NEWS CORP
Form 10-Q
November 08, 2016
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2016

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 001-35769

# NEWS CORPORATION

**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **Delaware** | **46-2950970** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **1211 Avenue of the Americas, New York, New York** | **10036** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

Registrant s telephone number, including area code (212) 416-3400

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 x 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 x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of October 31, 2016, 381,714,733 shares of Class A Common Stock and 199,630,240 shares of Class B Common Stock were outstanding.

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**NEWS CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited; millions, except per share amounts)**

| | Notes | For the three months ended September 30, 2016 | 2015 |
|---|---|---|---|
| Revenues: | | | |
| Advertising | | $ 670 | $ 735 |
| Circulation and subscription | | 621 | 639 |
| Consumer | | 374 | 392 |
| Real estate | | 172 | 145 |
| Other | | 128 | 103 |
| Total revenues | | 1,965 | 2,014 |
| Operating expenses | | (1,157) | (1,199) |
| Selling, general and administrative | | (678) | (650) |
| Depreciation and amortization | | (120) | (121) |
| Restructuring charges | 4 | (20) | (17) |
| Equity (losses) earnings of affiliates | 5 | (15) | 8 |
| Interest, net | | 7 | 12 |
| Other, net | 14 | 17 | 5 |
| (Loss) income from continuing operations before income tax benefit | | (1) | 52 |
| Income tax benefit | 12 | 1 | 91 |
| Income from continuing operations | | | 143 |
| Income from discontinued operations, net of tax | 3 | | 46 |
| Net income | | | 189 |
| Less: Net income attributable to noncontrolling interests | | (15) | (14) |
| Net (loss) income attributable to News Corporation stockholders | | $ (15) | $ 175 |
| Basic and diluted (loss) earnings per share: | 9 | | |
| (Loss) income from continuing operations available to News Corporation stockholders per share | | $ (0.03) | $ 0.22 |
| Income from discontinued operations available to News Corporation stockholders per share | | | 0.08 |
| Net (loss) income available to News Corporation stockholders per share | | $ (0.03) | $ 0.30 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**NEWS CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited; millions)**

| | For the three months ended September 30, 2016 | For the three months ended September 30, 2015 |
|---|---|---|
| Net income | $ | $ 189 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 56 | (445) |
| Unrealized holding losses on securities[a] | (26) | (25) |
| Benefit plan adjustments[b] | 11 | 15 |
| Share of other comprehensive income from equity affiliates[c] | 2 | 5 |
| Other comprehensive income (loss) | 43 | (450) |
| Comprehensive income (loss) | 43 | (261) |
| Less: Net income attributable to noncontrolling interests | (15) | (14) |
| Less: Other comprehensive (income) loss attributable to noncontrolling interests | (2) | 7 |
| Comprehensive income (loss) attributable to News Corporation stockholders | $ 26 | $ (268) |

(a) Net of income tax benefit of $10 million and $12 million for the three months ended September 30, 2016 and 2015, respectively.
(b) Net of income tax expense of $3 million and $4 million for the three months ended September 30, 2016 and 2015, respectively.
(c) Net of income tax expense of $1 million and $2 million for the three months ended September 30, 2016 and 2015, respectively.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**NEWS CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(Millions, except share and per share amounts)**

| | Notes | As of September 30, 2016 (unaudited) | As of June 30, 2016 (audited) |
|---|---|---|---|
| **Assets:** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 1,499 | $ 1,832 |
| Restricted cash | | | 315 |
| Receivables, net | 14 | 1,294 | 1,229 |
| Other current assets | 14 | 535 | 513 |
| Total current assets | | 3,328 | 3,889 |
| Non-current assets: | | | |
| Investments | 5 | 2,269 | 2,270 |
| Property, plant and equipment, net | | 2,367 | 2,405 |
| Intangible assets, net | | 2,381 | 2,207 |
| Goodwill | | 3,889 | 3,714 |
| Deferred income tax assets | | 628 | 602 |
| Other non-current assets | 14 | 407 | 396 |
| Total assets | | $ 15,269 | $ 15,483 |
| **Liabilities and Equity:** | | | |
| Current liabilities: | | | |
| Accounts payable | | $ 240 | $ 217 |
| Accrued expenses | | 1,136 | 1,371 |
| Deferred revenue | | 401 | 388 |
| Other current liabilities | 14 | 510 | 466 |
| Total current liabilities | | 2,287 | 2,442 |
| Non-current liabilities: | | | |
| Borrowings | 6 | 377 | 369 |
| Retirement benefit obligations | 11 | 332 | 350 |
| Deferred income tax liabilities | | 171 | 171 |
| Other non-current liabilities | | 336 | 349 |
| Commitments and contingencies | 10 | | |
| Redeemable preferred stock | | 20 | 20 |
| Class A common stock[(a)] | | 4 | 4 |
| Class B common stock[(b)] | | 2 | 2 |
| Additional paid-in capital | | 12,434 | 12,434 |
| Retained earnings | | 76 | 150 |
| Accumulated other comprehensive loss | | (986) | (1,026) |
| Total News Corporation stockholders equity | | 11,530 | 11,564 |
| Noncontrolling interests | | 216 | 218 |

