TWENTY-FIRST CENTURY FOX, INC.
Form 10-Q
February 06, 2019

UNITED STATES

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 December 31, 2018

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 001-32352

TWENTY-FIRST CENTURY FOX, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	26-0075658 (I.R.S. Employer Identification No.)
1211 Avenue of the Americas, New York, New York (Address of Principal Executive Offices)	10036 (Zip Code)

Registrant’s telephone number, including area code (212) 852-7000

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of February 1, 2019, 1,058,408,500 shares of Class A Common Stock, par value $0.01 per share, and 798,520,953 shares of Class B Common Stock, par value $0.01 per share, were outstanding.

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FORM 10-Q

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	For the three months ended December 31,		For the six months ended December 31,	
	2018	2017	2018	2017
Revenues	$ 8,499	$ 8,037	$ 15,676	$ 15,039
Operating expenses	(6,005)	(5,760)	(10,429)	(10,141)
Selling, general and administrative	(939)	(864)	(1,829)	(1,712)
Depreciation and amortization	(159)	(142)	(317)	(284)
Impairment and restructuring charges	-	(3)	(16)	(24)
Equity (losses) earnings of affiliates	(109)	(33)	(74)	27
Interest expense, net	(294)	(312)	(594)	(625)
Interest income	86	9	94	19
Other, net	10,475	(229)	10,527	(301)
Income from continuing operations before income tax (expense) benefit	11,554	703	13,038	1,998
Income tax (expense) benefit	(630)	1,218	(756)	827
Income from continuing operations	10,924	1,921	12,282	2,825
(Loss) income from discontinued operations, net of tax	(17)	(5)	(24)	11
Net income	10,907	1,916	12,258	2,836
Less: Net income attributable to noncontrolling interests	(92)	(85)	(158)	(150)
Net income attributable to Twenty-First Century Fox, Inc. stockholders	$ 10,815	$ 1,831	$ 12,100	$ 2,686
EARNINGS PER SHARE DATA				
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders - basic and diluted	$ 10,832	$ 1,836	$ 12,124	$ 2,675
Weighted average shares				
Basic	1,856	1,853	1,855	1,852
Diluted	1,864	1,855	1,864	1,854
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders per share				
Basic	$ 5.84	$ 0.99	$ 6.54	$ 1.44
Diluted	$ 5.81	$ 0.99	$ 6.50	$ 1.44

Net income attributable to Twenty-First Century Fox, Inc. stockholders per share				
Basic	$ 5.83	$ 0.99	$6.52	$1.45
Diluted	$ 5.80	$ 0.99	$6.49	$1.45

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

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TWENTY-FIRST CENTURY FOX, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

	For the three months ended December 31,		For the six months ended December 31,	
	2018	2017	2018	2017
Net income	$ 10,907	$ 1,916	$ 12,258	$ 2,836
Other comprehensive income, net of tax				
Foreign currency translation adjustments	14	38	(118)	79
Cash flow hedges	(6)	(1)	(6)	(1)
Unrealized holding gains on securities	-	97	-	179
Benefit plan adjustments	16	61	22	67
Equity method investments	446	36	412	58
			-	
Other comprehensive income, net of tax	470	231	310	382
Comprehensive income	11,377	2,147	12,568	3,218
Less: Net income attributable to noncontrolling interests[a]	(92)	(85)	(158)	(150)
Less: Other comprehensive loss (income) attributable to noncontrolling interests	5	(4)	9	(13)
Comprehensive income attributable to Twenty-First Century Fox, Inc. stockholders	$ 11,290	$ 2,058	$ 12,419	$ 3,055

[a] Net income attributable to noncontrolling interests includes $36 million and $48 million for the three months ended December 31, 2018 and 2017, respectively, and $60 million and $77 million for the six months ended December 31, 2018 and 2017, respectively, relating to redeemable noncontrolling interests.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

TWENTY-FIRST CENTURY FOX, INC.

