may significantly affect our results of operations.

The Sarbanes-Oxley Act of 2002 and our being subject to the Securities Exchange Act of 1934, as amended, will require changes in some of our corporate governance and securities disclosure and compliance practices, and will require a review of our internal control procedures. For example, we will be required to implement disclosure controls, which currently need to be improved. We expect these developments to increase our legal compliance and financial reporting costs. In addition, they could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers. Finally, director and officer liability insurance for public companies like us has become more difficult and more expensive to obtain, and we may be required to accept reduced coverage or incur higher costs to obtain coverage that is satisfactory to us and our officers or directors. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude or additional costs we may incur as a result.

Our internal controls over financial reporting may not be adequate and our independent auditors may not be able to certify as to their adequacy, which could have a significant and adverse effect on our business and reputation.

We are evaluating our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder, which we refer to as Section 404. Section 404 requires a reporting company such as ours to, among other things, annually review and disclose its internal controls over financial reporting, and evaluate and disclose changes in its internal controls over financial reporting quarterly. We will be required to comply with Section 404 as of September 30, 2006. We are currently performing the system and process evaluation and testing required (and any necessary remediation) in an effort to comply with management certification and auditor attestation requirements of Section 404. In the course of our ongoing evaluation, we have identified areas of our internal controls requiring improvement, and plan to design enhanced processes and controls to address these and any other issues that might be identified through this review. As a result, we expect to incur additional expenses and diversion of management s time. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations and may not be able to ensure that the process is effective or that the internal controls are or will be effective in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. As a result, there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could adversely affect our results.

Our outside auditors have identified weaknesses in our internal controls that could affect our ability to ensure timely and reliable financial reports.

In addition to our evaluation of internal controls under Section 404 of the Sarbanes-Oxley Act and any areas requiring improvement that we identify as part of that process, in connection with the most recent audit of Acquisition Corp., and subsequently Parent, our outside auditors identified a number of significant deficiencies that together constitute material weaknesses in our internal controls. A material weakness, as defined by the Public Company Accounting Oversight Board, is a significant deficiency that by itself, or in combination with other significant deficiencies, results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

During the transition from a subsidiary of a multinational company to a stand alone entity, our outside auditors advised the audit committee of our board of directors and our management that numerous entity level controls were limited or not in place, including the need for a permanent chief financial officer (who we have since hired) and additional skilled accounting and SEC experienced personnel to enhance the accounting department both domestically and internationally, the need to develop a tax group, the need to establish our own internal audit department, the need to considerably enhance our documentation of our systems and controls, and the need to develop and implement a formal code of conduct. In addition, our outside auditors noted that our domestic operations currently use different royalty systems, which has created certain complexities in reconciling royalty expense and payables. While we recognize that additional staff is needed to cope with current requirements in royalty processing until a new system can be developed, we may not be able to hire and train additional staff. Finally, our auditors noted that our overall controls at our print business are significantly deficient. In December 2004, we entered into a definitive agreement to sell our print business to Alfred Publishing and the sale was consummated on May 31, 2005.

We have already taken a number of actions to begin to address the items identified including:

- recently hiring a permanent chief financial officer;
- establishing an audit committee and appointing an independent director who is a financial expert as the chair of the committee;
- outsourcing our internal audit functions and hiring a director of internal audit;
- hiring external resources to lead our Section 404 evaluation efforts;

adopting a new code of conduct and hiring outside consultants to assist in the implementation of the new code of conduct;

hiring additional outside resources to assist our internal personnel with royalties accounting and SEC reporting;

Table of Contents

hiring other accounting and SEC experienced personnel to enhance the accounting department;

hiring a director of taxation and other tax department members; and

entering into a joint venture with Universal Music Group, Exigen Group and Lightspeed Venture Partners to build a new uniform royalty system for all U.S. operations.

While we have begun to take actions to address the items identified, additional measures will be necessary and these measures along with other measures we expect to take to improve our internal controls may not be sufficient to address the issues identified by our outside auditors or ensure that our internal controls are effective. If we are unable to provide reliable and timely financial reports our business and prospects could suffer material adverse effects and our share price could be adversely affected.

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

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 DVD-Audio, DualDisc and downloadable digital files are thought to represent potential new avenues for growth, no significant new legitimate audio format has yet emerged to take the place of the CD. The value of worldwide sales fell as the music industry witnessed a decline of 4.9% from 1999 to 2000, 5.7% from 2000 to 2001, 6.7% from 2001 to 2002, 7.6% from 2002 to 2003. Although we believe that the recorded music industry should improve as evidenced by the year-over-year growth in U.S. music physical unit sales in 2004 and the performance in overall (physical and digital) music unit sales globally in 2004, the industry may relapse into a period of decline as witnessed from 1999 to 2003. We cannot assure you as to the timing or the extent of any improvement in the industry or that the evidence of improvement in 2004 based upon U.S. sales through the one-year period ending January 2, 2005 and global sales in the first half of 2004 will continue. For example, as of July 3, 2005, year-to-date U.S. recorded music sales (excluding sales of digital tracks) are down approximately 7.1% year-over-year. 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 which could cause us to reduce our prices and erode our profit margins. They are, among others, increased price competition among record companies resulting from the Universal and Sony BMG recorded music duopoly, price competition from the sale of motion pictures in DVD-Video format and videogames, the ever greater price negotiating leverage of mass merchandisers and big box retailers, the increased costs of doing business with mass merchandisers and big box retailers as a result of complying with operating procedures that are unique to their needs and the adoption by record companies of initially lower-margin formats such as DualDisc and DVD-Audio. See Risk Factors We may be materially and adversely affected by the formation of Sony BMG Music Entertainment.

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

Table of Contents

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

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

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to create unauthorized copies of our recordings in the form of, for example, CDs and MP3 files. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread dissemination on the Internet without an economic return to us. We are working to control this problem through litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws and by establishing legitimate new media business models. We cannot give any assurances that such measures will be effective. For instance, the Inducing Infringement of Copyrights Act of 2004 introduced in the Senate on June 22, 2004 was not enacted in 2004. 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, such as in the original decisions in the recent file-sharing cases in the U.S., Metro-Goldwyn-Mayer Studios, Inc. *et al* vs. Grokster Ltd. *et al*), 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. On March 29, 2005, the U.S. Supreme Court heard the appeal of the decision of the U.S. Court of Appeals for the 9th Circuit in the Grokster case. The issue to be decided by the Supreme Court was the liability of file sharing software developers and vendors for the copyright infringement that takes place on their services. Both the district court and the Ninth Circuit had found that Grokster and Streamcast could not be found contributorily and vicariously liable for the copyright infringement committed by the users of their services. On June 27, 2005, the U.S. Supreme Court held that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the lawful uses of the device. The U.S. Supreme Court sent the case back to the trial court so that the trial process can determine whether the defendant companies intentionally encouraged infringement.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to the music industry. Worldwide, industrial pirated music (which encompasses unauthorized physical copies manufactured for sale but does not include Internet downloads or home CD burning) is estimated to have generated over $4.6 billion in revenues in 2004, according to IFPI. IFPI estimates that 1.2 billion pirated units were manufactured in 2004. According to IFPI estimates, approximately 34% of all music CDs sold worldwide in 2004 were pirated. Unauthorized copies and piracy 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.

Table of Contents

Our Restructuring Plan may not be successful and may adversely affect our business.

The scope of our Restructuring Plan is broad and significant and may cause losses to our business that we cannot predict. At the time of the Acquisition, we had identified up to $277 million of annualized cost savings to be achieved within 18 months and had identified approximately $310 million of associated restructuring charges. Although we have now implemented annualized cost savings of approximately $250 million and expect the actual charges to be between $225 million and $250 million, we cannot assure you that:

- we will actually achieve all such identified savings;
- we will implement all measures needed to achieve such savings; and
- the costs to implement our Restructuring Plan will not exceed our identified costs due to, among other things, higher than expected costs related to staff reductions or consolidation of our operations.

The primary challenge we face in realizing the cost savings in our Restructuring Plan is avoiding increased costs required to support our ongoing operations. Specifically, a variety of factors could cause us not to achieve the benefits of the restructuring, or could result in harm to our business, including, among others, the following:

- higher than expected retention costs for employees that will be retained;
- increased operating costs or other unexpected costs associated with supporting the business and meeting financial objectives such as revenue growth;
- loss of revenues and market share due to, among other things, a diminished ability to attract and hire desirable talent;
- unexpected loss of artists or key employees; and
- loss of revenues and market share due to, among other things, a lack of sufficient resources to promote records and albums, and a lack of sufficient resources to attract new artists.

If we fail to successfully implement the remainder of the Restructuring Plan, including our cost-saving measures, our results of operations and financial position may suffer. In addition, we cannot predict the extent to which our Restructuring Plan may adversely affect 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.

The recorded music industry is under investigation by Eliot Spitzer, the Attorney General for the State of New York, regarding its practices in promoting its records to radio stations.

On September 7, 2004, November 22, 2004 and March 31, 2005, Eliot Spitzer, the Attorney General of the State of New York, served us with requests for information in the form of subpoenas duces tecum in connection with an industry-wide investigation of the relationship between music companies and radio stations, including the use of independent promoters and accounting for any such payments. In response to the Attorney General s subpoenas, we have been producing documents and have substantially completed our production. We also understand that this investigation has been expanded to include companies that own radio stations. The investigation is pursuant to New York Executive Law §63(12) and New York General Business Law §349, both of which are consumer fraud statutes. On July 25, 2005, Sony BMG Music Entertainment (Sony BMG) reached a settlement with the Attorney General. As part of such settlement, Sony BMG agreed to make $10 million in charitable payments and to abide by a list of permissible and impermissible promotional activities. Commissioner Adelstein of the Federal Communications Commission has subsequently called for an

Table of Contents

investigation into the same or related subject matter. While it is too soon to predict the outcome of this investigation and the FCC announcement on us, the investigation by Spitzer, the FCC announcement and these recent developments have the potential to result in changes in the manner in which the recorded music industry promotes its records or financial penalties, which could adversely affect our business, including our brand value.

