20th Century-Fox

1970

Annual Report

20th Century-Fox 1970 Annual Report

Contents

Financial Highlights

	1970	1969
	(000 Omitted)	
Operations:		
Gross revenue	$202,146	$139,164
Net loss	(77,355)	(25,249)*
Net loss per share	(9.03)	(3.07)*
Cash dividends paid per share	–	.50
Year End Positions:		
Cash	$ 23,192	$ 18,099
Inventory	106,528	241,210
Working capital	65,236	231,563
Fixed assets	29,225	30,619
Bank and insurance company borrowings	79,105	124,598
Stockholders' equity	57,018	134,373
Book value per share	6.66	15.69

**Includes extraordinary gains, net of applicable income tax, totaling $11,555,000 or $1.41 per share.*

Chairman's Message

Losses for the year 1970 amounted to $77,355,000 compared with $25,249,000 in losses in 1969 after extraordinary gains of $11,555,000.

Though 1970 was a year of record revenues, reductions in the theatrical inventory value of certain feature films and an unexpectedly severe deterioration of the television market requiring radical downward adjustments of feature film television residual book values resulted in heavy book losses to the company.

As a consequence, we entered 1971 with the value of all films including those currently in release carried on the books at a realistic estimate of their actual market value.

For reasons set forth below, I am pleased to report that the corporate earnings turnaround we have been working toward and expecting will, it appears, commence in the first quarter of 1971.

A year ago, we embarked upon a vigorous program to cut production and operating costs and to reorganize company operations to conform with contemporary market conditions and competitive business requirements. Subsequently, we concluded that these steps were not adequate to meet the urgent challenge of the times; and we retained the services of the renowned business consultants and organization scientists, Stanford Research Institute. With their assistance we re-examined and analyzed every aspect of the company's business with the single objective of attaining maximum results at minimum cost.

I am pleased to report that substantial savings have been made. Reductions in operating costs at an estimated annual rate of $20,000,000 have been effected, almost double the initial projection. A more detailed review of the results of the SRI study appears later in this annual report.

We have just completed a record-breaking year in terms of revenue derived from the distribution of our feature motion pictures. Our income from this source was $155,687,000 compared with $84,759,000 in 1969. Among the films that contributed most to our 1970 box-office results were *Tora! Tora! Tora!, Patton, M*A*S*H, Butch Cassidy and the Sundance Kid, Beyond the Valley of the Dolls* and *Beneath the Planet of the Apes.* The unprecedented cash flow from these films in 1970 enabled us to reduce our corporate borrowings by $45,493,000 during that year and to completely finance our film production program. During the first quarter of 1971, we reduced our corporate indebtedness by an additional $12,068,000 for an aggregate reduction of $57,561,000.

The Motion Picture Academy of Arts and Sciences once again has honored our company with more Oscar nominations than any other company. We were accorded 22 nominations including "Best Picture" for both *Patton* and *M*A*S*H.*

For release in 1971 we have a group of outstanding motion pictures, films which your management is proud to present to the public. During the month of February we screened many of these films for our exhibitor customers and I am happy to report that they were enthusiastically received and will be shown in many of the finest theatres throughout the world. A more detailed description of these films appears later in this report. Of equal importance, we are planning to produce this year a minimum of 17 pictures for 1972 release. This schedule will continue our new production policy of diversified, hand-tailored, high quality films produced at budgets in keeping with the demands of today's marketplace.

In the area of subsidiary operation, KMSP-TV in Minneapolis, our wholly-owned ABC-TV affiliate station, had the most profitable year in its history. Wylde Films, producer of television commercials, continued to enjoy highly profitable operations for the year. Our music publishing operations; DeLuxe General, our film processing laboratories, and our theatre subsidiaries in Australia and New Zealand also had a profitable year.

A further step in the real estate program initiated 18 months ago took place in March, 1971, with the formation of the Twentieth Century-Fox Realty and Development Company, headed by Lewis N. Wolff, one of the nation's outstanding realty developers and planners. The primary purpose of this new division is not to liquidate assets, but to exploit the profitability of our holdings through joint ventures. These ventures must meet the criteria of providing increased cash flow on a long-term basis and allowing for participation in value appreciation with limited corporate expense and risk exposure.

Late in December the Board of Directors accepted the resignations of Richard D. Zanuck, President, and David Brown, Executive Vice President, Creative Operations. At the same time, Dennis C. Stanfill, Executive Vice President—Finance, was named Executive Vice President, Finance and Operations Control, and given responsibility for coordinating the corporation's continuing cost effectiveness program. Elmo Williams, a man of uncommon talents and film-making experience, was put in charge of production.

During the first quarter of this year, Mr. Stanfill was elected to the post of President and Chief Operating Officer; Harry J. McIntyre, Senior Vice President, Administration, was elected Vice Chairman of the Board and General Administrative Officer, and Mr. Williams was elected Vice President, World-wide Production. William T. Gossett, a member of the Board of Directors, was elected Chairman of the Executive Committee. Four distinguished men were added to the Board of Directors—Donald N. Frey, Chairman of the Board and Chief Executive Officer of the Bell & Howell Company; John Harold Johnson, Publisher and Editor of Ebony, Jet and other magazines, and a former Ambassador under Presidents Kennedy and Johnson; Malcolm A. MacIntyre, President, Chemical Division, Martin Marietta Corp., and a Trustee of the Carnegie Corporation, and John T. Pollock, President and Chief Executive Officer of the Thatcher Glass Manufacturing Co., a division of Dart Industries.

We believe that our current Board, consisting of leaders in finance, communications and industry, is the most distinguished we have ever had. The rest of our non-employee members are:

John P. Edmondson, Consultant and former Executive Vice President of E.P. Dutton & Co., Inc. (a New York book publisher)

Frederick L. Ehrman, Chairman of the Board of Lehman Brothers Incorporated (investment bankers)

William T. Gossett, Senior Partner of Dykema, Gossett, Spencer, Goodnow & Trigg; Past President, American Bar Association, and former Director, Vice President and General Counsel, Ford Motor Company

William R. Hearst, Jr., Editor-In-Chief of the Hearst Newspapers and Chairman of the Board of Hearst Corporation (newspaper and magazine publishers)

William C. Keefe, Vice Chairman of Panhandle Eastern Pipe Line Company (producer and transmitter of natural gas)

Kevin C. McCann, President Emeritus of the Defiance College

Jerome A. Straka, Consultant, former President and Chairman of the Board of Chesebrough-Pond's Inc. (manufacturer and distributor of cosmetics).

