Warner Music Group Corp.
Form S-1/A
May 10, 2005

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As filed with the Securities and Exchange Commission on May 10, 2005

Registration No. 333-123249

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 4
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WARNER MUSIC GROUP CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**7929**	**13-4271875**
(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.
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:

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If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

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. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) 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. o

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. o

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(1)(2)	Amount Of Registration Fee(3)
Common Stock, par value $0.001 per share	37,490,000 shares	$24.00	$899,760,000	$105,901.75

(1) Includes shares to be sold upon exercise of the underwriters' option to purchase additional shares. See "Underwriting." Also includes shares of common stock to be sold by selling stockholders.

(2) Estimated solely for the purpose of calculating the registration fee under Rule 457(a) of the Securities Act of 1933, as amended (the "Securities Act").

(3) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant 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.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated May 10, 2005

PRELIMINARY PROSPECTUS

32,600,000 Shares

Common Stock

This is the initial public offering of shares of common stock of Warner Music Group Corp. Warner Music Group Corp. is offering 27,170,000 shares of common stock. The selling stockholders named in this prospectus are offering an additional 5,430,000 shares of common stock. We intend to use $574 million of the net proceeds from the sale of the shares being sold by us in this offering to redeem certain indebtedness of our subsidiaries and to pay the related premiums and interest obligations thereon. See "Use of Proceeds." Warner Music Group Corp. will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $22.00 and $24.00. Warner Music Group Corp. has been approved to list the common stock on the New York Stock Exchange under the symbol "WMG".

See "Risk Factors" on page 13 to read about factors you should consider before buying shares of the common stock.

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

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Warner Music Group Corp.	$	$
Proceeds, before expenses, to selling stockholders	$	$

To the extent that the underwriters sell more than 32,600,000 shares of common stock, the underwriters have the option to purchase up to an additional 4,890,000 shares from the selling stockholders at the initial public offering price, less the underwriting discount.

The underwriters expect to deliver the shares to purchasers against payment in New York, New York on , 2005.

Goldman, Sachs & Co. **Morgan Stanley**

Lehman Brothers **Deutsche Bank Securities**

Banc of America Securities LLC **Citigroup**

Allen & Company LLC	**Bear, Stearns & Co. Inc.**	**UBS Investment Bank**
Blaylock & Company, Inc.	**Pacific Crest Securities**	**Ramirez & Co., Inc.**
Siebert Capital Markets	**Utendahl Capital**	**The Williams Capital Group, L.P.**

The date of this prospectus is , 2005

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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 they believe the information contained therein was obtained from sources they believe to be reliable, but that 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.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and 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 investing in our common stock.

We acquired substantially all of Time Warner Inc.'s music division on March 1, 2004. In this prospectus, the term "Warner Music Group" refers to Warner Music Group Corp. and not its subsidiaries. In this prospectus, the terms "we," "our," "ours," "us," "Company" and "WMG" refer collectively to Warner Music Group and its consolidated or combined subsidiaries, except where otherwise indicated. Warner Music Group is a holding company. Its only asset is the ownership of all of the outstanding shares of WMG Holdings Corp., which we refer to as "Holdings". Holdings' only asset is its ownership of all of the 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 Warner Music Group and its subsidiaries are not separate and distinct legal entities. 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 the acquisition from Time Warner, and as described further in our 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. 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 December 31, 2004.

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 December 31, 2004.

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 year ended January 2, 2005 in U.S. music physical unit sales of approximately 1% relative to the comparable year 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 year 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 year 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 extensive experience in managing investments in entertainment and media assets and Music Capital Partners, L.P. ("Music Capital") brings significant and directly relevant management experience in the music industry. Through Music Capital, Mr. Bronfman is participating in this offering as a selling stockholder, along with THL, Bain Capital and Providence Equity.

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 substantially all of the Restructuring Plan with annualized cost savings of approximately $250 million. We project the one-time costs associated with the Restructuring Plan to be between $225 million to $250 million, of which approximately $140 million has been paid through December 31, 2004. This projection is substantially less than the $310 million original estimate of such restructuring charges. 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 Investors (as defined below) and paid a dividend of $8 million on the preferred equity of Holdings held by the Investors (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 Investors. On December 23, 2004, Holdings 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 9.5% Senior Discount Notes due 2014 (the "Holdings Discount Notes") (with aggregate principal amount at maturity of $396.8 million) (collectively, the "Holdings Notes"). The proceeds from the issuance of the Holdings Notes were used to fund a return of approximately $681 million from Holdings to its shareholders and the shareholders of Warner Music Group (the "Holdings' Payment to Investors" and along with the Holdings Notes, the "Holdings Refinancing") through a combination of dividends on Holdings' preferred stock and repurchases of its common and preferred stock. Of the total of $681 million, approximately $209 million was used to redeem the remaining shares of cumulative preferred stock of Holdings, including $9 million of accrued dividends, and approximately $472 million was used to pay a return of capital to Warner Music Group, of which all but $50 million was distributed to its shareholders. We distributed $42.5 million of such $50 million to the Investors on March 28, 2005 and intend to distribute the remaining $7.5 million to the Investors prior to this offering. We previously obtained an amendment to Acquisition Corp.'s senior secured credit agreement to provide for the Holdings' Payment to Investors, including the distribution of the remaining $50 million to the Investors.

The Concurrent Transactions. Prior to this offering, Warner Music Group Corp. intends to declare and pay a dividend to the Investors in the form of promissory notes in an aggregate amount, which, after the remaining $7.5 million is distributed from cash on hand as part of the Holdings Refinancing, would equal the remaining preference amount on the Investors' Class L Common Stock at the time the dividend is paid. We expect the amount of that dividend to be approximately $8.5 million. In addition, prior to this offering, Warner Music Group Corp. intends to declare a $141.5 million cash dividend to the holders of its Class L Common Stock and Class A Common Stock, consisting of the Investors (including Mr. Bronfman through Music Capital) and certain members of management. Of the $141.5 million cash dividend, management's pro rata share will be $10.1 million, of which an aggregate of $600,000 will be paid in cash, when the dividend is paid to the Investors, to Messrs. Bronfman and Cohen and one other officer on account of their vested restricted shares. The remaining $9.5 million is required by the various restricted stock agreements to be withheld by the company for the accounts of a total of ten members of management, including Messrs. Bronfman, Cohen and other current Named Executive Officers, Messrs. Albertini and Johnson, on account of their unvested restricted shares. Their ratable portion of such withheld funds will be paid when and if such restricted shares vest. Though this dividend will be paid following consummation of this offering, stockholders who buy common stock in this offering will not participate in this dividend. We also intend to terminate our management agreement with the Investors prior to this offering and pay an approximate $73 million termination fee to the Investors, which fee would be payable within 90 days of termination. We have agreed with Historic TW to repurchase their Three-Year Warrants which, using a formula based in part on the mid-point of the estimated price range, would result in an aggregate purchase price of approximately $166 million. We intend to pay one-time special bonuses of approximately $35 million to management and employees of Warner Music Group, 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 $5 million to be paid to holders of stock options representing an adjustment for outstanding options as a result of the $141.5 million special cash dividend on the Class L Common Stock and Class A Common Stock and (c) approximately $10 million to substantially all of our employees who will have no equity participation in our company upon the consummation of this offering. In addition, we have obtained an amendment to Acquisition Corp.'s senior secured credit facility to, among other things, increase the size of the term loan available. After this offering, we intend to use a portion of our cash on hand existing prior to this offering, plus the proceeds from $250 million of new term loan borrowings under Acquisition Corp.'s new amendment to its senior secured credit facility, to repay the $8.5 million of remaining preference promissory notes, to pay the $73 million termination fee, to pay the $141.5 million cash dividend, to pay the special one-time bonuses and to pay approximately $166 million for the repurchase of Historic TW's Three-Year Warrants. We refer to the above transactions as the "Concurrent Transactions."

Sources and uses of proceeds for the Concurrent Transactions and the payment of the remaining $7.5 million distribution from the Holdings Refinancing are summarized in the following table:

Sources (in millions)			Uses (in millions)		
New term loan	$	250.0	Dividend to Investors from remaining Holdings Notes' proceeds	$	7.5
Existing cash		184.5	Repay to Investors remaining preference promissory notes		8.5
			Pay to Investors management agreement termination fee		73.0
			Repurchase Three-Year Warrants from Historic TW		166.0(1)
			Pay dividend to Investors		131.4
			Pay/withhold dividend to certain members of management		10.1(2)
			Pay one-time special bonuses to senior management and employees		35.0
			Transactions costs		3.0
Total	$	434.5	Total	$	434.5

(1) We have agreed with Historic TW to repurchase the Three-Year Warrants in connection with closing of this offering which, using a formula based in part on the mid-point of the estimated price range, would result in an aggregate purchase price of approximately $166 million.

(2) Of such amount, $0.6 million will be paid to Messrs. Bronfman and Cohen and one other officer when the Investors' share of the dividend is paid and $9.5 million will be witheld by the Company for a total of ten members of management, including Messrs. Bronfman, Cohen, Albertini and Johnson, until their unvested restricted shares vest.

New Chief Financial Officer. We recently announced that Michael D. Fleisher has 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 1987. On April 11, 2005, Acquisition Corp. announced that Richard Blackstone had been hired to serve as Chairman and CEO of Warner/Chappell Music, Inc. as Mr. Bider's successor starting no later than January 1, 2006. 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.

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

THE OFFERING

Shares of common stock offered by Warner Music Group Corp.	27,170,000 shares
Shares of common stock offered by the selling stockholders	5,430,000 shares
Selling stockholders	Thomas H. Lee Partners, L.P., Bain Capital, LLC, Providence Equity Partners Inc. and Music Capital Partners, L.P. and/or one or more of their affiliates (collectively, the "Investors"). See "Principal and Selling Stockholders."
Shares of common stock to be outstanding after this offering	143,020,313 shares (which includes approximately 8.3 million shares of restricted stock).
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $581 million.
	We intend to use $574 million of the net proceeds from the sale of shares being sold by us in this offering as follows:
	approximately $209 million to redeem all outstanding Holdings PIK Notes and to pay interest thereon through the anticipated date of redemption;
	approximately $265 million to redeem all outstanding Holdings Floating Rate Notes and to pay related premiums and interest thereon through the anticipated date of redemption; and
	approximately $100 million to redeem 35% of the Holdings Discount Notes and to pay related premiums and interest thereon through the anticipated date of redemption;
	We intend to use the remaining net proceeds for general corporate purposes.
	See "Use of Proceeds" and "Description of Indebtedness."
	We will not receive any of the net proceeds from the sale of shares of our common stock by the selling stockholders. The selling stockholders will receive all net proceeds from the sale of shares of our common stock offered by them under this prospectus.
Proposed New York Stock Exchange symbol	WMG

Unless we specifically state otherwise, all information in this prospectus:

- assumes no exercise by the underwriters of their option to purchase additional shares;
- excludes 1,355,066 shares of common stock reserved for issuance pursuant to LTIP stock option agreements, of which options to purchase 1,303,824 shares have been issued as of the date of this prospectus;
- excludes 3,416,133 shares of common stock we intend to reserve for issuance under our 2005 Omnibus Stock Plan, of which we intend to grant options to purchase up to 1,138,711 shares at the date of this offering;
- excludes 4,000,590 shares of common stock reserved for issuance in connection with other currently outstanding options under stock option agreements with certain of our employees;
- assumes the repurchase of the Three-Year Warrants and excludes all shares of common stock issuable to Historic TW upon exercise of the Three-Year Warrants (equal to approximately 19.0 million shares of common stock if Historic TW exercises the Three-Year Warrants with payment of cash or approximately 6.9 million shares of common stock if they exercise without payment of cash after giving effect to the Recapitalization described below); and
- gives effect to the Recapitalization described below.

BASIS OF PRESENTATION

We are making changes to the organizational documents and capital structure of Warner Music Group Corp. prior to this offering. Unless otherwise indicated, all information in this prospectus reflects:

- the conversion of all 9,444 outstanding shares of Class L Common Stock of Warner Music Group Corp. into 9,444 pre-split shares of Class A Common Stock (which, along with all other outstanding shares of Class A Common Stock, will be renamed as common stock) as described below;

- a 1,139 for 1 split of our common stock to be effective immediately prior to this offering;

- the filing of an amendment and a second amended and restated certificate of incorporation (the "Charter") with the Secretary of State of the State of Delaware immediately prior to this offering, which, among other things, will have the effect of eliminating from the authorized capital stock of Warner Music Group Corp. the Class L Common Stock and Class A Common Stock and add to the authorized capital stock common and preferred stock; and

- the exclusion of all shares of common stock issuable to Historic TW upon exercise of the Three-Year Warrants.