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	As of December 31, 2018 (unaudited)	As of June 30, 2018 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 21,281	$ 7,622
Receivables, net	8,083	7,120
Inventories, net	3,934	3,669
Other	719	922
Total current assets	34,017	19,333
Non-current assets		
Receivables, net	859	724
Investments	833	4,112
Inventories, net	8,133	7,518
Property, plant and equipment, net	1,971	1,956
Intangible assets, net	5,970	6,101
Goodwill	12,758	12,768
Other non-current assets	1,345	1,319
Total assets	$ 65,886	$ 53,831
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	$ 887	$ 1,054
Accounts payable, accrued expenses and other current liabilities	3,236	3,248
Participations, residuals and royalties payable	1,822	1,748
Program rights payable	1,135	1,368
Deferred revenue	855	826
Total current liabilities	- 7,935	8,244
Non-current liabilities		
Borrowings	18,321	18,469
Other liabilities	3,848	3,664
Deferred income taxes	1,971	1,892

Redeemable noncontrolling interests	576	764
Commitments and contingencies		
Equity		
Class A common stock[(a)]	11	11
Class B common stock[(b)]	8	8
Additional paid-in capital	12,573	12,612
Retained earnings	21,292	8,934
Accumulated other comprehensive loss	(1,879)	(2,001)
Total Twenty-First Century Fox, Inc. stockholders' equity	32,005	19,564
Noncontrolling interests	1,230	1,234
Total equity	33,235	20,798
Total liabilities and equity	$ 65,886	$ 53,831

[(a)] Class A common stock, $0.01 par value per share, 6,000,000,000 shares authorized, 1,058,408,500 shares and 1,054,032,541 shares issued and outstanding, net of 123,687,371 treasury shares at par as of December 31, 2018 and June 30, 2018, respectively.

[(b)] Class B common stock, $0.01 par value per share, 3,000,000,000 shares authorized, 798,520,953 shares issued and outstanding, net of 356,993,807 treasury shares at par as of December 31, 2018 and June 30, 2018.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

TWENTY-FIRST CENTURY FOX, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

	For the six months ended December 31, 2018	2017
OPERATING ACTIVITIES		
Net income	$ 12,258	$ 2,836
Less: (Loss) income from discontinued operations, net of tax	(24)	11
Income from continuing operations	12,282	2,825
Adjustments to reconcile income from continuing operations to cash provided by operating activities		
Depreciation and amortization	317	284
Amortization of cable distribution investments	20	43
Impairment and restructuring charges	16	24
Equity-based compensation	70	66
Equity losses (earnings) of affiliates	74	(27)
Cash distributions received from affiliates	10	11
Other, net	(10,527)	301
Deferred income taxes	(155)	(1,300)
Change in operating assets and liabilities, net of acquisitions and dispositions		
Receivables	(693)	(1,267)
Inventories net of program rights payable	(1,300)	(417)
Accounts payable and accrued expenses	(145)	388
Other changes, net	588	(427)
Net cash provided by operating activities from continuing operations	557	504
INVESTING ACTIVITIES		
Property, plant and equipment	(219)	(238)
Investments in equity affiliates	(266)	(209)
Proceeds from dispositions, net	15,020	362
Other investing activities, net	(206)	(84)
Net cash provided by (used in) investing activities from continuing operations	14,329	(169)
FINANCING ACTIVITIES		
Borrowings	90	1,282
Repayment of borrowings	(412)	(1,411)
Dividends paid and distributions	(517)	(512)
Employee taxes paid for share-based payment arrangements	(162)	(32)
Other financing activities, net	(89)	(18)

Net cash used in financing activities from continuing operations	(1,090)	(691)
Net decrease in cash and cash equivalents from discontinued operations	(32)	(26)
Net increase (decrease) in cash and cash equivalents	13,764	(382)
Cash and cash equivalents, beginning of year	7,622	6,163
Exchange movement on cash balances	(105)	28
Cash and cash equivalents, end of period	$ 21,281	$ 5,809

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Twenty-First Century Fox, Inc., a Delaware corporation, and its subsidiaries (together, “Twenty-First Century Fox” or the “Company”) is a diversified global media and entertainment company, which currently manages and reports its businesses in the following four segments: Cable Network Programming, Television, Filmed Entertainment and Other, Corporate and Eliminations.

The accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“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 necessary for a fair presentation have been reflected in these Unaudited Consolidated 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, 2019.

These interim Unaudited Consolidated Financial Statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 as filed with the Securities and Exchange Commission (the “SEC”) on August 13, 2018 (the “2018 Form 10-K”).

