
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019

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 001-32686

VIACOM INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3515052
(I.R.S. Employer
Identification Number)

**1515 Broadway
New York, NY 10036
(212) 258-6000**
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 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
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Class A common stock, par value \$0.001 per share	VIA	NASDAQ Global Select Market
Class B common stock, par value \$0.001 per share	VIAB	NASDAQ Global Select Market

The number of Class A common stock, par value \$0.001 per share outstanding at July 31, 2019 was 49,430,524. The number of Class B common stock, par value \$0.001 per share outstanding at July 31, 2019 was 353,964,838.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited).

VIACOM INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(in millions, except per share amounts)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Revenues	\$ 3,357	\$ 3,237	\$ 9,405	\$ 9,458
Expenses:				
Operating	1,717	1,681	4,924	4,925
Selling, general and administrative	828	738	2,255	2,248
Depreciation and amortization	55	51	159	159
Restructuring and related costs	—	15	95	200
Legal settlement	—	—	40	—
Total expenses	2,600	2,485	7,473	7,532
Operating income	757	752	1,932	1,926
Interest expense, net	(119)	(138)	(364)	(428)
Equity in net earnings of investee companies	—	2	1	5
Gain on marketable securities	29	—	21	—
Gain on extinguishment of debt	—	—	18	25
Other items, net	(1)	(9)	(13)	(41)
Earnings from continuing operations before provision for income taxes	666	607	1,595	1,487
Provision for income taxes	(122)	(93)	(352)	(158)
Net earnings from continuing operations	544	514	1,243	1,329
Discontinued operations, net of tax	6	11	22	23
Net earnings (Viacom and noncontrolling interests)	550	525	1,265	1,352
Net earnings attributable to noncontrolling interests	(6)	(3)	(24)	(27)
Net earnings attributable to Viacom	\$ 544	\$ 522	\$ 1,241	\$ 1,325
Amounts attributable to Viacom:				
Net earnings from continuing operations	\$ 538	\$ 511	\$ 1,219	\$ 1,302
Discontinued operations, net of tax	6	11	22	23
Net earnings attributable to Viacom	\$ 544	\$ 522	\$ 1,241	\$ 1,325
Basic earnings per share attributable to Viacom:				
Continuing operations	\$ 1.33	\$ 1.27	\$ 3.02	\$ 3.23
Discontinued operations	0.02	0.03	0.06	0.06
Net earnings	\$ 1.35	\$ 1.30	\$ 3.08	\$ 3.29
Diluted earnings per share attributable to Viacom:				
Continuing operations	\$ 1.33	\$ 1.27	\$ 3.02	\$ 3.23
Discontinued operations	0.02	0.02	0.05	0.06
Net earnings	\$ 1.35	\$ 1.29	\$ 3.07	\$ 3.29
Weighted average number of common shares outstanding:				
Basic	403.5	402.8	403.3	402.6
Diluted	404.0	403.3	403.7	402.9

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Net earnings (Viacom and noncontrolling interests)	\$ 550	\$ 525	\$ 1,265	\$ 1,352
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(8)	(228)	(50)	(175)
Defined benefit pension plans	1	1	2	4
Cash flow hedges	2	(3)	6	(3)
Available-for-sale securities	—	9	—	22
Other comprehensive income/(loss) (Viacom and noncontrolling interests)	(5)	(221)	(42)	(152)
Comprehensive income	545	304	1,223	1,200
Less: Comprehensive income attributable to noncontrolling interest	5	1	23	25
Comprehensive income attributable to Viacom	\$ 540	\$ 303	\$ 1,200	\$ 1,175

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except par value)	June 30, 2019	September 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 722	\$ 1,557
Receivables, net	3,386	3,141
Inventory, net	819	896
Prepaid and other assets	515	482
Total current assets	5,442	6,076
Property and equipment, net	891	919
Inventory, net	3,963	3,848
Goodwill	11,886	11,609
Intangibles, net	328	313
Other assets	1,138	1,018
Total assets	<u>\$ 23,648</u>	<u>\$ 23,783</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 441	\$ 433
Accrued expenses	837	848
Participants' share and residuals	711	719
Program obligations	730	662
Deferred revenue	474	398
Current portion of debt	320	567
Other liabilities	490	427
Total current liabilities	4,003	4,054
Noncurrent portion of debt	8,638	9,515
Participants' share and residuals	430	523
Program obligations	335	498
Deferred tax liabilities, net	318	296
Other liabilities	1,191	1,186
Redeemable noncontrolling interest	250	246
Commitments and contingencies (Note 7)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 49.4 and 49.4 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 354.3 and 353.7 outstanding, respectively	—	—
Additional paid-in capital	10,157	10,145
Treasury stock, 392.5 and 393.1 common shares held in treasury, respectively	(20,541)	(20,562)
Retained earnings	19,656	18,561
Accumulated other comprehensive loss	(832)	(737)
Total Viacom stockholders' equity	8,440	7,407
Noncontrolling interests	43	58
Total equity	8,483	7,465
Total liabilities and equity	<u>\$ 23,648</u>	<u>\$ 23,783</u>