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

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

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

Our business is seasonal. For the twelve months ended March 31, 2005, we derived approximately 83% of our revenues from our Recorded Music business. In the recorded music business, purchases are heavily weighted towards the last three months of the calendar year which represent our first quarter under our new 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 new first fiscal quarter) material to our full-year performance. We realized 35% of recorded music calendar year net sales during the last three months of 2004. This sales seasonality affects our operating cash flow from quarter to quarter. We cannot assure you that our recorded music net sales for the last three months of any calendar year will continue to be sufficient to meet our obligations or that they will be higher than such net sales for our other quarters. In the event that we do not derive sufficient recorded music net sales in such last three months, we may not be able to meet our debt service under the notes or the guarantee and our other obligations.

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 online environment. It also faces competition from other forms

of entertainment and leisure activities, such as cable and satellite television, pre-recorded films on videocassettes and DVD, the Internet and computer and videogames.

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

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

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;
- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
- exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;
- difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;
- tariffs, duties, export controls and other trade barriers;
- longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

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

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future other country-specific trends, developments or other events will not have such a significant adverse effect on our business, results of operations or financial condition.

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

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

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

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

Our success depends, in part, upon the continuing contributions of our executive officers. Although we have employment agreements with our executive officers, there is no guarantee that they will not leave. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects. See Management and Prospectus Summary Recent Developments New Chief Financial Officer and Prospectus Summary Recent Developments New Head of Warner/Chappell Music.

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 the Internet and wireless as a sales distribution channel and believe that the development of legitimate channels for digital music distribution holds promise for us in the future. However, legitimate channels for digital distribution are a recent development and we cannot predict their impact on our business. Any legitimate digital distribution channel that does develop may result in lower or less profitable sales for us than comparable physical sales. In addition, if piracy continues unabated and legitimate digital distribution channels fail to gain consumer acceptance, our results of operations could be harmed.

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, which may limit our profitability.

Mechanical royalties and performance royalties are the two largest sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the U.S., mechanical rates are set pursuant to industry negotiations contemplated by the U.S. Copyright Act and performance rates are set by performing rights societies and subject to challenge by performing rights licensees. Outside the U.S., mechanical and performance rates are typically negotiated on an industry-wide basis. The mechanical and performance rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business.

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 six months ended March 31, 2005, approximately 54% of our revenues related to operations in foreign territories. See Note 23 to Parent s historical financial statements and the accompanying notes included elsewhere in this prospectus. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of March 31, 2005, we have hedged our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates for the balance of the fiscal year.

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

We currently have interests in a number of joint ventures and may in the future enter into further joint ventures as a means of conducting our business. In addition, we structure certain of our relationships with

Table of Contents

recording artists and songwriters as joint ventures. We may not be able to fully control the operations and the assets of our joint ventures, and we may not be able to make major decisions or may not be able to take timely actions with respect to our joint ventures unless our joint venture partners agree.

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

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

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

The U.S. Copyright Act provides authors (or their heirs) a right to terminate licenses or assignments of rights in their copyrighted works. This right does not apply to works that are works made for hire . Since the effective date of U.S. copyrightability 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. 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. 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 creditworthiness or that they will meet our strategic objectives or otherwise be successful. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both.

We are controlled by entities that may have conflicts of interest with us or you in the future.

The Investor Group controls a majority of Parent s capital stock on a fully diluted basis. In addition, representatives of the Investor Group occupy substantially all of the seats on Parent s board of directors and pursuant to the stockholders agreement, will have the right to appoint all of the independent directors to Parent s 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 Parent s board of directors or the stockholders regardless of whether or not other members of Parent s 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 acquisition opportunities may not be available to us. So long as the Investor Group continues to meet certain ownership thresholds, the Investor Group will be entitled to nominate a majority of Parent s board of directors. In addition, so long as the Investor Group continues to own a significant amount of Parent s 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. In addition, our agreements with Cinram begin to expire in the next two years, beginning in 2006. If we are unable to negotiate renewals of these agreements we would have to switch to substitute suppliers. Further, pricing negotiated with Cinram in future agreements may be more or less favorable than the existing agreements.

We may be materially and adversely affected by the separation of our business from Time Warner.

As a result of the Acquisition, we are an independent entity. We cannot assure you that our separation from Time Warner will progress smoothly, which could materially and adversely impact our results. In the past, we have relied on contractual arrangements which required Time Warner and its affiliates to provide some services such as critical transitional services and shared arrangements to us such as tax, treasury, benefits and information technology, most of which expired as of December 31, 2004. We have replaced the majority of these services and arrangements and are in the process of replacing any remaining services and arrangements that we will still need as an independent entity. The new services and arrangements we have put in place may not operate as effectively or cost effectively as those we previously received from Time Warner and we may not be able to replace any remaining services and arrangements on terms and conditions, including service levels and cost, as favorable as those we have received from Time Warner.

We may be materially and adversely affected by the formation of Sony BMG Music Entertainment.

In August 2004 Sony Music Entertainment (Sony) and Bertelsmann Music Group (BMG) merged their recorded music businesses to form Sony BMG Music Entertainment. As a result, the recorded music market now

Table of Contents

consists of four major players (Universal, Sony BMG, EMI Recorded Music (EMI) and us) rather than five (Universal, Sony, BMG, EMI and us). Prior to the formation of Sony BMG, there was one disproportionately large major, Universal, with approximately 25% market share and four other majors relatively equal in size with market shares ranging between 11% and 14%. Now there are two majors with global market shares exceeding 20%, Universal and Sony BMG, and two significantly smaller majors, EMI and us each with less than 15% of the market. There is a threat that the change in the competitive landscape caused by the new Universal and Sony BMG duopoly could drive up the costs of artist signings and the costs of marketing and promoting records to our detriment.

Risks Related to the Notes

Holdings and Parent (through its guarantee) are the sole obligors of the notes and Holdings subsidiaries do not guarantee Holdings obligations under the notes and do not have any obligation with respect to the notes; the notes are structurally subordinated to the debt and liabilities of Holdings subsidiaries and are effectively subordinated to Holdings secured debt.

Holdings and Parent have no operations of their own and derive all of their revenues and cash flow from their subsidiaries. Holdings subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due under the notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payments.

The notes are structurally subordinated to all debt and liabilities of Parent s and Holdings subsidiaries, including those of Acquisition Corp. Acquisition Corp. also has joint ventures and subsidiaries in which it owns less than 100% of the equity so that, in addition to the structurally senior claims of creditors of those entities, the equity interests of its joint venture partners or other shareholders in any dividend or other distribution made by these entities would need to be satisfied on a proportionate basis with Holdings. These joint ventures and less-than-wholly-owned subsidiaries may also be subject to restrictions on their ability to distribute cash to us in their financing or other agreements, and, as a result, we may not be able to access their cash flow to service our debt obligations, including in respect of the notes. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to Holdings subsidiaries, you will participate with all other holders of Holdings indebtedness in the assets remaining after Holdings subsidiaries have paid all of their debt and liabilities. In any of these cases, Holdings subsidiaries may not have sufficient funds to make payments to Holdings, and you may receive less, ratably, than the holders of debt of Holdings subsidiaries and other liabilities. As of March 31, 2005, Holdings subsidiaries had $1.842 billion (based on the exchange rate for pounds sterling on March 31, 2005) of indebtedness (which would not have included availability under the $250 million revolving portion of Acquisition Corp. s senior secured credit facility nor the additional $250 million of new term loan borrowings as of May 13, 2005 under the amended Acquisition Corp. senior secured credit facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity), all of which would be structurally senior to the notes.

In addition, holders of secured debt of Holdings will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other debt. Notably, the notes will be effectively subordinated to Holdings secured guarantee of Acquisition Corp. s debt under the senior credit facility to the extent of the value of the collateral. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to us, holders of secured debt will have a prior claim to the assets that constitute their collateral. Additionally, the indentures governing the notes and the indebtedness of our subsidiaries and the senior credit facility permit Holdings and/or its subsidiaries to incur additional indebtedness, including secured indebtedness, under certain circumstances, and do not restrict Parent from incurring additional debt. As of March 31, 2005, Holdings subsidiaries had $1.188 billion of senior secured indebtedness (all of which would have been indebtedness under Acquisition Corp. s senior secured credit facility and which would not have included availability under the $250 million revolving portion of Acquisition Corp. s senior secured credit facility nor the additional $250 million of new term loan borrowings under the amended Acquisition Corp. senior secured credit

Table of Contents

facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity).

If Holdings or its subsidiaries have their debt accelerated, Holdings may not be able to repay such indebtedness or the notes. Parent and Holdings assets and their subsidiaries assets may not be sufficient to fully repay the notes and other indebtedness. See Description of Other Indebtedness.

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

We are highly leveraged. As of March 31, 2005, our total consolidated indebtedness was $2.55 billion. In addition, on May 13, 2005, we borrowed an additional $250 million under the amended Acquisition Corp. senior secured credit facility as described under Management s Discussion and Analysis Financial Condition and Results of Operations Liquidity. We currently have an additional $250 million available for borrowing under the revolving portion of Acquisition Corp. s senior secured credit facility (less $4 million of outstanding letters of credit). Further, on June 15, 2005 we redeemed $541 million of Holdings Notes. After giving effect to these events, our total consolidated indebtedness as of March 31, 2005 on a *pro forma* basis would have been $2.26 billion. See Capitalization for additional information.

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 Acquisition Corp. s 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, in the case of Holdings and its subsidiaries, to the restrictions contained in Acquisition Corp. s senior secured credit facility and the indentures relating to the Acquisition Corp. Notes and the notes. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

Holdings and Parent may not have access to the cash flow and other assets of their subsidiaries that may be needed to make payment on the notes and guarantee.

