TWENTY-FIRST CENTURY FOX, INC.
Form 10-Q
February 08, 2018

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, 2017
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 growth 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	(Do not check if a smaller reporting company)	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 2, 2018, 1,054,008,837 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		For the six months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Revenues	$ 8,037	$ 7,682	$ 15,039	$ 14,188
Operating expenses	(5,760)	(4,912)	(10,141)	(8,827)
Selling, general and administrative	(864)	(792)	(1,712)	(1,607)
Depreciation and amortization	(142)	(135)	(284)	(270)
Impairment and restructuring charges	(3)	(39)	(24)	(176)
Equity (losses) earnings of affiliates	(33)	(41)	27	(6)
Interest expense, net	(312)	(299)	(625)	(599)
Interest income	9	9	19	18
Other, net	(229)	(88)	(301)	(99)
Income from continuing operations before income tax benefit (expense)	703	1,385	1,998	2,622
Income tax benefit (expense)	1,218	(448)	827	(791)
Income from continuing operations	1,921	937	2,825	1,831
(Loss) income from discontinued operations, net of tax	(5)	(1)	11	(7)
Net income	1,916	936	2,836	1,824
Less: Net income attributable to noncontrolling interests	(85)	(80)	(150)	(147)
Net income attributable to Twenty-First Century Fox, Inc. stockholders	$ 1,831	$ 856	$ 2,686	$ 1,677
EARNINGS PER SHARE DATA				
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders - basic and diluted	$ 1,836	$ 857	$ 2,675	$ 1,684
Weighted average shares				
Basic	1,853	1,853	1,852	1,857
Diluted	1,855	1,854	1,854	1,858
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders per share - basic and diluted	$ 0.99	$ 0.46	$ 1.44	$ 0.91
Net income attributable to Twenty-First Century Fox, Inc. stockholders per share - basic and diluted	$ 0.99	$ 0.46	$ 1.45	$ 0.90

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,	
	2017	2016	2017	2016
Net income	$ 1,916	$ 936	$ 2,836	$ 1,824
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	38	(153)	79	(151)
Cash flow hedges	(1)	5	(1)	13
Unrealized holding gains on securities	97	-	179	-
Benefit plan adjustments	61	34	67	43
Equity method investments	36	(104)	58	(163)
Other comprehensive income (loss), net of tax	231	(218)	382	(258)
Comprehensive income	2,147	718	3,218	1,566
Less: Net income attributable to noncontrolling interests[(a)]	(85)	(80)	(150)	(147)
Less: Other comprehensive (income) loss attributable to noncontrolling interests	(4)	21	(13)	20
Comprehensive income attributable to Twenty-First Century Fox, Inc. stockholders	$ 2,058	$ 659	$ 3,055	$ 1,439

[(a)] Net income attributable to noncontrolling interests includes $48 million and $43 million for the three months ended December 31, 2017 and 2016, respectively, and $77 million and $70 million for the six months ended December 31, 2017 and 2016, 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, 2017 (unaudited)	As of June 30, 2017 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,809	$ 6,163
Receivables, net	7,554	6,477
Inventories, net	3,132	3,101
Other	907	545
Total current assets	17,402	16,286
Non-current assets		
Receivables, net	732	543
Investments	4,364	3,902
Inventories, net	8,034	7,452
Property, plant and equipment, net	1,840	1,781
Intangible assets, net	6,228	6,574
Goodwill	12,789	12,792
Other non-current assets	1,469	1,394
Total assets	$ 52,858	$ 50,724
LIABILITIES AND EQUITY		
Current liabilities		
Borrowings	$ 631	$ 457
Accounts payable, accrued expenses and other current liabilities	3,692	3,451
Participations, residuals and royalties payable	1,753	1,657
Program rights payable	1,260	1,093
Deferred revenue	719	580
Total current liabilities	8,055	7,238
Non-current liabilities		
Borrowings	19,163	19,456
Other liabilities	3,675	3,616
Deferred income taxes	1,622	2,782

Redeemable noncontrolling interests	712	694
Commitments and contingencies		
Equity		
Class A common stock[(a)]	11	11
Class B common stock[(b)]	8	8
Additional paid-in capital	12,392	12,406
Retained earnings	7,627	5,315
Accumulated other comprehensive loss	(1,649)	(2,018)
Total Twenty-First Century Fox, Inc. stockholders' equity	18,389	15,722
Noncontrolling interests	1,242	1,216
Total equity	19,631	16,938
Total liabilities and equity	$ 52,858	$ 50,724

(a) Class A common stock, $0.01 par value per share, 6,000,000,000 shares authorized, 1,054,008,837 shares and 1,052,536,963 shares issued and outstanding, net of 123,687,371 treasury shares at par as of December 31, 2017 and June 30, 2017, 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, 2017 and June 30, 2017.