Prior to this offering, the authorized capital stock of Warner Music Group Corp. consisted of shares of Class L Common Stock and shares of Class A Common Stock. The Class L Common Stock was identical to the Class A Common Stock, except that the Class L Common Stock was non-voting, was convertible into shares of Class A Common Stock as described below, and each share of Class L Common Stock was entitled to a preferential payment upon any distribution by us to holders of Warner Music Group Corp. capital stock (whether by dividend, liquidating distribution or otherwise) equal to the base amount for such share ($81,000) plus an amount, accruing from March 1, 2004, sufficient to provide a return at a rate of 10% per annum, compounded quarterly, on the base amount for such share. We have made preferential payments to date aggregating approximately $814 million, after paying the $7.5 million dividend as part of the Holdings Refinancing. The remaining amount of the preferential payment will be approximately $8.5 million (the "Remaining Preference Amount"). The Remaining Preference Amount may be paid from any cash available to us. Prior to this offering, Warner Music Group Corp. intends to declare and pay a dividend to the holders of its Class L Common Stock, consisting of the Investors, in an amount equal to the Remaining Preference Amount. The dividend will be in the form of promissory notes to the Investors. After this offering, we intend to repay those promissory notes with a portion of the proceeds from borrowings under the new term loan and cash on hand. See "Prospectus Summary Recent Developments The Concurrent Transactions." After giving effect to the dividend of those promissory notes, each share of Class L Common Stock and Class A Common Stock will share equally in all distributions by us to holders of Warner Music Group Corp. capital stock. Under the terms of the Class L Common Stock, after giving effect to that dividend, each outstanding share of Class L Common Stock will be converted prior to this offering into one share of Class A Common Stock. After giving effect to the subsequent 1,139 for 1 stock split on the Class A Common Stock, each share of Class L Common Stock will have become 1,139 shares of Class A Common Stock, which will be renamed "Common Stock".

Together, we refer to the conversion of the Class L Common Stock into Class A Common Stock on a one-for-one basis, the stock split on the Class A Common Stock and the renaming of the Class A Common Stock to common stock, as the "Recapitalization."

In March 2004, we issued to Historic TW Inc. ("Historic TW"), a subsidiary of Time Warner Inc., warrants (the "Three-Year Warrants") giving it the right to purchase up to approximately 15% of the Class L Common Stock of Warner Music Group Corp., 15% of the Class A Common Stock of Warner Music Group Corp. and 15% of the preferred securities of WMG Holdings Corp. ("Holdings"), our wholly owned subsidiary, issued to THL, Bain Capital, Music Capital and Providence Equity, in each case taking into account the exercise of the Three-Year Warrants. Subsequent to the issuance of the Three-Year Warrants, Holdings redeemed all of its preferred securities and, immediately prior to this offering, we will effect the Recapitalization. As a result, the Three-Year Warrants will represent the right to purchase up to approximately 19.0 million shares of our common stock (or approximately 15% of our common stock held by the Investors taking into account the exercise of the Three-Year Warrants). The net exercise price payable by Historic TW upon exercise of all of the Three-Year Warrants is equal to seventy-five percent (75%) of the fair market value per share of our common stock at the time multiplied by the number of shares of common stock issuable upon exercise, less credits (after giving effect to the additional $7.5 million dividend, $8.5 million Remaining Preference Amount and the $141.5 million special cash dividend) currently amounting to approximately $48.8 million that have been calculated based on qualifying distributions on or repurchases of shares held by the Investors. In addition, as a result of the redemption of the preferred stock of Holdings, Historic TW is entitled to $15 million in cash if it exercises the Three-Year Warrants. Assuming the Three-Year Warrants are exercised at the time of this offering and that the fair market value of our common stock for purposes of the formula above equals the public offering price, the aggregate net exercise price would be approximately $278.6 million based on an assumed initial public offering price of $23.00 per share, the mid-point of the estimated price range on the cover of this prospectus. If Historic TW exercised the Three-Year Warrants with payment of cash, they would own approximately 19.0 million of shares of common stock after giving effect to the Recapitalization. If Historic TW exercised the Three-Year Warrants without payment of cash, they would own approximately 6.9 million shares of common stock after giving effect to the Recapitalization.

The Three-Year Warrants provide that they may be exercised at any time prior to the consummation of this offering, after which time the Three-Year Warrants expire. The Three-Year Warrants provide that Historic TW may pay the exercise price in cash or, in the alternative, may exercise without payment of cash and receive a reduced number of shares of common stock. The amount of such reduction would be equal to the number of shares having an aggregate fair market value at the time equal to the exercise price. If the Three-Year Warrants are not exercised and our agreement to repurchase the Three-Year Warrants is not consummated, Historic TW will continue to hold the MMT Warrants (as defined below) which will permit it to acquire our common stock (i) upon the sale to certain music companies of all or substantially all of the recorded music business or music publishing business conducted by us or the acquisition by certain music companies of 35% of the outstanding shares of Warner Music Group Corp. or Holdings; (ii) the acquisition of all or substantially all of the recorded music business or music publishing business of certain music companies; or (iii) a merger with or the formation of a joint venture or other combination of all or substantially all of Warner Music Group Corp. or Holdings' recorded music business or music publishing business with that of certain music companies. If a definitive agreement for such a transaction is not executed by March 1, 2007, or if the MMT Warrants are not exercised within 90 days of the consummation of such a transaction, the MMT Warrants will expire. Additionally, if the Three-Year Warrants are exercised or repurchased under our agreement with Historic TW, the MMT Warrants will expire. See "The Transactions Warrants."

We have agreed with Historic TW to repurchase the Three-Year Warrants in connection with the Concurrent Transactions. Under the terms of our agreement, Historic TW is not permitted to exercise the Three-Year Warrants pending the repurchase.

See "Description of Capital Stock" for a description of our common stock and the material terms of our Charter.

Risk Factors

Investing in our common stock involves substantial risk. You should carefully consider all the information in this prospectus prior to investing in our common stock. In particular, we urge you to consider carefully the factors set forth under the heading "Risk Factors."

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA

The following table sets forth the summary historical and pro forma financial and other data as of the dates and for the periods indicated. The 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, (iii) the ten months ended September 30, 2003 and (iv) the years ended November 30, 2003 and 2002 have been derived from our audited financial statements included elsewhere in this prospectus. The summary balance sheet data as of December 31, 2004 and the statement of operations and other data for the three months ended December 31, 2004 and 2003, have been derived from our unaudited interim financial statements included elsewhere in this prospectus. The balance sheet data as of November 30, 2002 are derived from our audited financial statements that are not included in this prospectus. The summary historical balance sheet data as of September 30, 2003, December 31, 2003 and the summary historical financial data as of and for each of the two years ended November 30, 2001 and 2000 have been derived from our unaudited financial statements that are not included in this prospectus.

The comparability of the 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 our 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 our 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 (as defined below), 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 "Successor." In addition, summary historical financial data for 2000 do not reflect the pushdown of a portion of the purchase price relating to the AOL Time Warner Merger that occurred in 2001 to the financial statements of Acquisition Corp. and its combined and consolidated subsidiaries.

The summary unaudited pro forma consolidated financial data for the twelve months ended September 30, 2004 gives 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 Acquisition Corp.'s senior secured credit facility and bridge loan and an initial capital investment by the Investors (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 $8^1/_8$% 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 "Acquisition Corp. Refinancing"), (iii) our CD and DVD manufacturing, packaging and physical distribution agreements with Cinram (the "Cinram Agreements"), (iv) the Holdings' offering of Holdings Notes and the Holdings' Payment to Investors (the "Holdings Refinancing"), (v) the Recapitalization, the offering of common stock by us and the use of proceeds therefrom (collectively, the "Initial Common Stock Offering") and (vi) the Concurrent Transactions as if they all occurred as of October 1, 2003. The summary unaudited pro forma financial data as of and for the three months ended December 31, 2004 gives effect to the Holdings Refinancing (to the extent not already included therein), the Initial Common Stock Offering and the Concurrent Transactions, as if they occurred on October 1, 2003. The summary pro forma consolidated condensed financial data are presented for informational purposes only and are not necessarily indicative of our 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 consolidated condensed financial data are not necessarily indicative of our future financial condition or operating results.

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 the historical audited and interim unaudited financial statements and the accompanying notes thereto of Warner Music Group Corp. and its combined and consolidated subsidiaries included elsewhere in this prospectus.

	Historical									Pro Forma	
	Predecessor							Successor			
	Fiscal Years Ended November 30,				Ten Months Ended September 30,	Three Months Ended December 31,	Three Months Ended February 29,	Seven Months Ended September 30,	Three Months Ended December 31,	Twelve Months Ended September 30,	Three Months Ended December 31,
	2000	2001	2002	2003	2003	2003	2004	2004	2004	2004	2004
	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)(2)	(unaudited)(2)
	(in millions, except per share data)										
Statement of Operations Data:											
Revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 1,178	$ 779	$ 1,769	$ 1,088	$ 3,436	$ 1,088
Cost of revenues	(1,960)	(1,731)	(1,873)	(1,940)	(1,449)	(648)	(415)	(944)	(581)	(1,843)	(581)
Selling, general and administrative expenses	(1,297)	(1,402)	(1,282)	(1,286)	(995)	(391)	(319)	(677)	(331)	(1,291)	(331)
Impairment of goodwill and other intangible assets			(1,500)	(1,019)		(1,019)				(1,019)	
Depreciation and amortization	(282)	(868)	(249)	(328)	(272)	(80)	(72)	(140)	(60)	(245)	(60)
Operating income (loss)	(36)	(766)	(1,542)	(1,158)	(197)	(948)	(11)	18	130	(929)	130
Interest expense, net	(13)	(34)	(23)	(5)	(5)	(3)	(2)	(80)	(38)	(150)	(42)
Income (loss) before cumulative effect of accounting change	(408)	(910)	(1,230)	(1,353)	(201)	(1,146)	(32)	(238)	36	(901)	59
Net income (loss)	$ (408)	$ (910)	$ (6,026)	$ (1,353)	$ (201)	$ (1,146)	$ (32)	$ (238)	$ 36	$ (901)	$ 59
Pro forma net income (loss) per common share:(4)											
Basic								$ (2.21)	$ 0.33	$ (6.71)	$ 0.44
Diluted								$ (2.21)	$ 0.31	$ (6.71)	$ 0.42
Pro forma average common shares:(4)											
Basic								107.5	107.5	134.3	134.3
Diluted								107.5	115.3	134.3	142.1
Segment Data:											
Revenues:											
Recorded Music	$ 2,929	$ 2,701	$ 2,752	$ 2,839	$ 2,039	$ 1,028	$ 630	$ 1,429	$ 940	N/A	N/A

	Historical									Pro Forma	
Music Publishing	554	547	563	563	467	159	157	348	155	N/A	N/A
Intersegment eliminations	(22)	(22)	(25)	(26)	(19)	(9)	(8)	(8)	(7)	N/A	N/A
Total revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 1,178	$ 779	$ 1,769	$ 1,088	$ 3,436	$ 1,088
Operating income (loss):											
Recorded Music	$ (22)	$ (733)	$ (1,206)	$ (1,130)	$ (181)	$ (933)	$ (9)	$ 24	$ 152	N/A	N/A
Music Publishing	47	23	(273)	23	19	6	17	53	10	N/A	N/A
Corporate expenses	(61)	(56)	(63)	(51)	(35)	(21)	(19)	(59)	(32)	N/A	N/A
Total operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (948)	$ (11)	$ 18	$ 130	$ (929)	$ 130
OIBDA(3):											
Recorded Music	$ 214	$ 73	$ 173	$ 116	$ 8	$ 141	$ 38	$ 120	$ 194	N/A	N/A
Music Publishing	91	81	88	107	88	27	38	87	24	N/A	N/A
Corporate expenses	(59)	(52)	(54)	(34)	(21)	(17)	(15)	(49)	(28)	N/A	N/A
Total OIBDA(3)	$ 246	$ 102	$ 207	$ 189	$ 75	$ 151	$ 61	$ 158	$ 190	$ 335	$ 190
Cash Flow Data:											
Cash flows provided by (used in):											
Operating activities	$ 75	$ (122)	$ (13)	$ 278	$ 257	$ 31	$ 321	$ 86	$ 63	N/A	N/A
Investing activities	(153)	(175)	(365)	(65)	(73)	(7)	14	(2,663)	(25)	N/A	N/A
Financing activities	61	227	385	(121)	(151)	16	(10)	2,661	(296)	N/A	N/A
Capital expenditures	(64)	(91)	(88)	(51)	(30)	(27)	(3)	(15)	(6)	N/A	N/A

	Historical									Pro Forma	
	Predecessor							Successor			
	Fiscal Years Ended November 30,				Ten Months Ended September 30, 2003	Three Months Ended December 31, 2003	Three Months Ended February 29, 2004	Seven Months Ended September 30, 2004	Three Months Ended December 31, 2004	Twelve Months Ended September 30, 2004	Three Months Ended December 31, 2004
	2000	2001	2002	2003							
	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)(2)	(unaudited)(2)
	(in millions)										
Balance Sheet Data (at period end):											
Cash and equivalents	$ 106	$ 34	$ 41	$ 144	$ 80	$ 126	$ 471	$ 555	$ 306	$ N/A	$ 96
Total assets	6,791	17,642	5,679	4,484	5,255	4,606	4,560	5,090	5,023	N/A	4,804
Total debt (including current portion of long-term debt)	102	115	101	120	115	126	132	1,840	2,546	N/A	2,262
Shareholders' equity/(deficit)	5,228	14,588	3,001	1,587	2,673	1,696	1,691	280	(125)	N/A	107

(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, 2003	Three Months Ended December 31, 2003	Three Months Ended February 29, 2004	Seven Months Ended September 30, 2004	Three Months Ended December 31, 2004	Twelve Months Ended September 30, 2004	Three Months Ended December 31, 2004
	2000	2001	2002	2003							
	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)(2)	(unaudited)(2)
	(in millions)										
Operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (948)	$ (11)	$ 18	$ 130	$ (929)	$ 130
Depreciation and amortization	282	868	249	328	272	80	72	140	60	245	60

	Historical									Pro Forma	
expense											
Impairment of goodwill and other intangible assets			1,500	1,019		1,019				1,019	
OIBDA	$ 246	$ 102	$ 207	$ 189	$ 75	$ 151	$ 61	$ 158	$ 190	$ 335	$ 190

(4) Net income (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding. Unaudited pro forma basic and diluted net income (loss) per common share has been calculated in accordance with the Securities and Exchange Commission, or the SEC, rules for initial public offerings. These rules require that the weighted average share calculation give retroactive effect to any changes in our capital structure as well as the number of shares in this offering whose sale proceeds will be used to repay any debt and any dividends as reflected in the pro forma adjustments. Therefore, pro forma weighted average shares for purposes of the unaudited pro forma basic net income (loss) per common share calculation has been adjusted to reflect the Recapitalization and this offering.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before deciding to purchase any common stock. 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 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., 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. On December 15, 2004, we entered into a definitive agreement to sell our print business to Alfred Publishing Co., Inc. ("Alfred Publishing"), subject to customary closing conditions.

