

FOX ENTERTAINMENT GROUP INC
Form 10-Q
May 10, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 1-14595

FOX ENTERTAINMENT GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction)

(City, State and ZIP Code)
(Address of Principal Executive Offices)
of Incorporation or Organization)

1211 Avenue of the Americas, New York, New York
(Address of Principal Executive Offices)

95-4066193
(I.R.S. Employer

Identification No.)

10036
(Zip Code)

Registrant's telephone number, including area code (212) 852-7111

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes x No ..

As of May 10, 2004, 426,959,080 shares of Class A Common Stock, par value \$.01 per share, and 547,500,000 shares of Class B Common Stock, par value \$.01 per share, were outstanding.

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Table of Contents**FOX ENTERTAINMENT GROUP, INC.****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(in millions except per share amounts)**

	For the three months		For the nine months	
	ended March 31,		ended March 31,	
	2004	2003	2004	2003
Revenues	\$ 2,840	\$ 2,707	\$ 8,978	\$ 8,201
Expenses:				
Operating	1,895	1,882	6,170	5,764
Selling, general and administrative	322	314	930	945
Depreciation and amortization	41	47	127	139
Operating income	582	464	1,751	1,353
Other income (expense):				
Interest expense, net	(75)	(25)	(98)	(120)
Equity earnings (losses) of affiliates	(26)	(8)	(21)	(18)
Minority interest in subsidiaries	(1)	(5)	(4)	(21)
Other, net			19	
Income before provision for income taxes	480	426	1,647	1,194
Provision for income tax expense on a stand-alone basis	(181)	(150)	(617)	(421)
Net income	\$ 299	\$ 276	\$ 1,030	\$ 773
Basic and diluted earnings per share	\$ 0.31	\$ 0.31	\$ 1.11	\$ 0.88
Basic and diluted weighted average number of common equivalent shares outstanding	974	900	926	875

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents**FOX ENTERTAINMENT GROUP, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in millions except share and per share amounts)

	As of March 31,	As of June 30,
	2004	2003
	(unaudited)	(audited)
Assets:		
Cash and cash equivalents	\$ 127	\$ 72
Accounts receivable, net	2,659	2,647
Filmed entertainment and television programming costs, net	3,528	3,161
Investments in equity affiliates	8,305	1,560
Property and equipment, net	1,270	1,464
Intangible assets, net	8,456	8,663
Goodwill, net	4,765	4,813
Other assets and investments	1,201	919
	<u> </u>	<u> </u>
Total assets	\$ 30,311	\$ 23,299
	<u> </u>	<u> </u>
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,572	\$ 1,665
Participations, residuals and royalties payable	1,361	1,141
Television programming rights payable	1,269	1,397
Deferred revenue	364	449
Borrowings	742	
Deferred income taxes	2,074	2,053
Other liabilities	845	797
	<u> </u>	<u> </u>
	8,227	7,502
Due to affiliates of News Corporation	4,438	704
	<u> </u>	<u> </u>
Total liabilities	12,665	8,206
	<u> </u>	<u> </u>
Minority interest in subsidiaries		
	7	790
Shareholders' Equity:		
Preferred stock, \$.01 par value per share; 100,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2004 and June 30, 2003		
Class A Common stock, \$.01 par value per share; 1,000,000,000 authorized; 426,959,080 and 352,436,375 issued and outstanding as of March 31, 2004 and June 30, 2003, respectively		
	4	4
Class B Common stock, \$.01 par value per share; 650,000,000 authorized; 547,500,000 issued and outstanding as of March 31, 2004 and June 30, 2003		
	6	6
Additional paid-in capital	15,080	12,780
Retained earnings and accumulated other comprehensive income	2,549	1,513
	<u> </u>	<u> </u>
Total shareholders' equity	17,639	14,303

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Total liabilities and shareholders' equity	<u>\$ 30,311</u>	<u>\$ 23,299</u>
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The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

Table of Contents**FOX ENTERTAINMENT GROUP, INC.****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in millions)**

	For the nine months ended March 31,	
	2004	2003
Operating activities:		
Net income	\$ 1,030	\$ 773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	127	139
Amortization of cable distribution investments	94	94
Equity (earnings) losses of affiliates and distributions	35	23
Minority interest in subsidiaries	4	8
Other, net	(19)	
Deferred income taxes	78	170
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable and other assets	(108)	(159)
Filmed entertainment and television programming costs, net	(468)	(182)
Accounts payable and accrued liabilities	(23)	(70)
Participations, residuals and royalties payable and other liabilities	205	205
Net cash provided by operating activities	955	1,001
Investing activities:		
Acquisitions, net of cash acquired	(8)	(424)
Investments in and acquisition of interests in equity affiliates	(107)	(116)
Other investments	(40)	(23)
Purchases of property and equipment, net of acquisitions	(83)	(114)
Proceeds from sale of business	150	
Disposals of property and equipment	9	9
Net cash used in investing activities	(79)	(668)
Financing activities:		
Borrowings	419	95
Repayment of borrowings	(413)	(947)
Decrease in Minority interest in subsidiaries	(1)	(3)
Decrease in Preferred Interests	(26)	(159)
Proceeds from the issuance of common stock		1,211
(Repayments to) advances from affiliates of News Corporation, net	(800)	(523)
Net cash used in financing activities	(821)	(326)

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Net increase in cash and cash equivalents	55	7
Cash and cash equivalents, beginning of period	72	56
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 127	\$ 63
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these unaudited consolidated condensed financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

Fox Entertainment Group, Inc. (the Company) is principally engaged in the development, production and worldwide distribution of feature films and television programs, television broadcasting and cable network programming. The Company is a majority-owned subsidiary of The News Corporation Limited (News Corporation), which, as of March 31, 2004, held equity and voting interests in the Company of 82% and 97%, respectively.

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited consolidated condensed financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004.

These interim unaudited consolidated condensed financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended June 30, 2003 as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to fiscal 2004 presentation.

Effective for the third quarter of fiscal 2003, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123, which requires quarterly disclosure about the method of accounting for stock-based employee compensation and the effect on reported results. The Company follows the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and in accordance with its provisions, applies the intrinsic value method set forth in Accounting Principles Board Opinion (APB) No. 25 Accounting for Stock Issued to Employees.

The following table reflects the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions for stock-based employee compensation. These pro forma effects may not be representative of future amounts since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period and additional options may be granted in future years.

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	For the three months ended March 31,		For the nine months ended March 31,	
	2004	2003	2004	2003
	(in millions except per share data)			
Net income, as reported	\$ 299	\$ 276	\$ 1,030	\$ 773
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(18)	(12)	(52)	(35)
Pro forma net income	\$ 281	\$ 264	\$ 978	\$ 738
Basic and diluted earnings per share:				
As reported	\$ 0.31	\$ 0.31	\$ 1.11	\$ 0.88
Pro forma	\$ 0.29	\$ 0.29	\$ 1.06	\$ 0.84

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NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 2 Comprehensive Income

In accordance with SFAS No. 130, Reporting Comprehensive Income, total comprehensive income for the Company consists of the following:

	For the three months ended March 31,		For the nine months ended March 31,	
	2004	2003	2004	2003
	(in millions)			
Net income, as reported	\$ 299			