

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

FOX ENTERTAINMENT GROUP INC

Form 8-K

February 11, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
February 11, 2004

FOX ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

1-14595

95-4066193

(State or other jurisdiction of (Commission File Number) (IRS Employer
incorporation) Identification No.)

1211 Avenue of the Americas
New York, New York 10036

(Address of principal executive offices) (Zip Code)

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

Not applicable

(Former name or former address, if changed since last report)

Item 12: Results of Operations and Financial Condition

On February 11, 2004, Fox Entertainment Group, Inc. ("FEG") released its financial results for the quarter ended December 31, 2003.

The text of the press release follows:

FOX REPORTS SECOND QUARTER OPERATING INCOME OF \$558 MILLION, A 12% INCREASE, ON REVENUE GROWTH OF 7%

SECOND QUARTER OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION GROWS 10% TO \$634 MILLION

QUARTER HIGHLIGHTS

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

- Strong revenue growth across all major cable channels substantially drives up Cable Network Programming operating income before depreciation and amortization.
- Television Broadcast Network operating loss before depreciation and amortization improves by 14% reflecting strong advertising demand for the broadcast network's sports schedule.
- Market share growth of nearly a full percentage point at television stations more than offset by tough political advertising comparisons resulting in a 10% decline in operating income before depreciation and amortization.
- Filmed Entertainment operating income before depreciation and amortization in line with a year ago as robust home entertainment sales of film and television titles match prior-year success of "Ice Age."
- Completed acquisition of 34% interest in Hughes Electronics, including leading DTH provider DirecTV.

NEW YORK--Feb. 11, 2004--The Fox Entertainment Group (NYSE:FOX) today reported second quarter consolidated revenues of \$3.4 billion, a 7% increase over the \$3.2 billion in prior year and operating income before depreciation and amortization(1) of \$634 million, a 10% increase over the \$577 million reported a year ago. The year-on-year growth was driven primarily by substantially increased contributions from Cable Network Programming and improvements at the Television Broadcast Network.

Second quarter net income increased to \$330 million (\$0.36 per share) as compared to net income of \$283 million (\$0.32 per share) in the prior year primarily due to higher consolidated operating income before depreciation and amortization and lower interest expense.

Commenting on the results, Chairman and Chief Executive Officer Rupert Murdoch said:

"This past quarter saw the Company achieve significant operational and strategic gains. Operationally, we recorded our eighth consecutive quarter of operating income before depreciation and amortization growth, led by 50% gains at our cable networks and strong performances from our filmed entertainment and television station segments despite difficult comparisons to prior year results. All of our key assets are performing well, including the television network, which after a difficult start to the broadcast season has once again reclaimed ratings momentum and is now strongly competitive in the key 18-49 demographic.

"Strategically, we have continued to expand our distribution capabilities with the acquisition of our interest in DirecTV. We are looking forward to the unique opportunities this business provides us as we position ourselves for continued strong growth in the years to come."

Consolidated Operating Income (Loss)

	3 Months Ended		6 Months Ended	
	December 31,		December 31,	
	2003	2002	2003	2002
	-----		-----	
	\$ Millions		\$ Millions	
Filmed Entertainment	\$ 260	\$ 260	\$ 593	\$ 365
Television Stations	276	305	497	514

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

Television Broadcast Network	(133)	(154)	(178)	(162)
Cable Network Programming	155	89	257	172
	-----	-----	-----	-----
Consolidated operating income	\$ 558	\$ 500	\$ 1,169	\$ 889
	=====	=====	=====	=====

Consolidated Operating Income (Loss) Before Depreciation and Amortization(1)

	3 Months Ended December 31,		6 Months Ended December 31,	
	2003	2002	2003	2002
	-----		-----	
	\$ Millions		\$ Millions	
Filmed Entertainment	\$ 275	\$ 274	\$ 620	\$ 392
Television Stations	289	320	526	544
Television Broadcast Network	(128)	(149)	(169)	(152)
Cable Network Programming	198	132	341	260
	-----	-----	-----	-----
Consolidated operating income before depreciation and amortization	\$ 634	\$ 577	\$ 1,318	\$ 1,044
	=====	=====	=====	=====

This quarter's results reflect a \$7 million loss, included in other income, primarily relating to the sale of the Dodgers partially offset by a gain on the sale of the Company's 50% interest in Fox Sports Chicago and Fox Sports Bay Area.