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

- recently hiring a permanent chief financial officer;
- recently establishing an audit committee;
- outsourcing our internal audit functions;
- hiring external resources to lead our Section 404 evaluation efforts;
- hiring outside consultants to assist in the review of our current code of conduct and to assist in the implementation of a new code of conduct;
- hiring additional outside resources to assist our internal personnel with royalties accounting and SEC reporting;
- 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 and 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 April 24, 2005, year-to-date U.S. recorded music sales (excluding sales of digital tracks) are down approximately 8.5% 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 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 recent file-sharing cases in the U.S. and Canada, Metro-Goldwyn-Mayer Studios, Inc. *et al* vs. Grokster Ltd. *et al*, and BMG Canada Inc. *et al* vs. John Doe *et al*, respectively), 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 is 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.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to the music industry. Worldwide, industrial pirated music (which encompasses unauthorized physical copies manufactured for sale but does not include Internet downloads or home CD burning) is estimated to have generated over $4.5 billion in revenues in 2003, according to IFPI. IFPI estimates that 1.7 billion pirated units were manufactured in 2003. According to IFPI estimates, approximately 35% of all music CDs sold worldwide in 2003 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.

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 Warner Music Group 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 expect to complete our production in May or June. 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. It is too soon to predict the outcome of this investigation, but it has 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 Holdings Notes.

Our business is seasonal. For the twelve months ended December 31, 2004, 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 greater than 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 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. The German IFPI group has filed a petition with the Arbitration Board of the German Patent and Trademark Office for the reduction of the current royalty rate for licensing compact discs from 9.01% of the Published Price for Dealers (PPD) to 5.57%. If the German IFPI group succeeds or other record companies or recorded music industry groups take similar positions in other countries and succeed, this could result in a significant loss of revenues for our Music Publishing 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 twelve months ended December 31, 2004, approximately 57% of our revenues and 38% of our assets related to operations in foreign territories. See footnote 24 to our 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. However, we are in the process of evaluating our hedging practices and no significant foreign exchange contracts have been entered into as of December 31, 2004. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk Management."

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

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

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

California Labor Code Section 2855 ("Section 2855") limits the duration of time any individual can be bound under a contract for "personal services" to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation was introduced in California to repeal Subsection (b) and then withdrawn. 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.

After giving effect to this offering, the Investors will still control a majority of our capital stock (approximately 71%). So long as the Investors continue to hold a majority of our outstanding common stock, the Investors will be entitled to nominate a majority of our board of directors, and will have the ability to effectively control the vote in any election of directors. In addition, after giving effect to this offering, representatives of the Investors will occupy substantially all of the seats on our board of directors and pursuant to the stockholders agreement, will have the right to appoint all of the independent directors to our board. As a result, the Investors have 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 Investors will have the ability to prevent any transaction that requires the approval of our board of directors or the stockholders regardless of whether or not other members of our board of directors or stockholders believe that any such transaction is in their own best interests. For example, the Investors could cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets. Additionally, the Investors are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Investors 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 Investors continue to meet certain ownership thresholds, the Investors will be entitled to nominate a majority of our board of directors. See "Certain Relationships and Related Party Transactions Stockholders Agreement." In addition, so long as the Investors continue to own a significant amount of our equity, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control our decisions.

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

Cinram is currently our exclusive supplier of manufacturing, packaging and physical distribution services in North America and most of Europe. Accordingly, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram's continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, we would have difficulty satisfying our commitments to our wholesale and retail customers, which could have an adverse impact on our revenues. Even though our agreements with Cinram give us a right to terminate based upon failure to meet mandated service levels, and there are several capable substitute suppliers, it might be difficult for us to switch to substitute suppliers for any such services, particularly in the short-term, and the delay and transition time associated with finding substitute suppliers could itself have an adverse impact on our revenues. 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. Time Warner still provides some DX Online Services, a web-based solution designed to manage small package shipping. See "Certain Relationships and Related Party Transactions Seller Administrative Services Agreement." However, 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 ("Sony BMG"). As a result, the recorded music market now 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 25% to 30% market shares, Universal and Sony BMG, and two significantly smaller majors, EMI and us. 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 our Leverage

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

We are highly leveraged. As of December 31, 2004, our total consolidated indebtedness was $2.55 billion. After giving effect to the Initial Common Stock Offering and the Concurrent Transactions, we would have had $2.26 billion of debt outstanding as of December 31, 2004. We have an additional $250 million available for borrowing under the revolving portion of Acquisition Corp.'s senior secured credit facility (less $4 million of current letters of credit). 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 to the restrictions contained in Acquisition Corp.'s senior secured credit facility and the indentures relating to the Acquisition Corp. Notes and Holdings Notes. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

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

Our subsidiaries' ability to make scheduled payments on or to refinance their 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 to pay the principal, premium, if any, and interest on their indebtedness.

If our subsidiaries' cash flows and capital resources are insufficient to fund 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 their indebtedness. These alternative measures may not be successful and may not permit our subsidiaries to meet their scheduled debt service obligations. In the absence of such operating results and financing resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our subsidiaries' debt service and other obligations. The senior secured credit facility and the indentures governing the Acquisition Corp. Notes and the Holdings Notes restrict our subsidiaries' ability to dispose of assets and use the proceeds from any such disposition. Our subsidiaries may not be able to consummate any such disposition or to obtain the proceeds which we could realize from them. Additionally, these proceeds may not be adequate to meet any debt service obligations then due.

Holdings also will be relying on Acquisition Corp. and its subsidiaries to make payments on the Holdings Notes. For example, interest on the Holdings Floating Rate Senior Notes is payable quarterly, in cash, commencing in March 2005. If Acquisition Corp. does not dividend funds to Holdings in an amount sufficient to make such payments, Holdings may default under the indenture governing the Holdings Notes, which would result in all such notes becoming due and payable. Because Acquisition Corp.'s debt agreements have covenants that limit its ability to make payments to Holdings, Holdings may not have access to funds in an amount sufficient to service its indebtedness.

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

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

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

In addition, under Acquisition Corp.'s senior secured credit agreement, Acquisition Corp., Holdings and their subsidiaries are required to satisfy and maintain specified financial ratios and other financial condition tests. Their ability to meet those financial ratios and tests can be affected by events beyond our control, and they may not be able to meet those ratios and tests. A breach of any of these covenants could result in a default under Acquisition Corp.'s senior secured credit agreement. Upon the occurrence of an event of default under Acquisition Corp.'s senior secured credit agreement, the lenders could elect to declare all amounts outstanding under Acquisition Corp.'s 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 Acquisition Corp.'s senior secured credit agreement could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under Acquisition Corp.'s senior secured credit agreement. If the lenders under Acquisition Corp.'s senior secured credit agreement accelerate the repayment of borrowings, we may not have sufficient assets to repay Acquisition Corp.'s senior secured credit agreement, as well as any unsecured indebtedness. On December 6, 2004, we amended the senior secured credit agreement to make certain changes. In connection with the Initial Common Stock Offering and the Concurrent Transactions, we intend to further amend the senior secured credit agreement. See "Description of Indebtedness" for a description of these changes.

Warner Music Group Corp. is a holding company, dependent on its subsidiaries, and the terms of Acquisition Corp.'s senior secured credit agreement and the indentures governing the Acquisition Corp. Notes and Holdings Notes limit its subsidiaries from paying dividends or otherwise transferring their assets to it.

Our operations are conducted through our subsidiaries, and the ability of our subsidiaries to make payments to us is dependent on the earnings and the distribution of funds from our subsidiaries. However, none of our subsidiaries is obligated to make funds available to us. Further, the agreements governing the current and future indebtedness of our subsidiaries may not permit our subsidiaries to provide us with sufficient dividends, distributions or loans to pay dividends on our common stock. The terms of the indentures governing the Acquisition Corp. Notes and Holdings Notes significantly restrict Acquisition Corp., Holdings and other subsidiaries from paying dividends and otherwise transferring assets to us. For example, the ability of Acquisition Corp. and Holdings to make such payments is governed by a formula based on 50% of each of their consolidated net income (which, as defined in the indentures governing such notes, excludes goodwill impairment charges and any after-tax extraordinary, unusual or nonrecurring gains and losses) accruing from June 1, 2004 and July 1, 2004, respectively. In addition, as a condition to making such payments to us based on such formula, Acquisition Corp. and Holdings must each have an adjusted EBITDA to interest expense ratio of at least 2.0 to 1 after giving effect to any such payments. Acquisition Corp. may also make a restricted payment prior to April 15, 2009 if, immediately after giving pro forma effect to such restricted payment and 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. In addition, Holdings may make a restricted payment 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 4.25 to 1.0. Notwithstanding such restrictions, the indentures permit an aggregate of $45.0 million and $75.0 million of such payments to be made by Acquisition Corp. and Holdings, respectively, whether or not there is availability under the formula or the conditions to its use are met. In addition, the Holdings indenture permits Holdings to dividend up to 6% per annum from proceeds of this offering received by Holdings.

Acquisition Corp.'s senior secured credit agreement permits Acquisition Corp. to make additional restricted payments to Holdings, the proceeds of which may be utilized by Holdings to make additional restricted payments, in an aggregate amount not to exceed $10.0 million (such amount subject to increase to $50.0 million if the leverage ratio as of the last day of the immediately preceding four fiscal quarters was less than 3.5 to 1), and subject to further increase in an amount equal to 50% of excess cash flow that is not otherwise applied pursuant to Acquisition Corp.'s senior secured credit agreement. In addition, Acquisition Corp.'s senior secured credit agreement permits Holdings to pay cash interest on its indebtedness (including the Holdings 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 senior secured credit agreement. The proposed amendment to the senior secured credit agreement will also permit distributions not in excess of $90 million in any fiscal year to be applied to pay regular quarterly cash dividends to holders of our common stock after this offering. Furthermore, Holdings' subsidiaries will be permitted under the terms of Acquisition Corp.'s senior secured credit agreement 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. See "Description of Indebtedness."

Risks Related To This Offering

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

Upon completion of this offering, our Investors will continue to control a majority of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, a group, or another company is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance requirements, as applicable, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities and (3) the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities. Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors nor will our nominating and corporate governance committee, which we expect will also serve as our executive committee, and compensation committee consist entirely of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

There is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.

There has not been a public market for our common stock. The New York Stock Exchange has approved the listing of our common stock on the New York Stock Exchange. However, we cannot predict the extent to which investor interest in our company will lead to the development of a trading market on the New York Stock Exchange or otherwise or how liquid that market might become. The initial public offering price for the shares will be determined by negotiations between us and the representatives of the underwriters based on numerous factors that we discuss in the "Underwriting" section of this prospectus and may not be indicative of prices that will prevail in the open market following this offering.

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

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We, our directors and executive officers, Historic TW (to the extent of any remaining interest) and the Investors have agreed with the underwriters not to sell, dispose of or hedge any shares of our common stock or securities convertible into or exchangeable for shares of our common stock, subject to specified exceptions, during the period from the date of this prospectus continuing through the date that is 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co.

After this offering, we will have approximately 143.0 million shares of common stock outstanding. After giving effect to the Recapitalization, there are 497,732 shares of restricted stock which have vested and up to an additional 995,464 shares of restricted stock which may vest upon this offering. In addition, 99,579 shares subject to options have vested and up to an additional 199,157 shares subject to options may vest upon this offering. Of those shares, the approximately 32.6 million shares we and the selling stockholders are offering will be freely tradable. The approximately 108.0 million shares that were outstanding immediately prior to this offering excluding unvested restricted stock will be eligible for resale from time to time after the expiration of the 180-day lock-up period, subject to contractual and Securities Act restrictions. None of those shares may currently be resold under Rule 144(k) without regard to volume limitation and approximately 108.0 million shares may, subject to existing lock-up agreements, currently be sold subject to volume, manner of sale and other conditions of Rule 144. After the expiration of the 180-day lock-up period, the Investors, which will collectively beneficially own approximately 102.1 million shares, and Historic TW (to the extent of any remaining interest), will have the ability to cause us to register the resale of their shares and certain holders of our unregistered common stock will be able to participate in such registration. In addition, notwithstanding the foregoing, we intend to register all shares of restricted common stock and shares underlying options pursuant to our benefit plans and arrangements on a registration statement on Form S-8 following this offering. Furthermore, if Historic TW does not exercise any of the Three-Year Warrants prior to the consummation of this offering or our agreement to repurchase the Three-Year Warrants is not consummated, it will continue to hold the MMT Warrants exercisable for approximately 26.7 million shares upon certain events. We have agreed with Historic TW to repurchase the Three-Year Warrants in connection with the Concurrent Transactions. If we repurchase the Three-Year Warrants, they will be deemed to have been exercised and the MMT Warrants will expire.