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine Months Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Net earnings (Viacom and noncontrolling interests)	\$ 1,265	\$ 1,352
Discontinued operations, net of tax	(22)	(23)
Net earnings from continuing operations	1,243	1,329
Reconciling items:		
Depreciation and amortization	159	159
Feature film and program amortization	3,234	3,402
Equity-based compensation	41	45
Deferred income taxes	36	27
Gain on marketable securities	(21)	—
Operating assets and liabilities, net of acquisitions:		
Receivables	(232)	(211)
Production and programming	(3,320)	(3,373)
Accounts payable and other current liabilities	7	(384)
Other, net	(44)	3
Net cash provided by operating activities	1,103	997
INVESTING ACTIVITIES		
Acquisitions and investments, net	(396)	(90)
Capital expenditures	(119)	(102)
Proceeds received from asset sales	5	57
Grantor trust proceeds	4	7
Net cash used in investing activities	(506)	(128)
FINANCING ACTIVITIES		
Debt repayments	(1,100)	(1,000)
Dividends paid	(242)	(241)
Exercise of stock options	—	2
Other, net	(87)	(70)
Net cash used in financing activities	(1,429)	(1,309)
Effect of exchange rate changes on cash and cash equivalents	(3)	(20)
Net change in cash and cash equivalents	(835)	(460)
Cash and cash equivalents at beginning of period	1,557	1,389
Cash and cash equivalents at end of period	\$ 722	\$ 929

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(in millions, except per share amounts)	Quarter Ended June 30, 2019							
	Common Stock (shares)	Common Stock/ Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity
March 31, 2019	403.3	\$ 10,161	\$ (20,554)	\$ 19,197	\$ (828)	\$ 7,976	\$ 49	\$ 8,025
Net earnings	—	—	—	544	—	544	6	550
Other comprehensive income, net of income tax expense of \$1	—	—	—	—	(4)	(4)	(1)	(5)
Noncontrolling interests	—	—	—	(4)	—	(4)	(11)	(15)
Dividends declared (\$0.20 per share for both Class A and B)	—	—	—	(81)	—	(81)	—	(81)
Equity-based compensation and other	0.4	(4)	13	—	—	9	—	9
June 30, 2019	403.7	\$ 10,157	\$ (20,541)	\$ 19,656	\$ (832)	\$ 8,440	\$ 43	\$ 8,483

(in millions, except per share amounts)	Nine Months Ended June 30, 2019							
	Common Stock (shares)	Common Stock/ Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity
September 30, 2018	403.1	\$ 10,145	\$ (20,562)	\$ 18,561	\$ (737)	\$ 7,407	\$ 58	\$ 7,465
Adoption of New Accounting Pronouncements(1)	—	—	—	113	(54)	59	—	59
Adjusted beginning balance, October 1, 2018	403.1	10,145	(20,562)	18,674	(791)	7,466	58	7,524
Net earnings	—	—	—	1,241	—	1,241	24	1,265
Other comprehensive loss, net of income tax expense of \$2	—	—	—	—	(41)	(41)	(1)	(42)
Noncontrolling interests	—	—	—	(13)	—	(13)	(38)	(51)
Dividends declared (\$0.60 per share for both Class A and B)	—	—	—	(244)	—	(244)	—	(244)
Equity-based compensation and other	0.6	12	21	(2)	—	31	—	31
June 30, 2019	403.7	\$ 10,157	\$ (20,541)	\$ 19,656	\$ (832)	\$ 8,440	\$ 43	\$ 8,483

(1) Represents the adoption of Accounting Standards Codification ("ASC") 606 - Revenue from Contracts with Customers, Accounting Standards Update ("ASU") 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory and ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. See Note 1 of the Consolidated Financial Statements for details.

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(continued)
(Unaudited)

(in millions, except per share amounts)	Quarter Ended June 30, 2018							
	Common Stock (shares)	Common Stock/ Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity
March 31, 2018	402.6	\$ 10,147	\$ (20,580)	\$ 17,762	\$ (549)	\$ 6,780	\$ 74	\$ 6,854
Net earnings	—	—	—	522	—	522	3	525

Other comprehensive loss, net of income tax expense of \$2	—	—	—	—	(219)	(219)	(2)	(221)
Noncontrolling interests	—	—	—	1	—	1	(10)	(9)
Dividends declared (\$0.20 per share for both Class A and B)	—	—	—	(81)	—	(81)	—	(81)
Equity-based compensation and other	0.5	(15)	18	43	(43)	3	—	3
June 30, 2018	<u>403.1</u>	<u>\$ 10,132</u>	<u>\$ (20,562)</u>	<u>\$ 18,247</u>	<u>\$ (811)</u>	<u>\$ 7,006</u>	<u>\$ 65</u>	<u>\$ 7,071</u>

**Nine Months Ended
June 30, 2018**

(in millions, except per share amounts)	Common Stock (shares)	Common Stock/ Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity
September 30, 2017	402.4	\$ 10,119	\$ (20,590)	\$ 17,124	\$ (618)	\$ 6,035	\$ 84	\$ 6,119
Net earnings	—	—	—	1,325	—	1,325	27	1,352
Other comprehensive loss, net of income tax expense of \$15	—	—	—	—	(150)	(150)	(2)	(152)
Noncontrolling interests	—	—	—	(2)	—	(2)	(44)	(46)
Dividends declared (\$0.60 per share for both Class A and B)	—	—	—	(243)	—	(243)	—	(243)
Equity-based compensation and other	0.7	13	28	43	(43)	41	—	41
June 30, 2018	<u>403.1</u>	<u>\$ 10,132</u>	<u>\$ (20,562)</u>	<u>\$ 18,247</u>	<u>\$ (811)</u>	<u>\$ 7,006</u>	<u>\$ 65</u>	<u>\$ 7,071</u>