FILMED ENTERTAINMENT

The Filmed Entertainment segment reported second quarter operating income before depreciation and amortization of \$275 million, in-line with the \$274 million reported in the same period a year ago, which included the blockbuster worldwide home entertainment performances of "Ice Age" and "Star Wars Episode II: Attack of the Clones." Current-year results primarily reflected strong contributions from several film and television home entertainment releases as well as pay-TV and free-TV contributions from catalog titles.

Very strong current-quarter film results were largely driven by the worldwide home entertainment performances of "X-2: X-Men United" and "28 Days Later" as well as various catalog titles. Additionally, the domestic home entertainment performances of "Bend it Like Beckham" and "League of Extraordinary Gentlemen" also contributed to the strong quarterly results. These contributions were partially offset by marketing costs for several new releases including "Master and Commander: The Far Side of The World" which garnered ten Academy Award nominations, including Best Picture, the Farrelly Brothers comedy "Stuck on You" and "Cheaper by the Dozen," which has brought in more than \$130 million domestically since its Christmas release.

Twentieth Century Fox Television (TCFTV) contributions primarily reflected continued momentum in home entertainment sales, most notably from "The Simpsons," "Buffy the Vampire Slayer," "Family Guy" and "24," offset by lower network revenue from "The Practice." Several TCFTV shows garnered Golden Globe nominations during the quarter including "Bernie Mac," "Arrested Development," "Reba" and Best Drama winner "24."

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

TELEVISION STATIONS

At the Fox Television Stations (FTS), second quarter operating income before depreciation and amortization declined 10% from the prior year as market share growth of nearly a full percentage point was more than offset by an overall market-wide decline, primarily from non-recurring political advertising. FTS, excluding primetime, achieved ratings growth in the quarter across all key day-parts, particularly during the morning and early evening news programming periods.

TELEVISION BROADCAST NETWORK

At the FOX Broadcasting Company, second quarter operating loss before depreciation and amortization improved by \$21 million compared to a year ago due principally to improved sports advertising, particularly from Major League Baseball with ratings up nearly 30% for the post-season. Additionally, higher pricing for the primetime entertainment schedule more than offset a 10% decline in ratings and increased promotional costs. Following the end of the quarter, the network premiered several shows that are winning their time slots among all key demographics, including "American Idol" and "My Big Fat Obnoxious Fiance."

CABLE NETWORK PROGRAMMING

Cable Network Programming reported second quarter operating income before depreciation and amortization of \$198 million, an increase of \$66 million or 50% over last year's results reflecting strong growth across all of the Company's primary cable television channels as well as the recovery of \$15 million of Adelphia receivables which had been previously written off.

The Fox News Channel (FNC) reported operating income growth of 39% compared to the second quarter a year ago fueled by double-digit revenue growth, primarily from increased ad sales, partially offset by higher costs associated with covering the war. During the quarter, FNC once again achieved the highest viewership among all cable news channels, expanding its lead to 42% in primetime and 57% on a 24-hour basis.

Fox Cable Networks' (including the Regional Sports Networks (RSNs), the FX Channel (FX) and SPEED Channel) operating profit improved 61% during the quarter driven by double-digit revenue growth at both the RSNs and FX. The revenue increase at the RSNs was largely due to higher affiliate rates, additional DTH subscribers and increased advertising sales versus a year ago. FX achieved revenue gains from increases in both advertising and affiliate revenues fueled by ratings gains, higher advertising pricing and a 4% expansion in the subscriber base over the past year.