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

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

- actual or anticipated variations in operating results;
- changes in financial estimates by research analysts;
- actual or anticipated changes in economic, political or market conditions, such as recessions or international currency fluctuations;
- actual or anticipated changes in the regulatory environment affecting the music industry;
- changes in the retailing environment;
- changes in the market valuations of other music industry peers; and
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives.

See also " Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period." In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management attention and resources, which could significantly harm our profitability and reputation.

The book value of shares of common stock purchased in the offering will be immediately diluted and may be subject to additional dilution in the future.

Investors who purchase common stock in the offering will be diluted by $43.22 per share after giving effect to the sale of 32.6 million shares of common stock in this offering at an assumed initial public offering price of $23.00 per share, the mid-point of the estimated price range on the cover of this prospectus, and excluding all shares of common stock issuable to Historic TW upon exercise of the Three-Year Warrants in connection with the Concurrent Transactions, and the sale of up to 4,890,000 shares to the underwriters pursuant to the option we are granting them in connection with this offering. In the past we have granted stock options to our employees to purchase shares of our common stock and granted and sold restricted stock to our employees, and we may continue to grant options and grant and sell restricted stock in the future to our employees. To the extent that these options are exercised and other issuances of common stock are made, there will be further dilution. In addition, if we issue preferred stock, the rights of the holders of common stock will be subject to, and may be harmed by, the rights of holders of any preferred stock. Lastly, if the Three-Year Warrants are not exercised or repurchased by us under our agreement with Historic TW, Historic TW, the holder of our MMT Warrants, may purchase approximately 26.7 million shares of our common stock pursuant to the MMT Warrants upon the occurrence of certain corporate events, which shares Historic TW can also require to be registered.

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

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

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 terminology. 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.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the shares of common stock being offered hereby, after deducting the underwriting discount and estimated offering expenses, will be approximately $581 million.

Warner Music Group Corp. intends to contribute all such net proceeds to Holdings as an equity capital contribution. Holdings will use $574 million of these funds to redeem all outstanding Holdings' Floating Rate Senior Notes due 2011, all outstanding Holdings' Floating Rate Senior PIK Notes due 2014 and 35% of the aggregate principal amount of the outstanding Holdings' 9.5% Senior Discount Notes due 2014, including redemption premiums and interest obligations through the anticipated dates of redemption. We intend to use the remaining net proceeds for general corporate purposes.

The estimated sources and uses of funds (assuming a mid-May 2005 closing unless otherwise specified, and assuming the initial public offering price is $23.00 per share, which is the mid-point of the estimated range set forth on the cover of this prospectus) are set forth in the table below. The actual amounts may vary depending on the time of the closing of this offering, the actual redemption dates and the initial public offering price.

Sources (in millions)			Uses (in millions)		
Proceeds to us from the initial public offering of common stock(1)	$	625	Redemption of all of the Holdings Floating Rate Notes(2)	$	265
			Redemption of all of the Holdings PIK Notes(2)		209
			Partial Redemption of the Holdings Discount Notes(2)		100
			General corporate purposes		7
			Estimated fees and expenses(3)		44
Total Sources	$	625	Total Uses	$	625

(1) All of such amount will be contributed to Holdings as an equity capital contribution.

(2) Amounts include accrued and unpaid interest, up to, but not including, the anticipated redemption dates, of $5 million and $9 million related to the Holdings Floating Rate Notes and the Holdings PIK Notes, respectively, and redemption premiums, as of the anticipated redemption dates, of $10 million and $9 million related to the Holdings Floating Rate Notes and the Holdings Discount Notes, respectively. The Holdings PIK Notes are redeemable at par value. Principal amounts of debt to be repaid on the anticipated redemption dates are $250 million, $200 million and $91 million related to the Holdings Floating Rate Notes, the Holdings PIK Notes and the Holdings Discount Notes, respectively. The principal amount of the Holdings Discount Notes represents 35% of the accreted value on the anticipated date of redemption.

(3) Represents estimated underwriting discounts on the sale of shares of common stock by us and other expenses.

The interest rate on the Holdings Floating Rate Notes is equal to three-month LIBOR plus 4.375%, reset quarterly. The interest rate on the Holdings PIK Notes is equal to six-month LIBOR plus 7.0%, reset semi-annually. Additional terms of the Holding Floating Rate Notes, Holding PIK Notes and Holdings Discount Notes are described under "Description of Indebtedness."

We will not receive any of the net proceeds from the sale of shares by the selling stockholders, including any proceeds received by them in connection with any exercise of the underwriters' option to purchase additional shares. The selling stockholders will receive all net proceeds from the sale of shares of our common stock offered by them under this prospectus.

Any increase in the aggregate amount of net proceeds to us from the sale of common stock in this offering will result in a corresponding increase in the amount available for general corporate purposes. In the event that the amount of net proceeds to us would be below $574 million (which equals the amount to be used to redeem the indebtedness in the table above), we would expect to increase the number of shares to be sold by us in the offering, and to correspondingly reduce the shares to be sold by the selling stockholders, so that there will be no material reduction in either (i) the amount of Holdings Notes to be redeemed or (ii) the $141.5 million special cash dividend to be paid to our existing stockholders in connection with the Concurrent Transactions.

DIVIDEND POLICY

We paid $202 million, including $2 million of dividends on preferred shares of Holdings, to our Investors at the time of the Acquisition Corp. Refinancing, $350 million in connection with the Return of Capital and Dividend on Preferred and $631 million in connection with the Holdings' Payment to Investors through a combination of dividends and share repurchases. We distributed $42.5 million of the remaining $50 million of net proceeds from the issuance of the Holdings Notes to the Investors on March 28, 2005 and intend to distribute the remaining $7.5 million to the Investors prior to this offering.

In addition, prior to this offering, Warner Music Group Corp. intends to declare and pay a dividend equal to the Remaining Preference Amount to the Investors in the form of promissory notes. Warner Music Group Corp. also intends to declare a $141.5 million cash dividend to the holders of its Class L Common Stock and Class A Common Stock, consisting of the Investors and certain members of management. Though this dividend would be paid following consummation of this offering, stockholders who buy common stock in this offering will not participate in such dividend. See "Prospectus Summary Recent Developments The Concurrent Transactions."

The amounts available to us to pay further cash dividends will be restricted by Acquisition Corp.'s senior secured credit agreement and indentures governing the various notes of our subsidiaries, including the indenture governing the Holdings Notes and the indenture governing the Acquisition Corp. Notes. Under Acquisition Corp.'s senior secured credit agreement, generally neither Holdings nor Holdings' subsidiaries may pay dividends or otherwise transfer their assets to us. However, Acquisition Corp.'s senior secured credit agreement permits such restricted payments in an amount not to exceed $10.0 million, subject to increase up to $50.0 million if the leverage ratio is less than 3.5 to 1, and subject to additional increase in an amount equal to 50% of excess cash flow that is not otherwise applied pursuant to Acquisition Corp.'s senior secured credit agreement. The proposed amendment to the senior secured credit agreement is also expected to permit (i) the distribution of $141.5 million to our stockholders as described under "Prospectus Summary Recent Developments The Concurrent Transactions" in connection with the Concurrent Transactions and (ii) distributions not in excess of $90 million in any fiscal year to be applied to pay regular quarterly cash dividends to holders of our common stock after this offering. The indentures governing the Holdings Notes and the Acquisition Corp. Notes also limit the ability of Holdings, Acquisition Corp. and their subsidiaries to pay dividends to us. Under such indentures, generally our subsidiaries may pay dividends or make other restricted payments depending on a formula based on 50% of consolidated net income. In addition, Acquisition Corp. may also make such restricted payments if, on a pro forma basis after giving effect to any such payment, it has a net indebtedness to adjusted EBITDA ratio of no greater than 3.75 to 1.0 and a net senior indebtedness to adjusted EBITDA ratio of no greater than 2.5 to 1.0, and Holdings may make such restricted payments if, on a pro forma basis after giving effect to any such payment, it has a net indebtedness to adjusted EBITDA ratio of no greater than 4.25 to 1.0. Acquisition Corp. and Holdings may also make restricted payments under the indentures of up to $45.0 million and $75.0 million, respectively, without regard to any such provisions. The Holdings indenture permits Holdings to dividend up to 6% per annum from proceeds of this offering received by Holdings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition and Liquidity Liquidity."

We currently intend to pay regular quarterly cash dividends on our common stock in an amount not to exceed an aggregate of $80 million per year. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2004 (1) on an actual basis and (2) on an as-adjusted basis to reflect:

- the $42.5 million dividend to the Investors paid on March 28, 2005, and the remaining $7.5 million dividend to the Investors which we expect to pay prior to this offering, in each case from a portion of the remaining proceeds from the Holdings Notes;
- the Recapitalization;
- the sale by us of approximately 27.2 million shares of our common stock in this offering at an assumed initial public offering price of $23.00 per share, the mid-point of the estimated price range shown on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses;
- the application of the estimated net proceeds as described in "Use of Proceeds;" and
- the Concurrent Transactions.

The information should be read in conjunction with "The Transactions," "Pro Forma Consolidated Condensed Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical combined financial statements and the accompanying notes thereto appearing elsewhere in this prospectus.

	As of December 31, 2004	
	Actual	As Adjusted
	(unaudited, in millions)	
Cash and equivalents	$ 306	$ 96
Debt:		
Revolving credit facility(1)	$	$
Term loan(2)	1,191	1,441
Acquisition Corp. Notes(3)	658	658
Holdings Floating Rate Notes	250	
Holdings Discount Notes(4)	251	163
Holdings PIK Notes(5)	196	
Total debt	$ 2,546	$ 2,262
Shareholders' equity:		
Actual: Class A Common Stock, par value $0.001 per share, 200,000 shares authorized and 92,294 shares issued and outstanding; Class L Common Stock, par value $0.001 per share, 20,000 shares authorized and 9,444.4444 shares issued and outstanding; As adjusted: common stock, par value $0.001 per share, 500 million shares authorized, 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	93	474
Accumulated deficit	(202)	(351)
Accumulated other comprehensive earnings	(16)	(16)
Total shareholders' equity	$ (125)	$ 107
Total capitalization	$ 2,421	$ 2,369

	As of December 31, 2004	

(1) Acquisition Corp. currently has no borrowings outstanding 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, which would bring the total amount of the new facility to $1,441 million. See "Description of Indebtedness" and "Prospectus Summary Recent Developments The Concurrent Transactions."

(3) Includes $465 million aggregate principal amount of the dollar notes and the U.S. dollar equivalent, as of December 31, 2004, 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 December 31, 2004 of the $396.81 million ($306.81 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 December 31, 2004 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 (i) the Three-Year Warrants or MMT Warrants, (ii) any stock option agreements or LTIP stock option agreements and (iii) the option to purchase additional shares of common stock in this offering granted to the underwriters.

DILUTION

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering will exceed the net tangible book value per share of common stock after the offering. The net tangible book value per share presented below is equal to the amount of our total tangible assets (total assets less intangible assets) less total liabilities as of December 31, 2004. As of December 31, 2004, we had a net tangible book deficit of $(3,116) million, or $(26.98) per share after giving effect to the Recapitalization. On a pro forma basis, after giving effect to:

- the $42.5 million dividend to the Investors paid on March 28, 2005, and the remaining $7.5 million dividend to the Investors which we expect to pay prior to this offering, in each case from a portion of the remaining proceeds from the Holdings Notes;

- the sale of 27,170,000 shares of common stock by us in this offering at an assumed initial public offering price of $23.00 per share, the mid-point of the price range on the cover of this prospectus; and

- the Concurrent Transactions

our pro forma net tangible book deficit as of December 31, 2004 would have been $(2,884) million, or $(20.22) per share of common stock. This represents an immediate decrease in net tangible book deficit of $6.76 per share to existing stockholders and an immediate dilution in net tangible book value of $43.22 per share to new investors.

The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share		$ 23.00
Net tangible book deficit per share at December 31, 2004	$ (26.98)	
Increase in net tangible book value per share attributable to new investors	6.76	
Pro forma net tangible book deficit per share after the offering		(20.22)
Dilution per share to new investors		$ 43.22

The following table summarizes, on the same pro forma basis as of December 31, 2004, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing shareholders and by new investors purchasing shares in this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
			(in millions)		
The Investors	107,544,922	75%	$ (104)	(20)%	$ (0.97)
Management	7,946,908	6%	$ (5)	(1)%	$ (0.63)
New investors	27,170,000	19%	$ 625	121%	$ 23.00
Total	142,661,830	100%	$ 516	100%	$ 3.62

Total consideration and average price per share paid by the Investors in the table above give effect to the $131.4 million cash dividend (which represents the portion of the $141.5 million cash dividend we intend to pay to the Investors), the repayment of the promissory notes issued in connection with the dividend to holders of Class L Common Stock, the $42.5 million dividend to the Investors paid on March 28, 2005, and the remaining $7.5 million dividend to the Investors which we expect to pay prior to this offering. Total consideration and average price per share paid by certain members of our management in the table above give effect to the $10.1 million cash dividend (which represents the portion of the $141.5 million cash dividend we intend to pay to, or withhold for, such members of

management). See "Prospectus Summary Recent Developments The Concurrent Transactions." As the table indicates, the Investors' total consideration for their shares would be $(104) million, with an average share price of $(0.97), which means that the Investors in the aggregate will have received $104 million more than they originally invested and management's total consideration for their shares would be $(5) million, with an average share price of $(0.63), which means that management in the aggregate will have received $5 million more than they originally invested.