Holdings and Parent s operations are conducted through their subsidiaries and their ability to make payments are dependent on the earnings and the distribution of funds from their subsidiaries. However, none of their subsidiaries is obligated to make funds available to Holdings or Parent for payment on the notes or the guarantee. Further, the terms of the indenture governing the 7 $^{3}/8$% senior subordinated notes due 2014 and the 8 $^{1}/8$% senior subordinated notes due 2014 of Acquisition Corp. significantly restrict Acquisition Corp. and their other subsidiaries from paying dividends and otherwise transferring assets to Holdings and Parent. For example,

Table of Contents

the ability of Acquisition Corp. to make such payments is governed by a formula based on 50% of its consolidated net income (which, as defined in the indenture governing Acquisition Corp. Notes, excludes goodwill impairment charges and any after-tax extraordinary, unusual or nonrecurring gains and losses) accruing from June 1, 2004. In addition, as a condition to making such payments to Holdings or Parent based on such formula, Acquisition Corp. must have an Adjusted EBITDA to interest expense ratio of at least 2.0 to 1 after giving effect to any such payments. Acquisition Corp. may also make a dividend to Holdings or Parent prior to April 15, 2009 if, immediately after giving pro forma effect to such restricted payment and any indebtedness incurred to finance such restricted payment, its net indebtedness to Adjusted EBITDA ratio would not exceed 3.75 to 1 and its net senior indebtedness to Adjusted EBITDA ratio would not exceed 2.50 to 1. Notwithstanding such restrictions, such indenture permits an aggregate of $45.0 million of such payments to be made whether or not there is availability under the formula or the conditions to its use are met. Acquisition Corp. s senior secured credit agreement permits Holdings to pay interest in cash on its indebtedness (including the notes) up to a maximum amount of $35 million in any fiscal year for the next five years. Thereafter, the credit agreement will permit Holdings to pay in cash interest when due that is then required to be paid in cash, assuming there has been no event of default under the credit agreement. Furthermore, Holdings subsidiaries will be permitted under the terms of the senior credit facilities and 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 or Parent.

The agreements governing the current and future indebtedness of Holdings and Parent s subsidiaries may not permit their subsidiaries to provide Holdings and Parent with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on these notes when due or on the guarantee if due. See Description of Other Indebtedness.

Our subsidiaries may not be able to generate sufficient cash to service all of their and our indebtedness, including the notes, and may be forced to take other actions to satisfy their and our obligations under such indebtedness, which may not be successful.

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

If our subsidiaries cash flows and capital resources are insufficient to fund our and their debt service obligations, we and our subsidiaries may be forced to reduce or delay investments in recording artists, and songwriters capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us or our subsidiaries to meet our and their scheduled debt service obligations. In the absence of such operating results and resources, we and they could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our and their debt service and other obligations. The senior secured credit facility, the indenture governing the notes and our subsidiaries existing indenture restrict our subsidiaries ability to dispose of assets and use the proceeds from the disposition. Our subsidiaries 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.

U.S. persons will be required to pay U.S. Federal income tax on accrual of original issue discount on the notes even if Holdings does not pay cash interest.

The original notes were, and the exchange notes will be, issued at a substantial discount from their principal amount at maturity. Although cash interest will not accrue on the notes prior to December 15, 2009, and there

30

Table of Contents

will be no periodic payments of cash interest on the notes prior to December 15, 2009, original issue discount (the difference between the stated redemption price at maturity and the issue price of the notes) will accrue from the issue date of the outstanding notes. Consequently, purchasers of the notes generally will be required to include amounts in gross income for United States federal income tax purposes in advance of their receipt of the cash payments to which the income is attributable. Such amounts in the aggregate will be equal to the difference between the stated redemption price at maturity (inclusive of stated interest on the notes) and the issue price of the notes.

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

Acquisition Corp. s senior secured credit agreement, the indenture governing Acquisition Corp. s existing notes, and the indenture governing the notes contain various covenants that limit Holdings and its restricted subsidiaries ability to engage in specified types of transactions. These covenants limit Holdings and its restricted subsidiaries ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on or make distributions in respect of their capital 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 their assets;
- enter into certain transactions with their affiliates; and
- designate their subsidiaries as unrestricted subsidiaries.

In addition, under the senior secured credit agreement, Acquisition Corp. is required to satisfy and maintain specified financial ratios and other financial condition tests. Its ability to meet those financial ratios and tests can be affected by events beyond its and our control, and we cannot assure you that it will meet those ratios and tests. A breach of any of these covenants could result in a default under the senior secured credit agreement. Upon the occurrence of an event of default under the senior secured credit agreement, the lenders could elect to declare all amounts outstanding under the senior secured credit agreement 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 the senior secured credit agreement could proceed against the collateral granted to them to secure that indebtedness. Holdings and its subsidiaries have pledged a significant portion of their assets as collateral under the senior secured credit agreement. If the lenders under the senior secured credit agreement accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay the senior secured credit agreement and the Acquisition Corp. Notes, as well as our unsecured indebtedness, including the notes.

If Holdings or its subsidiaries default on its and their obligations to pay Holdings and their indebtedness, Holdings may not be able to make payments on the notes.

Any default under the agreements governing Holdings or its subsidiaries indebtedness, including a default under Acquisition Corp. s senior credit facility that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could make Holdings unable to pay principal, premium, if any, and interest on the notes and substantially decrease the market value of the notes. If Holdings or they are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on Holdings or their indebtedness, or if Holdings or they otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing Holdings or their indebtedness (including covenants in Acquisition Corp. s senior credit facility and the

Table of Contents

indentures governing the Acquisition Corp. Notes and the notes), Holdings or they could be in default under the terms of the agreements governing such indebtedness, including Acquisition Corp. s senior credit facility and the indentures. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under Acquisition Corp. s senior credit facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against Holdings and its subsidiaries assets, and Holdings could be forced into bankruptcy or liquidation. If Holdings or its subsidiaries operating performance declines Holdings may in the future need to obtain waivers from the required lenders under Acquisition Corp. s senior credit facility to avoid being in default. If Holdings breaches its covenants under Acquisition Corp. s senior credit facility and seeks a waiver, Holdings may not be able to obtain a waiver from the required lenders. If this occurs, Holdings would be in default under Acquisition Corp. s senior credit facility, the lenders could exercise their rights, as described above, and Holdings could be forced into bankruptcy or liquidation.

Holdings may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, Holdings will be required to offer to repurchase all outstanding notes at 101% (or, in certain cases, 100%) of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the notes will be Holdings available cash or cash generated from the operations of Holdings subsidiaries or other sources, including borrowings, sales of assets or sales of equity. Holdings may not be able to repurchase the notes upon a change of control because Holdings or its subsidiaries may not have sufficient financial resources to purchase all of the notes that are tendered upon a change of control. Further, Holdings is contractually restricted under the terms of our senior secured credit facility from repurchasing all of the notes tendered by holders upon a change of control. Accordingly, Holdings may not be able to satisfy its obligations to purchase the notes unless it is able to refinance or obtain waivers under our senior secured credit facility. Holdings failure to repurchase the notes upon a change of control would cause a default under the indentures and a cross-default under the senior secured credit facility. The senior secured credit agreement also provides that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of Holdings future debt agreements may contain similar provisions.

Certain corporate events may not trigger a change of control event in which case Holdings will not be required to repurchase your notes.

The indentures governing the notes and the Acquisition Corp. Notes permit Holdings and its subsidiaries to engage in certain important corporate events, such as leveraged recapitalizations, that would increase indebtedness but would not constitute a Change of Control. If either Holdings or its subsidiaries effected a leveraged recapitalization or other such non-change in control transaction that resulted in an increase in indebtedness, Holdings ability to make payments on the notes would be adversely affected. However, Holdings would not be required to make an offer to repurchase the notes, and you might be required to continue to hold your notes, despite Holdings decreased ability to meet its obligations under the notes.

Federal and state fraudulent transfer laws may permit a court to void the notes and the guarantee by Parent, and, if that occurs, you may not receive any payments on the notes.

The issuance of the notes and the guarantee by Parent may be subject to review under federal and state fraudulent transfer and conveyance statutes. While the relevant laws may vary from state to state, under such laws the payment of consideration will be a fraudulent conveyance if (1) Holdings paid the consideration with the intent of hindering, delaying or defrauding creditors or (2) Holdings or the guarantor, as applicable, received less than reasonably equivalent value or fair consideration in return for issuing either the notes or the guarantee, and, in the case of (2) only, one of the following is also true:

Holdings or the guarantor was insolvent or rendered insolvent by reason of the incurrence of the indebtedness; or

payment of the consideration left Holdings or the guarantor with an unreasonably small amount of capital to carry on the business; or

Table of Contents

Holdings or the guarantor intended to, or believed that it would, incur debts beyond its ability to pay as they mature.

If a court were to find that the issuance of the notes or the guarantee was a fraudulent conveyance, the court could void the payment obligations under the notes or such guarantee or further subordinate the notes or such guarantee to presently existing and future indebtedness of Holdings or the guarantor, or require the holders of the notes to repay any amounts received with respect to the notes or such guarantee. In the event of a finding that a fraudulent conveyance occurred, you may not receive any repayment on the notes. Further, the voidance of the notes could result in an event of default with respect to our and our subsidiaries other debt that could result in acceleration of such debt.

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the exchange notes.

The exchange notes are a new issue of securities for which there is no established public market. We do not intend to apply for listing of the exchange notes on a securities exchange. The initial purchasers have advised us that they intend to make a market in the exchange notes, as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to make a market, and they may discontinue their market-making activities at any time without notice. Therefore, we cannot assure you that an active market for the exchange notes will develop or, if developed, that it will continue. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. We cannot assure you that the market, if any, for the exchange notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your exchange notes. In addition, subsequent to their initial issuance, the exchange notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our performance and other factors.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this prospectus, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, savings and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar termino 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. Important factors that could cause actual results to differ materially from our expectations (cautionary statements) are disclosed under Risk Factors and elsewhere in this prospectus, including, without limitation, in conjunction with the forward-looking statements included in this prospectus. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

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 prospectus. As stated elsewhere in this prospectus, such risks, uncertainties and other important factors include, among others:

- the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- our ability to continue to identify, sign and retain desirable talent at manageable costs;
- the threat posed to our business by piracy of music by means of home CD-R activity and Internet peer-to-peer file-sharing;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the impact of the Restructuring Plan on our business (including our ability to generate revenues and attract desirable talent);
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;
- the diversity and quality of our album releases;
- significant fluctuations in our results of operations and cash flows due to the nature of our business;
- our involvement in intellectual property litigation;

the possible downward pressure on our pricing and profit margins;

the seasonal and cyclical nature of recorded music sales;

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

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

the ability to maintain product pricing in a competitive environment;

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

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

the possible unexpected loss of artists and key employees and our market share as a result of the Restructuring Plan;

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

the impact of rate regulations on our Music Publishing 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 could impair our ability to retain the services of key artists;

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 the industry-wide investigation of the relationship between music companies and radio stations by the Attorney General of the State of New York;

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;

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

our ability to act as a stand-alone company;

- increased costs and diversion of resources associated with complying with the internal control reporting or other requirements of Sarbanes-Oxley;
- weaknesses in our internal controls that could affect our ability to ensure timely and reliable financial reports;
- the effects associated with the formation of Sony BMG Music Entertainment;
- failure to attract and retain key personnel; and
- the other factors set forth under Risk Factors.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this prospectus and are expressly qualified in their entirety by the cautionary statements included in this prospectus. We undertake no obligation 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.