OTHER

At the end of the quarter, the Company completed the acquisition of 34% of the outstanding common stock of Hughes Electronics from News Corporation in exchange for \$4.5 billion in promissory notes and approximately 74.5 million shares, increasing News Corporation's ownership interest in the Company from 80.6% to approximately 82%.

Also during the quarter, the Company announced it had reached an agreement in principle for the sale of the Los Angeles Dodgers. The sale has been approved by Major League Baseball and is expected to close shortly, subject to customary closing conditions.

(1) Operating income before depreciation and amortization is

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

defined as operating income (loss) plus depreciation and amortization and amortization of cable distribution investments. Depreciation and amortization expense includes the depreciation of property and equipment, as well as the amortization of finite-lived intangible assets. Amortization of cable distribution investments represents a reduction against revenues over the term of a carriage arrangement and as such it is excluded from operating income before depreciation and amortization. Fox Entertainment Group reconciles this non-GAAP measure to operating income in our supplemental data beginning on page 8 of this release.

To receive a copy of this press release through the Internet, access Fox's corporate Web site located at <http://www.fox.com>.

Audio from Fox's conference call with analysts on the second quarter results can be heard live on the Internet at 10:00 a.m. Eastern Standard Time today. To listen to the call, visit <http://www.fox.com>.

Cautionary Statement Concerning Forward-Looking Statements

This document contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's views and assumptions regarding future events and business performance as of the time the statements are made. Actual results may differ materially from these expectations due to changes in global economic, business, competitive market and regulatory factors. More detailed information about these and other factors that could affect future results is contained in our filings with the Securities and Exchange Commission. The "forward-looking statements" included in this document are made only as of the date of this document and we do not have any obligation to publicly update any "forward-looking statements" to reflect subsequent events or circumstances, except as required by law.

CONSOLIDATED STATEMENTS OF OPERATIONS (in millions, except for per share amounts)

	3 Months Ended December 31, 2003		6 Months Ended December 31, 2003	
	2002	2002	2002	2002
	(Unaudited)		(Unaudited)	
Revenues	\$ 3,380	\$ 3,150	\$ 6,138	\$ 5,494
Expenses				
Operating	2,489	2,296	4,275	3,882
Selling, general and administrative	289	309	608	631
Depreciation and amortization	44	45	86	92
	558	500	1,169	889
Operating income				
Other income (expense):				
Interest expense, net	(15)	(49)	(23)	(95)
Equity earnings (losses) of affiliates	(2)	(12)	5	(10)
Minority interest in subsidiaries	(1)	(7)	(3)	(16)

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

Other, net	(7)	-	19	-
	-----	-----	-----	-----
Income before provision for income taxes	533	432	1,167	768
Provision for income tax expense on stand-alone basis	(203)	(149)	(436)	(271)
	-----	-----	-----	-----
Net income	\$ 330	\$ 283	\$ 731	\$ 497
	=====	=====	=====	=====
Basic and diluted earnings per share	\$ 0.36	\$ 0.32	\$ 0.81	\$ 0.58
	=====	=====	=====	=====
Basic and diluted weighted average number of common equivalent shares outstanding	905	874	902	862
	=====	=====	=====	=====

SEGMENT INFORMATION
(in millions)

	3 Months Ended December 31,		6 Months Ended December 31,	
	2003	2002	2003	2002
	-----		-----	
	(Unaudited)		(Unaudited)	
Revenues				
Filmed Entertainment	\$ 1,384	\$ 1,338	\$ 2,634	\$ 2,221
Television Stations	571	593	1,089	1,107
Television Broadcast Network	860	749	1,254	1,173
Cable Network Programming	565	470	1,161	993
	-----	-----	-----	-----
Total Revenues	\$ 3,380	\$ 3,150	\$ 6,138	\$ 5,494
	=====	=====	=====	=====
Operating Income (Loss) Before Depreciation and Amortization				
Filmed Entertainment	\$ 275	\$ 274	\$ 620	\$ 392
Television Stations	289	320	526	544
Television Broadcast Network	(128)	(149)	(169)	(152)
Cable Network Programming	198	132	341	260
	-----	-----	-----	-----
Total Operating Income Before Depreciation and Amortization	\$ 634	\$ 577	\$ 1,318	\$ 1,044
	=====	=====	=====	=====
Operating Income (Loss)				
Filmed Entertainment	\$ 260	\$ 260	\$ 593	\$ 365
Television Stations	276	305	497	514
Television Broadcast Network	(133)	(154)	(178)	(162)