The tables and calculations above include all vested and unvested restricted shares of common stock and assume no exercise of outstanding options, of the option granted to the underwriters to purchase additional shares of common stock in this offering or of the Three-Year Warrants. The table and calculation above excludes the proceeds from the secondary offering, as such proceeds are received directly by the selling stockholders. After giving effect to the Recapitalization, there will be approximately 5,304,414 shares of our common stock subject to options outstanding at an average exercise price per share of $3.97 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Results of Operations and Financial Condition Future Charges and Payments Relating to Executive Compensation"), of which approximately 99,579 shares have vested and of which up to an additional 199,157 shares may vest as a result of this offering. To the extent that these options are exercised or the Three-Year Warrants are not purchased by us, there will be further dilution to new investors. See "Management," "Shares Eligible for Future Sale Stock Options and Restricted Stock" and "Prospectus Summary Recent Developments The Concurrent Transactions."

The number of shares held by stockholders selling shares in this offering will be reduced by the secondary offering and to the extent the underwriters exercise their option to purchase additional shares. If the underwriters fully exercise their option, the selling stockholders will own a total of 97,224,922 shares or approximately 68% of our total outstanding shares which, along with the secondary offering, will decrease the average price paid by the selling stockholders per share to $(1.07). In addition, after giving effect to Recapitalization, there will be approximately 8,305,390 restricted shares of our common stock outstanding, of which approximately 497,732 shares have vested and of which up to 995,464 shares may vest as a result of this offering, based on the initial public offering price per share.

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., an indirect subsidiary of Warner Music Group, acquired substantially all of Time Warner's music division. 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.

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 Original Financing and the Acquisition Corp. 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 Investors. See "Description of Indebtedness."

For the Acquisition Corp. 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 Investors and (iii) pay fees and expenses (the Acquisition Corp. Refinancing, together with the Original Financing and the Acquisition, the "Transactions").

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

Sources (in millions)			**Uses** (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 Investors		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.

(3) Includes the U.S. dollar equivalent of the 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 Investors 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 Investors 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 currently are in discussions over the terms of final settlement. Such changes are not expected to be material; however, the purchase price has been reduced by approximately $24 million on a preliminary basis to reflect a reimbursement by Time Warner to the Investors of a portion of the purchase consideration already agreed upon by the parties.

(5) In exchange for an arrangement in which the economic benefit of the acquired business accrued to the Investors 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 warrants in Parent Corp. and Holdings that were issued to Historic TW.

One of the two classes of warrants we issued to Historic TW in March 2004 gives Historic TW the right to purchase up to approximately 19.9% of the Class L Common Stock of Warner Music Group Corp., 19.9% of the Class A Common Stock of Warner Music Group Corp. and

19.9% of the preferred securities of Holdings issued to the Investors and taking into account the exercise of the warrants (the "MMT Warrants"). Subsequent to the issuance of the MMT Warrants, Holdings redeemed all of its preferred securities in connection with the Acquisition Corp. Refinancing and the Holdings' Payment to Investors and, immediately prior to this offering, we will effect the Recapitalization. As a result, the

MMT Warrants will represent the right to purchase up to 26.7 million shares of our common stock (or approximately 19.9% of our common stock held by the Investors taking into account the exercise of the MMT Warrants). The MMT Warrants provide that Historic TW may exercise its rights in whole or in part under the MMT Warrants (i) upon the sale to certain music companies of all or substantially all of the recorded music business or music publishing business conducted by us or the acquisition by certain music companies of 35% of the outstanding shares of Warner Music Group Corp. or Holdings; (ii) the acquisition of all or substantially all of the recorded music business or music publishing business of certain music companies; or (iii) a merger with or the formation of a joint venture or other combination of all or substantially all of Warner Music Group Corp. or Holdings' recorded music business or music publishing business with that of certain music companies. If a definitive agreement for such a transaction is not executed by March 1, 2007, or if the MMT Warrants are not exercised within 90 days of the consummation of such a transaction, the MMT Warrants will expire. Additionally, the MMT Warrants will expire if the Three-Year Warrants (defined herein) are exercised either in whole or in part. The MMT Warrants will expire upon the exercise of the Three-Year Warrants.

The other class of warrant we issued to Historic TW in March 2004 was the Three-Year Warrants, which give Historic TW the right to purchase up to approximately 15% of the Class L Common Stock of Warner Music Group Corp., 15% of the Class A Common Stock of Warner Music Group Corp. and 15% of the preferred securities of Holdings issued to the Investors and taking into account the exercise of the Three-Year Warrants. Subsequent to the issuance of the Three-Year Warrants, Holdings redeemed all of its preferred securities and, immediately prior to this offering, we will effect the Recapitalization. As a result, the Three-Year Warrants will represent the right to purchase up to approximately 19.0 million shares of our common stock (or approximately 15% of our common stock held by the Investors taking into account the exercise of the Three-Year Warrants). The Three-Year Warrants provide that Historic TW may exercise its rights in whole or in part under the Three-Year Warrants at any time after the closing of the Acquisition until the earliest of: (i) March 1, 2007; (ii) the consummation of any public equity offering that results in the common stock of Warner Music Group Corp. being publicly traded; (iii) the sale for cash and/or securities of a class that is publicly traded to a third-party of a majority of the then-outstanding common and preferred securities of Warner Music Group Corp. or Holdings; and (iv) the exercise of either the Three-Year Warrants or the MMT Warrants. The Three-Year Warrants will expire at the consummation of this offering if not exercised prior to the consummation of this offering. We have agreed with Historic TW to repurchase the Three-Year Warrants in connection with the Concurrent Transactions. Upon repurchase, the Three-Year Warrants will be deemed to have been exercised and the MMT Warrants will expire as decribed in the preceeding paragraph.

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.

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 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 Investors

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.

Ownership and Corporate Structure

The chart below summarizes our ownership and corporate structure as of December 31, 2004 after giving effect to the Initial Common Stock Offering and the Concurrent Transactions.

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(1) We currently have no borrowings outstanding under the $250 million revolving portion of Acquisition Corp.'s senior secured credit facility but have 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) Includes the U.S. dollar equivalent of the sterling notes, based on the exchange rate as of December 31, 2004.

(3) 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 Holdings Notes are not currently guaranteed, but pursuant to the indenture

governing the Holdings Notes, will be guaranteed by any wholly owned U.S. subsidiary that guarantees indebtedness of Holdings.

PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated condensed balance sheet as of December 31, 2004 gives effect to the Holdings Refinancing (to the extent not already reflected), the Initial Common Stock 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 Acquisition Corp. Refinancing are already reflected in our historical balance sheet as of December 31, 2004, and accordingly, no pro forma adjustments to the balance sheet are necessary.

The following 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 Acquisition Corp. Refinancing, (iv) the Holdings Refinancing, (v) the Initial Common Stock Offering and (vi) the Concurrent Transactions as if they occurred as of October 1, 2003. Because we presented a shortened ten-month, transition period in the historical financial statements relating to our change in fiscal year that was enacted in 2004, the 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 unaudited pro forma consolidated condensed statement of operations for the three months ended December 31, 2004 gives effect to (i) the Holdings Refinancing, (ii) the Initial Common Stock 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 Acquisition Corp. Refinancing are already reflected in our historical statement of operations for the three months ended December 31, 2004, and accordingly, no pro forma adjustments to the statement of operations for such period are necessary.

The pro forma consolidated condensed financial statements have been derived from, and should be read in conjunction with, our historical audited and interim unaudited financial statements, including the notes thereto, included elsewhere herein. The pro forma consolidated condensed financial statements are presented for informational purposes only and are not necessarily indicative of our financial position or results of operations that would have occurred had the events been consummated as of the dates indicated. In addition, the pro forma consolidated condensed financial statements are not necessarily indicative of our 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 subsequently agreed to between the Investors and Time Warner that has yet to be settled. 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 Warner Music Group Corp. 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 Investors 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.

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. By the end of December 2004, we had implemented approximately $250 million of annualized cost savings, of which approximately $144 million has been reflected in our statement of operations through December 31, 2004. We have completed substantially all of our restructuring efforts. We project the one-time costs associated with our restructuring to be $225 million to $250 million, of which approximately $140 million has been paid through December 31, 2004. 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 Warner Music Group Corp. 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 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 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 Acquisition Corp. Refinancing

Pro forma adjustments for the Acquisition Corp. Refinancing reflect the interest-related effects relating to the issuance of approximately $650 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 Investors 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 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 the Class L Common Stock of $422 million and (ii) the payment of an aggregate of $50 million in dividends on the Class L Common Stock using the proceeds from the offering of the Holdings Notes, of which $42.5 million was paid on March 28, 2005 and the remaining $7.5 million will be distributed to the Investors prior to this offering.

The Initial Common Stock Offering

Pro forma adjustments for the Initial Common Stock Offering reflect (i) the Recapitalization, (ii) the issuance of 27,170,000 shares of our common stock and (iii) the use of $574 million of our net proceeds from the issuance of common stock 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 anticipated redemption date of June 15, 2005.

Pro forma adjustments for the Initial Common Stock Offering exclude (i) 5,430,000 shares currently held by the existing stockholders, which will be sold as part of this offering and (ii) up to an additional 4,890,000 shares currently held by the existing stockholders, which are subject to the underwriters' option to acquire and sell such shares as part of this offering. No change in the amount of outstanding shares will result from the sale of such shares and the proceeds for these currently outstanding shares will be received directly by the selling stockholders.

Concurrent Transactions

Pro forma adjustments for the Concurrent Transactions reflect the effect of obtaining the proposed 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 $177 million of available cash on hand (i) to pay approximately $166 million to Historic TW to repurchase the Three-Year Warrants, (ii) to pay $73 million to terminate the management services agreement with the Investors, (iii) to pay an $8.5 million dividend in satisfaction of the remaining liquidation preference on our Class L Common Stock, (iv) to pay a $141.5 million dividend to the holders of Warner Music Group Corp.'s Class L Common Stock and Class A Common Stock, including approximately $10 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 $35 million to management and employees of Warner Music Group, 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 $5 million to be paid to holders of stock options representing an adjustment for outstanding options as a result of the $141.5 million special cash dividend on the 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 our company upon the consummation of this offering.

Interest Rate Sensitivity

As of December 31, 2004, on a pro forma basis after giving effect to (i) the use of $574 million of our net proceeds from the issuance of common stock 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 proposed amendment to its senior secured credit facility, Warner Music Group would have had $1.041 billion of funded variable-rate indebtedness, net of the effect of $400 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 0.125% 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," our compensation committee 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 our pro forma consolidated condensed statements of operations of $1 million for the twelve months ended September 30, 2004 and $2 million for the three months ended December 31, 2004.

WARNER MUSIC GROUP CORP.

PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET
As of December 31, 2004

		Pro Forma Adjustments			
	Historical(1)	The Holdings Refinancing(2)	The Initial Common Stock Offering(3)	The Concurrent Transactions(4)	Pro Forma
			(in millions, unaudited)		
Assets					
Current assets:					
Cash and equivalents	$ 306	$ (50)	$ 7	$ (167)	$ 96
Accounts receivable	821				821
Inventories	65				65
Royalty advances expected to be recouped within one year	204				204
Deferred tax assets	48				48
Other current assets	74				74
Total current assets	1,518	(50)	7	(167)	1,308
Royalty advances expected to be recouped after one year	204				204
Investments	9				9
Property, plant and equipment	180				180
Goodwill	966				966
Intangible assets subject to amortization	1,925				1,925
Intangible assets not subject to amortization	100				100
Other assets	121		(12)	3	112
Total assets	$ 5,023	$ (50)	$ (5)	$ (164)	$ 4,804
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable	$ 223				$ 223
Accrued royalties	1,166				1,166
Taxes and other withholdings	32				32
Current portion of long-term debt	12				12
Other current liabilities	622			(177)	445
Total current liabilities	2,055			(177)	1,878
Long-term debt	2,534		(534)	250	2,250
Deferred tax liabilities	272				272
Other noncurrent liabilities	287			10	297
Total liabilities	5,148		(534)	83	4,697
Shareholders' equity	(125)	(50)	529	(247)	107
Total liabilities and shareholders' equity	$ 5,023	$ (50)	$ (5)	$ (164)	$ 4,804

		Pro Forma Adjustments			

WARNER MUSIC GROUP CORP.

NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET

(1) Reflects the historical consolidated financial position of Warner Music Group Corp. as of December 31, 2004.

(2) Reflects a decrease in equity of $50 million and a corresponding decrease in cash and equivalents related to the payment of a dividend on Class L Common Stock using the remaining proceeds from the Holdings Refinancing. Of such amount, $42.5 million was paid on March 28, 2005 and the remaining $7.5 million will be distributed to the Investors prior to this offering.

