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FOX ENTERTAINMENT GROUP INC  
Form 8-K  
May 06, 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):  
May 6, 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 May 6, 2004, Fox Entertainment Group, Inc. ("FEG") released its financial results for the quarter ended March 31, 2004.

The text of the press release follows:

EARNINGS RELEASE FOR THE QUARTER ENDED MARCH 31, 2004

Fox Reports Third Quarter Operating Income of \$582 Million,  
a 25% Increase, on Revenue Growth of 5%

Third Quarter Operating Income before Depreciation and  
Amortization Grows 21% to \$654 Million

QUARTER HIGHLIGHTS

-- Strong advertising growth at Fox News and higher affiliate revenues at the Regional Sports Networks drive operating

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income before depreciation and amortization up 43% at Cable Network Programming.

- Television Broadcast Network operating income before depreciation and amortization improves 41% reflecting higher advertising revenues from increased pricing combined with the strength of American Idol.
- Record market share and higher pricing at Television Stations contribute to operating income before depreciation and amortization growth of 19%.
- Filmed Entertainment operating income before depreciation and amortization up 8% over a year ago as continued robust home entertainment sales of film and television titles match prior-year success.

NEW YORK--(BUSINESS WIRE)--May 6, 2004--The Fox Entertainment Group (NYSE: FOX) today reported third quarter consolidated revenues of \$2.8 billion, a 5% increase over the \$2.7 billion in prior year and operating income before depreciation and amortization(1) of \$654 million, a 21% increase over the \$542 million reported a year ago. The year-on-year operating income before depreciation and amortization growth was driven by increased contributions from all divisions including double-digit gains at the Television Stations, Television Broadcast Network and Cable Network Programming segments.

Third quarter net income increased to \$299 million (\$0.31 per share) as compared to net income of \$276 million (\$0.31 per share) in the prior year primarily due to higher consolidated operating income before depreciation and amortization partially offset by higher interest expense as a result of the Company's acquisition of The DIRECTV Group on December 22, 2003.

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

"We are extremely pleased with our third quarter results, with 21% operating income before depreciation and amortization growth that was achieved across all of our business segments. Several assets in which we have invested heavily in recent years continue to achieve rapid growth. Our film and television production units have been buoyed by an expanding home entertainment market and our cable networks are enjoying double-digit gains on the back of advertising and affiliate growth. Simultaneously, we have maintained momentum at our established businesses with double-digit gains across our television stations and television broadcast network.

"The growing success of our core businesses is complemented by the encouraging progress at our new direct-to-home television investment. DIRECTV's new management has quickly strengthened that platform's competitive and financial position with the addition of 460,000 new subscribers during the quarter and the announced sale of its stake in PanAmSat for \$4.3 billion. Our unique asset balance, combined with the strong earnings growth throughout the company, puts us in a great position to continue to generate value for our shareholders."

### Consolidated Operating Income (Loss)

| 3 Months Ended |      | 9 Months Ended |      |
|----------------|------|----------------|------|
| March 31,      |      | March 31,      |      |
| 2004           | 2003 | 2004           | 2003 |
| -----          |      | -----          |      |
| \$ Millions    |      | \$ Millions    |      |

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|                               |    |     |    |     |    |       |    |       |
|-------------------------------|----|-----|----|-----|----|-------|----|-------|
| Filmed Entertainment          | \$ | 223 | \$ | 205 | \$ | 816   | \$ | 570   |
| Television Stations           |    | 201 |    | 162 |    | 698   |    | 676   |
| Television Broadcast Network  |    | 47  |    | 33  |    | (131) |    | (129) |
| Cable Network Programming     |    | 111 |    | 64  |    | 368   |    | 236   |
|                               |    |     |    |     |    |       |    |       |
| Consolidated operating income | \$ | 582 | \$ | 464 | \$ | 1,751 | \$ | 1,353 |
|                               |    |     |    |     |    |       |    |       |