| | | | | | |
|---|---|---|---|---|---|
| Total equity | 7 | | 11,746 | | 11,782 |
| Total liabilities and equity | | $ | 15,269 | $ | 15,483 |

(a) **Class A common stock**, $0.01 par value per share ( Class A Common Stock ), 1,500,000,000 shares authorized, 381,685,162 and 380,490,770 shares issued and outstanding, net of 27,368,413 treasury shares at par, at September 30, 2016 and June 30, 2016, respectively.

(b) **Class B common stock**, $0.01 par value per share ( Class B Common Stock ), 750,000,000 shares authorized, 199,630,240 shares issued and outstanding, net of 78,430,424 treasury shares at par, at September 30, 2016 and June 30, 2016, respectively.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**NEWS CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited; millions)**

| | Notes | For the three months ended September 30, 2016 | 2015 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income | | $ | $ 189 |
| Less: Income from discontinued operations, net of tax | | | 46 |
| Income from continuing operations | | | 143 |
| Adjustments to reconcile income from continuing operations to cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | | 120 | 121 |
| Equity losses (earnings) of affiliates | 5 | 15 | (8) |
| Other, net | 14 | (17) | (5) |
| Deferred income taxes and taxes payable | 12 | (35) | (109) |
| Change in operating assets and liabilities, net of acquisitions: | | | |
| Receivables and other assets | | (64) | (94) |
| Inventories, net | | (16) | 30 |
| Accounts payable and other liabilities | | (258) | 74 |
| Pension and postretirement benefit plans | | (13) | (11) |
| Net cash (used in) provided by operating activities from continuing operations | | (268) | 141 |
| **Investing activities:** | | | |
| Capital expenditures | | (49) | (63) |
| Changes in restricted cash for Wireless Group acquisition | | 315 | |
| Acquisitions, net of cash acquired | | (283) | (16) |
| Investments in equity affiliates and other | | (10) | (14) |
| Proceeds from dispositions | | 24 | 2 |
| Other | | (8) | 5 |
| Net cash used in investing activities from continuing operations | | (11) | (86) |
| **Financing activities:** | | | |
| Repayment of borrowings acquired in the Wireless Group acquisition | | (23) | |
| Repurchase of shares | | | (15) |
| Dividends paid | | (18) | (16) |
| Other, net | | (18) | (6) |
| Net cash used in financing activities from continuing operations | | (59) | (37) |
| Net (decrease) increase in cash and cash equivalents from continuing operations | | (338) | 18 |
| Net decrease in cash and cash equivalents from discontinued operations | | (3) | (35) |
| Cash and cash equivalents, beginning of period | | 1,832 | 1,951 |
| Exchange movement on opening cash balance | | 8 | (36) |
| Cash and cash equivalents, end of period | | $ 1,499 | $ 1,898 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

News Corporation (together with its subsidiaries, News Corporation, News Corp, the Company, we, or us ) is a global diversified media and information services company comprised of businesses across a range of media, including: news and information services, book publishing, digital real estate services, cable network programming in Australia and pay-TV distribution in Australia.

During the first quarter of fiscal 2016, management approved a plan to dispose of the Company s digital education business. As a result of the plan and the discontinuation of further significant business activities in the Digital Education segment, the assets and liabilities of this segment were classified as held for sale and the results of operations have been classified as discontinued operations for all periods presented. Unless indicated otherwise, the information in the notes to the Consolidated Financial Statements relates to the Company s continuing operations. (See Note 3 Discontinued Operations).

***Basis of Presentation***

The accompanying unaudited consolidated financial statements of the Company, which are referred to herein as the Consolidated Financial Statements, have been prepared in accordance with generally accepted accounting principles in the United States of America ( 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 Consolidated Financial Statements. Operating results for the interim period presented are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. 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 could differ from those estimates.