See accompanying notes to Consolidated Financial Statements

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Viacom creates entertainment experiences that drive conversation and culture around the world. Through television, film, digital media, live events, merchandise and solutions, our brands connect with diverse, young and young at heart audiences in more than 180 countries. Viacom operates through two reportable segments: *Media Networks* and *Filmed Entertainment*. The *Media Networks* segment provides entertainment content, services and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers through our global media brands including flagship brands Nickelodeon, MTV, BET, Comedy Central and Paramount Network. The *Filmed Entertainment* segment develops, produces, finances, acquires and distributes films, television programming and other entertainment content through its Paramount Pictures, Paramount Players, Paramount Animation and Paramount Television divisions, in various markets and media worldwide, for itself and for third parties. It partners on various projects with key Viacom brands, including Nickelodeon Movies, MTV Films and BET Films. References in this document to “Viacom,” “Company,” “we,” “us” and “our” mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

Unaudited Interim Financial Statements

The accompanying unaudited consolidated quarterly financial statements have been prepared on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of our results of operations, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results expected for the fiscal year ending September 30, 2019 (“fiscal 2019”) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2018, as filed with the SEC on November 16, 2018 (the “2018 Form 10-K”).

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the dates presented and the reported amounts of revenues and expenses during the periods presented. Significant estimates inherent in the preparation of the accompanying Consolidated Financial Statements include estimates of film ultimate revenues, product returns, potential outcome of uncertain tax positions, fair value of acquired assets and liabilities, fair value of equity-based compensation and pension benefit assumptions. Estimates are based on past experience and other considerations reasonable under the circumstances. Actual results may differ from these estimates.

Revenue Recognition

We recognize revenue when control of a good or service is transferred to a customer. We consider control to be transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of that good or service. Significant judgments in the determination of the amount and timing of revenue from contracts with customers include the identification of distinct performance obligations in contracts containing bundled advertising sales and content licenses and the allocation of the consideration among individual performance obligations within these arrangements based on their relative standalone selling prices.

Advertising Revenues: Revenue from the sale of advertising earned by the *Media Networks* segment is recognized when the advertisement is aired. Advertising revenues are principally generated from the sale of advertising campaigns comprised of multiple commercial units. In contracts with guaranteed impressions, we have identified the overall advertising campaign as the performance obligation to be satisfied over time, and impressions delivered against the satisfaction of our guarantee as the measure of progress. To the extent amounts billed exceed the amount of revenue recognized by applying the measure of progress, such amounts are deferred until the impression guarantee has been satisfied. For arrangements that do not include impression guarantees, the individual spots are the performance obligation, and consideration is allocated among the individual advertising spots based on relative standalone selling prices.

Affiliate Revenues: In the *Media Networks* segment, content is primarily distributed through its live network feeds via content license arrangements with affiliate partners, including cable television operators, direct-to-home satellite operators and mobile networks.

We also license our content through television, subscription video-on-demand (“SVOD”) and over-the-top (“OTT”) distributors, syndication and transactional video-on-demand. As discussed further in the *Filmed Entertainment Revenues* section below, revenue associated with these arrangements is recognized upon a transfer of control, which occurs upon delivery and availability for airing by the licensee.

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Affiliate revenues from cable television operators, direct-to-home satellite television operators and mobile networks are recognized by the *Media Networks* segment as the live feeds are provided to the distributor, representing a transfer of control. The performance obligation under such affiliate agreements is a license to our content via the continuous delivery of live linear feeds, and may also include a license to programming for video-on-demand (“VOD”) viewing. Both performance obligations are satisfied over the term of the agreement. The majority of our affiliate revenues relate to sales-based royalties for which we receive a contractual rate per subscriber. Revenue for these contracts is recognized when the sale to the end customer occurs, which is generally concurrent with the delivery of the linear feeds based on the number of subscribers the customer has at the time of delivery.

Consumer Products, Recreation and Live Events Revenues: Revenue associated with consumer products, recreation and live event contracts is typically recognized utilizing contractual royalty rates applied to sales amounts reported by licensees. When consumer products and recreation agreements include minimum guaranteed consideration, revenue is recognized as sales occur by the licensee or ratably if the sales-based consideration is not expected to exceed a minimum guaranteed amount of consideration. For live events, we recognize revenue when the event is held.

Filmed Entertainment Revenues: In the *Filmed Entertainment* segment, we license our content through theatrical releases, television, SVOD and OTT distributors, and through transactional video-on-demand. We also distribute our films through DVD and Blu-ray sales through wholesale and retail partners.

Revenue from the licensing of film and television exhibition rights, including broadcast and cable television networks, SVOD and other OTT services, is recognized upon a transfer of control, which occurs upon delivery and availability for airing by the licensee. Each individual title delivered represents a separate performance obligation. For renewals or extensions of licensing arrangements, revenue related to the renewal or extension is recognized upon the start of the renewal or extension period to the extent the content has been delivered to the customer. SVOD and other OTT arrangements include content made available to distributors on one or more dates for a fixed fee. Consideration for such arrangements is allocated among the titles and episodes based on relative standalone selling prices. Estimation of standalone selling prices requires judgment, which can impact the timing and amount of revenue that we recognize.

In determining the transaction price of a contract, an adjustment is made if payment from our customer occurs either significantly before or after performance, resulting in a significant financing component. Applying a practical expedient in the new standard, we do not assess whether a significant financing component exists if the period between when we perform our obligations under the contract and when the customer pays is one year or less.