Table of Contents

USE OF PROCEEDS

The exchange offer is intended to satisfy Holdings obligations under the registration rights agreement that Holdings entered into in connection with the private offering of the outstanding notes. Holdings will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. As consideration for issuing the exchange notes as contemplated in this prospectus, Holdings will receive in exchange a like principal amount of outstanding notes, the terms of which are identical in all material respects to the exchange notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The net proceeds from the private offering, approximately $680.7 million, were returned to the Investor Group through a combination of dividends and repurchases of common and preferred stock. We refer to this application of the net proceeds from the private offering as the Payment to Investor Group . The outstanding notes that are surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. As a result, the issuance of the exchange notes will not result in any increase or decrease in our capitalization.

Table of Contents

CAPITALIZATION

The following table sets forth the cash and equivalents and capitalization of Parent as of March 31, 2005 on (i) an actual basis and (ii) pro forma for the Initial Public Offering, (including the use of proceeds therefrom for the repayment of a portion of the Original Holdings Notes), the Recapitalization, and the Concurrent Transactions (including the additional $250 million of borrowings under Acquisition Corp s senior secured credit facility), as if they had all occurred as of March 31, 2005. The information should be read in conjunction with The Transactions, Pro Forma Combined Condensed Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Parent s historical combined financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

The following table reflects the cash and equivalents and capitalization of Parent on a consolidated basis.

	As of March 31, 2005	
	Actual	Pro Forma
	(unaudited, in millions)	
Cash and equivalents	$ 447	$ 284
Debt:		
Revolving credit facility(1)	$	$
Term loan(2)	1,188	1,438
Acquisition Corp. Notes(3)	654	654
Holdings Floating Rate Notes	250	
Holdings Discount Notes(4)	257	167
Holdings PIK Notes(5)	201	
Total debt	$ 2,550	$ 2,259
Shareholders equity:		
Common Stock, at par $0.001 per share, 500 million shares authorized and approximately 143 million shares issued and outstanding(6); preferred stock par value $0.001 per share, 100 million shares authorized, no shares issued and outstanding	$	$
Additional paid-in capital	57	558
Accumulated deficit	(198)	(449)
Accumulated other comprehensive earnings	4	4
Total shareholders (deficit) equity	$ (137)	$ 113
Total capitalization	$ 2,413	$ 2,329

(1) Acquisition Corp. currently has no borrowings under the $250 million revolving portion of Acquisition Corp. s senior secured credit facility but has issued $4 million in letters of credit under such agreement. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Description of Indebtedness Senior Secured Credit Facility.

(2) Acquisition Corp. has obtained an amendment to its senior secured credit facility to, among other things, increase the term loan borrowings thereunder by an additional $250 million. As a result, the total amount of the new facility has increased to $1,438 million. See Description of Indebtedness and Prospectus Summary Recent Developments Parent IPO, Concurrent Transactions and Redemption of Portion of Original Holdings Notes.

(3) Includes $465 million aggregate principal amount of the dollar notes and the U.S. dollar equivalent, as of March 31, 2005, of the £100 million aggregate principal amount of the sterling notes of our wholly owned subsidiary, Acquisition Corp. See Description of

Indebtedness.

(4) Represents the accreted value as of March 31, 2005 of the $396.81 million ($257.93 million, as adjusted) aggregate principal amount at maturity of the Holdings Discount Notes. See Description of Indebtedness.

(5) Represents the outstanding amount due as of March 31, 2005 with respect to the $200 million Holdings PIK Notes, including accrued PIK interest on such Holdings PIK Notes, less unamortized discount. See Description of Indebtedness.

(6) Amount does not include shares reserved for issuance pursuant to any stock option agreements.

Table of Contents

THE TRANSACTIONS

The following is, among other things, a summary of the Acquisition and certain terms of the purchase agreement, dated as of November 24, 2003, as amended on March 1, 2004, between Time Warner and Acquisition Corp. The following summary is qualified in its entirety by reference to the purchase agreement.

In addition to the purchase agreement, at the closing of the Acquisition, the parties entered into agreements governing certain relationships between and among the parties after the closing of the Acquisition. These agreements include a stockholders agreement, a seller services agreement, a purchaser services agreement, and a management agreement. See Certain Relationships and Related Party Transactions for descriptions of these agreements.

The Acquisition

On March 1, 2004, Acquisition Corp., a subsidiary of Holdings, acquired substantially all of Time Warner s music division (the Acquisition). The initial purchase price for the Acquisition was $2.595 billion (subject to customary post-closing adjustments), consisting of $2.560 billion in cash and $35 million in non-cash consideration in the form of warrants issued to Historic TW Inc. (Historic TW).

On November 15, 2004, Acquisition Corp. and Time Warner made certain Section 338(h)(10) elections under the Internal Revenue Code, which, for tax purposes, increased the cost basis of our domestic net assets and will allow us to deduct the associated annual depreciation and amortization expenses.

The Financing and the Refinancing

We financed the Acquisition, related fees and expenses and a portion of our identified restructuring costs through our Original Financing of (i) $1.15 billion of borrowings under the term loan portion of Acquisition Corp. s senior secured credit facility, which, in addition to the term loan facility, includes a $250 million revolving credit facility, (ii) borrowings under a $500 million senior subordinated bridge loan facility and (iii) a $1.25 billion aggregate initial capital investment by the Investor Group. See Description of Indebtedness.

For the Refinancing we applied the proceeds from the offering of the Acquisition Corp. Notes, an additional $50 million of borrowings under the term loan portion of the senior secured credit facility plus available cash on hand, to (i) repay all amounts outstanding under the senior subordinated bridge loan facility plus accrued and unpaid interest, (ii) return a portion of the initial capital investment by the Investor Group and (iii) pay fees and expenses (the Refinancing , and together with the Original Financing and the Acquisition, the Transactions).

The following table sets forth the sources and uses of funds as if the Refinancing had occurred on March 1, 2004 simultaneously with the Acquisition and the Original Financing:

Sources	**Uses**

(in millions)		**(in millions)**	
Revolving credit facility(1)	$	Purchase price(2)	$ 2,606
Term loan	1,200	Purchase price adjustments(4)	(72)
Senior subordinated notes(3)	650	Interest to Time Warner(5)	26
Capital investment by the Investor Group	1,048	Total cash consideration(2)	2,560
		Fees and expenses(6)	200
		Cash to balance sheet	138
Total sources	$ 2,898	Total uses	$ 2,898

(1) The revolving credit facility provides for borrowings of up to $250 million.

(2) Excludes warrants issued to Time Warner valued at approximately $35 million. Total consideration includes purchase price adjustments and interest to Time Warner.

Table of Contents

(3) Includes the U.S. dollar equivalent of Acquisition Corp. s sterling notes, based on the exchange rate as of the date of issuance of the sterling notes.

(4) Approximately $67 million of the purchase price adjustments for the Acquisition relates primarily to cash that Time Warner swept from our balance sheet after December 1, 2003 (the day at which the Investor Group began receiving the economic benefit of our business), net of the existing cash balance as of November 30, 2003. Approximately $5 million was an adjustment for negotiations in the tax structuring process between signing and closing of the Acquisition. Pursuant to the terms of the purchase agreement between the Investor Group and Time Warner, the purchase consideration is subject to certain adjustments, generally based on changes in the financial position of Old WMG between the date the purchase agreement was signed and the date the transaction closed. The parties recently agreed to the terms of final settlement. The purchase price was originally reduced by approximately $24 million on a preliminary basis to reflect a reimbursement by Time Warner to the Investor Group of a portion of the purchase consideration already agreed upon by the parties. Pursuant to the terms of the final settlement agreement, Time Warner agreed to pay Acquisition Corp. an amount of approximately $12 million in final settlement with respect to these adjustments.

(5) In exchange for an arrangement in which the economic benefit of the acquired business accrued to the Investor Group as of December 1, 2003, we agreed to pay interest to Time Warner on the cash purchase price between December 1, 2003 and the closing of the Acquisition.

(6) This amount includes commitment, placement, financial advisory and other transaction fees as well as legal, accounting and other professional fees.

Warrants

A portion of the consideration paid to Time Warner by us was in the form of two warrants, the Three-Year Warrants and the MMT Warrants in Parent and Holdings that were issued to Historic TW. In connection with the Initial Public Offering, the Three-Year Warrants, which gave Historic TW the right to purchase Parent s common stock, were repurchased by Parent for an aggregate purchase price of approximately $138 million. Upon such repurchase, the Three-Year Warrants were deemed to have been exercised and the MMT Warrants expired.

Representations and Warranties; Indemnification

The purchase agreement contains customary representations and warranties of Time Warner and of Acquisition Corp., including representations and warranties of Time Warner regarding organization, authorization, non-contravention, governmental consents, capital stock of the companies, subsidiaries, financial statements, absence of certain changes, no undisclosed material liabilities, material contracts, compliance with laws and court orders, litigation, title to real property, sufficiency of the acquired assets, intellectual property rights, licenses and permits, tax matters, employee plans, environmental compliance and brokers. Acquisition Corp. s right to obtain indemnification from Time Warner, and the right of Time Warner to obtain indemnification from Acquisition Corp., for any breach of these respective representations and warranties is generally limited to an aggregate amount of losses in excess of approximately $26 million, subject to a cap equal to approximately $260 million. The representations and warranties contained in the purchase agreement, with certain exceptions, expire eighteen months after the closing date of the acquisition.