During this past year we have made some crucial, if agonizing, decisions. I can assure you that the Twentieth Century-Fox organization is united by a single objective: making our company profitable again and keeping it that way. I am proud to head this organization, composed as it is of a team of professionals second to none in the film industry.

I want to thank you, the shareholders, for your continuing patience and loyalty through difficult times. All indications are that we are over the worst of the readjustment. I am pleased to state that on the basis of preliminary figures at hand, the first quarter will definitely see us return to profitability. It is my expectation that this progress will continue through the year.

Darryl F. Zanuck
Chairman and Chief Executive Officer

Dennis Stanfill, our newly-elected President, brings to this position three qualities that will further assist the company in maintaining its leadership of the industry. These are: youth, great experience and skill in the area of finance and cost control and the executive know-how that he has shown in supervising the restructuring of company operations in line with the recommendations of the Stanford Research Institute. In his capacity as President, I look to him to help control production costs geared to today's market values.

Darryl F. Zanuck, March 18, 1971

Mr. Stanfill joined the company on October 30, 1969, when he was elected Executive Vice President—Finance, and also to membership on the Board of Directors and the Executive Committee. He came from the Times Mirror Company, Los Angeles, where he held the position of Vice President, Finance, and Treasurer for the company. He was a corporate finance specialist at Lehman Bros. for six years, resigning in March of 1965 to join the Times Mirror Company.

Reorganization—A Total Approach

The key word around which the entire reorganization of the corporation has been structured is "PROFITABILITY." Every phase of operation has been carefully shaped and honed to make it a profit center, standing on its own feet and accountable to management for its successful performance.

With the assistance of Stanford Research Institute and under the executive direction of Dennis C. Stanfill, the most advanced management techniques have been introduced into every aspect of the company's operations. Departmental consolidation has been instituted wherever there is overlap of function, and each department has been placed under a strict profit budget system, reviewed monthly, to improve cost control and profitability forecasts. As was reported in the Chairman's Message, savings to date from all changes are at a rate of $20,000,000 annually. It should be borne in mind that the major impact of the reorganization initiated in 1970 will be felt during 1971 and in subsequent years. What follows is a summary of outstanding developments in the various departments of our company over the past year which pave the way for improved profitability for the remainder of the Seventies:

Production

Major changes were made at the Studio in the past year resulting in sizeable reductions in annual operation costs as well as in production costs of both feature motion pictures and television films. This was accomplished through consolidation of departments which in the past had served both television and theatrical productions, through the elimination of a number of permanent departments whose services could better be retained on a per-picture basis and through the introduction of streamlined production techniques. The appointment of veteran producer Elmo Williams as Studio head late in the year and his subsequent election as Vice President, World-wide Production, provides strong new direction in this department and promises substantial further improvements in production operations this year.

Williams is utilizing his production know-how to shorten the post-production time on films. This effort, together with tightening of shooting schedules on the films themselves, is reducing the time elapsing between the purchase of a property and its debut on the screen. Thus, Williams is lessening the chances that a film will be out of date before it reaches the public, a serious contemporary problem for the film industry. This effort also allows for a reduction in interest carrying charges on film investments. Further savings will result from the production organization's operating in closer contact with marketing and the financial departments of the company.

In 1970 Fox Television expanded the development of original programming for the syndication market. With the increase in time allotted by the Federal Communications Commission during evening hours to local stations, your company is in good position to expand sales to those stations—particularly of tape productions.

Experts in the areas of tape production and market analysis have been added to the television production staff and a strong program has been launched to increase sales of television programming overseas.

Domestic Marketing

Cash flow from domestic film rentals in 1970 was the highest in your company's history. This is attributable to both the excellence of Fox's current films and the expertise of the marketing organization, which carefully promoted and guided the new releases through exhibition schedules designed to get the maximum return possible from screenings in the United States and Canada. It is a further tribute to the skills of your company's present marketing team that the record film grosses came during a year in which promotion and advertising budgets were trimmed substantially and the distribution organization was streamlined. By reducing overhead, the marketing organization made a very real contribution to our cost-effectiveness program. However, the organization did far more than this, devising a new method of showcasing films which lowered advertising costs considerably and produced a substantial overall saving on film print costs. The new distribution methods make it less costly to publicize a box office hit and minimize the investment on pictures that are less successful.

Overseas Marketing

Fox today operates what it believes is the best overseas film distribution organization in the industry. It maintains offices within most of the free countries of the world. The revenue generated from the overseas arm of the company in 1970 was the second highest in our history. While overhead was cut during 1970 through the elimination of certain offices and personnel, the basic economy of our overseas distribution operations was attained through adding substantially to the number of non-Fox films that the organization handled.

It is a tribute to the high regard in which our distribution organization is held that in many territories we distribute the films of such distinguished producers as ABC Films (subsidiary of the American Broadcasting Company); Cinema Center Films (division of Columbia Broadcasting System); Avco-Embassy Films, Buena Vista and Cinerama. The addition of this product not only reduces the overhead attributable to Fox product, but places in the hands of our international managers a greatly strengthened line-up of product for their local markets.

Financial Department

Significant steps were taken in the financial area during 1970 which will have a profound effect on the future operations of your company.

A new corporate budget program and management information system was established which will enable management promptly to review each month's operations and immediately pin-point problem areas.

An Internal Audit Department was set up to review regularly various aspects of the company's world-wide operations to insure both efficiency and adherence to company policies and directives.

A new position, that of Corporate Director of Electronic Data Processing and Systems, was created. The responsibilities will include coordinating and simplifying the world-wide flow of management information and the utilization of the most modern and sophisticated E.D.P. equipment to provide management with timely information vital to the planning and control of our operations.

The Outlook

The changes and improvements in operations introduced by management in 1970 amount to a major reorganization of your company. Improvements will continue to be made in 1971 but the major planning phase of the reorganization program is now complete. On the basis of the progress made to date, management is confident that the implementation of the present program will assure a return to profitability in 1971.