In transactional video-on-demand and similar arrangements, our performance obligation is to provide the content to our distribution customers that provide our content to end users. These contracts provide for sales-based royalties based on the number of underlying transactions with end users. Revenue for transactional video-on-demand and similar arrangements is recognized as the content is exhibited based on end-customer purchases as reported by distributors. Similarly, revenue from licensing of our content through electronic sell-through means is recognized as each title is downloaded by the end customer, as the customer is able to use the license immediately upon download. For sales of DVDs and Blu-ray discs to wholesalers and retailers, revenue is recognized upon the later of physical delivery to the customer or the date that restrictions on sales by the retailers are lifted.

Theatrical revenue is recognized from theatrical distribution of films during the exhibition period. These agreements take the form of sales-based royalties and revenue is recognized when the sale to the end customer occurs.

Revenue Allowances: We record a provision for sales returns and allowances at the time of sale based upon an estimate of future returns, rebates and other incentives (“estimated returns”). In determining estimated returns, we consider numerous sources of qualitative and quantitative evidence including forecasted sales data, customers’ rights of return, units shipped and units remaining at retail, historical return rates for similar product, current economic trends, competitive environment, promotions and sales strategies. Reserves for sales returns and allowances are recorded as a liability in the Consolidated Balance Sheet. Reserves for accounts receivable are based on amounts estimated to be uncollectible and are recorded as a contra-receivable.

Gross versus Net Revenue: We earn and recognize revenues under certain third-party distribution and outsourced advertising sales agreements. In such cases, determining whether revenue should be reported on a gross or net basis is based on management’s assessment of which party controls the good or service being transferred to the customer.

Recently Adopted Accounting Pronouncements

Revenue Recognition

On October 1, 2018, we adopted ASC Topic 606 - Revenue from Contracts with Customers, a comprehensive revenue recognition model that supersedes the previous revenue recognition requirements. The guidance provides a five step framework to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

expects to be entitled to in exchange for those goods or services. The new standard impacts the timing of revenue recognition for renewals and extensions of existing licensing agreements for intellectual property, which are now recognized as revenue when the renewal term begins rather than when the agreement is extended or renewed under previous guidance. We adopted the standard using the modified retrospective method for all contracts not completed as of the date of adoption, which resulted in a cumulative effect adjustment of \$106 million to decrease the opening retained earnings balance for our 2019 fiscal year, substantially all related to television license arrangements in our *Filmed Entertainment* segment.

The following tables present the amount each applicable financial statement line item on our Consolidated Statement of Earnings and Consolidated Balance Sheet would have increased/(decreased) if renewals and extensions of existing licensing agreements for intellectual property were recognized under previous accounting guidance:

Consolidated Statement of Earnings Impact (in millions, except per share amounts)	Quarter Ended June 30, 2019	Nine Months Ended June 30, 2019
Revenues	\$ (52)	\$ (99)
Operating expenses	(24)	(41)
Operating income	(28)	(58)
Provision for income taxes	(6)	(14)
Net earnings from continuing operations	\$ (22)	\$ (44)
Net earnings (Viacom and noncontrolling interests)	\$ (22)	\$ (44)
Net earnings attributable to Viacom	\$ (22)	\$ (44)
Basic EPS from continuing operations	\$ (0.05)	\$ (0.11)
Diluted EPS from continuing operations	\$ (0.05)	\$ (0.11)

Consolidated Balance Sheet Impact (in millions)	June 30, 2019
ASSETS	
Receivables, net	\$ (4)
Inventory, net	(11)
Prepaid and other assets	(2)
Other assets	67
LIABILITIES AND EQUITY	
Accrued expenses	\$ 2
Participants' share and residuals (current)	14
Other liabilities (current)	(56)
Deferred revenue	(1)
Participants' share and residuals (noncurrent)	41
Other liabilities (noncurrent)	(13)
Retained earnings	63

In addition, the adoption of ASC 606 resulted in a classification change on the Consolidated Balance Sheet in which reserves related to sales returns and allowances were reclassified to *Other Liabilities - current*. Such amount, which was \$63 million as of June 30, 2019, was previously presented as a reduction to *Receivables, net*.

Income Taxes

On October 1, 2018, we adopted ASU 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 requires the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under the previous GAAP in which the tax effects of intra-entity asset transfers were deferred until the transferred asset was sold to a third party or otherwise recovered through use. Under the modified retrospective method, we recorded a net cumulative adjustment of \$165 million to increase the opening retained earnings balance for our 2019 fiscal year, principally related to deferred tax assets that will be amortized over the next 12 to 15 years.

Financial Instruments

On October 1, 2018, we adopted ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of certain financial instruments. Among other provisions, the new guidance requires the fair value measurement of equity

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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investments. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or to apply a measurement alternative at cost adjusted for changes in observable prices minus impairment. All changes in measurement are recognized in net income. We adopted the standard for our marketable securities using the modified retrospective method, which resulted in a transition adjustment to reclassify \$54 million, net of tax, of accumulated other comprehensive income related to our marketable securities to increase the opening retained earnings balance. For our investments without readily determinable fair values, or non-marketable securities, we have adopted the standard prospectively and elected to apply the measurement alternative described above. Gains and losses resulting from the movements in fair value of equity investments are recorded in the Consolidated Statements of Earnings.

Statement of Cash Flows

On October 1, 2018, we adopted ASU 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard impacts our Consolidated Statements of Cash Flows by increasing cash flow from operating activities and decreasing cash flow from financing activities in periods when debt prepayment or debt extinguishment costs are paid. We adopted the standard retrospectively.