The Unaudited Consolidated Financial Statements include the accounts of Twenty-First Century Fox. All significant intercompany accounts and transactions have been eliminated in consolidation, including the intercompany portion of transactions with equity method investees. Equity investments in and advances to entities or joint ventures in which the Company has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Significant influence is generally presumed to exist when the Company owns an interest between 20% and 50% and exercises significant influence. Equity investments in which the Company has no significant influence (generally less than a 20% ownership interest) with readily determinable fair values are recorded at fair value using quoted market prices. If an equity investment’s fair value is not readily determinable and does not qualify for the net asset value (“NAV”) practical expedient, the Company will recognize it at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The unrealized gains and losses and the adjustments related to the observable price changes are recognized in net income.

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Actual results may differ from those estimates.

Certain fiscal 2018 amounts have been reclassified to conform to the fiscal 2019 presentation. Unless indicated otherwise, the information in the notes to the Unaudited Consolidated Financial Statements relates to the Company’s continuing operations.

Recently Adopted and Recently Issued Accounting Guidance and U.S. Tax Reform

Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 requires additional disclosure around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the requirements of ASU 2014-09 as of July 1, 2018, utilizing the modified retrospective method of transition which resulted in a transition adjustment for all contracts not completed as of July 1, 2018. The transition adjustment was recorded as an increase to the opening balance of Retained earnings in the Consolidated Balance Sheet (See Note 7 – Stockholders' Equity).

The new standard impacts the timing of revenue recognition for renewals or extensions of existing licensing agreements for intellectual property, which will be recognized as revenue once the customer can begin to use and benefit from the license rather than when the agreement is extended or renewed, under historical GAAP. The new standard requires the Company's Filmed Entertainment segment to recognize revenues from certain television license deals earlier as opposed to recognizing those licenses over the term of the agreements. Conversely, revenues from certain of the

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Filmed Entertainment segment's trademark licensing deals will be recognized over the license terms as opposed to recognition at inception as under historical GAAP. The adoption of the standard also resulted in the reclassification of the Company's estimates of sales returns from a contra-asset allowance within receivables to a liability. ASU 2014-09 also requires enhanced disclosures relating to the Company's revenues from contracts with customers (See Note 11 – Revenues), including the disaggregation of revenues.

The following table presents the impact of the adoption of the standard on the Company's Consolidated Statements of Operations:

	For the three months ended December 31, 2018			For the six months ended December 31, 2018		
	As reported	Adjustments	Without adoption of ASC 606	As reported	Adjustments	Without adoption of ASC 606
	(in millions, except per share amounts)					
Revenues	$8,499	$ (28)	$8,471	$15,676	$ 50	$15,726
Operating expenses	(6,005)	10	(5,995)	(10,429)	(43)	(10,472)
Selling, general and administrative	(939)	-	(939)	(1,829)	-	(1,829)
Depreciation and amortization	(159)	-	(159)	(317)	-	(317)
Impairment and restructuring charges	-	-	-	(16)	-	(16)
Equity losses of affiliates	(109)	-	(109)	(74)	(3)	(77)
Interest expense, net	(294)	-	(294)	(594)	-	(594)
Interest income	86	-	86	94	-	94
Other, net	10,475	-	10,475	10,527	-	10,527
Income (loss) from continuing operations before income tax (expense) benefit	11,554	(18)	11,536	13,038	4	13,042
Income tax (expense) benefit	(630)	4	(626)	(756)	(1)	(757)
Income (loss) from continuing operations	10,924	(14)	10,910	12,282	3	12,285
Loss from discontinued operations, net of tax	(17)	-	(17)	(24)	-	(24)
Net income (loss)	10,907	(14)	10,893	12,258	3	12,261
Less: Net income attributable to noncontrolling interests	(92)	-	(92)	(158)	-	(158)
Net income (loss) attributable to Twenty-First Century Fox stockholders	$10,815	$ (14)	$10,801	$12,100	$ 3	$12,103
Net income (loss) attributable to Twenty-First Century Fox stockholders per share						
Basic	$5.83	$ (0.01)	$5.82	$6.52	$ -	$6.52
Diluted	$5.80	$ (0.01)	$5.79	$6.49	$ -	$6.49