Other Provisions

No-Solicit; No-Hire

Subject to certain exceptions, for two years after March 1, 2004, Time Warner and its affiliates may not solicit or employ any employee who was employed in our businesses immediately before the closing.

Employee Matters and Pension

For one year after March 1, 2004, we agreed to provide Acquisition Corp. s employees with base salary, bonus and other cash-based compensation opportunities based on targets Acquisition Corp. established and severance benefits that are no less favorable than provided to the employees of Time Warner s music division

Table of Contents

immediately prior to the Acquisition. In addition, Acquisition Corp. has agreed to be responsible for funding of pension benefit obligations of up to $25 million subsequent to the date of the purchase agreement for current and former employees of the business under non-U.S.-based defined benefit pension plans maintained by Time Warner or any of its subsidiaries. Acquisition Corp. has also otherwise agreed to be responsible for any employment-related liabilities attributable to current and former employees of the business under Time Warner benefit plans other than any U.S. defined benefit pension plan, U.S. retiree medical plan, non-qualified deferred compensation plan or severance plan covering individuals who were not employees of the business as of November 24, 2003.

Use of Names and Logos

Acquisition Corp. has agreed to license from two subsidiaries of Time Warner, on a royalty free basis pursuant to trademark license agreements, certain trademarks and service marks used in the business. The terms of the licenses, subject to provisions providing for termination for cause, is in perpetuity with respect to the marks WARNER, WARNER MUSIC, and a W logo and fifteen years from February 29, 2004 with respect WARNER BROS. RECORDS, WARNER BROS. PUBLICATIONS, and WB & Shield designs.

The Investor Group

With in excess of $35 billion under management in the aggregate, THL, Bain Capital and Providence Equity have considerable private equity investment experience and a long history of working and investing together. These firms, in particular, have a deep knowledge of the global media and entertainment industry with recent investments in media, entertainment, publishing and cable television.

In addition, Edgar Bronfman, Jr., an investor through Music Capital and our Chairman of the Board and Chief Executive Officer, has significant and directly relevant management experience in the music industry. From 1994 to 2000, Mr. Bronfman served as President and CEO of Seagram. During his tenure as CEO of Seagram, he consummated $85 billion in transactions, transformed the company into one of the world s leading media and communications companies and supervised the creation of the world s largest music company in 1998 through the merger of Universal and PolyGram.

THL is a private equity firm founded in 1974 that currently manages several private equity funds with aggregate capital commitments of approximately $14 billion. THL has invested in more than 80 businesses and is currently investing from Thomas H. Lee Equity Fund V, an equity fund with over $6.1 billion of committed capital. Recent media-related investments include ProSiebenSAT.1 Media, the largest private television network in Germany, Houghton Mifflin Company, a leading educational publisher, American Media and TransWestern Publishing. THL has more than 20 investment professionals based in Boston.

Bain Capital is a private investment firm that manages several pools of capital including private equity, venture capital, high-yield assets, mezzanine capital and public equity with over $16 billion in assets under management. Since its inception in 1984, the firm has raised seven private equity funds and made private equity investments and add-on acquisitions in over 250 companies around the world, in a variety of sectors, including media and entertainment. Recent media-related investments include ProSiebenSAT.1 Media, Houghton Mifflin Company, Artisan Entertainment and Loew s Cineplex Entertainment Corporation. Bain Capital has more than 160 investment professionals, with its headquarters in Boston and additional offices in New York, London and Munich.

Providence Equity is a private investment firms specializing in equity investments in media and communications companies. The principals of Providence manage funds with over $9.0 billion in equity commitments, including Providence Equity Partners V, a $4.25 billion private equity fund, and have invested in more than 80 companies operating in over 20 countries since the firm s inception in 1990. Current and previous areas of investment include cable television content and distribution, wireless and wireline telephony, publishing, radio and television broadcasting and other media and communications sectors. Recent investments include PanAmSat Holding Corporation, Kabel Deutschland (Germany s largest cable operator), Mountain States Cable, Casema, F&W Publications and ProSiebenSAT.1 Media.

Table of Contents

Ownership and Corporate Structure

The chart below summarizes our ownership and corporate structure as of March 31, 2005 after giving effect to the Initial Public Offering of Parent, and the Concurrent Transactions.

---

(1) We currently have no borrowings outstanding under the revolving portion of Acquisition Corp. s senior secured credit facility but Acquisition Corp. has issued $4 million of letters of credit under such agreement. Borrowings under the senior secured credit facility and the senior secured term loan facility are guaranteed by Holdings.

(2) On May 13, 2005, Acquisition Corp. borrowed an additional $250 million under the amendment to the Acquisition Corp. senior secured credit facility as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity .

(3) Includes the U.S. dollar equivalent of Acquisition Corp. s sterling notes, based on the exchange rate as of March 31, 2005.

(4) Only wholly owned U.S. subsidiaries that guarantee the senior secured credit facility guarantee the Acquisition Corp. Notes. Such guarantees are on a senior subordinated basis. The outstanding notes are, and exchange notes will be, guaranteed only by Parent, but pursuant to the indenture governing the notes, will be guaranteed by any wholly owned U.S. subsidiary that subsequently guarantees indebtedness of Holdings.

Table of Contents

PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Holdings, the issuer of the outstanding notes, is a holding company that conducts substantially all of its business operations through its only asset and wholly owned subsidiary, Acquisition Corp. Holdings is a wholly owned subsidiary of Parent. Parent has fully and unconditionally guaranteed the outstanding notes and will fully and unconditionally guarantee the exchange notes. Accordingly, we have presented the financial information of Parent. See Supplementary Information Condensed Consolidating Financial Statements to Parent s audited historical financial statements and unaudited interim financial statements, included elsewhere in this prospectus, for Holdings financial information on a stand-alone basis.

The following Parent unaudited pro forma consolidated condensed balance sheet as of March 31, 2005 gives effect to the Holdings Refinancing (to the extent not already reflected), the Initial Public Offering and the Concurrent Transactions as if they had occurred as of that date. All financial effects resulting from the Acquisition and the Original Financing, the Cinram Agreements and the Refinancing are already reflected in Parent s historical balance sheet as of March 31, 2005, and accordingly, no pro forma adjustments to the balance sheet are necessary.

The following Parent unaudited pro forma consolidated condensed statement of operations for the twelve months ended September 30, 2004 gives effect to (i) the Acquisition and the Original Financing, (ii) the Cinram Agreements, (iii) the Refinancing, (iv) the Holdings Refinancing, (v) the Initial Public Offering and (vi) the Concurrent Transactions as if they occurred as of October 1, 2003. Because Parent presented a shortened ten-month, transition period in the historical financial statements relating to its change in fiscal year that was enacted in 2004, the Parent unaudited pro forma consolidated condensed statement of operations has been further adjusted to present a full consecutive twelve month period ended September 30, 2004 in order to provide more meaningful information to the users of our financial information.

The following Parent unaudited pro forma consolidated condensed statement of operations for the six months ended March 31, 2005 gives effect to (i) the Holdings Refinancing, (ii) the Initial Public Offering and (iii) the Concurrent Transactions, as of October 1, 2003. All financial effects resulting from the Acquisition and the Original Financing, the Cinram Agreements and the Refinancing are already reflected in Parent s historical statement of operations for the six months ended March 31, 2005, and accordingly, no pro forma adjustments to the statement of operations for such period are necessary.

The Parent pro forma consolidated condensed financial statements have been derived from, and should be read in conjunction with, Parent s historical audited and interim unaudited financial statements, including the notes thereto, included elsewhere herein. The Parent pro forma consolidated condensed financial statements are presented for informational purposes only and are not necessarily indicative of Parent s financial position or results of operations that would have occurred had the events been consummated as of the dates indicated. In addition, the Parent pro forma consolidated condensed financial statements are not necessarily indicative of Parent s future financial condition or operating results.

The Acquisition and the Original Financing

Pro forma adjustments for the Acquisition and the Original Financing reflect the purchase of substantially all of Time Warner s music division effective on March 1, 2004 for an aggregate purchase price of $2.649 billion, including $78 million of direct acquisition costs (excluding financing fees) and a $24 million reduction in the purchase price, which was subsequently settled for $12 million. The consideration exchanged consisted of $2.560 billion of cash and $35 million of non-cash consideration in the form of warrants that give Historic TW the right to purchase common stock of Parent under certain conditions. The terms of the warrants are described elsewhere herein.

The cash portion of the Acquisition, including $78 million of direct acquisition costs, was financed by a $1.250 billion initial capital investment by the Investor Group and aggregate borrowings of $1.388 billion under the term loan portion of Acquisition Corp. s senior secured credit facility and under Acquisition Corp. s former senior subordinated bridge loan facility. We incurred $262 million of additional indebtedness under the term loan portion of the senior secured credit facility to pay certain financing-related fees, as well as to fund future working capital requirements that included a portion of the anticipated costs to restructure the business.

Table of Contents

Restructuring Plan

We have conducted a detailed assessment of our existing cost structure. As a result of this assessment, we have identified substantial cost-reduction opportunities in our business, the majority of which are associated with headcount reductions from the consolidation of operations and the streamlining of corporate and label overhead. We have completed substantially all of the Restructuring Plan with approximately $250 million of annualized cost savings, of which approximately $202 million has been reflected in our statement of operations through March 31, 2005. We project the one-time costs associated with our restructuring to be $225 million to $250 million, of which approximately $165 million has been paid through March 31, 2005. We expect to pay a majority of the remaining costs in 2005 and 2006. Because there are still significant risks associated with the Restructuring Plan, we have not given pro forma effect to any cost savings or incremental one-time costs that have not already been reflected in the historical financial statements of Parent. See Risk Factors.

Purchase Price Allocation

The Acquisition was accounted for under the purchase method of accounting for business combinations. Accordingly, the estimated cost to acquire such assets was allocated to our underlying net assets in proportion to their respective fair values. Most of the valuations and other studies which provide the basis for such an allocation have been completed; however, we are still waiting for certain information in order to finalize the purchase price allocation, including a final settlement of terms with Time Warner. As more fully described in the notes to the Parent pro forma condensed financial statements, a preliminary allocation of the excess of cost over the book value of net tangible assets has been made to identifiable intangible assets in the amounts of $1.216 billion to recorded music catalog, $808 million to music publishing copyrights, $978 million to goodwill and $110 million to trademarks.