(3) Pro forma adjustments to record the Initial Common Stock Offering as of December 31, 2004 reflect:

a decrease in long-term debt of $534 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 December 31, 2004 after considering $4 million of unamortized original issuance discount, (ii) the redemption of all $250 million of Holdings Floating Rate Notes and (iii) the redemption of $88 million accreted principal amount of Holdings Discount Notes as of December 31, 2004.

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 will be redeemed using a portion of the proceeds from the Initial Common Stock Offering.

an increase in cash and equivalents of $7 million consisting of (i) net proceeds raised of $581 million from the issuance of 27.2 million shares of our common stock to the public and (ii) the use of $574 million of such proceeds to redeem a portion of the Holdings Notes. The aggregate $574 million redemption cost for the Holdings Notes, including redemption premiums and interest obligations through the anticipated redemption date, 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 $529 million consisting of (i) a $581 million increase in shareholders' equity relating to the issuance of 27.2 million shares of our common stock to the public, which is expected to raise net proceeds of $581 million, after deducting stock issuance costs of $44 million, (ii) a $36 million aggregate decrease in shareholders' equity relating to the payment of debt redemption premiums and unaccrued interest obligations through the anticipated redemption date relating to the Holdings' debt as of December 31, 2004 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 will be redeemed using a portion of the proceeds from the Initial Common Stock Offering.

Of the $36 million of redemption premium and unaccrued interest obligations through the anticipated redemption date noted above, $9 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 $12 million relates to the redemption of $88 million accreted principal amount of the Holdings Discount Notes as of December 31, 2004.

The Recapitalization, which includes (i) the conversion of all outstanding shares of Class L Common Stock into shares of Class A Common Stock, (ii) the renaming of all outstanding shares of Class A Common Stock as common stock, which will have the effect of eliminating from our authorized capital stock the Class L Common Stock and Class A Common Stock and (iii) a 1,139 for 1 split of our common stock, had no effect on the pro forma consolidated condensed balance sheet as of December 31, 2004. This is because all such effects are limited to reclassifications within shareholders' equity.

(4) Pro forma adjustments to record the Concurrent Transactions as of December 31, 2004 reflect:

- an increase in long-term debt of $250 million to reflect the incurrence of additional borrowings under Acquisition Corp.'s proposed amended and restated senior secured credit facility.

- an increase in non-current assets of $3 million relating to the debt issuance costs to be incurred in connection with the $250 million additional borrowings under Acquisition Corp.'s proposed amended and restated senior secured credit facility.

- a decrease in other current liabilities of $177 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 December 31, 2004,

- an increase in other noncurrent liabilities of $10 million relating to the portion of the $141.5 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 $247 million consisting of (i) a $12 million increase relating to a one-time gain expected to be realized in connection with 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 December 31, 2004 over the $166 million cash paid to Historic TW, (ii) a $73 million decrease relating to the one-time charge expected to be incurred in connection with the payment to terminate the management services agreement with the Investors, (iii) a $35 million decrease relating to the one-time charge expected to be incurred in connection with the one-time special bonuses to be paid to management and employees of Warner Music Group, (iv) an $8.5 million decrease relating to a dividend to be paid in satisfaction of the remaining liquidation preference on our Class L Common Stock and (v) a $141.5 million decrease relating to a dividend to be paid to all of our shareholders existing immediately prior to this offering,

- a net decrease in cash and equivalents of $167 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 $166 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 our Class L Common Stock, (v) the payment of a $141.5 million dividend, of which approximately $10 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 $35 million of one-time special bonuses to management and employees of Warner Music Group.

WARNER MUSIC GROUP CORP.
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 Acquisition Corp. Refinancing(6)	The Holdings Refinancing(7)	The Initial Common Stock Offering(8)	The Concurrent Transactions(9)	Pro Forma
	(in millions, except per share data) (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			

				Pro Forma Adjustments							
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											$ (6.71)
Diluted											$ (6.71)
Average common shares(10):											
Basic											134.3
Diluted											134.3

(a) Includes depreciation expense of:	$ (52)	$ (15)	$ (67)	$	$	$	$	$	$	$	$ (67)

WARNER MUSIC GROUP CORP.
NOTES TO THE PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS

(1)

Reflects our historical operating results for the combined ten-month transition period ended September 30, 2004, 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 our historical operating results for the pre-acquisition, two-month period ended November 30, 2003.

(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 Investors 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 Investors;

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 Warner Music Group Corp.'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 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 Warner Music Group Corp.'s U.S.-based deferred tax assets.

(6)

Pro forma adjustments to record the Acquisition Corp. 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 Warner Music Group Corp.'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 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 Warner Music Group's U.S.-based deferred tax assets.

(8) Pro forma adjustments to record the Initial Common Stock 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 December 31, 2004 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 the Company. 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 Warner Music Group Corp.'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 will be redeemed using a portion of the proceeds from the Initial Common Stock Offering and (ii) $36 million to redeem a portion of the Holdings

Notes, representing the aggregate redemption price (including redemption premiums and interest obligations through the anticipated redemption date thereon) in excess of the carrying value of the corresponding portion of the Holdings Notes as of December 31, 2004.

(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 proposed amended and restated 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 our proposed amendment to the senior secured credit agreement.

- the elimination of a $120 million unrealized loss on warrants resulting from the assumed 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 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 Warner Music Group Corp.'s U.S.-based deferred tax assets.

In addition, the pro forma consolidated condensed statement of operations excludes a net $97 million one-time, pretax charge because it has no continuing impact on our operations. Such charge consists of (i) an $11 million gain relating to the assumed repurchase of the Three-Year Warrants held by Historic TW, representing the excess of the $177 million carrying value of the liability as of December 31, 2004 over the $166 million of cash paid to Historic TW, (ii) a $73 million charge relating to the termination of the management services agreement and (iii) a $35 million charge relating to the payment of one-time, special bonuses to management and employees of Warner Music Group.

(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 this offering whose proceeds were used for the repayment of debt.

In connection with the Initial Common Stock Offering, the Company will (i) convert all of the outstanding shares of Class L Common Stock into shares of Class A Common Stock, (ii) rename all of the outstanding shares of Class A Common Stock as common stock, which will have the effect of eliminating from our authorized capital stock the Class L Common Stock and Class A Common Stock and (iii) authorize a 1,139 for 1 split of our 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 this offering whose proceeds would be used for the repayment of debt[(1)]		26.8
Denominator for basic calculation		134.3
Effect for dilutive securities		
Denominator for diluted calculation		134.3
Pro forma net loss per common share basic and diluted	$	(6.71)

(1) Calculated as $574 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 $21.38 per share, net of issuance costs.

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.

WARNER MUSIC GROUP CORP.
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
For the Three Months Ended December 31, 2004

	Historical Three Months Ended December 31, 2004(11)	Pro Forma Adjustments			
		The Holdings Refinancing(12)	The Initial Common Stock Offering(13)	The Concurrent Transactions(14)	Pro Forma
	(in millions, except per share data) (unaudited)				
Revenues	$ 1,088	$	$	$	$ 1,088
Costs and expenses:					
Costs of revenues(a)	(581)				(581)
Selling, general and administrative expenses(a)	(331)				(331)
Amortization of intangible assets	(46)				(46)
Total costs and expenses	(958)				(958)
Operating income (loss)	130				130
Interest expense, net	(38)	(15)	12	(1)	(42)
Equity in the losses of equity-method investees, net	(1)				(1)
Unrealized loss on warrants	(22)			22	
Other income (expense) net	4				4
Minority interest expense	(5)	5			
Income (loss) before income taxes	68	(10)	12	21	91
Income tax benefit (expense)	(32)				(32)
Net income (loss)	$ 36	$ (10)	$ 12	$ 21	$ 59
Net income per common share(15):					
Basic					$ 0.44
Diluted					$ 0.42
Average common shares(15):					
Basic					134.3
Diluted					142.1

(a) Includes depreciation expense of:	$ (14)	$	$	$	$ (14)

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(11)

Reflects our historical operating results for the three months ended December 31, 2004.

(12)

Pro forma adjustments to record the Holdings Refinancing for the three months ended December 31, 2004 reflect:

- an increase in interest expense of $15 million consisting of (i) a $4 million increase relating to the issuance of $250 million principal amount of Holdings Floating Rate Notes at a variable interest rate of 6.675% based on three-month LIBOR rates plus a margin of 4.375%, (ii) a $6 million increase relating to the issuance of $397 million principal amount at maturity of Holdings Discount Notes ($250 million of proceeds after the original issuance discount) at a fixed interest rate of 9.5%, (iii) a $5 million increase relating to the issuance of $200 million principal amount of Holdings PIK Notes at a variable interest rate of 9.48% based on six-month LIBOR rates plus a margin of 7% and accretion of original issuance discount, (iv) a $1 million increase relating to the amortization of $15 million of debt issuance costs over a weighted-average period of 9 years and (v) a $1 million decrease relating to the amount of interest expense included in our historical operating results that was already considered in the adjustments above,

- a decrease in minority interest expense of $5 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 U.S.-based deferred tax assets.

(13)

Pro forma adjustments to record the Initial Common Stock Offering for the three months ended December 31, 2004 reflect:

- an aggregate decrease in interest expense of $12 million consisting of (i) a $5 million decrease relating to the redemption of all $200 million principal amount of Holdings PIK Notes at a variable interest rate of 9.48% based on six-month LIBOR rates plus a margin of 7%, (ii) a $4 million decrease relating to the redemption of all $250 million of Holdings Floating Rate Notes at a variable interest rate of 6.67% based on three-month LIBOR rates plus a margin of 4.375%, (iii) a $2 million decrease relating to the redemption of $88 million accreted principal amount of Holdings Discount Notes as of December 31, 2004 at a fixed interest rate of 9.5% and (iv) a $1 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 and additional projected pretax losses for fiscal 2005, results in an aggregate net pretax loss for the Company. Accordingly, no tax benefit has been provided on the aggregate pro forma adjustment to U.S.-based pretax income due to the uncertainty of realization of Warner Music Group Corp.'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 will be redeemed using a portion of the proceeds from the Initial Common Stock Offering and (ii) $36 million to redeem a portion of the Holdings Notes, representing the aggregate redemption price (including redemption premiums and interest obligations through the anticipated redemption date thereon) in excess of the carrying value of the corresponding portion of the Holdings Notes as of December 31, 2004.

(14)

Pro forma adjustments to record the Concurrent Transactions for the three months ended December 31, 2004 reflect:

- a net increase in interest expense of $1 million consisting of (i) an increase in interest expense of $4 million relating to the incurrence of $250 million of additional term loan borrowings under Acquisition Corp.'s senior secured credit facility at a variable interest rate of 5.6% per annum based on three-month LIBOR rates plus a margin of 2.5%, and (ii) a cumulative decrease in interest expense of $3 million relating to an average 71 basis point reduction in the average applicable credit margin on $1.441 billion pro forma, weighted-average term loan borrowings during the period under our proposed amendment to the senior secured credit agreement,

- the elimination of the $22 million of unrealized loss on warrants resulting from the assumed 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 and additional projected pretax losses for fiscal 2005, 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 income due to the uncertainty of realization of Warner Music Group Corp.'s U.S.-based deferred tax assets.

In addition, the pro forma consolidated condensed statement of operations excludes a net $97 million one-time, pretax charge because it has no continuing impact on our operations. Such charge consists of (i) an $11 million gain relating to the assumed repurchase of the Three-Year Warrants held by Historic TW, representing the excess of the $177 million carrying value of the liability as of December 31, 2004 over the $166 million of cash paid to Historic TW, (ii) a $73 million charge relating to the termination of the management services agreement and (iii) a $35 million charge relating to the payment of one-time, special bonuses to management and employees of Warner Music Group.

(15)

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 this offering whose proceeds were used for the repayment of debt.

In connection with the Initial Common Stock Offering, the Company will (i) convert all of the outstanding shares of Class L Common Stock into shares of Class A Common Stock, (ii) rename all of the outstanding shares of Class A Common Stock as common stock, which will have the effect of eliminating from our authorized capital stock the Class L Common Stock and Class A Common Stock and (iii) authorize a 1,139 for 1 split of our 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):

		Three Months Ended December 31, 2004
Basic and diluted pro forma net income per common share:		
Numerator:		
Net income	$	59
Denominator:		
Weighted average common shares outstanding		114.6
Less: Weighted average unvested common shares subject to repurchase or cancellation		(7.1)
Add:		
Shares from this offering whose proceeds would be used for the repayment of debt[1]		26.8
Denominator for basic calculation		134.3
Effect for dilutive securities:		
Add: Weighted average stock options and unvested common shares subject to repurchase or cancellation		7.8
Denominator for diluted calculation		142.1
Pro forma net income per common share basic	$	0.44
Pro forma net income per common share diluted	$	0.42

(1) Calculated as $574 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 $21.38 per share, net of issuance costs.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected historical financial and other data as of the dates and for the periods indicated.

Our selected 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, (iii) the ten months ended September 30, 2003 and (iv) the years ended November 30, 2003 and 2002 have been derived from our audited financial statements included elsewhere in this prospectus. The summary balance sheet data as of December 31, 2004 and the statement of operations and other data for the three months ended December 31, 2004 and 2003, have been derived from our unaudited interim financial statements included elsewhere in this prospectus. The balance sheet data as of November 30, 2002 are derived from our audited financial statements that are not included in this prospectus. Our summary historical balance sheet data as of September 30, 2003, December 31, 2003 and our summary historical financial data as of and for each of the two years ended November 30, 2001 and 2000 have been derived from our unaudited financial statements that are not included in this prospectus.