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

Cable Network Programming	155	89	257	172
	-----	-----	-----	-----
Total Operating Income	\$ 558	\$ 500	\$ 1,169	\$ 889
	=====	=====	=====	=====

SUPPLEMENTAL FINANCIAL DATA

Operating income before depreciation and amortization, defined as operating income plus depreciation and amortization and the amortization of cable distribution investments, eliminates the variable effect across all business segments of non-cash depreciation and amortization. Since operating income before depreciation and amortization is a non-GAAP measure it should be considered in addition to, not as a substitute for, operating income, net income, cash flow and other measures of financial performance reported in accordance with GAAP. Operating income before depreciation and amortization does not reflect cash available to fund requirements, and the items excluded from operating income before depreciation and amortization, such as depreciation and amortization, are significant components in assessing the Company's financial performance. Management believes that operating income before depreciation and amortization is an appropriate measure for evaluating the operating performance of the Company's business segments. Operating income before depreciation and amortization, which is the information reported to and used by the Company's chief decision maker for the purpose of making decisions about the allocation of resources to segments and assessing their performance, provides management, investors and equity analysts a measure to analyze operating performance of each business segment and enterprise value against historical and competitors' data.

The following table reconciles operating income before depreciation and amortization to the presentation of operating income.

	3 Months Ended December 31,		6 Months Ended December 31,	
	2003	2002	2003	2002
	\$ Millions		\$ Millions	
Operating income	\$ 558	\$ 500	\$ 1,169	\$ 889
Depreciation and amortization	44	45	86	92
Amortization of cable distribution investments	32	32	63	63
	-----	-----	-----	-----
Operating income before depreciation and amortization	\$ 634	\$ 577	\$ 1,318	\$ 1,044
	=====	=====	=====	=====

For the Three Months Ended December 31, 2003
(\$ Millions)

			Operating income (loss) before depreciation and amortization
Operating Income (loss)	Depreciation and Amortization	Amortization of cable distribution investments	

Edgar Filing: FOX ENTERTAINMENT GROUP INC - Form 8-K

Filmed					
Entertainment	\$ 260	\$ 15	\$ -	\$ 275	
Television					
Stations	276	13	-	289	
Television					
Broadcast					
Network	(133)	5	-	(128)	
Cable Network					
Programming	155	11	32	198	
Consolidated					
Total	\$ 558	\$ 44	\$ 32	\$ 634	

SUPPLEMENTAL FINANCIAL DATA (continued)

For the Three Months Ended December 31, 2002
(\$ Millions)

	Operating Income (loss)	Depreciation and Amortization	Amortization of cable distribution investments	Operating income (loss) before depreciation and amortization
Filmed				
Entertainment	\$ 260	\$ 14	\$ -	\$ 274
Television				
Stations	305	15	-	320
Television				
Broadcast				
Network	(154)	5	-	(149)
Cable Network				
Programming	89	11	32	132
Consolidated				
Total	\$ 500	\$ 45	\$ 32	\$ 577

For the Six Months Ended December 31, 2003
(\$ Millions)

	Operating Income (loss)	Depreciation and Amortization	Amortization of cable distribution investments	Operating income (loss) before depreciation and amortization
Filmed				
Entertainment	\$ 593	\$ 27	\$ -	\$ 620
Television				
Stations	497	29	-	526