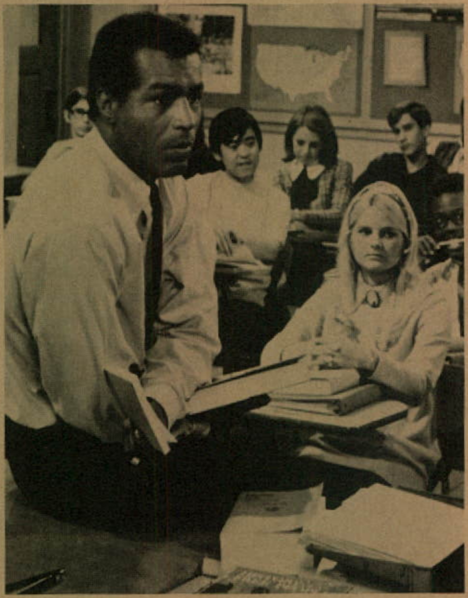
Television

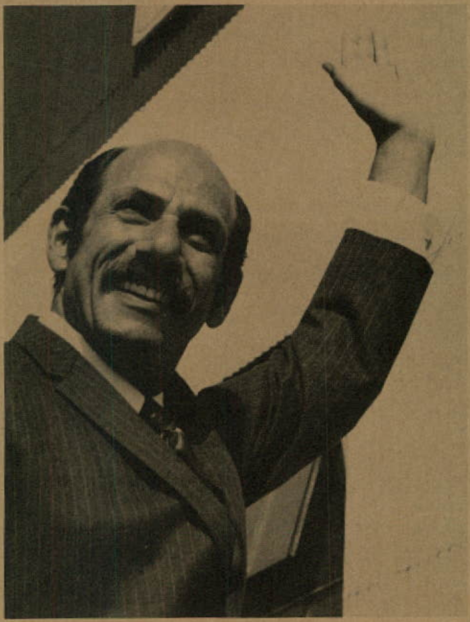
1970 was a year of growth and challenge in the television industry. Throughout the year, we were represented on national television with series on all three networks. These were: *Bracken's World, Julia* and *Doctor Dolittle* on NBC; *Arnie* and *Lancer* on CBS; *Room 222, Nanny and the Professor, The Ghost & Mrs. Muir, The Hardy Boys* and *Double Deckers* on ABC.

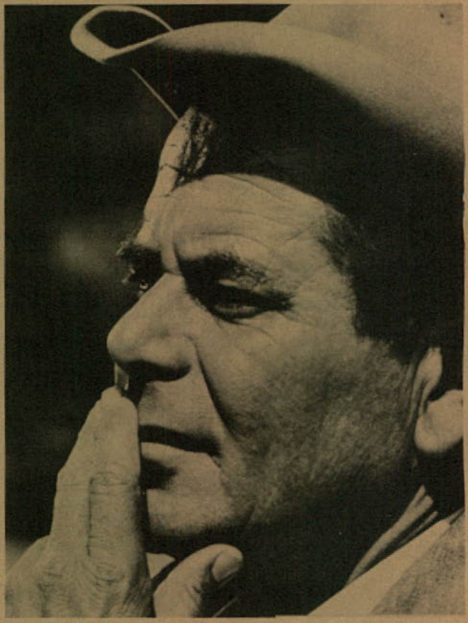
We are particularly proud to note that Hope Lange, star of *The Ghost & Mrs. Muir*, was awarded an Emmy as Best Actress in a Comedy Series for the second consecutive year. *Tribes*, a film made especially for TV, received such widespread viewer and critical acclaim that a decision was made to market the movie for theatrical audiences. A series starring Glenn Ford has already been sold to CBS-TV for the 1971-72 season.

The live/tape production division set up in New York to create programs designed for local exposure is producing *Beat the Clock* and *Famous Jury Trials* in addition to a number of entertainment specials. As in the past, we are supplying an outstanding selection of off-network product for local use. Included are such shows as *Daniel Boone, Lost in Space, Judd for the Defense, Land of the Giants* and *Batman*.

For the international market, as a major exporter of TV programs, we are continuing to offer a library of diversified programming which has met with great enthusiasm. Thus, during the past year, your company's forward-looking policies assured it of a commanding position as a supplier of television programming on all levels: national, local and international.







Twentieth Century-Fox Television will be represented by four network shows covering 2½ hours of prime time for the upcoming 1971-72 season: *Nanny and the Professor*, ABC-TV; *Room 222*, ABC-TV; *Arnie*, CBS-TV; and a new show, *Cade's County*, CBS-TV, starring Glenn Ford.

Product and Marketing

Our 1970 schedule of releases, which included the two highest-grossing non-roadshow films in Fox history—*M*A*S*H* and *Butch Cassidy and the Sundance Kid*—will continue to contribute significantly to world-wide film rentals in 1971.

The 22 Oscar nominations—10 to *Patton*, 5 each to *Tora! Tora! Tora!* and *M*A*S*H* and two to *The Great White Hope*—have given these films new life. In addition, nine Stellas, the British equivalent of the Oscars, were accorded Fox product—eight to *Butch Cassidy* and one to *M*A*S*H*—which will add significantly to the foreign grosses as well.

Our 1971 releases have gotten off to an excellent start. *Little Murders*, our first release, was accorded almost unanimous raves which resulted in excellent business. *Vanishing Point*, our second release, has also made an auspicious beginning. Also scheduled for release in the first half of 1971 are *B.S. I Love You*, a farcical look at the advertising business; *The Mephisto Waltz*, a tale of horror based on the best-selling novel and starring Alan Alda, Jacqueline Bisset, Barbara Parkins and Curt Jurgens; *Making It*, a comedy-drama about high school youth which marks the impressive film starring debut of Kristoffer Tabori; *Walkabout*, a unique drama filmed in Australia which depicts a facet of life virtually unknown to the rest of the world, and *Celebration at Big Sur*, the filmed record of an unusual rock festival held in California with such stars of the music world as Joan Baez, John Sebastian and Crosby, Stills, Nash & Young.

Highlighting our summer releases will be *Escape from the Planet of the Apes*, the third in our highly successful simian trilogy; *The Panic in Needle Park*, a poignant and heart-breaking love story set in today's drug-oriented society; *The Seven Minutes*, Russ Meyer's production of Irving Wallace's best-selling novel, and *Five Days Home*, a terrifying study of some disoriented veterans of the Vietnam War.