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Changes to the opening balances of current assets, total assets, current liabilities and total liabilities resulting from the adoption of the new guidance were as follows:

	June 30, 2018	Adoption of ASC 606 impact		July 1, 2018
	(in millions)			
Current assets	$19,333	$ 491		$19,824
Total assets	53,831	559	(a)	54,390
Current liabilities	8,244	256		8,500
Total liabilities	32,269	323		32,592

[a] Includes the Company's proportionate share of Sky, plc's ("Sky") transition adjustment of approximately $145 million.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Company adopted this guidance as of July 1, 2018 on a modified retrospective basis and recorded a cumulative effect adjustment to reclassify unrealized holding gains on securities within Accumulated other comprehensive loss to Retained earnings and to record certain equity investments at NAV which were previously accounted for at cost (See Note 7 – Stockholders' Equity). In addition, the Company recorded changes in the fair value of equity investments with readily determinable fair values in Net income rather than in Accumulated other comprehensive loss (See Note 12 – Additional Financial Information under the heading "Other, net"). Cost method investments that do not have readily determinable fair values will be recognized prospectively at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The adjustments related to the observable price changes will also be recognized in net income.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). On July 1, 2018, the Company adopted ASU 2016-16 and recorded a deferred tax asset of approximately $2.3 billion related to the basis difference in an equity method investment on a modified retrospective basis, through a cumulative-effect adjustment to Retained earnings and also recorded a corresponding valuation allowance. As prescribed, a full valuation allowance was required because the Company was not able to establish sufficient evidence of future taxable income of the appropriate character to realize the deferred tax asset. As a result, the adoption of ASU 2016-16 did not have a material impact on the Company's Consolidated Financial Statements. Due to the decision to sell Sky which was announced on September 26, 2018, management determined that the valuation allowance was no longer needed. As such, the Company released the valuation allowance related to its deferred tax asset as part of the estimated annual effective tax rate, resulting in a non-cash tax benefit of approximately $1.8 billion and $2.0 billion for the three and six months ended December 31, 2018, respectively. The remaining non-cash tax benefit of approximately $300 million will be realized during the year based upon the Company's Income from continuing operations before income tax expense (See Note 4 – Investments under the heading "Sky").

On July 1, 2018, the Company early adopted ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02") on a prospective basis using the security-by-security approach. The objective of ASU 2018-02 is to eliminate the stranded tax effects resulting from the Tax Act (as defined below) and to improve the usefulness of information reported to financial statement users. The adoption of ASU 2018-02 resulted in a reclassification from Accumulated other comprehensive loss to Retained earnings related to the income tax effects on the change in the federal statutory rate (See Note 7 – Stockholders' Equity under the heading "Accumulated other comprehensive loss").

Issued

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", "Topic 842", as amended. Topic 842 requires recognition of lease liabilities and right-of-use assets on the balance sheet and disclosure of key information about leasing arrangements. Topic 842 will be effective for the Company for annual and interim reporting periods beginning July 1, 2019. The Company expects to apply Topic 842 on a modified retrospective basis with the cumulative effect, if any, of initially applying the new guidance recognized at the date of initial application as an adjustment to opening Retained earnings. The Company is currently evaluating the impact Topic 842 will have on its consolidated financial statements including determining which practical expedients to apply. Since the Company has a significant amount of minimum lease commitments (See Note 15 – Commitments and Contingencies in the 2018 Form 10-K), the Company expects that the impact of recognizing operating lease liabilities and right-of-use assets will be significant to the Company's Consolidated Balance Sheet. The Company is in process of gathering the necessary lease data and implementing accounting lease software for all leases as well as assessing necessary changes to the Company's processes and controls to support the recognition and disclosure requirements in accordance with the new standard.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"). The amendments in ASU 2018-14 modify certain aspects of disclosure about defined benefit pension and other postretirement plans. ASU 2018-14 will be effective for the Company for annual reporting periods beginning July 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact ASU 2018-14 will have on its consolidated financial statements.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates and implementing a territorial tax system. Effective July 1, 2018, the Company's corporate income tax rate is 21%.