Pension Benefits

On October 1, 2018, we adopted ASU 2017-07 - Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of net periodic cost to be presented in the income statement with other current compensation costs for related employees. The other components of net periodic cost are required to be presented in the income statement outside of operating income. We adopted the standard retrospectively, which resulted in \$1 million of other components of net periodic costs in the nine months ended June 30, 2018 to be reclassified from *Selling, general and administrative* to *Other items, net* in the Consolidated Statements of Earnings. As a practical expedient, we used amounts previously disclosed in the prior comparative period's interim consolidated financial statements as the adjustments that were applied retrospectively.

Accounting Pronouncements Not Yet Adopted

Improvements to Accounting for Costs of Films and License Agreements for Program Materials

In March 2019, the FASB issued ASU 2019-02 - Entertainment - Films - Other Assets - Film Costs and Entertainment - Broadcasters - Intangibles - Goodwill and Other. ASU 2019-02 aligns the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. The guidance also requires that an entity test a film or license agreement for program material for impairment at a film group level when the film or license agreement is predominantly monetized with other films and/or license agreements. Further, the guidance requires that an entity reassess estimates of the use of a film in a film group and account for changes, if any, prospectively. The guidance will be effective for the first interim period of our 2021 fiscal year, with early adoption permitted. We are currently evaluating the impact of the new standard on our consolidated financial statements.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12 - Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. Among other provisions, ASU 2017-12 expands the eligibility of hedging strategies that qualify for hedge accounting, changes the assessment of hedge effectiveness and modifies the presentation and disclosure of hedging activities. The guidance will be effective for the first interim period of our 2020 fiscal year, with early adoption permitted. We are currently evaluating the impact of the new standard on our consolidated financial statements.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. Subsequently, ASU 2018-19 has been issued that amends and/or clarifies the application of ASU 2016-13. Among other provisions, the ASU introduces a new impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a forward-looking "expected loss" model that will replace the current "incurred loss" model and generally will result in earlier recognition of allowances for losses. The guidance will be effective for the first interim period of our 2021 fiscal year, with early adoption in fiscal year 2020 permitted. We are currently evaluating the impact of the new standard.

Leases

In February 2016, the FASB issued ASU 2016-02 - Leases. Subsequent ASUs have also been issued that amend and/or clarify the application of ASU 2016-02. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. For income statement purposes, leases will be classified as either operating or finance, generally resulting in straight-line expense recognition for operating leases (similar to current operating leases) and accelerated expense recognition for financing leases (similar to current capital leases). The guidance will be effective for the first interim period of

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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our 2020 fiscal year, with early adoption permitted. The guidance provides an option to either (1) adopt retrospectively and recognize a cumulative-effect adjustment at the beginning of the earliest period presented in the financial statements or (2) recognize a cumulative-effect adjustment at the beginning of the period of adoption. We are evaluating the adoption methodology and the impact of the new guidance on our consolidated financial statements.

NOTE 2. ACQUISITION***Pluto TV***

On March 1, 2019, we acquired Pluto Inc., the provider of the free streaming television service Pluto TV in the U.S., for \$324 million, net of cash acquired. The purchase price excludes \$18 million of post-combination expenses that are subject to continuous employment and will be recognized over the required service period in the Consolidated Statements of Earnings within *Selling, general and administrative expenses*. Pluto TV will advance our key strategic priorities, including expanding our presence across next-generation distribution platforms and accelerating growth in our advanced marketing solutions business.

The following table summarizes our allocation of the purchase price as of the acquisition date. Due to the timing of the acquisition, these amounts are provisional and subject to change. We will finalize these amounts as we obtain the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in adjustments to the provisional amounts recognized at the acquisition date.

Purchase Price Allocation
(in millions)

Receivables, net ⁽¹⁾	\$	31
Prepaid and other assets		3
Goodwill ⁽¹⁾		277
Intangible assets		41
Other assets, noncurrent		8
Assets acquired		360
Accounts payable		27
Accrued expenses		4
Other liabilities, noncurrent		5
Liabilities assumed		36
	\$	324

(1) In the quarter and nine months ended June 30, 2019, there was a \$1 million measurement period adjustment resulting in a reduction to *Receivables, net* and a \$2 million measurement period adjustment reflecting additional *Goodwill*, which were recognized at the acquisition date.

The goodwill, which is not deductible for tax purposes, reflects the expected Company-specific synergies arising from the acquisition and is included in the *Media Networks* segment. Intangible assets consist of distribution relationships, developed technology and trade names with useful lives of 5 years.

The operating results of Pluto TV from the date of acquisition through June 30, 2019 were not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3. INVENTORY

Inventory (in millions)	June 30, 2019	September 30, 2018
Film inventory:		
Released, net of amortization	\$ 478	\$ 454
Completed, not yet released	58	11
In process and other	753	713
	<u>1,289</u>	<u>1,178</u>
Television productions:		
Released, net of amortization	40	6
In process and other	216	201
	<u>256</u>	<u>207</u>
Original programming:		
Released, net of amortization	1,189	1,124
In process and other	795	757
	<u>1,984</u>	<u>1,881</u>
Acquired program rights, net of amortization	1,195	1,411
Home entertainment inventory	58	67
Total inventory, net	4,782	4,744
Less current portion	819	896
Noncurrent portion	<u>\$ 3,963</u>	<u>\$ 3,848</u>

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (continued)

NOTE 4. DEBT

Our total debt consists of the following:

Debt (in millions)	June 30, 2019	September 30, 2018
Senior Notes and Debentures:		
Senior notes due September 2019, 5.625%	\$ 220	\$ 550
Senior notes due December 2019, 2.750%	90	252
Senior notes due March 2021, 4.500%	498	497
Senior notes due December 2021, 3.875%	597	596
Senior notes due February 2022, 2.250%	49	102
Senior notes due June 2022, 3.125%	194	194
Senior notes due March 2023, 3.250%	181	181
Senior notes due September 2023, 4.250%	1,241	1,239
Senior notes due April 2024, 3.875%	489	488
Senior notes due October 2026, 3.450%	123	474
Senior debentures due December 2034, 4.850%	86	281
Senior debentures due April 2036, 6.875%	1,068	1,068
Senior debentures due October 2037, 6.750%	75	75
Senior debentures due February 2042, 4.500%	45	62
Senior debentures due March 2043, 4.375%	1,107	1,102
Senior debentures due June 2043, 4.875%	18	32
Senior debentures due September 2043, 5.850%	1,231	1,230
Senior debentures due April 2044, 5.250%	345	345
Junior Debentures:		
Junior subordinated debentures due February 2057, 5.875%	642	642
Junior subordinated debentures due February 2057, 6.250%	642	642
Capital lease and other obligations	17	30
Total debt	8,958	10,082
Less current portion	320	567
Noncurrent portion	<u>\$ 8,638</u>	<u>\$ 9,515</u>

In the nine months ended June 30, 2019, we redeemed \$1.128 billion of senior notes and debentures for a redemption price of \$1.100 billion. As a result, we recognized a pre-tax extinguishment gain of \$18 million, net of \$10 million of unamortized debt costs and transaction fees.

Our 5.875% Junior subordinated debentures due February 2057 and 6.250% Junior subordinated debentures due February 2057 accrue interest at the stated fixed rates until February 28, 2022 and February 28, 2027, respectively, on which dates the rates will switch to floating rates based on three-month LIBOR plus 3.895% and 3.899%, respectively, reset quarterly. These debentures can be called by us at any time after the expiration of the fixed-rate period.

The total unamortized discount and issuance fees and expenses related to our notes and debentures outstanding was \$413 million and \$431 million as of June 30, 2019 and September 30, 2018, respectively.

Credit Facility

In February 2019, we amended our revolving credit agreement, originally dated as of October 8, 2010, to, among other things, extend the maturity date of the \$2.5 billion revolving credit facility from November 18, 2019 to February 11, 2024. The credit facility is used for general corporate purposes and to support commercial paper outstanding, if any. The borrowing rate under the amended credit facility is LIBOR plus a margin ranging from 1% to 1.625% based on our current public debt rating. The credit facility has one principal financial covenant that requires our total consolidated leverage to be less than 4.50x (which we may elect to increase to 5.0x for up to four consecutive quarters following a qualifying acquisition) as of the last day of each fiscal quarter. We met this covenant as of June 30, 2019. Total consolidated leverage is the ratio of our consolidated indebtedness as of the last day of each quarter to the consolidated EBITDA (each as defined in the amended credit agreement) for the trailing twelve-month period. As of June 30, 2019, there were no amounts outstanding under the credit facility.

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (continued)

NOTE 5. PENSION BENEFITS

The components of net periodic benefit cost for our defined benefit pension plans, which are currently frozen to future benefit accruals, are set forth below. Net periodic benefit cost, other than service cost, if any, is presented in the Consolidated Statements of Earnings within *Other items, net*.

Net Periodic Benefit Cost (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Interest cost	\$ 10	\$ 9	\$ 29	\$ 26
Expected return on plan assets	(10)	(10)	(30)	(30)
Recognized actuarial loss	1	1	4	5
Net periodic benefit cost	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 1</u>

NOTE 6. REDEEMABLE NONCONTROLLING INTEREST

We are subject to a redeemable put option, payable in a foreign currency, with respect to an international subsidiary. The put option expires in December 2022 and is classified as *Redeemable noncontrolling interest* in the Consolidated Balance Sheets. The activity reflected within redeemable noncontrolling interest is as follows:

Redeemable Noncontrolling Interest (in millions)	Nine Months Ended June 30,	
	2019	2018
Beginning balance	\$ 246	\$ 248
Net earnings	10	13
Distributions	(13)	(14)
Translation adjustment	(6)	(4)
Redemption value adjustment	13	2
Ending Balance	<u>\$ 250</u>	<u>\$ 245</u>

NOTE 7. COMMITMENTS AND CONTINGENCIES

Commitments

As more fully described in Note 11 of the 2018 Form 10-K, our commitments primarily consist of programming and talent commitments, operating and capital lease arrangements, and purchase obligations for goods and services. These arrangements result from our normal course of business and represent obligations that may be payable over several years.

Contingencies

We have certain indemnification obligations with respect to leases primarily associated with the previously discontinued operations of Famous Players Inc. ("Famous Players"). In addition, we have certain indemnities provided by the acquirer of Famous Players. These lease commitments amounted to approximately \$111 million as of June 30, 2019 and are presented in the Consolidated Balance Sheets within *Other liabilities*. The amount of lease commitments varies over time depending on expiration or termination of individual underlying leases, or of the related indemnification obligation, and foreign exchange rates, among other things. We may also have exposure for certain other expenses related to the leases, such as property taxes and common area maintenance. We believe our accrual is sufficient to meet any future obligations based on our consideration of available financial information, the lessees' historical performance in meeting their lease obligations and the underlying economic factors impacting the lessees' business models.