Intercompany transactions and balances have been eliminated. Equity investments in which the Company exercises significant influence but does not exercise control and is not the primary beneficiary are accounted for using the equity method. Investments in which the Company is not able to exercise significant influence over the investee are designated as available-for-sale if readily determinable fair values are available. If an investment s fair value is not readily determinable, the Company accounts for its investment under the cost method.

The consolidated statements of operations are referred to herein as the Statements of Operations. The consolidated balance sheets are referred to herein as the Balance Sheets. The consolidated statements of cash flows are referred to herein as the Statements of Cash Flows.

The accompanying 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, 2016 as filed with the Securities and Exchange Commission ( SEC ) on August 12, 2016 (the 2016 Form 10-K ).

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current year presentation. During the three months ended September 30, 2016, the Company reclassified its listing revenues generated primarily from agents, brokers and developers from advertising revenue to real estate revenue to better reflect the Company s revenue mix and how management reviews the performance of the Digital Real Estate Services segment.

The Company s fiscal year ends on the Sunday closest to June 30. Fiscal 2017 and fiscal 2016 include 52 and 53 weeks, respectively. All references to the three months ended September 30, 2016 and 2015 relate to the three months ended October 2, 2016 and September 27, 2015, respectively. For convenience purposes, the Company continues to date its consolidated financial statements as of September 30.

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

***Recently issued accounting pronouncements***

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 ). ASU 2014-09 removes inconsistencies and differences in existing revenue requirements between GAAP and International Financial Reporting Standards ( IFRS ) and requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Once effective, ASU 2014-09 can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial adoption recognized at the date of initial application. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ( ASU 2016-08 ). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ( ASU 2016-10 ). The amendments in ASU 2016-10 clarify aspects relating to the identification of performance obligations and improve the operability and understandability of the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Update 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ( ASU 2016-12 ). The amendments in ASU 2016-12 address certain issues identified on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date for all ASUs noted above is annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact these ASUs will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement ( ASU 2015-05 ). ASU 2015-05 clarifies guidance about whether a customer s cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This ASU was adopted on a prospective basis for arrangements entered into, or materially modified beginning July 1, 2016. The adoption did not have a material impact on the consolidated financial statements.

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. ASU 2016-01 is effective for the Company for annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ( ASU 2016-02 ). The amendments in ASU 2016-02 address certain aspects in lease accounting, with the most significant impact for lessees. The amendments in ASU 2016-02 require lessees to recognize all leases on the balance sheet by recording a right-of-use asset and a lease liability, and lessor accounting has been updated to align with the new requirements for lessees. The new standard also provides changes to the existing sale-leaseback guidance. ASU 2016-02 is effective for the Company for annual and interim reporting periods beginning July 1, 2019. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ( ASU 2016-09 ). The amendments in ASU

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2016-09 address several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company for annual and interim reporting periods beginning July 1, 2017. The Company is currently evaluating the impact ASU 2016-09 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ( ASU 2016-13 ). The amendments in ASU 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for the Company for annual and interim reporting periods beginning July 1, 2020. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ( ASU 2016-15 ). The amendments in ASU 2016-15 address eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. ASU 2016-15 is effective for the Company for annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact ASU 2016-15 will have on its consolidated financial statements.

**NOTE 2. ACQUISITIONS, DISPOSALS AND OTHER TRANSACTIONS**

***Fiscal 2017***

*Wireless Group plc*

In September 2016, the Company completed its acquisition of Wireless Group plc ( Wireless Group ) for a purchase price of 315 pence per share in cash, or approximately £220 million (approximately $285 million) in the aggregate, plus $23 million of assumed debt which was repaid subsequent to closing. Wireless Group operates talkSPORT, the leading sports radio network in the U.K., and a portfolio of radio stations in the U.K. and Ireland. The acquisition broadens the Company s range of services in the U.K., Ireland and internationally, and the Company expects to closely align Wireless Group s operations with those of *The Sun* and *The Times*. The Company utilized the restricted cash which was specifically set aside at June 30, 2016 for purposes of funding the acquisition and therefore the Company has no restricted cash as of September 30, 2016.