The Cinram Agreements

Prior to the end of October 2003, we purchased manufacturing, packaging and physical distribution services from affiliates of Time Warner that were under the common control of Time Warner and our management. Pricing for such services was not negotiated on an arm s-length basis and did not reflect market rates. At the end of October 2003, Time Warner sold its CD and DVD manufacturing, packaging and physical distribution operations to Cinram. As part of the sale, we and Time Warner entered into long-term arrangements with Cinram under which Cinram provides manufacturing, packaging and physical distribution services for our products in the U.S. and Europe. Accordingly, the Parent pro forma consolidated condensed statement of operations for the twelve month period ended September 30, 2004 has been adjusted to reflect the more favorable market-based rates negotiated on an arm s-length basis under the Cinram Agreements for the October 2003 period in which the Cinram Agreements were not in effect.

The Refinancing

Pro forma adjustments for the Refinancing reflect the interest-related effects relating to the issuance of approximately $654 million principal amount of the Acquisition Corp. Notes, an additional $50 million of borrowings under the term loan portion of Acquisition Corp. s senior secured credit facility plus available cash on hand to (i) repay all $500 million in borrowings under Acquisition Corp. s senior subordinated bridge loan facility and (ii) redeem a portion of the preferred stock in Holdings held by the Investor Group in the amount of $202 million, including accrued dividends of $2 million.

The Holdings Refinancing

Pro forma adjustments for the Holdings Refinancing reflect (i) the interest-related effects relating to the issuance by Holdings of $847 million aggregate principal amount at maturity of the Original Holdings Notes on December 23, 2004 and the use of the $681 million of proceeds therefrom, net of $15 million of debt issuance costs, to redeem the remaining preferred stock in Holdings in the amount of $209 million, including accrued dividends of $9 million, and to pay a dividend on Parent s Class L Common Stock of $422 million and (ii) the payment of an aggregate of $50 million in dividends on Parent s Class L Common Stock using the proceeds from the offering of the Original Holdings Notes,

Table of Contents

of which $43 million was paid on March 28, 2005 and the remaining $7 million distributed to the Investor Group on May 9, 2005.

The Initial Public Offering

Pro forma adjustments for the Initial Public Offering reflect (i) the issuance of 32,600,000 shares of Parent s common stock and (ii) the use of all $517 million of the net proceeds from the issuance of common stock plus an amount of cash on hand to repay all outstanding Holdings Floating Rate Notes, all outstanding Holdings PIK Notes and 35% of the outstanding aggregate principal amount at maturity of Holdings Discount Notes, including redemption premiums and interest obligations through the redemption date of June 15, 2005. The pro forma adjustments also reflect the Recapitalization.

Concurrent Transactions

Pro forma adjustments for the Concurrent Transactions reflect the effect of obtaining the new amendment to Acquisition Corp. s senior secured credit facility, including the incurrence of $250 million of additional borrowings. Pro forma adjustments also reflect the use of the $247 million of net proceeds therefrom, plus $99 million of available cash on hand (i) to pay approximately $138 million to Historic TW to repurchase the Three-Year Warrants, (ii) to pay $73 million to terminate the management services agreement with the Investor Group, (iii) to pay an $8.5 million dividend in satisfaction of the remaining liquidation preference on Parent s Class L Common Stock, (iv) to pay a $100.5 million dividend to the holders of Parent s Class L Common Stock and Class A Common Stock, including approximately $7 million relating to the holders of unvested shares of restricted stock which will be paid at a later date when, and if, such restricted shares vest, and (v) to pay one-time special bonuses of approximately $33 million to management and employees of Parent, consisting of (a) approximately $20 million to be paid to holders of restricted stock and stock options to make employees whole for certain unfavorable tax consequences, (b) approximately $3 million to be paid to holders of stock options representing an adjustment for outstanding options as a result of the special cash dividend on Parent s Class L and Class A Common Stock and (c) approximately $10 million to substantially all of our employees who will have no equity participation in Parent.

Interest Rate Sensitivity

As of March 31, 2005, on a pro forma basis after giving effect to (i) the use of $517 million of the net proceeds from the issuance of Parent s common stock and $57 million of available cash on hand to repay all outstanding Holdings Floating Rate Notes, all outstanding Holdings PIK Notes and 35% of outstanding Holdings Discount Notes, and (ii) the Concurrent Transactions, including the $250 million of new term loan borrowings under Acquisition Corp. s new amendment to its senior secured credit facility, Parent would have had $541 million of funded variable-rate indebtedness, net of the effect of $897 million notional amount of interest-rate swaps that effectively convert a portion of our variable-rate indebtedness to fixed-rate indebtedness. As such, we are sensitive to changes in interest rates. For each 0.25% increase or decrease in interest rates, our interest expense and net loss each would increase or decrease, respectively, by approximately $1 million.

Non-cash, Stock-based Compensation Expense

As further described in Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Results of Operations and Financial Condition, Parent s board recently approved certain changes to the terms of previously granted stock options. For accounting purposes, these changes constituted a modification of the terms of the grants. Accordingly, we will be required to remeasure the aggregate compensation expense relating to such grants. Based on our preliminary analysis, we expect our aggregate non-cash compensation expense to increase to approximately $34 million for all awards granted as of April 14, 2005, which will be recognized over the vesting period of such awards. Such amount of non-cash compensation expense is expected to be recognized in the following manner: $15 million in fiscal 2005, $10 million in fiscal 2006, $6 million in fiscal 2007 and $3 million in fiscal 2008. This compares to previously recorded non-cash, stock-based compensation expense included in Parent s pro forma consolidated condensed statements of operations of $1 million for the twelve months ended September 30, 2004 and $9 million for the six months ended March 31, 2005.

Table of Contents

WARNER MUSIC GROUP CORP.

PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET

As of March 31, 2005

		Pro Forma Adjustments			
	Historical(1)	The Holdings Refinancing(2)	The Initial Public Offering(3)	The Concurrent Transactions(4)	Pro Forma
			(in millions, unaudited)		
Assets					
Current assets:					
Cash and equivalents	$ 447	$ (7)	$ (57)	$ (99)	$ 284
Accounts receivable	487				487
Inventories	66				66
Royalty advances expected to be recouped within one year	195				195
Deferred tax assets	42				42
Other current assets	58				58
Total current assets	1,295	(7)	(57)	(99)	1,132
Royalty advances expected to be recouped after one year	195				195
Investments	22				22
Property, plant and equipment	172				172
Goodwill	935				935
Intangible assets subject to amortization	1,894				1,894
Intangible assets not subject to amortization	100				100
Other assets	129		(12)	3	120
Total assets	$ 4,742	$ (7)	$ (69)	$ (96)	$ 4,570
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable	$ 206				$ 206
Accrued royalties	1,076				1,076
Taxes and other withholdings	26				26
Current portion of long-term debt	12				12
Other current liabilities	481			(138)	343
Total current liabilities	1,801			(138)	1,663
Long-term debt	2,538		(541)	250	2,247
Deferred tax liabilities	263				263
Other noncurrent liabilities	277			7	284
Total liabilities	4,879		(541)	119	4,457

Shareholders equity	(137)	(7)	472	(215)	113
Total liabilities and shareholders equity	$ 4,742	$ (7)	$ (69)	$ (96)	$ 4,570

(1) Reflects the historical consolidated financial position of Warner Music Group Corp. as of March 31, 2005.

(2) Reflects a decrease in equity of $7 million and a corresponding decrease in cash and equivalents related to the payment of a dividend on Parent s Class L Common Stock using the remaining proceeds from the Holdings Refinancing. Such amount was paid on May 9, 2005.

Table of Contents

WARNER MUSIC GROUP CORP.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET

(3) Pro forma adjustments to record the Initial Public Offering as of March 31, 2005 reflect:

a decrease in long-term debt of $541 million consisting of (i) the redemption of all $200 million principal amount of Holdings PIK Notes, which had a carrying value of $196 million as of March 31, 2005 after considering $4 million of unamortized original issuance discount, along with additional accrued PIK Notes of $5 million (ii) the redemption of all $250 million of Holdings Floating Rate Notes and (iii) the redemption of $90 million accreted principal amount of Holdings Discount Notes as of March 31, 2005.

a decrease in other noncurrent assets of $12 million relating to the write off of a portion of the debt issuance costs relating to the Holdings Notes that were redeemed using a portion of the proceeds from the Initial Public Offering.

a net decrease in cash and equivalents of $57 million consisting of (i) net proceeds raised of $517 million from the issuance of 32.6 million shares of our common stock to the public and (ii) the use of $517 million from the proceeds of our initial public offering plus an amount of cash on hand to redeem a portion of the Holdings Notes. The aggregate $574 million redemption cost for the Holdings Notes, including redemption premiums and interest obligations, includes $209 million to redeem all of the Holdings PIK Notes, $265 million to redeem all of the Holdings Floating Rate Notes and $100 million to redeem 35% of the outstanding Holdings Discount Notes.

a net increase in shareholders equity of $472 million consisting of (i) a $517 million increase in shareholders equity relating to the issuance of 32.6 million shares of our common stock to the public, after deducting stock issuance costs of $37 million, (ii) a $29 million aggregate decrease in shareholders equity relating to the payment of debt redemption premiums and unaccrued interest obligations through the redemption date relating to the Holdings debt as of March 31, 2005 and (iii) a $16 million decrease in shareholders equity relating to the write off of $12 million of debt issuance costs and $4 million of unamortized original issue discount relating to the Holdings Notes that were redeemed using a portion of the proceeds from the Initial Public Offering.

Of the $29 million of redemption premium and unaccrued interest obligations through the redemption date noted above, $4 million relates to the redemption of all $200 million principal amount of the Holdings PIK Notes, $15 million relates to the redemption of all $250 million of the Holdings Floating Rate Notes and $10 million relates to the redemption of $90 million accreted principal amount of the Holdings Discount Notes as of March 31, 2005.