The SEC issued guidance that allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. As of December 31, 2018, the Company has finalized its analysis and has not materially modified the provisional amounts previously recorded (See Note 2 – Summary of Significant Accounting Policies in the 2018 Form 10-K under the heading "U.S. Tax Reform").

The Tax Act also includes a new minimum tax on certain foreign earnings ("global intangible low-tax income" or "GILTI") which imposes a tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries and allows a deduction for foreign-derived intangible income ("FDII"). These provisions are effective for the Company in the current fiscal year. For the six months ended December 31, 2018, the Company computed amounts for both items and included the impacts in its annualized effective tax rate calculation. The Company will account for the effects of GILTI as a component of income tax expense in the period the tax arises.

NOTE 2. ACQUISITIONS, DISPOSALS AND OTHER TRANSACTIONS

Disney Transaction/Distribution of FOX

On June 20, 2018, the Company entered into an Amended and Restated Merger Agreement and Plan of Merger (the "Amended and Restated Merger Agreement") with The Walt Disney Company ("Disney") and TWDC Holdco 613 Corp., a newly formed holding company and wholly-owned subsidiary of Disney ("New Disney"), which amends and restates in its entirety the Agreement and Plan of Merger that the Company entered into with Disney in December 2017, pursuant to which, among other things, at the closing, the Company will merge with and into a subsidiary of New Disney (the "21CF Merger"), Disney will merge with and into a subsidiary of New Disney (the "Disney Merger," and together with the 21CF Merger, the "Mergers"), and each of Disney and the Company will become wholly-owned subsidiaries of New Disney. Prior to the consummation of the Mergers, the Company will transfer a portfolio of the Company's news, sports and broadcast businesses, including the FOX News Channel ("FOX News"), FOX Business Network, FOX Broadcasting Company (the "FOX Network"), FOX Television Stations Group, FS1, FS2, FOX

Deportes and Big Ten Network and certain other assets and liabilities into a newly formed subsidiary Fox Corporation ("FOX") (the "FOX Separation") and distribute all of the issued and outstanding common stock of FOX to the holders of the outstanding shares of the Company's Class A Common Stock and Class B Common Stock (other than holders that are subsidiaries of the Company (shares held by such holders, the "Hook Stock")) on a pro rata basis (the "FOX Distribution"). Prior to the FOX Distribution, FOX will pay the Company a dividend in the amount of $8.5 billion (the "FOX Dividend"). FOX has and will incur indebtedness sufficient to fund the FOX Dividend, which indebtedness will be reduced after the Mergers by the amount of a cash payment paid by Disney to FOX, if such cash payment is made. As the FOX Separation and FOX Distribution will be taxable to the Company at the corporate level, the FOX Dividend is intended to fund the taxes resulting from the FOX Separation and FOX Distribution and certain other transactions contemplated by the Amended and Restated Merger Agreement. The Company will retain all assets and liabilities not transferred to FOX, including the Twentieth Century Fox Film and Television studios and certain cable and international television businesses, including FX Networks, National Geographic Partners, LLC, Regional Sports Networks ("RSNs"), Fox Networks Group International and STAR India ("STAR"), as well as the Company's interests in Hulu, LLC ("Hulu"), Sky, Tata Sky Limited and Endemol Shine Group. The foregoing proposed transactions are collectively referred to as the "Transaction".