The total transaction value for the Wireless Group acquisition is set forth below (in millions):

| | |
|---|---|
| Cash paid for Wireless Group equity | $ 285 |
| Plus: Assumed debt | 23 |
| Total transaction value | $ 308 |

Under the purchase method of accounting, the total consideration is allocated to net tangible and intangible assets based upon the fair value as of the date of completion of the acquisition. The excess of the total consideration over the fair value of the net tangible and intangible assets acquired was recorded as goodwill. The acquired intangible assets of approximately $193 million primarily relate to broadcast licenses which have an indefinite life. The Company recorded approximately $149 million of goodwill on the transaction. The values assigned to the acquired assets and liabilities are based on preliminary estimates of fair value available as of the date of this filing and may be adjusted upon completion of final valuations of certain assets and liabilities. Any changes in

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these fair values could potentially result in an adjustment to the goodwill recorded for this transaction. Wireless Group s results are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company s annual goodwill impairment review.

***Fiscal 2016***

*Checkout 51 Mobile Apps ULC*

In July 2015, the Company acquired Checkout 51 Mobile Apps ULC ( Checkout 51 ) for approximately $13 million in cash at closing and approximately $10 million in deferred cash consideration which was paid during fiscal 2016. Checkout 51 is a data-driven digital incentives company that provides News America Marketing with a leading receipt recognition mobile app which enables packaged goods companies and brands to reach consumers with highly personalized marketing campaigns. Checkout 51 s results are included within the Company s News and Information Services segment.

*Unruly Holdings Limited*

On September 30, 2015, the Company acquired Unruly Holdings Limited ( Unruly ) for approximately £60 million (approximately $90 million) in cash and up to £56 million (approximately $86 million) in future cash consideration related to payments primarily contingent upon the achievement of certain performance objectives. As a result of the acquisition, the Company recognized a liability of approximately $40 million related to the contingent consideration. The fair value of the contingent consideration was estimated by applying a probability-weighted income approach. In accordance with Accounting Standards Codification (ASC) 350, Intangibles Goodwill and Other ( ASC 350 ), $43 million of the purchase price has been allocated to acquired technology with a weighted-average useful life of 7 years, $21 million has been allocated to customer relationships and tradenames with a weighted-average useful life of 6 years and $68 million has been allocated to goodwill. Unruly is a leading global video distribution platform that is focused on delivering branded video advertising across websites and mobile devices. Unruly s results of operations are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company s annual goodwill impairment review.

*DIAKRIT International Limited*

In February 2016, the Company acquired a 92% interest in DIAKRIT International Limited ( DIAKRIT ) for approximately $40 million in cash. The Company also has the option to purchase, and the minority shareholders have the option to sell to the Company, the remaining 8% in two tranches over the next six years at fair value. DIAKRIT is a digital visualization solutions company that helps homeowners see the potential in their future living environment with digital visualization solutions that enable them to plan, furnish and decorate their dream home, while also helping agents and developers generate more buyer inquiries and accelerate their property sale processes. DIAKRIT s results are included within the Digital Real Estate Services segment, and it is considered a separate reporting unit for purposes of the Company s annual goodwill impairment review.

*iProperty Group Limited*

In February 2016, REA Group Limited ( REA Group ), in which the Company holds a 61.6% interest, increased its investment in iProperty Group Limited ( iProperty ) from 22.7% to approximately 86.9% for A$482 million in cash (approximately $340 million). The remaining 13.1% not currently owned will become mandatorily redeemable during fiscal 2018. As a result, the Company recognized a liability of approximately $76 million, which reflects the present value of the amount expected to be paid for the remaining interest based on the

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formula specified in the acquisition agreement. The acquisition was funded primarily with the proceeds from borrowings under an unsecured syndicated revolving loan facility (the REA Facility ). (Refer to Note 6 Borrowings). The acquisition of iProperty extends REA Group s market leading business in Australia to attractive markets throughout Southeast Asia. iProperty is a subsidiary of REA Group, and its results are included within the Digital Real Estate Services segment.

In accordance with ASC 805 Business Combinations, REA Group recognized a gain of $29 million resulting from the revaluation of its previously held equity interest in iProperty in Other, net in the Statement of Operations for the fiscal year ended June 30, 2016. The total fair value of iProperty at the acquisition date is set forth below (in millions):

| | |
|---|---|
| Cash paid for iProperty equity | $ 340 |
| Deferred consideration | 76 |
| Total consideration | 416 |
| Fair value of previously held iProperty investment | 120 |
| Total fair value | $ 536 |

Under the purchase method of accounting, the total consideration is allocated to net tangible and intangible assets based upon the fair value as of the date of completion of the acquisition. The excess of the total consideration over the fair value of the net tangible and intangible assets acquired was recorded as goodwill. The allocation is as follows (in millions):

| | |
|---|---|
| Assets Acquired: | |
| Goodwill | $ 498 |
| Intangible assets | 72 |
| Net Liabilities | (34) |
| Net assets acquired | $ 536 |

The acquired intangible assets primarily relate to tradenames which have an indefinite life.