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, 2017	2016
OPERATING ACTIVITIES		
Net income	$ 2,836	$ 1,824
Less: Income (loss) from discontinued operations, net of tax	11	(7)
Income from continuing operations	2,825	1,831
Adjustments to reconcile income from continuing operations to cash provided by operating activities		
Depreciation and amortization	284	270
Amortization of cable distribution investments	43	31
Impairment and restructuring charges	24	176
Equity-based compensation	66	62
Equity (earnings) losses of affiliates	(27)	6
Cash distributions received from affiliates	11	184
Other, net	301	99
Deferred income taxes and other taxes	(1,300)	(71)
Change in operating assets and liabilities, net of acquisitions and dispositions		
Receivables	(1,267)	(874)
Inventories net of program rights payable	(417)	(764)
Accounts payable and accrued expenses	388	120
Other changes, net	(427)	162
Net cash provided by operating activities from continuing operations	504	1,232
INVESTING ACTIVITIES		
Property, plant and equipment	(238)	(117)
Investments in equity affiliates	(209)	(7)
Proceeds from dispositions, net	362	-
Other investments	(84)	(126)
Net cash used in investing activities from continuing operations	(169)	(250)
FINANCING ACTIVITIES		
Borrowings	1,282	879
Repayment of borrowings	(1,411)	(546)
Repurchase of shares	-	(619)
Dividends paid and distributions	(512)	(481)
Other financing activities, net	(50)	(53)

Net cash used in financing activities from continuing operations	(691)	(820)
Net decrease in cash and cash equivalents from discontinued operations	(26)	(15)
Net (decrease) increase in cash and cash equivalents	(382)	147
Cash and cash equivalents, beginning of year	6,163	4,424
Exchange movement on cash balances	28	(41)
Cash and cash equivalents, end of period	$ 5,809	$ 4,530

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, 2018.

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, 2017 as filed with the Securities and Exchange Commission (the "SEC") on August 14, 2017 (the "2017 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. 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. Investments in which the Company has no significant influence are designated as available-for-sale investments if readily determinable market values are available. If an investment's fair value is not readily determinable, the Company accounts for its investment at cost.

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 2017 amounts have been reclassified to conform to the fiscal 2018 presentation. Unless indicated otherwise, the information in the notes to the Unaudited Consolidated Financial Statements relates to the Company's continuing operations.

The Company has reclassified certain fiscal 2017 amounts for development and certain other costs from Selling, general and administrative to Operating expenses within the Consolidated Statement of Operations to conform to the fiscal 2018 presentation. These reclassifications did not affect previously reported Revenue, Income from continuing operations before income tax benefit (expense) or Net income in the Consolidated Statement of Operations.

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

Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The amendments in ASU 2016-09 simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. On July 1, 2017, the Company adopted ASU 2016-09. In accordance with ASU 2016-09, the Company will prospectively recognize all excess tax benefits and tax deficiencies in Income tax benefit (expense) in the Statements of Operations. In the statement of cash flows, all excess tax benefits are presented retrospectively in Net cash provided by operating activities from continuing operations. In addition, the Company retrospectively adopted the guidance that requires cash paid by the Company when directly withholding shares for tax withholding purposes to be classified as a financing activity in the statement of cash flows. The adoption of ASU 2016-09 resulted in an increase in Net cash provided by operating activities from continuing operations and a corresponding increase in Net cash used in financing activities from continuing operations in the Statement of Cash Flows for fiscal 2017. The other aspects of ASU 2016-09 did not have a material effect on the Company's consolidated financial statements.

On July 1, 2017, the Company early adopted ASU 2017-07, “Compensation–Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). ASU 2017-07 requires an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 did not have a material effect on the Company’s consolidated financial statements.

Issued

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). The objective of ASU 2017-12 is to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. In addition, ASU 2017-12 simplifies the assessment of hedge effectiveness. ASU 2017-12 is effective for the Company for annual and interim reporting periods beginning July 1, 2019. Early adoption is permitted in an interim period. The Company is currently evaluating the impact ASU 2017-12 will have on its consolidated financial statements.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive 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. Since the Company has a June 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 28% for the Company’s fiscal year ending June 30, 2018, and 21% for subsequent fiscal years. As part of the transition to the new territorial tax system, the Tax Act imposes a one-time transition tax on deemed repatriation of historical earnings of foreign entities.