The comparability of our selected historical financial data has been affected by a number of significant events and transactions. These include the Acquisition in 2004, a related change in our fiscal year to September 30 from November 30, which was enacted in 2004, and the AOL Time Warner Merger in 2001. 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." Due to the change in our year end, financial information for 2004 reflects a shortened ten-month period ended September 30, 2004 and is separated into two pre-acquisition and post-acquisition periods as a result of the change in accounting basis that occurred relating to the Acquisition. 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 our financial statements.

	Predecessor							Successor	
	Fiscal Years Ended November 30,				Ten Months Ended September 30, 2003	Three Months Ended December 31, 2003	Three Months Ended February 29, 2004	Seven Months Ended September 30, 2004	Three Months Ended December 31, 2004
	2000	2001	2002	2003					
	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)
	(in millions, except per share data)								
Statement of Operations Data:									
Revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 1,178	$ 779	$ 1,769	$ 1,088
Cost of revenues	(1,960)	(1,731)	(1,873)	(1,940)	(1,449)	(648)	(415)	(944)	(581)
Selling, general and administrative expenses	(1,297)	(1,402)	(1,282)	(1,286)	(995)	(391)	(319)	(677)	(331)
Impairment of goodwill and other intangible assets			(1,500)	(1,019)		(1,019)			
Depreciation and amortization	(282)	(868)	(249)	(328)	(272)	(80)	(72)	(140)	(60)
Operating income (loss)	(36)	(766)	(1,542)	(1,158)	(197)	(948)	(11)	18	130
Interest expense, net	(13)	(34)	(23)	(5)	(5)	(3)	(2)	(80)	(38)
Income (loss) before cumulative effect of accounting change	(408)	(910)	(1,230)	(1,353)	(201)	(1,146)	(32)	(238)	36
Net income (loss)	$ (408)	$ (910)	$ (6,026)	$ (1,353)	$ (201)	$ (1,146)	$ (32)	$ (238)	$ 36
Pro forma net income (loss) per common share(3):									
Basic								$ (2.21)	$ 0.33
Diluted								$ (2.21)	$ 0.31
Pro forma average common shares(3):									
Basic								107.5	107.5
Diluted								107.5	115.3
Segment Data:									
Revenues:									
Recorded Music	$ 2,929	$ 2,701	$ 2,752	$ 2,839	$ 2,039	$ 1,028	$ 630	$ 1,429	$ 940
Music Publishing	554	547	563	563	467	159	157	348	155
Intersegment eliminations	(22)	(22)	(25)	(26)	(19)	(9)	(8)	(8)	(7)
Total revenues	$ 3,461	$ 3,226	$ 3,290	$ 3,376	$ 2,487	$ 1,178	$ 779	$ 1,769	$ 1,088
Operating income (loss):									
Recorded Music	$ (22)	$ (733)	$ (1,206)	$ (1,130)	$ (181)	$ (933)	$ (9)	$ 24	$ 152
Music Publishing	47	23	(273)	23	19	6	17	53	10
Corporate expenses	(61)	(56)	(63)	(51)	(35)	(21)	(19)	(59)	(32)
Total operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (948)	$ (11)	$ 18	$ 130

								Successor	
OIBDA (2):									
Recorded Music	$ 214	$ 73	$ 173	$ 116	$ 8	$ 141	$ 38	$ 120	$ 194
Music Publishing	91	81	88	107	88	27	38	87	24
Corporate expenses	(59)	(52)	(54)	(34)	(21)	(17)	(15)	(49)	(28)
Total OIBDA (2)	$ 246	$ 102	$ 207	$ 189	$ 75	$ 151	$ 61	$ 158	$ 190

	Predecessor							Successor	
	Fiscal Years Ended November 30,				Ten Months Ended September 30, 2003	Three Months Ended December 31, 2003	Three Months Ended February 29, 2004	Seven Months Ended September 30, 2004	Three Months Ended December 31, 2004
	2000	2001	2002	2003					
	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)	(unaudited)	(audited)(1)	(audited)(1)	(unaudited)
	(in millions)								
Cash Flow Data:									
Cash flows provided by (used in):									
Operating activities	$ 75	$ (122)	$ (13)	$ 278	$ 257	$ 31	$ 321	$ 86	$ 63
Investing activities	(153)	(175)	(365)	(65)	(73)	(7)	14	(2,663)	(25)
Financing activities	61	227	385	(121)	(151)	16	(10)	2,661	(296)
Capital expenditures	(64)	(91)	(88)	(51)	(30)	(27)	(3)	(15)	(6)
Balance Sheet Data (at period end):									
Cash and equivalents	$ 106	$ 34	$ 41	$ 144	$ 80	$ 126	$ 471	$ 555	$ 306
Total assets	6,791	17,642	5,679	4,484	5,255	4,606	4,560	5,090	5,023
Total debt (including current portion of long-term debt)	102	115	101	120	115	126	132	1,840	2,546
Shareholders' equity	5,228	14,588	3,001	1,587	2,673	1,696	1,691	280	(125)

(1) Audited, except for Other Financial Data.

(2) We evaluate segment 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 basis therein as a liquidity and debt compliance measure. The following is a reconciliation of operating income, which is a GAAP measure of our operating results, to OIBDA.

	Predecessor							Successor	
	Fiscal Years Ended November 30,				Ten Months Ended September 30, 2003	Three Months Ended December 31, 2003	Three Months Ended February 29, 2004	Seven Months Ended September 30, 2004	Three Months Ended December 31, 2004
	2000	2001	2002	2003					
	(unaudited)	(unaudited)	(audited)	(audited)	(unaudited)	(unaudited)	(audited)	(audited)	(unaudited)
	(in millions)								
Operating income (loss)	$ (36)	$ (766)	$ (1,542)	$ (1,158)	$ (197)	$ (948)	$ (11)	$ 18	$ 130

	Predecessor							Successor	
Depreciation and amortization expense	282	868	249	328	272	80	72	140	60
Impairment of goodwill and other intangible assets			1,500	1,019		1,019			
OIBDA	$ 246	$ 102	$ 207	$ 189	$ 75	$ 151	$ 61	$ 158	$ 190

(3) Net income (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition includes periods prior to the consummation of the Transactions. Accordingly, the discussion and analysis of operating results for historical periods prior to 2004 does not reflect the significant impact that the Transactions have had on us, including significantly increased financing costs. You should read the following discussion of our results of operations and financial condition with the "Pro Forma Consolidated Condensed Financial Statements", "Selected Historical Consolidated Financial and Other Data" and the audited historical and unaudited interim financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of this registration statement. Actual results may differ materially from those contained in any forward-looking statements.

INTRODUCTION

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

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

Results of operations. This section provides an analysis of our results of operations for the three months ended December 31, 2004 and 2003, the ten months ended September 30, 2004 and 2003 and the years ended November 30, 2003 and 2002. This analysis is presented on both a consolidated and segmental basis.

Financial condition and liquidity. This section provides an analysis of our cash flows for the three months ended December 31, 2004 and 2003 and the ten months ended September 30, 2004 and 2003, as well as a discussion of our financial condition and liquidity as of December 31, 2004 and September 30, 2004. The discussion of our financial condition and liquidity includes (i) a summary of our outstanding debt and commitments (both firm and contingent) that existed as of September 30, 2004, (ii) our available financial capacity under the revolving credit portion of Acquisition Corp.'s senior secured credit facility and (iii) a summary of our key debt compliance measures, consisting of leverage and interest coverage ratios under Acquisition Corp.'s senior secured credit facility.

Market risk management. This section discusses how we manage exposure to potential losses arising from adverse changes in interest rates and foreign currency exchange rates.

Critical accounting policies. This section discusses accounting policies considered to be important to our financial condition and results of operations, and which require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Notes 3 and 4 to our audited financial statements included elsewhere herein.

Use of OIBDA

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

Change in Fiscal Year and Basis of Presentation

In 2004, in connection with the Acquisition, the Company changed its fiscal year-end to September 30 from November 30. As such, financial information for 2004 is presented for the ten-month transition period ended September 30, 2004 and is separated into pre-acquisition and post-acquisition periods as a result of the change in accounting basis that occurred relating to the Acquisition. That is, we have presented our operating results and cash flows separately for each of the pre-acquisition, three-month period ended February 29, 2004 and the post-acquisition, seven-month period ended September 30, 2004.

The split presentation mentioned above is required under GAAP in situations when a change in accounting basis occurs. This is because the new accounting basis requires that the historical carrying value of assets acquired and liabilities assumed be adjusted to fair value, which may yield results that are not strictly comparable on a period-to-period basis due to the different, and sometimes higher, cost basis associated with the allocation of the purchase price.

We believe that this split presentation may impede the ability of users of our financial information to understand our operating and cash flow performance. Consequently, in order to enhance an analysis of our operating results and cash flows, we have presented our operating results and cash flows on a combined basis for the full ten-month period ended September 30, 2004. This combined presentation for the ten-month period ended September 30, 2004 simply represents the mathematical addition of the pre-acquisition, three-month period ended February 29, 2004 and the post-acquisition, seven-month period ended September 30, 2004. It is not intended to represent what our operating results would have been had the Acquisition occurred at the beginning of the period. A reconciliation showing the mathematical combination of our operating results for such periods is included herein.

Though we believe that the combined presentation is most meaningful for the ten months ended September 30, 2004, it is not in conformity with GAAP. As such, we have supplemented our historical operating results for that period, as appropriate, with pro forma financial information and have further highlighted in our discussions that follow any significant effects from the Acquisition to facilitate an understanding of a comparison of our operating results from period-to-period.

In order to enhance comparability, the combined financial information for the ten-month period ended September 30, 2004 has been supplemented by the presentation of unaudited financial information for the comparative ten-month period ended September 30, 2003. Based on how the Company's closing schedule occurred in 2003, the 2003 period consists of 43 weeks, as compared to 44 weeks contained in the ten-month period ended September 30, 2004.

OVERVIEW

Description of Business

We are one of the world's major music companies. Effective as of March 1, 2004, substantially all of Time Warner Inc.'s music division was acquired from Time Warner by Acquisition Corp. for approximately $2.6 billion. During the three months ended December 31, 2004 and the ten months ended September 30, 2004, we reported revenues of $1.088 billion and $2.548 billion, respectively, operating income of $130 million and $7 million, respectively, OIBDA of $190 and $219 million, respectively and net income (loss) of $36 million and $(270) million, respectively.

We classify our business interests into two fundamental areas: Recorded Music and Music Publishing. A brief description of those operations is presented below.

Recorded Music Operations

Our Recorded Music business consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. In the U.S., our operations are conducted principally through our major record labels Warner Bros. Records Inc. and The Atlantic Records Group. Internationally, our Recorded Music operations are conducted through our Warner Music International division ("WMI") which includes various subsidiaries, affiliates and non-affiliated licensees in more than 50 countries.

Our Recorded Music operations also include a catalog division named Warner Strategic Marketing ("WSM"). WSM specializes in marketing our music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of recordings to/from third parties for various uses, including film and television soundtracks.

Our principal Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which primarily markets and sells music products to retailers and wholesale distributors in the U.S.; a 90% interest in Alternative Distribution Alliance, an independent distribution company; various distribution centers and ventures operated internationally; and an 80% interest in Word Entertainment, whose distribution operations specialize in the distribution of music products in the Christian retail marketplace.

Our principal recorded music revenue sources are sales of CDs, digital downloads and other recorded music products and license fees received for the ancillary uses of our recorded music catalog.

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

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

- manufacturing, packaging and distribution costs the costs to manufacture and distribute product to wholesale and retail distribution outlets;

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

- administration costs the costs associated with general overhead and other administrative costs, as well as costs associated with anti-piracy initiatives.

During the three months ended December 31, 2004 and ten months ended September 30, 2004, our Recorded Music segment reported revenues of $940 million and $2.059 billion, respectively, OIBDA of $194 million and $158 million, respectively, and operating income of $152 million and $15 million, respectively.

Music Publishing Operations

Our Music Publishing operations include Warner/Chappell Music, Inc. and its wholly owned subsidiaries, and certain other music publishing affiliates of the Company. We own or control the rights to more than one million musical compositions, including numerous pop music hits, American standards, folk songs and motion picture and theatrical compositions. Our Music Publishing operations also include Warner Bros. Publications ("WBP"), which markets printed versions of our music throughout the world. On December 15, 2004, we entered into a definitive agreement to sell WBP to Alfred Publishing. The sale is expected to close in spring 2005 and is subject to customary closing conditions. The sale is not expected to have a material effect on our future operating results and financial condition.

Publishing revenues are derived from four main royalty sources:

Mechanical: the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including singles, albums, CDs, digital downloads and mobile phone ring tones.

Performance: the licensor receives royalties if the composition is performed publicly (e.g., broadcast radio and television, movie theater, concert, nightclub or Internet and wireless streaming).

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

Other: the licensor receives royalties from other uses such as stage productions and printed sheet music.

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

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

manufacturing, packaging and distribution costs the costs to manufacture and distribute sheet music and songbooks to retail distribution outlets and schools; and

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

During the three months ended December 31, 2004 and the ten months ended September 30, 2004, our Music Publishing segment reported revenues of $155 million and $505 million, respectively, OIBDA of $24 million and $125 million, respectively, and operating income of $10 million and $70 million, respectively.