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

|  | 3 Months Ended |        | 9 Months Ended |          |
|--|----------------|--------|----------------|----------|
|  | March 31,      |        | March 31,      |          |
|  | 2004           | 2003   | 2004           | 2003     |
|  | \$ Millions    |        | \$ Millions    |          |
| Filmed Entertainment   | \$ 237         | \$ 220 | \$ 857         | \$ 612   |
| Television Stations  | 213            | 179    | 739            | 723      |
| Television Broadcast Network                                       | 52             | 37     | (117)          | (115)    |
| Cable Network Programming  | 152            | 106    | 493            | 366      |
|  |                |        |                |          |
| Consolidated operating income before depreciation and amortization | \$ 654         | \$ 542 | \$ 1,972       | \$ 1,586 |
|  |                |        |                |          |

#### FILMED ENTERTAINMENT

The Filmed Entertainment segment reported third quarter operating income before depreciation and amortization of \$237 million, 8% above the \$220 million reported in the same period a year ago. Current-quarter results primarily reflect strong contributions from film and television home entertainment releases.

Film results were largely driven by the worldwide home entertainment performance of League of Extraordinary Gentlemen as well as contributions from various catalog titles including Planet of the Apes, Moulin Rouge and Ice Age. Additionally, the worldwide theatrical performance of Cheaper by the Dozen, which has brought in nearly \$190 million worldwide since its release, also contributed to the strong quarterly results. The prior year's strong results included the continued success of Ice Age in the worldwide home entertainment market and strong domestic home entertainment performances from several smaller-budget releases.

Twentieth Century Fox Television (TCFTV) profits continued to expand, primarily reflecting sustained momentum in home entertainment sales, most notably from Angel, Futurama, Family Guy and 24.

#### TELEVISION STATIONS

At the Fox Television Stations (FTS), third quarter operating income before depreciation and amortization grew 19% over the prior year to \$213 million as FTS achieved another quarter of record market share. Current-year results were driven by stronger primetime advertising revenue led by the success of American Idol as well as higher sales for local news and the NFL playoffs. Additionally, non-recurring advertising pre-emptions in the prior year, associated with the war in Iraq, contributed to the year-on-year improvement.

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### TELEVISION BROADCAST NETWORK

At the FOX Broadcasting Company, third quarter operating income before depreciation and amortization of \$52 million improved by 41% compared to a year ago due to higher pricing for the primetime entertainment schedule and improved sports advertising on National Football League telecasts, with ratings up nearly 10% for the post-season. Current year entertainment contributions were fueled by American Idol, which has grown its ratings by 13% versus a year ago, partially offset by the success a year ago of Joe Millionaire.

### CABLE NETWORK PROGRAMMING

Cable Network Programming reported third quarter operating income before depreciation and amortization of \$152 million, an increase of 43% over last year's results, reflecting strong growth across all of the Company's primary cable channels.

Fox News Channel (FNC) operating income increased significantly as higher advertising pricing drove double-digit revenue gains over the third quarter a year ago, which included pre-emptions and higher news gathering costs associated with covering the war in Iraq. During the quarter, FNC once again achieved the highest viewership among all cable news channels, expanding its lead over its nearest competitor to 59% in primetime and 73% on a 24-hour basis.

Fox Cable Networks (including the Regional Sports Networks (RSNs), FX and SPEED Channel) operating profit improved 18% during the quarter driven by affiliate revenue growth at both the RSNs and FX. Higher affiliate revenue contributions at the RSNs, largely due to increased affiliate rates and additional DTH subscribers, combined with increased advertising sales to drive operating income growth at the RSNs. This growth was partially offset by higher programming costs from additional events and rights increases versus a year ago. FX affiliate revenue growth, primarily resulting from a 6% increase in subscribers over the past year, drove double-digit operating income growth. Partially offsetting these improvements were increased costs related to entertainment programming, including The Shield and the original movie Redemption, whose April premiere delivered the highest Adults 18-49 rating on basic cable this season. Overall, FX's nightly primetime viewership during the third quarter was the highest in FX history with an average of more than one million viewers.

### OTHER ITEMS

During the quarter, the Company completed the sale of the Los Angeles Dodgers franchise and real estate assets to real estate developer Frank McCourt for the gross sale price of approximately \$421 million and agreed to remit \$50 million to the buyer for certain pre-existing commitments.

- (1) Operating income before depreciation and amortization is 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.

