FOX ENTERTAINMENT GROUP INC
Form 10-Q
November 06, 2002
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2002**

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	**95-4066193**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1211 Avenue of the Americas, New York, New York	**10036**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

As of November 1, 2002, 302,436,375 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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FOX ENTERTAINMENT GROUP, INC.

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(in millions except per share amounts)

	For the three months ended September 30, 2002	2001
Revenues	$ 2,344	$ 2,065
Expenses:		
Operating	1,586	1,515
Selling, general and administrative	322	305
Depreciation and amortization	47	103
Operating income	389	142
Other (expense) income:		
Interest expense, net	(46)	(72)
Equity earnings (losses) of affiliates	2	(51)
Minority interest in subsidiaries	(9)	(11)
Income before provision for income taxes and cumulative effect of accounting change	336	8
Provision for income tax expense on a stand-alone basis	(122)	(4)
Income before cumulative effect of accounting change	214	4
Cumulative effect of accounting change, net of tax		(26)
Net income (loss)	$ 214	$ (22)
Basic and diluted earnings per share before cumulative effect of accounting change	$ 0.25	$ 0.01
Basic and diluted cumulative effect of accounting change, net of tax, per share		(0.04)
Basic and diluted earnings (loss) per share	$ 0.25	$ (0.03)
Basic and diluted weighted average number of common equivalent shares outstanding	850	806

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

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FOX ENTERTAINMENT GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(in millions except share and per share amounts)

	As of September 30, 2002 (unaudited)	As of June 30, 2002 (audited)
Assets:		
Cash and cash equivalents	$ 76	$ 56
Accounts receivable, net	2,632	2,577
Filmed entertainment and television programming costs, net	3,277	3,062
Investments in equity affiliates	1,487	1,424
Property and equipment, net	1,479	1,501
Intangible assets, net	8,663	8,076
Goodwill, net	4,978	5,093
Other assets and investments	991	1,087
Total assets	$ 23,583	$ 22,876
Liabilities and Shareholders Equity:		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,602	$ 1,844
Participations, residuals and royalties payable	1,206	1,129
Television programming rights payable	1,561	1,428
Deferred revenue	468	500
Borrowings		942
Deferred income taxes	2,138	1,912
Other liabilities	682	735
	7,657	8,490
Due to affiliates of News Corporation	2,818	1,413
Total liabilities	10,475	9,903
Minority interest in subsidiaries (Note 10)	805	878
Commitments and contingencies		
Shareholders Equity:		
Preferred stock, $.01 par value per share; 100,000,000 shares authorized; 0 shares issued and outstanding as of September 30 and June 30, 2002		
Class A Common stock, $.01 par value per share; 1,000,000,000 authorized; 302,436,375 issued and outstanding as of September 30 and June 30, 2002	3	3
Class B Common stock, $.01 par value per share; 650,000,000 authorized; 547,500,000 issued and outstanding as of September 30 and June 30, 2002	6	6
Additional paid-in capital	11,569	11,569
Retained earnings and accumulated other comprehensive income	725	517
Total shareholders equity	12,303	12,095
Total liabilities and shareholders equity	$ 23,583	$ 22,876

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

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FOX ENTERTAINMENT GROUP, INC.

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in millions)

	For the three months ended September 30, 2002	2001
Operating activities:		
Net income (loss)	$ 214	$ (22)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	47	103
Amortization of cable distribution investments	31	26
Cumulative effect of accounting change, net of tax		26
Equity (earnings) losses of affiliates and distributions	(1)	59
Minority interest in subsidiaries	6	
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable and other assets	18	(12)
Filmed entertainment and television programming costs, net	(260)	(253)
Accounts payable and accrued liabilities	3	67
Participations, residuals and royalties payable and other liabilities	77	103
Net cash provided by operating activities	135	97
Investing activities:		
Acquisitions, net of cash acquired	(427)	(381)
Investments in equity affiliates	(51)	(7)
Other investments	(2)	(15)
Purchases of property and equipment	(26)	(20)
Disposals of property and equipment	9	10
Net cash used in investing activities	(497)	(413)
Financing activities:		
Borrowings (repayments)	(947)	(93)
Increase (decrease) in Preferred Interests	(76)	12
Advances from affiliates of News Corporation, net	1,405	451
Net cash provided by financing activities	382	370
Net increase in cash and cash equivalents	20	54
Cash and cash equivalents, beginning of year	56	66
Cash and cash equivalents, end of year	$ 76	$ 120

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

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FOX ENTERTAINMENT GROUP, INC.

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 September 30, 2002, held equity and voting interests in the Company of 85.32% and 97.84%, 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 ended June 30, 2003.

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, 2002 as filed with the Securities and Exchange Commission on September 20, 2002.

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.

During the quarter ended September 30, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, goodwill, indefinite-lived intangible assets and excess cost over the Company s share of equity investees assets will no longer be amortized, resulting in a reduction of Depreciation and amortization expense and an improvement in Equity earnings of affiliates. (See Note 3) In addition, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations, and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The adoption of SFAS Nos. 143 and 144 did not have a material impact on the Company s financial statements.

In November 2001, the Financial Accounting Standards Board (FASB) issued Emerging Issues Task Force No. (EITF) 01-09, Accounting for the Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products, which was effective for the Company as of January 1, 2002. This EITF, among other things, codified the issues and examples of EITF No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor s Products. EITF No. 00-25 states that customer incentives, which consist of the amortization of cable distribution investments (capitalized fees paid to a cable or DBS operator to facilitate the launch of a cable network), should be presented as a reduction in revenue in the consolidated condensed statements of operations. As required, the Company has reclassified the amortization of cable distribution investments against revenues for all periods presented. The amortization of cable distribution investments had previously been included in Depreciation and amortization. Operating income, Net income and Earnings per share are not affected by this reclassification. This reclassification affects the Company s and the Cable Network Programming segment s revenues. The effect of the reclassification on the Company s revenues is as follows:

	For the three months ended September 30,	
	2002	**2001**
	(in millions)	
Gross Revenues	$ 2,375	$ 2,091
Amortization of cable distribution investments	(31)	(26)
Revenues	$ 2,344	$ 2,065

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NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis of Presentation continued

Fox Family Worldwide, Inc. (FFW), formerly an equity affiliate of the Company until it was sold in October 2001, adopted Statement of Position No. 00-2, Accounting by Producers or Distributors of Films on July 1, 2001, at which time it recorded a one-time, non-cash charge of approximately $53 million as a cumulative effect of accounting change. The Company s share, approximately $26 million, has been accounted for as a cumulative effect of accounting change in the accompanying unaudited consolidated condensed statement of operations for the three months ended September 30, 2001.

Certain prior year amounts have been reclassified to conform to the fiscal 2003 presentation.

Note 2 Comprehensive Income (Loss)

Comprehensive income (loss) is as follows:

	For the three months ended September 30,	
	2002	**2001**
	(in millions)	
Net income (loss)	$ 214	$ (22)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(6)	3
Total comprehensive income (loss)	$ 208	$ (19)

Note 3 Goodwill and Other Intangible Assets

Effective July 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 eliminates the requirement to amortize goodwill, indefinite-lived intangible assets and the excess cost over the Company s share of equity investees assets and supersedes Accounting Principles Board Opinion No. 17, Intangible Assets, and replaces it with requirements to assess goodwill and indefinite-lived intangible assets annually for impairment. Intangible assets that are deemed to have a definite life will continue to be amortized over their useful lives. SFAS No. 142 requires the Company to perform an initial impairment assessment of its goodwill and indefinite-lived intangible assets as of the date of