NOTE 8. REVENUES

Contract Balances

The timing of revenue recognition, billings and cash collections results in receivables and contract liabilities in the Consolidated Balance Sheets.

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Current receivables were \$3.386 billion and \$3.117 billion as of June 30, 2019 and October 1, 2018, respectively. Noncurrent receivables are principally related to long-term television license arrangements at *Filmed Entertainment* and SVOD and other OTT arrangements at *Media Networks*. Noncurrent receivables, included within *Other assets - noncurrent* in our Consolidated Balance Sheets, were \$393 million and \$380 million as of June 30, 2019 and October 1, 2018, respectively. Such amounts are due in accordance with the underlying terms of the respective agreements. We have determined that credit loss allowances are generally not considered necessary for these amounts.

When consideration is received from a customer prior to satisfying, or partially satisfying, a performance obligation under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue when control of the products or services is transferred to the customer. Our contract liabilities primarily relate to advertising sales arrangements where revenues have been deferred due to impression guarantees, consumer products arrangements with minimum guarantees and advance payments under content licensing arrangements. Contract liabilities are primarily short term and shown as *Deferred revenue* in our Consolidated Balance Sheets. Current deferred revenue was \$474 million and \$402 million as of June 30, 2019 and October 1, 2018, respectively. Noncurrent deferred revenue, included within *Other liabilities* in our Consolidated Balance Sheets, was \$54 million and \$67 million as of June 30, 2019 and October 1, 2018, respectively. Revenue recognized in the nine months ended June 30, 2019 relating to contract liabilities as of September 30, 2018 was \$290 million.

Performance Obligations Satisfied in Previous Periods

Under certain contracts we provide licenses to functional intellectual property where revenue is recognized based on sales to the end customer. These types of contracts can result in recognition of revenue in a period subsequent to the period in which our performance obligation is satisfied, and are primarily entered into by our *Filmed Entertainment* reporting segment. We recognized approximately \$67 million of revenue during the quarter ended June 30, 2019 from performance obligations satisfied, or partially satisfied, prior to March 31, 2019. We recognized approximately \$133 million of revenue during the nine months ended June 30, 2019 from performance obligations satisfied, or partially satisfied, prior to September 30, 2018. These revenues were primarily related to the distribution of film and television content through transactional electronic sell-through and VOD.

Future Performance Obligations

As of June 30, 2019, unrecognized revenues attributable to performance obligations not yet satisfied under various long-term contracts were approximately \$3.0 billion. This revenue is generally expected to be recognized over a period of up to 10 years, but the majority will be recognized over the next three years. Our most significant remaining performance obligations relate to film and television content licensing arrangements, as well as affiliate and other arrangements that contain minimum guarantees. The amount disclosed does not include: (i) revenues related to performance obligations that are part of a contract that have an original expected duration of one year or less and (ii) content license contracts for which variable consideration is determined based on the customer's subsequent sale or usage.

NOTE 9. RESTRUCTURING, RELATED COSTS AND PROGRAMMING CHARGES

During fiscal 2018, we launched a program of cost transformation initiatives to improve our margins. We recognized pre-tax charges of \$172 million in the nine months ended June 30, 2019, associated with continuing initiatives primarily related to recent management changes and reorganization at *Media Networks*, comprised of \$95 million of restructuring and related costs and \$77 million of programming charges. The charges, as detailed in the table below, included severance charges, exit costs principally resulting from vacating certain leased properties, related costs comprised of third-party professional services and programming charges. The programming charges resulted from decisions by management newly in place, as part of our 2018 restructuring activities, to cease the use of certain programming, and are included within *Operating expenses* in the Consolidated Statement of Earnings.

Restructuring, Related Costs and Programming Charges (in millions)	Nine Months Ended June 30, 2019			
	Media Networks	Filmed Entertainment	Corporate	Total
Severance ⁽¹⁾	\$ 23	\$ 14	\$ 4	\$ 41
Exit costs	51	—	—	51
Other related costs	—	—	3	3
Restructuring and related costs	74	14	7	95
Programming	74	3	—	77
Total	\$ 148	\$ 17	\$ 7	\$ 172

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Restructuring and Related Costs (in millions)	Quarter Ended June 30, 2018				Nine Months Ended June 30, 2018			
	Media Networks	Filmed Entertainment	Corporate	Total	Media Networks	Filmed Entertainment	Corporate	Total
Severance ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ 123	\$ —	\$ —	\$ 123
Exit costs	—	—	—	—	40	—	—	40
Other related costs	—	—	15	15	—	—	37	37
Total	\$ —	\$ —	\$ 15	\$ 15	\$ 163	\$ —	\$ 37	\$ 200

(1) Includes equity-based compensation expense of \$1 million in the nine months ended June 30, 2019 and \$6 million in the nine months ended June 30, 2018.

Our severance liability by reportable segment is as follows:

Severance Liability (in millions)	Media Networks	Filmed Entertainment	Corporate	Total
September 30, 2018	\$ 149	\$ 23	\$ 23	\$ 195
Accruals	23	14	4	41
Severance payments	(73)	(20)	(17)	(110)
June 30, 2019	\$ 99	\$ 17	\$ 10	\$ 126

As of June 30, 2019, of the remaining \$126 million liability, \$91 million was classified within *Other liabilities – current* in the Consolidated Balance Sheets, with the remaining \$35 million classified within *Other liabilities – noncurrent*. We expect to complete these restructuring actions in fiscal 2019. Amounts classified as noncurrent are expected to be substantially paid through 2021, in accordance with applicable contractual terms. In addition, we made payments related to exit costs of \$22 million in the nine months ended June 30, 2019.