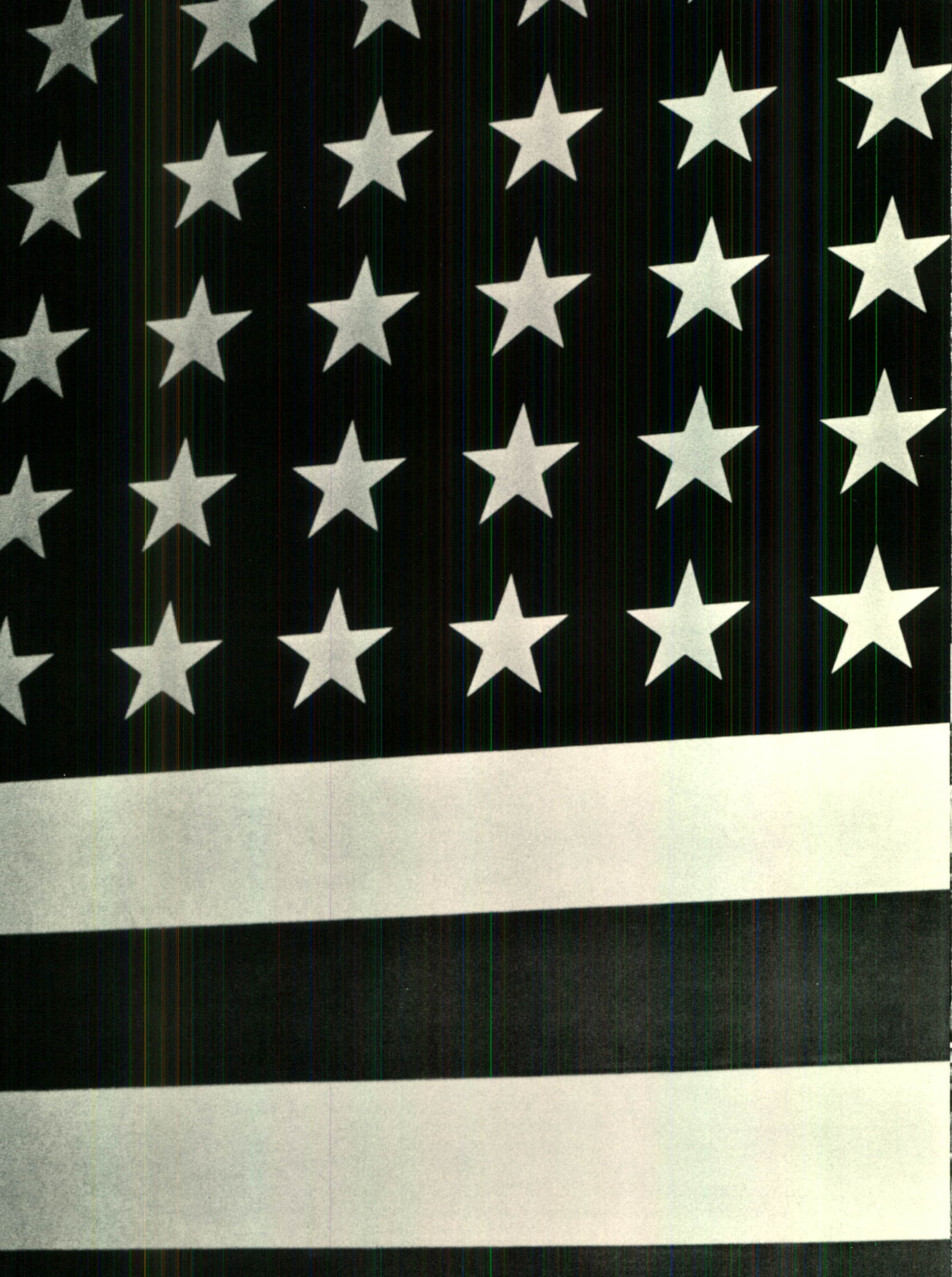
Among the productions slated for release during the rest of the year are *The Adventures of a Young Stockbroker*, a tragi-comedy of modern marriage and morals starring Richard Benjamin and Joanna Shimkus with Lawrence Turman producing and directing; *The French Connection*, a true chase-thriller filmed in New York and France and directed by William Friedkin, director of "Boys in the Band," and *All the Right Noises*, an unusual tale of an April-September romance.

We employed an innovative marketing device to launch our early 1971 product—a series of "See It For Yourself" screenings for leading domestic and European exhibitors at the beginning of the year. The exhibitors were shown four completed films and edited footage from eight others. Our faith in these films was reinforced by the trade's enthusiastic reception and, more importantly, by the fact that the films shown were quickly scheduled by the attending exhibitors for presentation in top theatres throughout the world.

As mentioned elsewhere in the report, Elmo Williams took over the studio reins as production chief at the start of the New Year. At that time he stated: "We intend to maintain the Fox organization in Hollywood as a valuable source of motion picture and television production and 20th Century-Fox Film Corporation as a major factor in the motion picture industry." The productions he has already activated underline this statement.

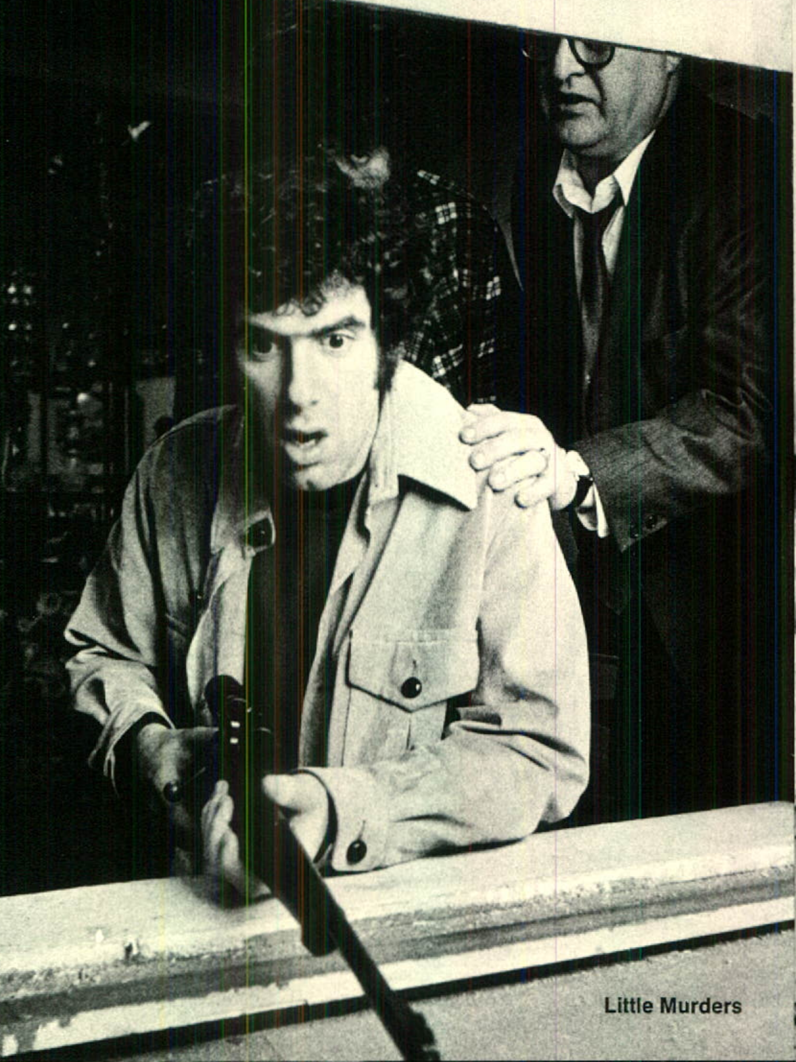
The future productions will include a careful mix of all the entertainment elements—comedy, drama and western—designed to give our sales force a balanced program of films to sell in all areas of the world. It is the intention of your company to produce between 17 and 20 feature films per year in the future.