As of December 31, 2017, the Company has not completed its analysis of the accounting for all the tax effects of the Tax Act. For the three and six months ended December 31, 2017, the Company recorded a provisional income tax benefit of $1.3 billion to adjust its net deferred tax liability position in accordance with the Tax Act. The net deferred tax liability represents future tax obligations. Among the Company’s more significant net deferred tax liabilities are basis differences and amortization, and sports rights contracts. The final amount of the adjustment to the net deferred tax liability could be revised based on changes in interpretations of the Tax Act and any updates or changes to estimates based on additional information the Company obtains or analyzes.

The Company has not recorded a liability for the transition tax to a territorial tax system. The Company is continuing to gather and analyze information to determine the deemed unremitted earnings subject to the transition tax, some of which was not previously needed or not yet accumulated, and the related U.S. tax impacts. The Company will record a transition tax amount when it has received and analyzed the needed information sufficient to make a reasonable estimate.

The SEC has issued guidance that would allow 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. We currently anticipate finalizing and recording any resulting adjustments by the end of the Company’s current fiscal year ending June 30, 2018 and the adjustments could possibly be material.

NOTE 2. ACQUISITIONS, DISPOSALS AND OTHER TRANSACTIONS

Fiscal 2018

Disney Transaction/Distribution of New Fox

In December 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with The Walt Disney Company (“Disney”). Prior to the consummation of the Initial Merger (as hereinafter defined), the Company will transfer a portfolio of the Company’s news, sports and broadcast businesses, including the Fox News Channel, Fox Business Network, FOX Broadcasting Company, Fox Sports, Fox Television Stations Group, FS1, FS2, Fox Deportes and Big Ten Network and certain other assets and liabilities into a newly formed subsidiary (“New Fox”) (the “New Fox Separation”) and the holders of the outstanding shares of the Company’s Class A Common Stock and Class B Common

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Stock will receive, on a pro rata basis, all of the issued and outstanding common stock of New Fox (the “New Fox Distribution”). Prior to the New Fox Distribution, New Fox will incur indebtedness sufficient to fund a dividend in the amount of $8.5 billion to be paid to the Company. The Company will retain all assets and liabilities not transferred to New Fox, including the Twentieth Century Fox Film and Television studios and certain cable and international television businesses, including FX Networks, National Geographic Partners, Fox Sports Regional Networks, Fox Networks Group International and Star India, as well as the Company’s interests in Hulu LLC (“Hulu”), Sky plc (“Sky”), Tata Sky Limited and Endemol Shine Group. Following the New Fox Distribution, TWC Merger Enterprises 2 Corp., a wholly owned subsidiary of Disney (“Merger Sub”) will merge with and into the Company (the “Initial Merger”), with the Company surviving (the “Surviving Corporation”). Immediately after the effective time of the Initial Merger, the Surviving Corporation will merge with and into TWC Merger Enterprises 1, LLC, a wholly owned subsidiary of Disney (“Merger LLC”), with Merger LLC to be the surviving entity (the “Subsequent Merger,” and together with the Initial Merger, the “Mergers”). As a result of the Mergers, the Company will become a wholly owned subsidiary of Disney.

At the effective time of the Initial Merger, subject to the terms and conditions of the Merger Agreement, each issued and outstanding share of Class A Common Stock and Class B Common Stock of the Company will in the absence of any adjustment be exchanged automatically for and thereafter represent 0.2745 shares of common stock, par value $0.01 per share, of Disney, together with cash in lieu of fractional shares of Disney common stock, without interest, upon the terms and conditions of the Merger Agreement. The exchange ratio is subject to a two-way adjustment based on an estimate at closing of certain tax liabilities arising from the New Fox Distribution and certain other transactions contemplated by the Merger Agreement. In the event that the final estimate of the tax liabilities is lower than the estimate used to set the exchange ratio, the first $2 billion of that adjustment will be made by a net reduction in the amount of the cash dividend to the Company from New Fox. The foregoing proposed transactions are collectively referred to in this report as the “Disney Transaction”.

To provide New Fox with financing in connection with the New Fox Distribution, 21st Century Fox America, Inc. (“21CFA”), a wholly-owned subsidiary of the Company, entered into a commitment letter on behalf of New Fox with the financial institutions party thereto (the “Bridge Commitment Letter”) which provides for borrowings of up to $9 billion. Given the current debt ratings, 21CFA pays a commitment fee of 0.1%. While the Company has entered into the Bridge Commitment Letter, New Fox intends to finance the New Fox Distribution by obtaining permanent financing in the capital markets.

Under the terms of the Merger Agreement, Disney will pay the Company $2.5 billion if the merger is 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. If the Merger Agreement is terminated under certain other circumstances relating to changes in board recommendations and/or alternative transactions, the Company or Disney may be required to pay the other party approximately $1.5 billion.