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Upon consummation of the Transaction, each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Mergers (other than (i) shares held in treasury by the Company that are not held on behalf of third parties, (ii) shares that are Hook Stock and (iii) shares held by the Company's stockholders who have not voted in favor of the 21CF Merger and perfected and not withdrawn a demand for appraisal rights pursuant to Delaware law) will be exchanged for consideration (the "Merger Consideration") in the form of either cash (the "Cash Consideration") or a fraction of a share of New Disney common stock (the "Stock Consideration"). The value of the Merger Consideration may fluctuate with the market price of Disney common stock and will, subject to the collar described below, be determined based on the volume-weighted average trading price of a share of Disney common stock on the New York Stock Exchange over the fifteen day consecutive trading day period ending on (and including) the trading day that is three trading days prior to the date of the effective time of the Disney Merger (such price, the "Average Disney Price"). Subject to the election, proration and adjustment procedures set forth in the Amended and Restated Merger Agreement, each share of the Company's common stock will be exchanged for an amount (such amount, the "Per Share Value"), payable in cash or New Disney common stock, equal to the sum of (i) $19.00 plus (ii) fifty percent (50.0%) of the value (determined based on the Average Disney Price) of a number of shares of Disney common stock equal to the exchange ratio described below. The number of shares of New Disney common stock to be delivered in exchange for each share of the Company's common stock to the Company's stockholders electing to receive Stock Consideration will be equal to the Per Share Value divided by the Average Disney Stock Price. If the Average Disney Price is greater than $114.32, then the exchange ratio will be 0.3324. If the Average Disney Price is less than $93.53, then the exchange ratio will be 0.4063. If the Average Disney Price is greater than or equal to $93.53 but less than or equal to $114.32, then the exchange ratio will be an amount equal to $38.00 divided by the Average Disney Price. The Merger Consideration is subject to the proration provisions set forth in the Amended and Restated Merger Agreement, which ensure that the aggregate Cash Consideration (before giving effect to the adjustment for transaction taxes) is equal to $35.7 billion. As a result, the form of consideration a stockholder elects to receive may be adjusted such that it may receive, in part, a different form of consideration than the form it elected. Any stockholder of the Company not making an election will receive the Cash Consideration, the Stock Consideration or a combination of both, as determined by the proration provisions of the Amended and Restated Merger Agreement.

To provide FOX with financing in connection with the FOX Distribution, 21st Century Fox America, Inc. ("21CFA"), a wholly-owned subsidiary of the Company, entered into a commitment letter on behalf of FOX with the financial institutions party thereto (the "Bridge Commitment Letter") which provides for borrowings of up to $9 billion. Given the Company's current debt ratings, 21CFA pays a commitment fee of 0.1%. In January 2019, FOX issued approximately $6.8 billion of senior notes (See Note 6 – Borrowings under the heading "FOX Borrowings") and reduced the borrowings available under the Bridge Commitment Letter to $1.7 billion. FOX intends to use the net proceeds of approximately $6.8 billion from the sale of the notes, together with available cash on its balance sheet and other financing facilities, if needed, principally to fund the FOX Dividend and to pay fees and expenses incurred in connection with the senior notes offering and the Transaction.

Under the terms of the Amended and Restated Merger Agreement, Disney will pay the Company $2.5 billion if the Mergers are not consummated under certain circumstances relating to the failure to obtain approvals, or there is a final, non-appealable order preventing the transaction, in each case, relating to antitrust laws, communications laws or foreign regulatory laws.

On June 27, 2018, the Antitrust Division of the U.S. Department of Justice announced that it cleared the Transaction. The Company, Disney and the U.S. Department of Justice have entered into a consent decree that allows the Transaction to proceed, while requiring New Disney and the Company to sell the RSNs within 90 days following the closing of the Transaction, which consent decree is subject to court approval. At separate special meetings of stockholders on July 27, 2018, the Company's stockholders adopted the Amended and Restated Merger Agreement, Disney's stockholders approved the stock issuance, and each company's stockholders adopted or approved the other proposals voted on at the special meetings. On November 6, 2018, the European Commission announced that it approved the Transaction conditional on Disney's divestiture of its ownership interest in the factual channels it controls in the European Economic Area owned by A&E Television Networks.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The consummation of the Transaction remains subject to various conditions, including among others, (i) the consummation of the FOX Separation, (ii) the receipt of certain tax opinions with respect to the treatment of the Transaction under U.S. and Australian tax laws, and (iii) the receipt of certain regulatory approvals and governmental consents. The Transaction is expected to be completed in the first half of calendar year 2019.

The Amended and Restated Merger Agreement generally requires the Company to operate its business in the ordinary course pending consummation of the 21CF Merger and restricts the Company, without Disney’s consent, from taking certain specified actions until the Transaction is consummated or the Amended and Restated Merger Agreement is terminated, including making certain acquisitions and divestitures, entering into certain contracts, incurring certain indebtedness and expenditures, paying dividends in excess of certain thresholds, and repurchasing or issuing securities outside of existing equity award programs.