M*A*S*H

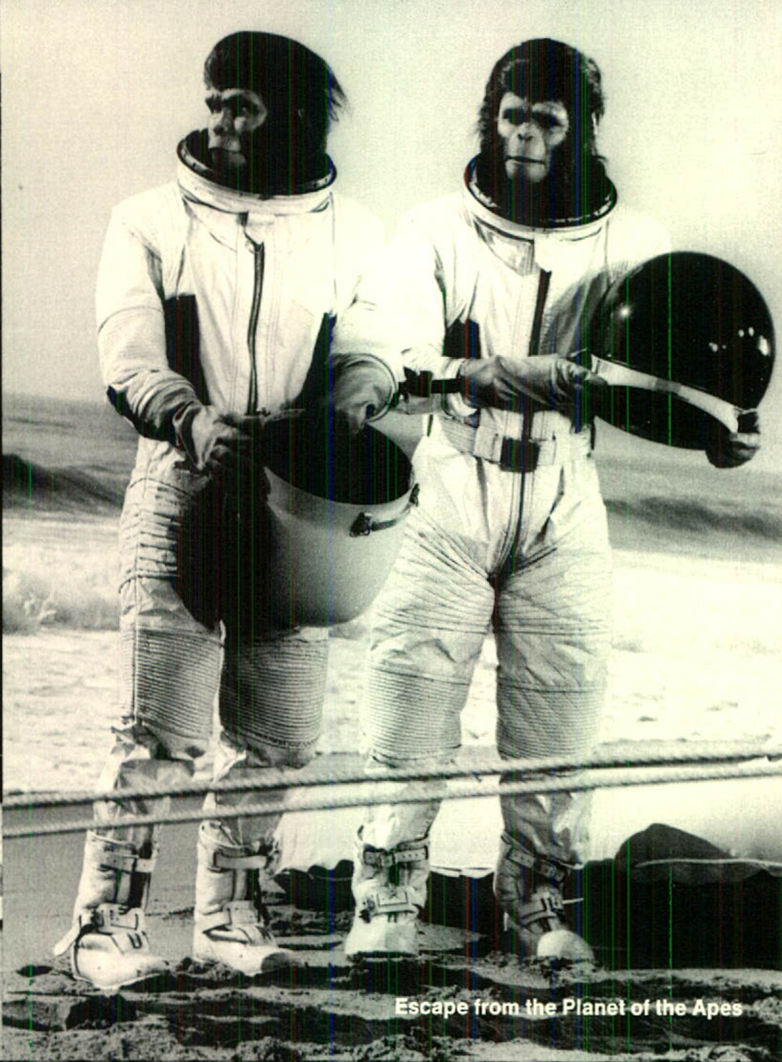


Patton

Tora! Tora! Tora!



Little Murders



Escape from the Planet of the Apes

Vanishing Point

The Seven Minutes


The Mephisto Waltz


The Adventures of a Young Stockbroker


Making It


Walkabout

The Panic in Needle Park


B.S. I Love You


The French Connection

Consolidated Operations

Year ended December 26, 1970 (with comparative figures for the preceding year)

	1970	1969
Income:		
Film rentals:		
Feature films:		
Theatrical	$155,686,847	$ 84,759,272
Television (note 1-c)	3,608,796	637,853
	159,295,643	85,397,125
Film series produced specifically for television	35,698,029	44,073,489
	194,993,672	129,470,614
Net income from all other sources	7,152,357	9,693,814
	202,146,029	139,164,428
Expenses:		
Amortization of film costs including advertising, participations and other direct costs (note 2)	243,432,925	168,611,382
Selling, general and administrative expenses	31,397,400	29,324,447
Provision for unremittable foreign income—net (note 1-b)	228,400	263,000
Interest expense (note 2-a)	8,113,344	6,222,879
	283,172,069	204,421,708
Loss before taxes on income and extraordinary items	(81,026,040)	(65,257,280)
Taxes on income:		
Federal (credit) (note 5)	(7,000,000)	(30,900,000)
Foreign	3,329,050	2,446,968
	(3,670,950)	(28,453,032)
Loss before extraordinary items	(77,355,090)	(36,804,248)
Extraordinary items—net of applicable income tax	—	11,555,300
Net loss	$ (77,355,090)	$ (25,248,948)
Net loss per share (note 8):		
Before extraordinary items	$ (9.03)	$ (4.48)
Extraordinary items	—	1.41
Net loss	$ (9.03)	$ (3.07)

See accompanying notes to financial statements.

Twentieth Century-Fox Film Corporation and subsidiary companies

Consolidated Balance Sheet

December 26, 1970 with comparative figures at December 27, 1969

Assets

	1970	1969
Current assets:		
Cash	$ 23,191,523	$ 18,098,601
Notes, accounts and other receivables, less provision for allowances and doubtful accounts of $3,726,000 ($1,692,000 in 1969)	49,544,565	37,225,240
Inventories:		
Feature film productions, at cost (note 2):		
Released, less amortization	69,219,163	110,058,349
Completed, not released	7,174,775	36,199,656
In process	8,153,058	53,072,863
Stories and scenarios, at cost	483,665	5,748,422
Television series, at cost, less amortization (note 2)	17,234,906	30,879,927
Other	4,262,531	5,250,698
	106,528,098	241,209,915
Prepaid expenses	1,453,991	2,519,326
Total current assets	180,718,177	299,053,082
Notes and accounts receivable, due after one year:		
Receivable from television exhibition agreements (note 1-c)	2,279,500	15,317,500
Other	1,249,072	696,944
	3,528,572	16,014,444
Investments and advances, at cost or less:		
Foreign theatre circuits (note 3)	1,765,987	1,765,987
Other companies	2,032,444	2,044,777
	3,798,431	3,810,764
Land, buildings, equipment and leasehold improvements, at cost (note 4)	57,914,851	57,857,435
Less accumulated depreciation and amortization	28,690,204	27,238,905
	29,224,647	30,618,530
Music copyrights, at cost, less amortization of $957,892 ($691,600 in 1969)	3,244,608	3,510,900
Television station license and contracts, at cost, less amortization of $1,093,826 ($981,639 in 1969)	1,860,856	1,973,043
Excess of cost over value of net assets acquired (note 1-d)	5,700,000	5,100,000
Deferred charges and other assets (note 6-c)	4,712,369	4,399,893
	$232,787,660	$364,480,656