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

Audio from Fox's conference call with analysts on the third quarter results can be heard live on the Internet at 8:30 a.m. Eastern Daylight 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 STATEMENT OF OPERATIONS (in millions, except for per share amounts)

|  | 3 Months Ended<br>March 31,<br>2004 |          | 9 Months Ended<br>March 31,<br>2004 |          |
|--|-------------------------------------|----------|-------------------------------------|----------|
|  | 2003                                | 2003     | 2003                                | 2003     |
|  | (Unaudited)                         |          | (Unaudited)                         |          |
| Revenues   | \$ 2,840                            | \$ 2,707 | \$ 8,978                            | \$ 8,201 |
| Expenses   |                                     |          |                                     |          |
| Operating  | 1,895                               | 1,882    | 6,170                               | 5,764    |
| Selling, general and<br>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 losses of affiliates                              | (26)                                | (8)      | (21)                                | (18)     |
| Minority interest in<br>subsidiaries                     | (1)                                 | (5)      | (4)                                 | (21)     |
| Other, net   | -                                   | -        | 19                                  | -        |
|  | -----                               | -----    | -----                               | -----    |
| Income before provision for income<br>taxes              | 480                                 | 426      | 1,647                               | 1,194    |
| Provision for income tax expense on<br>stand-alone basis | (181)                               | (150)    | (617)                               | (421)    |
|  | -----                               | -----    | -----                               | -----    |
| Net income   | \$ 299                              | \$ 276   | \$ 1,030                            | \$ 773   |
|  | =====                               | =====    | =====                               | =====    |

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|                                      |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|
| 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   |
|   | ===== | ===== | ===== | ===== |

### SEGMENT INFORMATION

(in millions)

|                              | 3 Months Ended<br>March 31,<br>2004 |          | 9 Months Ended<br>March 31,<br>2004 |          |
|------------------------------|-------------------------------------|----------|-------------------------------------|----------|
|                              | 2003                                | 2004     | 2003                                | 2004     |
|                              | (Unaudited)                         |          | (Unaudited)                         |          |
| Revenues                     |                                     |          |                                     |          |
| Filmed Entertainment         | \$ 1,171                            | \$ 1,194 | \$ 3,392                            | \$ 3,828 |
| Television Stations          | 463                                 | 490      | 1,579                               | 1,570    |
| Television Broadcast Network | 558                                 | 576      | 1,830                               | 1,731    |
| Cable Network Programming    | 515                                 | 580      | 1,741                               | 1,508    |
|                              | -----                               | -----    | -----                               | -----    |
| Total Revenues               | \$ 2,707                            | \$ 2,840 | \$ 8,201                            | \$ 8,978 |
|                              | =====                               | =====    | =====                               | =====    |

|  |        |        |          |          |
|--|--------|--------|----------|----------|
| Operating Income (Loss) Before Depreciation and Amortization |        |        |          |          |
| Filmed Entertainment   | \$ 220 | \$ 237 | \$ 612   | \$ 857   |
| Television Stations  | 179    | 213    | 723      | 739      |
| Television Broadcast Network                                 | 37     | 52     | (115)    | (117)    |
| Cable Network Programming                                    | 106    | 152    | 366      | 493      |
|  | -----  | -----  | -----    | -----    |
| Total Operating Income Before Depreciation and Amortization  | \$ 542 | \$ 654 | \$ 1,586 | \$ 1,972 |
|  | =====  | =====  | =====    | =====    |

|                              |        |        |          |          |
|------------------------------|--------|--------|----------|----------|
| Operating Income (Loss)      |        |        |          |          |
| Filmed Entertainment         | \$ 205 | \$ 223 | \$ 570   | \$ 816   |
| Television Stations          | 162    | 201    | 676      | 698      |
| Television Broadcast Network | 33     | 47     | (129)    | (131)    |
| Cable Network Programming    | 64     | 111    | 236      | 368      |
|                              | -----  | -----  | -----    | -----    |
| Total Operating Income       | \$ 464 | \$ 582 | \$ 1,353 | \$ 1,751 |
|                              | =====  | =====  | =====    | =====    |

### 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

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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<br>March 31,<br>2004 |        | 9 Months Ended<br>March 31,<br>2004 |          |
|---|-------------------------------------|--------|-------------------------------------|----------|
|   | 2003                                | 2004   | 2003                                | 2004     |
|   | \$ Millions                         |        | \$ Millions                         |          |
| Operating income                                      | \$ 582                              | \$ 464 | \$ 1,751                            | \$ 1,353 |
| Depreciation and amortization                         | 41                                  | 47     | 127                                 | 139      |
| Amortization of cable distribution investments        | 31                                  | 31     | 94                                  | 94       |
| Operating income before depreciation and amortization | \$ 654                              | \$ 542 | \$ 1,972                            | \$ 1,586 |
|   | =====                               | =====  | =====                               | =====    |