Factors Affecting Results of Operations and Financial Condition

Market Factors

Over the past four years, the recorded music industry has been unstable, which has adversely affected our operating results. The industry-wide decline can be attributed primarily to digital piracy. Other drivers of this decline are the overall recessionary economic environment, bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space, and the maturation of the CD format which has slowed the historical growth pattern of recorded music sales. While potential new formats for selling recorded music product have been created, including the legal downloading of digital music using the Internet and DVD-Audio formats, significant revenue streams from these new markets have yet to emerge. Accordingly, although we believe that the recorded music industry should continue to improve as evidenced by the year-over-year growth in U.S. music physical unit sales in 2004, the flat performance in overall (physical and digital) music unit sales globally in 2004 and the best year-on-year trend in global music sales for five years according to IFPI, the industry may relapse into a period of decline, as witnessed from 1999 to 2003, which would continue to negatively affect operating results. For example, as of April 24, 2005, year-to-date U.S.

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recorded music sales (excluding sales of digital tracks) are down approximately 8.5% year-over-year. In addition, a declining recorded music industry could continue to have an adverse impact on the music publishing business. This is because our music publishing business generates a significant portion of its revenues from mechanical royalties received from the sale of music in recorded music formats such as the CD.

Due in part to the development of the new channels mentioned above and ongoing anti-piracy initiatives, we believe that the recorded music industry is positioned to improve over the coming years. However, the industry may relapse into a period of decline. In addition, there can be no assurances as to the timing or the extent of any improvement in the industry. Accordingly, we have executed a number of cost-saving initiatives over the past few years in an attempt to realign our cost structure with the changing economics of the industry. These initiatives have included significant headcount reductions, exiting certain leased facilities in an effort to consolidate locations and the sale of our manufacturing, packaging and physical distribution operations.

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. By the end of December 2004, we had implemented approximately $250 million of annualized cost savings, of which approximately $144 million has been reflected in our statement of operations through December 31, 2004. We have completed substantially all of our restructuring efforts. We project the one-time costs associated with our restructuring to be $225 million to $250 million, of which approximately $140 million has been paid through December 31, 2004. There are still significant risks associated with the Restructuring Plan. See "Risk Factors."

Transactions with Time Warner and its Affiliates

As previously described, prior to March 1, 2004, Old WMG was owned and operated by Time Warner. As such, in the normal course of conducting our business, Old WMG had various commercial and financing arrangements with Time Warner and its affiliates. In particular, Old WMG purchased manufacturing packaging and physical distribution services from affiliates of Time Warner, and Time Warner funded its operating and capital requirements. See Note 21 to our audited financial statements included elsewhere herein for a summary of the principal transactions between us and Time Warner and its affiliates.

Time Warner sold its CD and DVD manufacturing, packaging and physical distribution operations to Cinram at the end of October 2003. Prior to the sale, these operations were under the control of Time Warner and our management. As such, pricing for such services was not negotiated on an arm's-length basis and did not reflect market rates. As part of the sale, Time Warner and Old WMG entered into long-term arrangements with Cinram. Under these arrangements, Cinram will provide manufacturing, packaging and physical distribution services for our products in the U.S. and Europe at favorable, market-based rates that were negotiated on an arm's-length basis.

With respect to the financing arrangements with Time Warner, all cash received or paid by Old WMG was included in, or funded by, clearing accounts or shared international cash pools within Time Warner's centralized cash management system. Some of those arrangements were interest-bearing and others were not. Accordingly, historical net interest expense is not representative of the amounts incurred by us under our new leveraged capital structure created in connection with the Acquisition.

Future Charges and Payments Relating to Executive Compensation

Primarily in 2004, but also to a limited extent in 2005, we sold shares of restricted stock and granted options to various employees to assist us in recruiting, retaining and motivating key employees. We subsequently determined that certain shares of restricted stock may have been sold at prices below fair market value on the applicable date of sale and certain options may have had exercise prices below fair market value on the applicable date of grant.

As a result, certain U.S. employee holders of restricted stock who made elections under Section 83(b) of the Internal Revenue Code will be subject to additional ordinary income tax to the extent of the fair market value of the restricted stock received over the purchase price they paid for such stock. In other cases, certain employees who did not make such an election will be subject to higher taxes on their restricted shares at the time of vesting than would have been the case had they purchased the shares for fair market value. In addition, under the provisions of the American Jobs Creation Act of 2004, signed into law October 22, 2004, U.S. employee option holders whose options vest with exercise prices below fair market value on the date of grant are subject to significant penalties under new Section 409A of the Internal Revenue Code. IRS Notice 2005-1 provides transitional guidance on the application of Section 409A which, among other things, permits options with exercise prices below the fair market value of the underlying stock on the date of grant to be amended or replaced with new options having an exercise price at least equal to the fair market value on the grant date. Non-U.S. employee holders of restricted stock or options may be subject to similar or other related issues. In order for us to address these issues, including implementing the changes permitted by Notice 2005-1, on April 11, 2005, our compensation committee, based on a re-assessment of fair market values on the applicable dates, approved the actions described below.

Restricted Stock. The Company is authorized to pay each employee who purchased restricted stock on or after May 1, 2004 at prices that may have been below fair market value on the date of purchase a cash bonus. The cash bonus payable to those employees who made a Section 83(b) election will be an amount equal to the tax liability incurred by the employee as of the date of purchase based on any difference between the re-determined purchase date fair market value and the amount originally paid by the employee, plus an amount necessary to pay the taxes on the bonus. The bonus that would be payable to each of those employees who did not make a Section 83(b) election or the applicable foreign equivalent would be an amount reflecting an estimate of the additional tax which would be payable by the employee at the time the restricted stock is scheduled to vest due to that taxable amount being subject to ordinary income rather than capital gains tax rates, and assuming that the re-determined value of the stock remains constant over the vesting period, adjusted down to reflect a present value discount based on the earliest possible vesting dates. We would also pay these employees an amount necessary to pay the taxes on the bonus.

This would result in total cash payments of $10 million, which we would expect to pay and expense in the third fiscal quarter of this year. Of the aggregate amount of bonuses to be paid in connection with the restricted stock, approximately $7 million has been or will be paid to three of our named executive officers, with Michael Fleisher receiving approximately $4.9 million, Paul-René Albertini receiving approximately $1.4 million and Dave Johnson receiving approximately $0.7 million.

Options. We granted stock options to employees to purchase an aggregate of 4,658 shares (or 5,304,414 shares after the Recapitalization) with a weighted average exercise price of $1,849 (or $1.62 after the Recapitalization). The exercise prices of these options are expected to be adjusted to prices equal to the applicable re-determined fair market values of the common stock on the applicable dates of the respective grants. The new weighted average exercise price of the options would be approximately $4,515 (or $3.97 after the Recapitalization). To compensate the grantees for the loss of value represented by this adjustment to the option exercise prices, we expect to pay each affected employee a cash bonus in an amount equal to the excess of the adjusted aggregate exercise price of the employee's options over the original aggregate exercise price of the employee's options, adjusted down to reflect a present value discount based on the earliest possible exercise dates.

This would result in total cash payments of approximately $9 million, which we expect to pay and expense in the third fiscal quarter of this year.

Non-cash, Stock-based Compensation Expense. As a result of the aforementioned changes approved by our compensation committee, we have determined that a modification of the terms of our previously granted stock options has occurred for accounting purposes. 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 of $1 million for the seven months ended September 30, 2004 and $2 million for the three months ended December 31, 2004.

Option Adjustments as a Result of Dividend to Investors

In connection with the $141.5 million cash dividend we intend to declare to the holders of our Class L Common Stock and Class A Common Stock, we intend to make an adjustment to all options outstanding at the time of declaration of the dividend. The adjustment would generally consist of a cash make-whole payment consisting of an amount equal to the pro rata amount that would have been received per share had all outstanding options been exercised at the time of the declaration of the dividend adjusted down to reflect a present value discount based on the earliest possible exercise dates. We expect that this payment to holders of unvested options will result in additional compensation expense of approximately $5.0 million in the third fiscal quarter of 2005.

Employee Bonus Plan

Our compensation committee has approved a special one-time bonus that will be payable only upon consummation of this offering to all or substantially all of our employees, excluding senior management and any employees that have, or to whom we plan to grant, an equity participation in our company. We expect the amount of the award granted to an employee to be equal to approximately 4% of the employee's annual salary. The aggregate amount of the bonuses shall not exceed $10.0 million.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2004 Compared to Three Months Ended December 31, 2003

The following table summarizes our historical results of operations:

	Successor	Predecessor
	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003
	(unaudited)	(unaudited)
	(in millions)	
Revenues	$ 1,088	$ 1,178
Costs and expenses:		
Cost of revenues[1]	(581)	(648)
Selling, general and administrative expenses[1]	(331)	(391)
Impairment of goodwill and other intangible assets		(1,019)
Amortization of intangible assets	(46)	(60)
Restructuring costs		(8)
Total costs and expenses	(958)	(2,126)
Operating income (loss)	130	(948)
Interest expense, net	(38)	(3)
Net investment-related losses		(9)
Equity in the losses of equity-method investees, net	(1)	(9)
Deal-related transaction and other costs		(63)
Unrealized loss on warrants	(22)	
Other income (expense), net	4	(7)
Minority interest expense	(5)	
Income (loss) before income taxes	68	(1,039)
Income tax expense	(32)	(107)
Net income (loss)	$ 36	$ (1,146)

(1) Includes depreciation expense of: $14 million and $20 million for the three months ended December 31, 2004 and December 31, 2003, respectively.

Consolidated Pro Forma Results

As previously discussed, the Acquisition occurred effective as of March 1, 2004. Accordingly, our operating results for the three-month period ended December 31, 2003 do not reflect the significant effects of the Transactions. Had the Transactions occurred on October 1, 2003, our pro forma results for the three months ended December 31, 2003 would have been as follows:

	Pro Forma
	Three Months Ended December 31, 2003

	Pro Forma
	(in millions, unaudited)
Revenue	$ 1,177
OIBDA	155
Impairment of goodwill and other intangible assets	(1,019)
Depreciation and Amortization	(64)
Operating Income (loss)	(928)
Interest expense, net	(35)
Net income (loss)	(739)

A discussion of our consolidated historical results for the three-month periods ended December 31, 2004 and 2003 follows:

Consolidated Historical Results

Revenues

Our revenues decreased to $1.088 billion for the three months ended December 31, 2004, compared to $1.178 billion for the three months ended December 31, 2003. The decrease was largely driven by an $88 million decrease in Recorded Music revenues and a $4 million decrease in Music Publishing revenues.

Recorded Music revenues benefited from a $45 million favorable impact of foreign currency exchange rates, and an approximate $20 million increase in revenues from digital sales of Recorded Music product relating to the development and increased consumer usage of legal, online distribution channels for the music industry. These benefits were offset by a decline in physical worldwide music sales of $153 million due to the continuing industry-wide impact of piracy, lower sales volume associated with a fewer number of key commercial releases that sold in excess of one million units and the effects from our cost-savings initiative to consolidate two of our U.S. record labels. Substantially all of the decline in physical worldwide music sales resulted from lower unit sales volume.

Music Publishing revenues benefited from a $5 million favorable impact of foreign currency exchange rates, which was offset by a $7 million decrease in mechanical revenues and a $2 million decline in revenues from the sale of print-related products. The decline in mechanical revenues principally related to the industry-wide decline in sales of physical recorded music product and a lower number of top-performing songs in comparison to the comparable period in the prior year, offset in part by increased royalties from sales in newer formats, such as music DVDs and mobile phone ring tones. Both performance and synchronization revenues were flat.

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

Cost of revenues

Our cost of revenues decreased to $581 million for the three months ended December 31, 2004, compared to $648 million for the three months ended December 31, 2003. Expressed as a percentage of revenues, cost of revenues was approximately 53% for the three months ended December 31, 2004, compared to 55% for the three months ended December 31, 2003. The decrease in cost of revenues principally relates to approximately $26 million of lower manufacturing costs due, in part, to lower sales volume and lower pricing under the new Cinram agreements that went into effect in late October 2003, approximately $72 million of lower artist and repertoire-related costs associated with our lower sales volume and lower artist advance write-offs, and cost savings associated with the Restructuring Plan that was implemented in 2004 in connection with the Acquisition. These cost reductions were partially offset by an approximate $32 million unfavorable impact of foreign currency exchange rates.

Selling, general and administrative expenses

Our selling, general and administrative expenses were $331 million for the three months ended December 31, 2004, compared to $391 million for the three months ended December 31, 2003. Expressed as a percentage of revenues, selling, general and administrative expenses were approximately 30% for the three months ended December 31, 2004, compared with 33% for the three months ended December 31, 2003. Selling, general and administrative expenses increased as a result of an approximate $15 million unfavorable impact of foreign currency exchange rates, approximately $3 million of management and advisory fees paid to the Investors, and $11 million of higher corporate expenses as discussed further below, including higher costs associated with operating as an independent company. These cost increases were more than offset by lower marketing and overhead costs associated with our cost-savings initiatives.

Restructuring costs

We recognized $8 million of restructuring-related costs in the three months ended December 31, 2003. These costs principally related to reductions in worldwide headcount and costs to exit certain leased facilities.

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

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

	Successor	Predecessor
	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003
	(unaudited)	(unaudited)
	(in millions)	
OIBDA	$ 190	$ 151
Depreciation expense:	(14)	(20)
Amortization expense	(46)	(60)
Impairment of goodwill and other intangible assets		(1,019)
Operating income (loss)	130	