In connection with the Disney Transaction, the Company has made certain representations, warranties and covenants, including, among other things, customary pre-closing covenants by the Company to conduct its business in the ordinary course consistent with past practice and refraining from taking certain actions without Disney consent. The consummation of the Disney Transaction is subject to various conditions, including among others, (i) customary conditions relating to the adoption of the Merger Agreement by the requisite vote of the Company’s stockholders and the approval of the stock issuance by the requisite vote of Disney stockholders, (ii) the consummation of the New Fox

Separation, (iii) the receipt of a tax ruling from the Australian Taxation Office and certain tax opinions with respect to the treatment of the transaction under U.S. and Australian tax laws, and (iv) the receipt of certain regulatory approvals and governmental consents. The Mergers and New Fox Separation are expected to be completed in approximately 12 to 18 months from December 13, 2017.

Fiscal 2017

Sky Acquisition

In December 2016, the Company announced it reached agreement with Sky, in which the Company currently has 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 does not already own, at a price of £10.75 per Sky share (approximately $16 billion in the aggregate) (the "Sky Acquisition"). The independent committee of Sky's Board of Directors announced that it intends to unanimously recommend that unaffiliated Sky shareholders vote in favor of the Sky Acquisition. The Sky

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Acquisition remains subject to certain customary closing conditions, including approval by the UK Secretary of State for Digital, Culture, Media and Sport and the requisite approval of Sky shareholders unaffiliated with the Company. The Sky Acquisition has received unconditional clearance by all competent competition authorities including the European Commission, and has been cleared on public interest and plurality grounds in all of the markets in which Sky operates outside of the UK, including Austria, Germany, Italy and the Republic of Ireland. The Company anticipates regulatory approval of the transaction by June 30, 2018.

Also in December 2016, the Company entered into a co-operation agreement with Sky (the “Co-Operation Agreement”) pursuant to which the Company and Sky agreed to take certain steps to facilitate completion of the Sky Acquisition. The Co-Operation Agreement provides for a £200 million (approximately $270 million) break fee payable by the Company in the event that regulatory approvals are not obtained prior to August 15, 2018, or in certain other circumstances described in the Co-Operation Agreement.

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”). The Bridge Credit Agreement provides for borrowings of up to £12.2 billion (approximately $16 billion). Fees under the Bridge Credit Agreement are based on the Company’s long-term senior unsecured non-credit enhanced debt ratings. Given the current debt ratings, 21CFA pays a commitment fee on undrawn funds of 0.1% and the initial interest rate on advances will be London Interbank Offered Rate (“LIBOR”) plus 1.125% with subsequent increases every 90 days up to LIBOR plus 1.875%. 21CFA has also agreed to pay a duration fee on each of the 90th, 180th and 270th day after the funding of the loans in an amount equal to 0.50%, 0.75%, and 1.00%, respectively, of the aggregate principal amount of the advances and undrawn commitments outstanding at the time. The terms of the Bridge Credit Agreement also include the requirement that 21CFA maintain a certain leverage ratio and limitations with respect to secured indebtedness. While the Company has entered into the Bridge Credit Agreement, the Company intends to finance the Sky Acquisition by using a significant portion of the available cash on its balance sheet and obtaining permanent financing in the capital markets. The Company purchased a foreign currency exchange option in February 2017, which was subsequently modified in September 2017, 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 11 – Additional Financial Information under the heading “Other, net” for additional information).

The Company believes the Sky Acquisition will result in enhanced capabilities of the combined company, underpinned by a more geographically diverse and stable revenue base, and an improved balance between subscription, affiliate fee, advertising and content revenues.

Other

In February 2017, the Company announced that it anticipated receiving approximately $350 million in proceeds resulting from the Federal Communications Commission’s (the “FCC”) reverse auction for broadcast spectrum. Consequently, the Company will relinquish spectrum used by its television stations affiliated with both The CW Television Network and Master Distribution Service, Inc. (“MyNetworkTV”) in Chicago, IL and MyNetworkTV in the Washington, DC and Charlotte, NC designated market areas, in which the Company operates duopolies. These stations will continue broadcasting using the spectrum of the existing FOX Broadcasting Company (“FOX”) owned and operated station in that market. The proceeds were received in July 2017 and the Company recorded a deferred gain on this transaction which will be recognized upon relinquishing the spectrum to the FCC.

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TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. INVENTORIES, NET

The Company's inventories were comprised of the following:

	As of December 31, 2017	As of June 30, 2017
	(in millions)	
Programming rights		
Sports programming rights	$3,444	$3,201
Entertainment programming rights	3,264	3,232
Filmed entertainment costs		
Films		
Released, less accumulated amortization	1,356	1,112
Completed, not released	106	398
In production	1,409	1,094
In development or preproduction	191	295
	- 3,062	2,899
Television productions		