In February 2018, the Compensation Committee of the Board of Directors of the Company (the “Compensation Committee”) established a cash bonus retention plan for certain employees of approximately $110 million of which 50% is payable at the time of the Mergers and 50% on the 10-month anniversary of the Mergers, subject to each participant's continued employment through the applicable payment date. Additionally, the Compensation Committee made a special grant of approximately 5.9 million restricted stock units (“Retention RSUs”) to certain of the Company’s senior executives, including named executive officers (“NEOs”). The Retention RSU grants will vest 50% at the time of the Mergers and 50% on the 15-month anniversary of the Mergers, subject to each executive’s continued employment through the applicable vesting date. The cash bonus retention payment plans are subject to accelerated payment and the Retention RSU grants will be subject to accelerated vesting upon the occurrence of certain termination events. In the event the Amended and Restated Merger Agreement is terminated, the payments under the cash-based retention program will be made and the Retention RSU grants will vest on the later of December 13, 2019 and the date of such termination.

Under the Amended and Restated Merger Agreement, the Company is permitted to take certain actions to reduce the amount of any potential “excess parachute payments” for “disqualified individuals” (each as defined in Section 280G of the Internal Revenue Code). In accordance with this provision, the Company modified certain outstanding equity-based awards granted to certain participants (excluding any NEOs) resulting in additional compensation expenses of approximately $40 million for the three and six months ended December 31, 2018, of which approximately $15 million was included in Selling, general and administrative expenses and the remaining amount was included in Other, net in the Unaudited Consolidated Statements of Operations.

Other

In March 2017, the Federal Communications Commission’s (the “FCC”) concluded a voluntary auction to reclaim television broadcast station spectrum. The Company had three stations’ bids of approximately $350 million to relinquish spectrum accepted by the FCC as part of the auction and received the proceeds in July 2017. As a result, the spectrum previously utilized by its television stations in Washington, DC, Charlotte, NC and Chicago, IL designated market areas, in which the Company operates duopolies, has been relinquished to the FCC. The Company recorded a pre-tax gain of $114 million of which $102 million was recorded in fiscal 2018 and the remaining balance was recorded in Other, net in the Unaudited Consolidated Statement of Operations for the six months ended December 31, 2018 for the spectrum relinquished to the FCC in July 2018. These television stations will continue broadcasting using the spectrum of the existing FOX Network owned and operated station in that market.

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NOTE 3. INVENTORIES, NET

The Company's inventories were comprised of the following:

	As of December 31, 2018	As of June 30, 2018
	(in millions)	
Programming rights		
Sports Programming rights	$3,920	$3,676
Entertainment Programming rights[a]	3,311	3,263
Filmed entertainment costs		
Films		
Released, less accumulated amortization	1,109	1,249
Completed, not released	195	98
In production	1,900	1,556
In development or preproduction	245	221
	- 3,449	3,124
Television productions		
Released, less accumulated amortization	645	743
In production, development or preproduction	742	381
	1,387	1,124
Total filmed entertainment costs, less accumulated amortization[b]	4,836	4,248
Total inventories, net	12,067	11,187
Less: current portion of inventories, net[c]	(3,934)	(3,669)
Total non-current inventories, net	$8,133	$7,518

[a] Includes DVDs, Blu-rays and other merchandise.

[b] Does not include $195 million and $210 million of net intangible film library costs as of December 31, 2018 and June 30, 2018, respectively, which were included in intangible assets subject to amortization in the Consolidated Balance Sheets.

[c] Current portion of inventories, net as of December 31, 2018 and June 30, 2018 was comprised of programming rights ($3,886 million and $3,625 million, respectively), DVDs, Blu-rays and other merchandise.

NOTE 4. INVESTMENTS

The Company's investments were comprised of the following:

		Ownership percentage as of December 31, 2018	As of December 31, 2018	As of June 30, 2018
			(in millions)	
Sky[a]	European direct broadcast satellite operator	-%	$-	$3,306
Endemol Shine Group[b]	Global multi-platform content provider	50%	168	188
Other investments[c]		various	665	618
Total investments			$833	$4,112

[a] In October 2018, the Company sold its 39% investment in Sky.
[b] Equity method investment.
[c] Includes an investment with a readily determinable fair value of $185 million as of December 31, 2018 (See Note 5 – Fair Value).

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TWENTY-FIRST CENTURY FOX, INC.