The Recapitalization, which includes (i) the conversion of all outstanding shares of Parent s Class L Common Stock into shares of Class A Common Stock, (ii) the renaming of all outstanding shares of Parent s Class A Common Stock as common stock, which eliminated Parent s authorized Class L Common Stock and Class A Common Stock and (iii) a 1,139 for 1 split of Parent s common stock, had no effect on the pro forma consolidated condensed balance sheet as of March 31, 2005. This is because all such effects are limited to reclassifications within shareholders equity.

(4) Pro forma adjustments to record the Concurrent Transactions as of March 31, 2005 reflect:

an increase in long-term debt of $250 million to reflect the incurrence of additional borrowings under Acquisition Corp. s new amendment to its senior secured credit facility.

an increase in non-current assets of $3 million relating to the debt issuance costs incurred in connection with the $250 million additional borrowings under Acquisition Corp. s new amendment to its senior secured credit facility.

Table of Contents

a decrease in other current liabilities of $138 million relating to the repurchase of the Three-Year Warrants held by Historic TW. Such amount represents the recorded value of the liability as of March 31, 2005,

an increase in other noncurrent liabilities of approximately $7 million relating to the portion of the $100.5 million dividend that would be paid at a later date to holders of record of unvested shares of restricted stock when, and if, such restricted shares vest,

a net decrease in shareholders equity of $215 million consisting of (i) a $73 million decrease relating to the one-time charge incurred in connection with the payment to terminate the management services agreement with the Investor Group, (ii) a $33 million decrease relating to the one-time charge incurred in connection with the one-time special bonuses to be paid to management and employees of Warner Music Group, (iii) an $8.5 million decrease relating to a dividend paid in satisfaction of the remaining liquidation preference on Parent s Class L Common Stock and (iv) a $100.5 million decrease relating to a dividend paid to all of Parent s shareholders existing immediately prior the Initial Public Offering,

a net decrease in cash and equivalents of $99 million consisting of (i) $247 million of net proceeds received from additional borrowings under Acquisitions Corp. s senior secured credit facility, net of $3 million of debt issuance costs, (ii) the payment of $138 million to Historic TW to repurchase the Three-Year Warrants, (iii) the payment of $73 million to terminate the management services agreement with the Investors, (iv) the payment of an $8.5 million dividend in satisfaction of the remaining liquidation preference on Parent s Class L Common Stock, (v) the payment of $100.5 million of dividends, of which approximately $7 million relating to the holders of unvested shares of restricted stock will be paid at a later date when, and if, such restricted shares vest and (vi) the payment of approximately $33 million of one-time special bonuses to management and employees of Acquisition Corp.

Table of Contents

WARNER MUSIC GROUP

PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS

For The Twelve Months Ended September 30, 2004

	Historical Combined Ten Months Ended September 30, 2004(1)	Historical Two Months Ended November 30, 2003(2)	Subtotal Historical Twelve Months Ended September 30, 2004	Pro Forma Adjustments: Excluded Net Assets(3)	The Acquisition and the Original Financing(4)	The Cinram Agreements(5)	The Refinancing Corp. (6)	The Holdings Refinancing(7)	The Initial Public Offering(8)	The Concurrent Transactions(9)	Pro Forma
					(in millions, unaudited)						
Revenues	$ 2,548	$ 889	$ 3,437	$ (1)	$	$	$	$	$	$	$ 3,436
Costs and expenses:											
Costs of revenues(a)	(1,359)	(491)	(1,850)	2		5					(1,843)
Selling, general and administrative expenses(a)	(996)	(291)	(1,287)		(4)						(1,291)
Impairment of goodwill and other intangible assets		(1,019)	(1,019)								(1,019)
Amortization of intangible assets	(160)	(41)	(201)		23						(178)
Restructuring costs	(26)	(8)	(34)								(34)
Total costs and expenses	(2,541)	(1,850)	(4,391)	2	19	5					(4,365)
Operating income (loss)	7	(961)	(954)	1	19	5					(929)
Interest expense, net	(82)		(82)	(5)	(40)		(8)	(64)	48	1	(150)
Net investment-related losses		(9)	(9)								(9)
Equity in the losses of equity method investees, net	(4)	(9)	(13)	(1)							(14)
Deal-related transaction and other costs		(63)	(63)								(63)
Loss on repayment of bridge loan	(6)		(6)				6				
Unrealized loss on warrants	(120)		(120)							120	
Other expense, net	(4)	(7)	(11)								(11)
Minority interest expense	(14)		(14)		(26)		20	20			
Income (loss) before income taxes	(223)	(1,049)	(1,272)	(5)	(47)	5	18	(44)	48	121	(1,176)
Income tax benefit (expense)	(47)	(103)	(150)	423			2				275
Net income (loss)	$ (270)	$ (1,152)	$ (1,422)	$ 418	$ (47)	$ 5	$ 20	$ (44)	$ 48	$ 121	$ (901)
Net loss per common share(10):											
Basic											$ (6.43)

Diluted											$ (6.43)
Average common share(10):											
Basic											140.1
Diluted											140.1
(a) Includes depreciation expense of:	$ (52)	$ (15)	$ (67)	$	$	$	$	$	$	$	$ (67)

Table of Contents

WARNER MUSIC GROUP CORP.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS

(1) Reflects the historical operating results for the combined ten-month transition period ended September 30, 2004 of Warner Music Group Corp., as follows:

	Successor	Predecessor	Combined
	Seven-Month Period Ended September 30, 2004	Three-Month Period Ended February 29, 2004	Ten-Month Period Ended September 30, 2004
		(in millions)	
Revenues	$ 1,769	$ 779	$ 2,548
Costs and expenses:			
Costs of revenues(a)	(944)	(415)	(1,359)
Selling, general and administrative expenses(a)	(677)	(319)	(996)
Impairment of goodwill and other intangible assets			
Amortization of intangible assets	(104)	(56)	(160)
Restructuring costs	(26)		(26)
Total costs and expenses	(1,751)	(790)	(2,541)
Operating income (loss)	18	(11)	7
Interest expense, net	(80)	(2)	(82)
Net investment-related losses			
Equity in the losses of equity-method investees, net	(2)	(2)	(4)
Deal-related transaction and other costs			
Loss on repayment of bridge loan	(6)		(6)
Unrealized loss on warrants	(120)		(120)
Other expense, net	(4)		(4)
Minority interest expense	(14)		(14)
Income (loss) before income taxes	(208)	(15)	(223)
Income tax benefit (expense)	(30)	(17)	(47)
Net income (loss)	$ (238)	$ (32)	$ (270)
(a) Includes depreciation expense of:	$ (36)	$ (16)	$ (52)

(2) Reflects the historical operating results for the pre-acquisition, two-month period ended November 30, 2003 of Warner Music Group Corp.

(3) Reflects pro forma adjustments to exclude the historical, pre-acquisition operating results relating to assets and liabilities that were not acquired or assumed by us in the Acquisition. Such adjustments consist of (i) the elimination of $15 million of interest income on cash and equivalents that were not acquired, (ii) the elimination of $10 million of interest expense on debt, capital lease and intercompany

obligations that were not assumed, (iii) the elimination of $1 million of net, income on equity-method investees that were not acquired, (iv) the elimination of $1 million of revenues and $2 million of distribution costs relating to the sale of our physical distribution operations to Cinram, and (v) the elimination of $423 million of tax expense relating to the write-off of a deferred tax asset for net operating losses that was only available to us while we remained a member of the Time Warner consolidated tax return.

No tax benefit has been provided on the aggregate pro forma decrease in pretax income due to the uncertainty of realization of Holdings U.S.-based deferred tax assets.

(4) Pro forma adjustments to record the Acquisition and the Original Financing for the twelve months ended September 30, 2004 reflect:

an increase in interest expense of $40 million for the five-month period ended February 29, 2004 consisting of (i) a $19 million increase relating to $1.15 billion of borrowings under the term loan portion of our senior secured credit facility used to fund a portion of the cash purchase price and other transaction costs at a variable interest rate of 3.90% per annum based on three-month LIBOR rates for the five-month period ended February 29, 2004 plus a margin of 2.75%, (ii) a $16 million increase relating to $500 million of borrowings under Acquisition Corp. s senior subordinated bridge loan facility used to fund a portion of the cash purchase price at an interest rate of 7.5% per annum and (iii) a $5 million increase relating to the amortization of $78 million of financing-related fees using a weighted-average life of 7 years paid in connection with the senior secured credit facility and senior subordinated bridge loan facility;

an increase in selling, general and administrative expenses of $4 million for the five-month, pre-acquisition period ended February 29, 2004 relating to the $10 million annual management advisory fees paid to the Investor Group under the management services agreement described elsewhere herein;

an increase in minority interest in the amount of $26 million to reflect aggregate annual preferred dividends of $40 million based on the original liquidation preference of $400 million and a dividend rate of 10% per annum on Holdings preferred shares held by the Investor Group;

a net decrease in amortization expense of intangible assets in the amount of $23 million for the five-month, pre-acquisition period ended February 29, 2004 consisting of (i) the elimination of $97 million of historical amortization expense which more than offset (ii) an increase in amortization expense of $74 million relating to the new values allocated on a preliminary basis to our finite-lived identifiable intangible assets. The pro forma adjustment for the new amortization expense was calculated as follows:

Intangible Assets Acquired	Allocated Value	Weighted-Average Useful Life	Annual Amortization Expense	Pro Forma Adjustments For the Five-Month, Pre-Acquisition Period Ended February 29, 2004
	(millions)	(years)	(millions)	(millions)
Finite-Lived Intangible Assets:				
Recorded music catalog	$ 1,216	10	$ 122	$ 51
Music publishing catalog	808	15	54	23
Trademarks	10	15	1	
Other intangible assets subject to amortization	5	5	1	
	$ 2,039		$ 178	$ 74
Indefinite-Lived Intangible Assets:				
Trademarks	$ 100	Indefinite		
Goodwill	978	Indefinite		

	$ 1,078		
Total intangible assets	$ 3,117	$ 178	$ 74

No tax benefit has been provided on the aggregate pro forma decrease in pretax income due to the uncertainty of realization of Parent s U.S.-based deferred tax assets.

(5) Reflects pro forma adjustments to decrease cost of revenues in the amount of $5 million for the October 2003 period in which the more favorable, market-based pricing arrangements under the third-party Cinram Agreements for manufacturing, packaging and physical distribution services were not in effect.