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity

	1970	1969
Current liabilities:		
Notes payable to banks	$ –	$ 12,500,000
Current maturities of long-term debt (note 6)	62,615,559	175,000
Current maturities of contractual obligations	6,445,444	7,743,627
Participants' shares payable	7,697,700	3,833,159
Accounts payable and accruals	25,424,429	23,461,188
Accrued domestic and foreign taxes (note 5)	7,363,351	9,832,228
Advance film rentals	3,600,887	7,838,108
Provision for unremittable foreign income (note 1-b)	2,335,000	2,106,600
Total current liabilities	115,482,370	67,489,910
Long-term debt (not including convertible debentures), less current maturities (note 6)	16,490,000	111,923,024
Contractual obligations, due after one year	14,387,297	18,609,639
Deferred taxes on income (note 5)	–	2,675,000
Convertible debentures (note 7)	29,410,000	29,410,000
Contingent liabilities, commitments and leases (notes 1, 9 and 10).		
Stockholders' equity (notes 6 and 7):		
Preferred stock, without par value. Authorized and unissued 2,000,000 shares	–	–
Common stock of $1 par value per share: Authorized–15,000,000 shares. Issued–8,561,815 shares	8,561,815	8,561,815
Paid-in surplus	82,240,186	82,240,186
Retained earnings (deficit)	(33,784,008)	43,571,082
Total stockholders' equity	57,017,993	134,373,083
	$232,787,660	$364,480,656

Source and Disposition of Funds

Year ended December 26, 1970 (with comparative figures for the preceding year)

	1970		1969	
Source of Funds:				
Decrease in long-term receivables	$ 12,486,000		$ 9,765,000	
Gain on sale of African theatre circuit	–		7,563,000	
Increase in long-term debt	–		74,672,000	
Net decrease in investments and other assets	–		3,179,000	
		$ 12,486,000		$ 95,179,000
Disposition of Funds:				
Loss before extraordinary items	77,355,000		36,804,000	
Less depreciation and amortization of non-current assets	3,004,000		3,047,000	
	74,351,000		33,757,000	
Repayment of long-term debt	32,818,000		–	
Current maturities of long-term debt	62,615,000		–	
Decrease in other long-term liabilities	6,898,000		483,000	
Additions to property and equipment—net	1,232,000		4,223,000	
Excess of cost over value of net assets acquired	600,000		5,100,000	
Dividends paid	–		4,107,000	
Net increase in investments and other assets	299,000		–	
		178,813,000		47,670,000
Increase (decrease) in working capital		$(166,327,000)		$ 47,509,000

Accountants' Report

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
345 Park Avenue
New York, New York 10022

The Board of Directors and Stockholders of Twentieth Century-Fox Film Corporation:

We have examined the consolidated balance sheet of Twentieth Century-Fox Film Corporation and subsidiary companies as of December 26, 1970 and the related statements of operations, paid-in surplus, retained earnings (deficit) and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As indicated in Note 6 of notes to financial statements, the company has not complied with certain financial covenants required by its loan agreements, which events constitute defaults. The lenders have granted a succession of written and oral waivers of these defaults. If further waivers are not granted or the company does not otherwise obtain satisfactory loan refinancings or extensions, all debt covered by the loan agreements and indenture will become payable on demand.

In our opinion, subject to the company's obtaining further waivers of the events of default or otherwise obtaining satisfactory loan refinancings or extensions as described in the preceding paragraph, such financial statements present fairly the financial position of Twentieth Century-Fox Film Corporation and subsidiary companies at December 26, 1970 and the results of their operations and source and disposition of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 18, 1971

Peat, Marwick, Mitchell & Co.

Consolidated Paid-in Surplus and Retained Earnings (Deficit)

Year ended December 26, 1970 (with comparative figures for the preceding year)

	1970	1969
Paid-in Surplus:		
Balance at beginning of year	$ 82,240,186	$ 47,827,750
Add:		
Excess of $24,162,300 par value of 5¾% convertible subordinated debentures over the par value of 966,492 shares of common stock issued on conversion, net of related unamortized debt expense	–	22,682,039
Excess of $10,590,000 par value of 5% Guaranteed Sinking Fund Debentures over the par value of 407,293 shares of common stock issued on conversion, net of cash paid in lieu of fractional shares and related unamortized debt expense (note 7)	–	9,913,397
Value assigned to 158,000 warrants issued in connection with insurance company financing (note 6-c)	–	1,817,000
Balance at end of year	$ 82,240,186	$ 82,240,186
Retained Earnings (Deficit):		
Balance at beginning of year	$ 43,571,082	$ 72,927,347
Net loss for year	(77,355,090)	(25,248,948)
	(33,784,008)	$47,678,399
Deduct cash dividends paid on common stock—$.50 per share in 1969	–	4,107,317
Balance at end of year (note 6)	$ (33,784,008)	$ 43,571,082

See accompanying notes to financial statements.

Notes to Financial Statements

1. Principles of Consolidation and Basis of Accounts:

(a) The accounts of all domestic and foreign subsidiaries are included in the consolidated financial statements except one majority-owned subsidiary whose operations are not significant and major foreign theatre circuits (see note 3).

The assets and liabilities relating to foreign countries (except Canada) are included in the consolidated financial statements as at November 28, 1970 and their operations are included for the eleven months then ended. In previous years such foreign operations were included in the consolidated financial statements as of the same fiscal year end as the domestic companies. This change did not have a material effect on the results of operations reported for the year ended December 26, 1970.