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Sky

In December 2016, the Company announced it reached agreement with Sky, in which the Company had an approximate 39% interest, on the terms of a recommended pre-conditional cash offer by the Company for the fully diluted share capital of Sky which the Company did not already own (the “Sky Acquisition”), at a price of £10.75 per Sky share subject to certain payments of dividends. On July 11, 2018, the Company announced an increased offer price for the Sky Acquisition, of £14.00 per Sky share, payable in cash, subject to reduction if certain dividends or other distributions are paid by Sky (the “Increased Offer”). To provide financing in connection with the Sky Acquisition, the Company and 21CFA entered into a bridge credit agreement with the lenders party thereto (the “Bridge Credit Agreement”) which was subsequently amended as a result of the Increased Offer. The Company purchased foreign currency exchange options to limit its foreign currency exchange rate risk in connection with the Sky Acquisition (See Note 5 – Fair Value under the heading “Foreign Currency Contracts” and Note 12 – Additional Financial Information under the heading “Other, net” for additional information).

On September 22, 2018, the Company made a revised cash offer for the fully diluted share capital of Sky that the Company and its affiliates did not already own at a price of £15.67 for each Sky share, following the conclusion of the auction process conducted by the U.K. Panel on Takeovers and Mergers. On the same day, Comcast Corporation (“Comcast”) announced a revised cash offer by Comcast for the entire issued and to be issued share capital of Sky at a price of £17.28 for each Sky share (the “Comcast Offer”), which was recommended by the Sky Independent Committee. On September 26, 2018, the Company announced that it intended to lapse its offer on October 6, 2018 and that it intended to either accept the Comcast Offer or to sell its Sky shares to Comcast at a price of £17.28 for each Sky share. On October 3, 2018, the Company entered into an agreement to sell its shares to Comcast at a price of £17.28 for each Sky share. As a result, in October 2018, the Company received cash consideration of approximately £11.6 billion ($15.1 billion) for its 39% interest in Sky. The Company recorded a gain, net of transaction related costs, of $10.8 billion on this transaction, which was included in Other, net in the Unaudited Consolidated Statement of Operations for the six months ended December 31, 2018 (See Note 12 – Additional Financial Information under the heading “Other, net”). In connection with the lapsing of the Company’s offer for Sky, the Bridge Credit Agreement has been terminated as of October 6, 2018.

Hulu

The Company owns an equity interest in Hulu. In August 2016, Hulu issued a 10% equity interest to a new investor thereby diluting the Company’s ownership from 33% to 30%. For a period of up to 36 months, under certain limited circumstances arising from regulatory review, the new investor may put its shares to Hulu or Hulu may call the shares from the new investor. If Hulu is required to fund the repurchase of shares from the new investor, the Company has agreed to make an additional capital contribution of up to approximately $300 million to Hulu. As a result of these conditions, the Company will record a gain on the dilution of its ownership interest upon resolution of the contingency. The Company will continue to account for its interest in Hulu as an equity method investment.

For the six months ended December 31, 2018, the Company invested approximately $225 million in Hulu to maintain its ownership percentage and has committed to an additional investment of approximately $645 million in calendar year 2019.

Other Investments

During the first quarter of fiscal 2019, the Company invested, in the aggregate, approximately $100 million in cash for a minority equity interest in Caffeine, Inc. (“Caffeine”), a social broadcasting platform for gaming, entertainment and other creative content, and Caffeine Studio, LLC (“Caffeine Studios”), a newly formed venture that is jointly owned by the Company and Caffeine. The Company accounts for the investments in Caffeine at cost plus or minus observable price changes and Caffeine Studios as an equity method investment.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE

In accordance with ASC 820, "Fair Value Measurement," fair value measurements are required to be disclosed using a three-tiered fair value hierarchy which distinguishes market participant assumptions into the following categories: (i) inputs that are quoted prices in active markets ("Level 1"); (ii) inputs other than quoted prices included within Level 1 that are observable, including quoted prices for similar assets or liabilities ("Level 2"); and (iii) inputs that require the entity to use its own assumptions about market participant assumptions ("Level 3").

The following tables present information about financial assets and liabilities carried at fair value on a recurring basis:

Fair value measurements
As of December