No tax provision has been provided on the pro forma increase in pretax income arising from this adjustment. This is because this adjustment, when taken in combination with the other pro forma adjustments described

Table of Contents

herein, still results in an aggregate net pretax loss for the Company. Accordingly, no tax benefit has been provided on the aggregate pro forma adjustments to pretax loss due to the uncertainty of realization of the Parent s U.S.-based deferred tax assets.

(6) Pro forma adjustments to record the Refinancing for the twelve months ended September 30, 2004 reflect:

a net increase in interest expense of $8 million and the elimination of a $6 million loss incurred on the repayment of the bridge loan. The pro forma adjustment to interest expense is calculated as follows:

Description	Annual Interest Expense(a)	Amount of Interest Expense in Historical Operating Results	Pro Forma Adjustment
		(in millions)	
Issuance of $465 million principal amount of U.S. dollar notes at a fixed interest rate of 7.375% per annum	$ 34	$ 16	$ 18
Issuance of £100 million principal amount of sterling notes at a fixed interest rate of 8.125% per annum, which has been translated at a U.S. Dollar equivalent rate of $1.80 per British Pound	15	7	8
Additional $50 million of borrowings under the term loan portion of Acquisition Corp. s senior secured credit facility at a variable interest rate of 4.01% per annum	2	1	1
Amortization of $34 million of debt issuance costs arising from the issuance of the Acquisition Corp. Notes over a weighted average life of 10 years	3	2	1
	$ 54	$ 26	$ 28
Elimination of pro forma interest expense relating to the repayment of $500 million of borrowings under Acquisition Corp. s senior subordinated bridge facility			(20)
			$ 8

(a) With respect to variable-rate debt, interest expense is based upon underlying three-month LIBOR rates for the twelve months ended September 30, 2004.

a decrease in minority interest expense of $20 million resulting from the redemption of half of the shares of Holdings preferred stock that had a liquidation preference of $200 million and a dividend rate of 10% per annum.

Tax benefits of $2 million have been provided at a 30% tax rate on the $8 million pro forma decrease in international pretax income relating to Acquisition Corp. s sterling notes. However, no tax provision has been provided on the pro forma increase in U.S.-based pretax income relating to minority interest expense. This is because this adjustment, when taken in combination with the other pro forma adjustments described herein, still results in an aggregate net pretax loss for the Company. Accordingly, no tax benefit has been provided on the aggregate pro forma adjustments to U.S.-based pretax loss due to the uncertainty of realization of Parent s U.S.-based deferred tax assets.

(7) Pro forma adjustments to record the Holdings Refinancing for the twelve months ended September 30, 2004 reflect:

an increase in interest expense of $64 million consisting of (i) an $18 million increase relating to the issuance of $250 million principal amount of Holdings Floating Rate Notes at a variable interest rate of 7.085% based on three-month LIBOR rates plus a margin of 4.375%, (ii) a $24 million increase relating to the issuance of $397 million principal amount at maturity of Holdings Discount Notes ($250

Table of Contents

million of proceeds after the original issuance discount) at a fixed interest rate of 9.5%, (iii) a $20 million increase relating to the issuance of $200 million principal amount of Holdings PIK Notes at a variable interest rate of 9.73% based on six-month LIBOR rates plus a margin of 7% and accretion of original issue discount, and (iv) a $2 million increase relating to the amortization of $15 million of debt issuance costs over a weighted-average period of 9 years.

a decrease in minority interest expense of $20 million resulting from the redemption of the remaining shares of Holdings preferred stock that had a liquidation preference of $200 million and a dividend rate of 10% per annum.

No tax benefit has been provided on the aggregate pro forma decrease in U.S.-based pretax income arising from the Holdings Refinancing due to the uncertainty of realization of Parent s U.S.-based deferred tax assets.

(8) Pro forma adjustments to record the Initial Public Offering for the twelve months ended September 30, 2004 reflect:

an aggregate decrease in interest expense of $48 million consisting of (i) a $20 million decrease relating to the redemption of all $200 million principal amount of Holdings PIK Notes at a variable interest rate of 9.75% based on six-month LIBOR rates plus a margin of 7%, (ii) an $18 million decrease relating to the redemption of all $250 million of Holdings Floating Rate Notes at a variable interest rate of 7.09% based on three-month LIBOR rates plus a margin of 4.375%, (iii) an $8 million decrease relating to the redemption of $88 million accreted principal amount of Holdings Discount Notes as of March 31, 2005 at a fixed interest rate of 9.5% and (iv) a $2 million decrease relating to the amortization of $16 million of allocable deferred financing costs and original issuance discount that was being amortized over a weighted-average period of 9 years.

No tax provision has been provided on the pro forma increase in U.S.-based pretax income. This is because this adjustment, when taken in combination with the other pro forma adjustments described herein, still results in an aggregate net pretax loss for Parent. Accordingly, no tax benefit has been provided on the aggregate pro forma adjustment to U.S.-based pretax loss due to the uncertainty of realization of Parent s U.S.-based deferred tax assets.

In addition, the pro forma consolidated condensed statement of operations excludes $52 million of one-time, pretax charges because they have no continuing impact on our operations. Such charges consist of (i) $16 million to write off debt issuance costs and unamortized original issuance discount relating to the Holdings Notes that were redeemed using a portion of the proceeds from the Initial Public Offering and (ii) $36 million to redeem a portion of the Original Holdings Notes, representing the aggregate redemption price (including redemption premiums and interest obligations through the redemption date thereon) in excess of the carrying value of the corresponding portion of the Original Holdings Notes as of March 31, 2005.

(9) Pro forma adjustments to record the Concurrent Transactions for the twelve months ended September 30, 2004 reflect:

a net decrease in interest expense of $1 million consisting of (i) an increase in interest expense of $9 million relating to the incurrence of $250 million of additional term loan borrowings under Acquisition Corp. s new amendment to its senior secured credit facility at a variable interest rate of 3.76% per annum based on three-month LIBOR rates plus a margin of 2.5% and (ii) a cumulative decrease in interest expense of $10 million relating to an average 71 basis point reduction in the applicable credit margin on the $1.441 billion pro forma, weighted-average term loan borrowings during the period under Acquisition Corp. s new amendment to the senior secured credit agreement.

the elimination of a $120 million unrealized loss on warrants resulting from the repurchase of the Three-Year Warrants held by Historic TW.

No tax provision has been provided on the pro forma increase in U.S.-based pretax income. This is because this adjustment, when taken in combination with the other pro forma adjustments described herein, still results in an aggregate net pretax loss for Parent. Accordingly, no tax benefit has been provided on the

Table of Contents

aggregate pro forma adjustments to U.S.-based pretax loss due to the uncertainty of realization of Parent s U.S.-based deferred tax assets.

In addition, the pro forma consolidated condensed statement of operations excludes a net $67 million one-time, pretax charge because it has no continuing impact on our operations. Such charge consists of (i) a $39 million gain relating to the repurchase of the Three-Year Warrants held by Historic TW, representing the excess of the $177 million carrying value of the liability as of September 30, 2004 over the $138 million of cash paid to Historic TW, (ii) a $73 million charge relating to the termination of the management services agreement and (iii) a $33 million charge relating to the payment of one-time, special bonuses to management and employees of Parent.

(10) Pro forma basic earnings (loss) per common share is computed by dividing earnings (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Pro forma diluted earnings per common share is computed by dividing earnings (loss) available to common stockholders by the sum of weighted average common shares outstanding plus dilutive common shares for the period. Pro forma basic and diluted common shares also include the number of shares from the Initial Public Offering whose proceeds were used for the repayment of debt.

In connection with the Initial Public Offering, Parent (i) converted all of the outstanding shares of Parent s Class L Common Stock into shares of Parent s Class A Common Stock, (ii) renamed all of the outstanding shares of Parent s Class A Common Stock as common stock, which had the effect of eliminating from its authorized capital stock the Class L Common Stock and Class A Common Stock and (iii) authorized a 1,139 for 1 split of its common stock. Pro forma basic and diluted net income (loss) per common share has been computed after giving effect to the above transactions.

The following table sets forth the computation of pro forma basic and diluted net income (loss) per share (in millions, except per share amounts):

	Twelve Months Ended September 30, 2004
Basic and diluted pro forma net loss per common share:	
Numerator:	
Net loss	$ (901)
Denominator:	
Weighted average common shares outstanding	113.6
Less: Weighted average unvested common shares subject to repurchase or cancellation	(6.1)
Add:	
Shares from Initial Public Offering whose proceeds would be used for the repayment of debt(1)	32.6
Denominator for basic calculation	140.1
Effect for dilutive securities	
Denominator for diluted calculation	140.1
Pro forma net loss per common share basic and diluted	$ (6.43)

(1) Calculated as $517 million of proceeds to be used in the redemption of debt, including redemption premiums and accrued interest thereon through the anticipated date of redemption, divided by the offering proceeds of $15.85 per share, net of issuance costs and expenses.

Because the Company recognized a pro forma net loss for the twelve months ended September 30, 2004, the effects from the exercise of any outstanding stock options or the vestiture of shares of restricted stock, during such period would have been antidilutive. Accordingly, they have not been included in the presentation of diluted net income (loss) per common share.

Table of Contents

WARNER MUSIC GROUP CORP.

PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS

For the Six Months Ended March 31, 2005

	Historical	Pro Forma Adjustments			
	Six Months Ended March 31, 2005(11)	The Holdings Refinancing(12)	The Initial Common Stock Offering(13)	The Concurrent Transactions(14)	Pro Forma
	(in millions, except per share data) (unaudited)				
Revenues	$ 1,855	$	$	$	$ 1,855
Costs and expenses:					
Costs of revenues(a)	(981)				(981)
Selling, general and administrative expenses(a)	(624)				(624)
Amortization of intangible assets	(93)				(93)
Total costs and expenses	(1,698)				(1,698)
Operating income (loss)	157				157
Interest expense, net	(90)	(15)	24	(1)	(83)
Equity in the losses of equity-method investees, net	(1)				(1)
Unrealized gain on warrants	17			(17)	
Other income (expense) net	4				