(b) Consolidated foreign assets and liabilities have been converted at appropriate current foreign exchange rates, except fixed assets and investments which were converted at rates prevailing at the dates of expenditure. The net foreign assets (excluding negative cost inventory and Sinking Fund Debentures payable in U.S. dollars) included in the consolidated balance sheet are summarized as follows:

	1970 (note 1a)	1969
	(000 Omitted)	
Cash	$ 6,618	$ 5,644
Other current assets	16,489	14,378
Notes and accounts receivable, due after one year	933	498
Investments and advances:		
Foreign theatre circuits	1,766	1,766
Other companies	906	923
Fixed assets, less accumulated depreciation and amortization	4,952	5,490
Deferred charges and other assets	1,742	1,026
Total assets	33,406	29,725
Liability to banks under overdraft facilities:		
Current	6,655	–
Long-term	–	8,923
Taxes payable	4,680	3,968
Other current liabilities	8,928	8,743
Total liabilities	20,263	21,634
Net assets	$13,143	$ 8,091

Income in excess of amounts remitted during the year from foreign territories with severe currency restrictions is excluded from consolidated operations.

(c) For financial statement purposes, income and related expenses from licensing feature films to television networks are reported upon execution of contracts. Installment payments due under these contracts may be received over a period of more than one year. The payment of liabilities related to these contracts also may be made over a period of more than one year. It is the company's practice to reduce non-interest bearing long-term receivables in the amount by which the reduction to present value of all such receivables exceeds the amount of the reduction to present value of all non-interest bearing long-term liabilities and to deduct such excess from earnings. No such contracts were executed in 1970 and at December 26, 1970 no reduction from earnings was required.

(d) In January 1969, the company acquired the business and net assets of Wylde Films, a producer of television commercials, for a purchase price not to exceed $8,300,000, of which $6,000,000 has been paid. The balance of $2,300,000 will be paid over a period of four years, subject to reduction if Wylde does not earn specified minimum pre-tax income each year. The excess of cost over value of net assets acquired arising from this transaction is not being amortized since the company believes that there has not been any diminution of its value.

2. Inventories:

(a) Feature Film Productions:

The negative cost of each feature film is amortized in the proportion that the net revenue realized in each year bears to the estimate of the total ultimate net revenue expected to be realized from theatrical and television exhibition.

Interest incurred prior to release on debt considered as relating to feature film productions is included in production cost. For the year 1970 interest charged to production cost amounted to $2,181,000 compared with $4,060,000 in 1969.

(b) Television Series:

Television series production costs are being amortized in the proportion that the net revenue realized in each year bears to the estimate of the total net revenue expected to be realized from network and syndication distribution. This policy has resulted in the amortization of approximately 90% of production cost against television network revenue for 1970, as compared to 85% for 1969.

Film rental forecasts for both feature films and television series are continually reviewed by management and are revised if warranted by changing conditions. When theatrical and television film rental forecasts indicate that a feature or television production will result in an ultimate loss, additional amortization is provided currently to record such loss.

When the company obtains distribution rights to a film produced by an independent producer, the company frequently provides financing for production. Such advances for production expenditures are included in inventories.

While feature and television series film inventories are not entirely liquidated within one year, it is the practice of the motion picture industry to include such assets among the current assets.

3. Foreign Theatre Circuits:

At December 26, 1970, investments in major foreign theatre circuits not consolidated (Australia and New Zealand) amounted to $1,765,987.

A condensed summary of the combined net assets (exclusive of goodwill and intangibles) of the two foreign theatre circuits, all converted at current foreign exchange rates, is as follows:

	1970	1969
	(000 Omitted)	
Current assets	$ 3,728	$ 2,266
Investments	2,476	2,297
Property, plant and equipment, less accumulated depreciation	14,541	14,441
Total assets	20,745	19,004
Current liabilities*	3,389	5,087
Long-term liabilities*	4,676	2,126
Minority interests	1,709	1,709
Total liabilities	9,774	8,922
Net assets (exclusive of goodwill and intangibles) applicable to investments and advances	$10,971	$10,082

*Liabilities to outsiders, excluding Twentieth Century-Fox Film Corporation and subsidiaries.

Operating results of the two theatre circuits for the last two years are tabulated below:

	Gross Receipts	Earnings	Dividends Received from the Circuits
	(000 Omitted)		
Australia:			
June 26, 1970	$12,994	$ 643	$ 420
June 27, 1969	11,165	614	340
New Zealand:			
November 28, 1970 (11 months)	3,129	156	112
December 27, 1969	3,012	116	112
Combined:			
1970	16,123	799	532
1969	14,177	730	452

4. Fixed Assets and Depreciation Policy:

Fixed assets, at cost, less accumulated depreciation and amortization are summarized below:

	1970	1969
	(000 Omitted)	
Land	$ 7,348	$ 7,449
Building and improvements on owned land	10,488	10,927
Leaseholds and improvements to leased properties	11,314	11,150
Equipment and miscellaneous	28,765	28,332
	57,915	57,858
Less accumulated depreciation and amortization	28,690	27,239
	$29,225	$30,619

Depreciation and amortization of fixed assets are provided on a straight-line basis at varying rates based upon estimated useful life or, in the case of leaseholds and improvements to leased properties, over the term of the related lease or the useful life of the improvement, whichever is the lesser.

Depreciation and amortization of fixed assets amounted to $2,625,000 in 1970 and $2,665,000 in 1969 of which $526,000 in 1970 and $625,000 in 1969 was charged to operations; the remainder in each year was charged to film productions.

5. Federal Taxes on Income:

The manner in which the company reports certain income and amortization for financial statement purposes differs from that used for income tax purposes.

After reflecting the 1970 loss there is an estimated future Federal income tax benefit, for financial statement purposes, (not including carryforward foreign tax credits) of approximately $21,000,000. The realization of this future income tax benefit, which has not been recorded in the financial statements, is dependent primarily upon the company's ability to generate future earnings.

Federal income tax returns for all years through 1967 have been examined by the Internal Revenue Service and settled. Management believes that no provision for Federal income tax is presently necessary with respect to all open years.