### For the Three Months Ended March 31, 2004 (\$ Millions)

|                                   | Operating<br>income<br>(loss) | Depreciation<br>and<br>amortization | Amortization<br>of cable<br>distribution<br>investments | Operating<br>income<br>(loss)<br>before<br>depreciation<br>and<br>amortization |
|-----------------------------------|-------------------------------|-------------------------------------|---|--|
|                                   | -----                         | -----                               | -----   | -----  |
| Filmed                            |                               |                                     |   |  |
| Entertainment Television Stations | \$ 223                        | \$ 14                               | \$ -  | \$ 237   |
| Television Broadcast Network      | 201                           | 12                                  | -   | 213  |
| Cable Network Programming         | 47                            | 5                                   | -   | 52   |
|                                   | 111                           | 10                                  | 31  | 152  |
| Consolidated Total                | \$ 582                        | \$ 41                               | \$ 31   | \$ 654   |
|                                   | =====                         | =====                               | =====   | =====  |

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### SUPPLEMENTAL FINANCIAL DATA (continued)

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

|                                   | Operating<br>income<br>(loss) | Depreciation<br>and<br>amortization | Amortization<br>of cable<br>distribution<br>investments | Operating<br>income<br>(loss)<br>before<br>depreciation<br>and<br>amortization |
|-----------------------------------|-------------------------------|-------------------------------------|---|--|
| Filmed                            |                               |                                     |   |  |
| Entertainment Television Stations | \$ 205                        | \$ 15                               | \$ -  | \$ 220   |
| Television Broadcast Network      | 162                           | 17                                  | -   | 179  |
| Cable Network Programming         | 33                            | 4                                   | -   | 37   |
|                                   | 64                            | 11                                  | 31  | 106  |
| Consolidated Total                | \$ 464                        | \$ 47                               | \$ 31   | \$ 542   |

For the Nine Months Ended March 31, 2004  
(\$ Millions)

|                                   | Operating<br>income<br>(loss) | Depreciation<br>and<br>amortization | Amortization<br>of cable<br>distribution<br>investments | Operating<br>income<br>(loss)<br>before<br>depreciation<br>and<br>amortization |
|-----------------------------------|-------------------------------|-------------------------------------|---|--|
| Filmed                            |                               |                                     |   |  |
| Entertainment Television Stations | \$ 816                        | \$ 41                               | \$ -  | \$ 857   |
| Television Broadcast Network      | 698                           | 41                                  | -   | 739  |
| Cable Network Programming         | (131)                         | 14                                  | -   | (117)  |
|                                   | 368                           | 31                                  | 94  | 493  |
| Consolidated Total                | \$ 1,751                      | \$ 127                              | \$ 94   | \$ 1,972   |

For the Nine Months Ended March 31, 2003  
(\$ Millions)

Operating

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|                                   | Operating<br>income<br>(loss) | Depreciation<br>and<br>amortization | Amortization<br>of cable<br>distribution<br>investments | income<br>(loss)<br>before<br>depreciation<br>and<br>amortization |
|-----------------------------------|-------------------------------|-------------------------------------|---|---|
| Filmed                            |                               |                                     |   |   |
| Entertainment Television Stations | \$ 570                        | \$ 42                               | \$ -  | \$ 612  |
| Television Broadcast Network      | 676                           | 47                                  | -   | 723   |
| Cable Network Programming         | (129)                         | 14                                  | -   | (115)   |
|                                   | 236                           | 36                                  | 94  | 366   |
| Consolidated Total                | \$ 1,353                      | \$ 139                              | \$ 94   | \$ 1,586  |

CONTACT: Fox Entertainment Group, New York  
 Reed Nolte, Investor Relations, 212-852-7092  
 or  
 Andrew Butcher, Press Inquiries, 212-852-7070

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 6, 2004

FOX ENTERTAINMENT GROUP, INC.

By: /s/ Lawrence A. Jacobs  
 \_\_\_\_\_  
 Lawrence A. Jacobs  
 Senior Vice President