*Flatmates.com.au Pty Ltd*

In May 2016, REA Group acquired Flatmates.com.au Pty Ltd ( Flatmates ) for $19 million in cash at closing and up to $15 million in future cash consideration related to payments contingent upon the achievement of certain performance objectives. Flatmates operates the Flatmates.com.au website, which is a market leading share accommodation site in Australia. The acquisition enhances REA Group s Australian product offering by extending its reach into the quickly growing share accommodation business. Flatmates is a subsidiary of REA Group, and its results since acquisition are included within the Digital Real Estate Services segment.

*Australian Regional Media*

In June 2016, the Company entered into an agreement to purchase Australian Regional Media ( ARM ) from APN News and Media Limited ( APN ) for approximately $30 million. ARM operates a portfolio of regional print assets and websites and extends the reach of the Australian newspaper business to new customers in new geographic regions. The acquisition remains subject to regulatory approval.

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**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. DISCONTINUED OPERATIONS**

During the first quarter of fiscal 2016, management approved a plan to dispose of the Company s digital education business. As a result of the plan and the discontinuation of further significant business activities in the Digital Education segment, the assets and liabilities of this segment were classified as held for sale and the results of operations have been classified as discontinued operations for all periods presented in accordance with ASC 205-20, Discontinued Operations.

In the first quarter of fiscal 2016, the Company recognized a pre-tax non-cash impairment charge of $76 million reflecting a write down of the digital education business to its fair value less costs to sell. The impairment charge is included within Loss before income tax benefit in the table below. In addition, the Company recognized a tax benefit of $151 million upon reclassification of the Digital Education segment to discontinued operations.

The following table summarizes the results of operations from the discontinued segment:

| | For the three months ended September 30, 2016 | 2015 |
|---|---|---|
| | (in millions) | |
| Revenues | $ | $ 26 |
| Loss before income tax benefit | | (122) |
| Income tax benefit | | 168 |
| Income from discontinued operations, net of tax | $ | $ 46 |

The following table summarizes the cash flows from discontinued operations:

| | For the three months ended September 30, 2016 | 2015 |
|---|---|---|
| | (in millions) | |
| Net cash used in operating activities | $ (3) | $ (35) |
| Net cash used in investing activities | | |
| Net cash used in financing activities | | |
| Net decrease in cash and cash equivalents | $ (3) | $ (35) |

Liabilities held for sale related to discontinued operations as of September 30, 2016 and June 30, 2016 are included in Other current liabilities in the Balance Sheets as follows:

| | As of September 30, 2016 | As of June 30, 2016 |
|---|---|---|
| | (in millions) | |

| | | | | |
|---|---|---|---|---|
| Current assets | $ | | $ | 1 |
| Non-current assets | | | | |
| Total assets | $ | | $ | 1 |
| Current Liabilities | | 5 | | 7 |
| Non-current liabilities | | | | |
| Total liabilities | $ | 5 | $ | 7 |
| Net liabilities held for sale | $ | (5) | $ | (6) |

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 4. RESTRUCTURING CHARGES

During the three months ended September 30, 2016 and 2015, the Company recorded restructuring charges of $20 million and $17 million, respectively, of which $19 million and $12 million, respectively, related to the News and Information Services segment. The restructuring charges recorded in fiscal 2017 and 2016 were for employee termination benefits.

Changes in restructuring program liabilities were as follows:

| | For the three months ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| | One time employee termination benefits | Facility related costs | Other costs | Total | One time employee termination benefits | Facility related costs | Other costs | Total |
| | (in millions) | | | | | | | |
| Balance, beginning of period | $ 33 | $ 5 | $ 6 | $ 44 | $ 47 | $ 5 | $ 6 | $ 58 |
| Additions | 20 | | | 20 | 17 | | | 17 |
| Payments | (22) | | | (22) | (26) | | | (26) |
| Other | (1) | | | (1) | (4) | | | (4) |
| Balance, end of period | $ 30 | $ 5 | $ 6 | $ 41 | $ 34 | $ 5 | $ 6 | $ 45 |

As of September 30, 2016, restructuring liabilities of approximately $31 million were included in the Balance Sheet in Other current liabilities and $10 million were included in Other non-current liabilities.

## NOTE 5. INVESTMENTS

The Company s investments were comprised of the following:

| | Ownership Percentage as of September 30, 2016 | As of September 30, 2016 | As of June 30, 2016 |
|---|---|---|---|
| | | (in millions) | |