6. Long-Term Debt (not including convertible debentures):

	Shown On Balance Sheet as	
	Current	Long-term
	(000 Omitted)	
Liability to banks under revolving credit agreement (a)	$53,000	$ —
Liability to banks under overdraft facilities (b)	6,655	—
Notes payable to insurance company (c)	2,960	16,490
	$62,615	$16,490

The various loan agreements contain restrictions and requirements including the maintenance of minimum net working capital, limitations on the amount of inventory and additional borrowing, restrictions on the sale of certain assets and the purchase of the company's stock, and the payment of cash dividends. Since June 1970 the company has been in default under various provisions of these loan agreements and the lenders have granted a succession of written and oral waivers of the defaults. As a condition for further waivers the lenders have requested a pledge of collateral for the loans. The company has agreed in principle to the pledge of the stock of certain of its principal subsidiaries and other assets. Additional repayments prior to maturity and other modifications of the loan agreements may also be required. If further waivers are not granted or the company does not otherwise obtain satisfactory loan refinancings or extensions, all debt covered by the loan agreements and indenture (note 7) will become payable on demand. Specific details of the loan agreements are as follows:

(a) The revolving credit agreement with various banks expires on September 30, 1971. Borrowings bear interest at $^1/_2$ of 1% above the prime commercial rate. Notes outstanding at December 26, 1970 bear interest, payable in advance, at various rates from $7^1/_2$% to 8%. These borrowings have been reduced by $8,000,000 through March 18, 1971.

(b) Under an agreement which is subject to Bank of England regulations and which expires July 31, 1971, the company may borrow under a Sterling and Euro-dollar facility an amount not to exceed $10,080,000 with interest at varying rates. At December 26, 1970 interest on the Sterling loans was 9% and interest on the Euro-dollar facility was $8^1/_2$%.

(c) Under an agreement with an insurance company the company borrowed $25,000,000 ($15,000,000 at 7.25% and $10,000,000 at 6.85%). According to the terms of the agreement the company was required to make annual payments of $1,625,000 from 1974 through 1987 which would have repaid 91% of the borrowing prior to the maturity date of July 1, 1988. As a condition for waiving the defaults referred to above the company has repaid $5,550,000 through December 26, 1970 and in addition has paid $2,960,000 through March 18, 1971. Related to this agreement the company has issued warrants to purchase 158,000 shares of common stock at $36 per share. At December 26, 1970 none of these warrants have been exercised. Such warrants had been valued by the company's investment bankers at $11.50 per warrant (aggregating $1,817,000) and the value assigned has been included in deferred charges to be amortized over the period that the loan is outstanding.

7. Convertible Debentures:

The 5% Guaranteed Sinking Fund debentures due December 1, 1987, issued by a subsidiary and guaranteed by the company, is convertible at the option of the holder into common stock of the company at $26 per share. The debentures are redeemable from December 1, 1972 to November 30, 1973 at 105% of the principal amount and at decreasing prices thereafter. Under certain circumstances, all the debentures are subject to redemption at $102^3/_4$% of the principal amount to November 30, 1972 and at decreasing prices thereafter. Semi-annual sinking fund payments of $1,100,000 (subject to reduction for debentures purchased, redeemed or converted) from December 1, 1978 to June 1, 1987 are required to retire approximately 50% of the issue prior to maturity. No debentures were converted during 1970, however $10,590,000 principal amount of debentures were converted in 1969. The subsidiary has the option to make an additional annual sinking fund payment limited to $1,100,000. Under the terms of the agreement with the insurance company referred to in note 6c, the debentures must be called for redemption if the average closing price of the company's common stock for any 15 consecutive days ending after December 1, 1972 is at least 120% of the price at which the debentures are convertible. At December 26, 1970 there are 1,131,154 shares of common stock of the company reserved for conversion of the remaining debentures.

8. Net Loss Per Share:

Net loss per share has been computed based on 8,561,815 shares in 1970 and 8,216,271 shares in 1969, the average number of shares outstanding during each year. Outstanding warrants and convertible debentures have not been included inasmuch as their assumed exercise or conversion would have an anti-dilutive effect in both years.

9. Contingent Liabilities, Commitments and Leases:

(a) The company, in addition to commitments in the ordinary course of business, was contingently liable at December 26, 1970 under pending lawsuits and claims, including antitrust suits, for substantial amounts. Liability on the pending lawsuits and claims has been denied and the amounts, if any, which may ultimately be paid are not expected, in the opinion of the company's counsel, to have a material adverse effect on the consolidated financial condition.

(b) At December 26, 1970 the company was obligated under a noncancellable lease expiring in 2060 covering studio property which provides for net annual rentals of $1,500,000 per year (aggregating $134,000,000 over the remaining lease term).

Other noncancellable leases on real property which expire between 1971 and 2057 aggregate $6,315,716. Approximate average minimum annual rentals subsequent to 1970 on these leases are as follows:

	(000 Omitted)
1971	893
1972	800
1973	680
1974	589
1975-1979	313
1980-2057	23

Rent expense for 1970 under cancellable and noncancellable leases, including charges to film production, amounted to approximately $3,000,000 ($3,400,000 in 1969).

10. Employees' Retirement and Incentive Compensation Plans:

Non-contributory retirement plans are maintained by the company for substantially all employees not covered by union plans. While it is the intention of the company to continue these plans there is no contractual obligation to do so.

The pension expense under the principal plan amounted to $888,000 in 1970 and $824,000 in 1969. The company's policy has been to fund the plan through annual cash contributions, through adjustment for the appreciation of pension fund assets at a fixed rate and through annual utilization of a portion of capital gains earned by the pension fund. In 1969 this policy resulted in the liquidation of a portion of the unfunded prior service cost in addition to provision for normal cost; in 1970 this policy resulted in provision for normal cost and interest on the unfunded prior service cost with no amortization of the unfunded prior service cost. The company's actuary has advised that the liability for vested benefits for the plan as of December 31, 1969, the date of the last actuarial valuation, does not exceed the value of the pension fund. During 1970 the company adopted a mandatory retirement policy; the effect on pension cost is not yet known but will be reflected in future actuarial valuations.

Separate pension plans cover the employees of certain foreign subsidiaries. Past service benefits under these plans are being amortized over a maximum of ten years. The cost of the plans for 1970 was approximately $220,000 ($200,000 in 1969).

There is also an incentive compensation plan expiring in 1975 which provides that 5% of consolidated net operating income before income taxes will be allocated among selected key employees and will be paid after termination of employment in cash or the company's common stock, at the employee's option. No amounts have been earned under this plan.

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William R. Hearst, Jr.
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John H. Johnson
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Harry J. McIntyre
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Dennis C. Stanfill
Jerome A. Straka
Darryl F. Zanuck

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Dennis C. Stanfill, President and Chief Operating Officer
Harry J. McIntyre, Vice Chairman and General Administrative Officer

Vice Presidents (alphabetically listed)

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Stanley Hough, Vice President, Director of Production Operations
Francis T. Kelly, Vice President and Treasurer
John P. Meehan, Vice President and Controller
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