NOTE 10. INCOME TAXES

As of December 31, 2018, all relevant provisions of the Tax Cuts and Jobs Act (the “Act”), enacted on December 22, 2017, became applicable to us. Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, provided a measurement period of one year from the date of enactment for which provisional amounts could be recorded. As of one year from enactment, we completed our analysis with regard to the Act and therefore do not have any remaining provisional amounts recorded in the Consolidated Balance Sheet. As guidance regarding the Act continues to be forthcoming, the application of such guidance may result in additional charges to our income tax provision. We have also elected to account for the effects of global intangible low tax income as a component of income tax expense in the period the tax arises.

Our effective income tax rate was 18.3% and 22.1% in the quarter and nine months ended June 30, 2019, respectively. A net discrete tax benefit of \$32 million in the quarter and nine months ended June 30, 2019, taken together with the discrete tax impact of the restructuring and related costs, programming charges, legal settlement, gain on extinguishment of debt and the gain on marketable securities, decreased the effective income tax rate by 4.8 and 1.9 percentage points in the quarter and nine months, respectively. The net discrete tax benefit in the quarter was principally related to a tax benefit triggered by the bankruptcy of an investee.

Our effective income tax rate was 15.3% and 10.6% in the quarter and nine months ended June 30, 2018, respectively. A net discrete tax benefit of \$47 million in the quarter and \$196 million in the nine months, taken together with the discrete tax impact of the restructuring and related costs, investment impairment and gain on debt extinguishment, reduced the effective income tax rate by 7.9 and 13.4 percentage points in the quarter and nine months, respectively. The net discrete tax benefit in the quarter was principally related to a tax accounting method change granted by the Internal Revenue Service and the release of tax reserves with respect to certain effectively settled tax positions. In addition to the items in the quarter, the net discrete tax benefit in the nine months was principally related to tax reform, as well as the measurement of the deferred tax balances from the retroactive reenactment of legislation allowing for accelerated tax deductions on certain qualified film and television productions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing *Net earnings attributable to Viacom* by the weighted average number of common shares outstanding during the period. The determination of diluted earnings per common share includes the weighted average number of common shares plus the dilutive effect of equity awards based upon the application of the treasury stock method. Anti-dilutive common shares were excluded from the calculation of diluted earnings per common share.

The following table sets forth the weighted average number of common shares outstanding used in determining basic and diluted earnings per common share and anti-dilutive common shares:

Weighted Average Number of Common Shares Outstanding and Anti-dilutive Common Shares (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Weighted average number of common shares outstanding, basic	403.5	402.8	403.3	402.6
Dilutive effect of equity awards	0.5	0.5	0.4	0.3
Weighted average number of common shares outstanding, diluted	404.0	403.3	403.7	402.9
Anti-dilutive common shares	17.6	18.9	19.2	19.2

NOTE 12. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

Supplemental Cash Flow Information (in millions)	Nine Months Ended June 30,	
	2019	2018
Cash paid for interest	\$ 347	\$ 403
Cash paid for income taxes	\$ 217	\$ 95

Equity Awards

During the nine months ended June 30, 2019, we granted 2.9 million stock options and 2.1 million performance and restricted share units to employees with a weighted average grant date fair value of \$7.31 and \$31.09 per share, respectively. During the nine months ended June 30, 2018, we granted 2.4 million stock options and 1.5 million performance and restricted share units to employees with a weighted average grant date fair value of \$8.83 and \$32.42 per share, respectively.

Investments

During the nine months ended June 30, 2018, we recognized an impairment loss of \$46 million to write off certain cost method investments. We also completed the sale of a 1% equity interest in Viacom18 to our joint venture partner for \$20 million, resulting in a gain of \$16 million. The impairment charge and gain on asset sale were included in *Other items, net* in the Consolidated Statements of Earnings.

Variable Interest Entities

In the normal course of business, we enter into joint ventures or make investments with business partners that support our underlying business strategy and provide us the ability to enter new markets to expand the reach of our brands, develop new programming and/or distribute our existing content. In certain instances, an entity in which we make an investment may qualify as a variable interest entity ("VIE"). In determining whether we are the primary beneficiary of a VIE, we assess whether we have the power to direct matters that most significantly impact the activities of the VIE and have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$44 million in assets and \$4 million in liabilities as of June 30, 2019, and \$72 million in assets and \$5 million in liabilities as of September 30, 2018. The consolidated VIEs' revenues, expenses and operating income were not significant for all periods presented.

Legal Settlement

During the quarter ended March 31, 2019, a commercial dispute arose and was settled for \$40 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13. FAIR VALUE MEASUREMENTS

The fair value of our marketable securities was \$101 million and \$80 million as of June 30, 2019 and September 30, 2018, respectively, which is included within *Other assets, noncurrent* on our Consolidated Balance Sheets, as determined utilizing a market approach based on quoted market prices in active markets at period end (Level 1 in the fair value hierarchy). The carrying value of non-marketable equity investments was \$139 million as of June 30, 2019.

The fair value of our notes and debentures outstanding was approximately \$10.1 billion and \$10.5 billion as of June 30, 2019 and September 30, 2018, respectively. The valuation of our publicly traded debt is based on quoted prices in active markets (Level 1 in the fair value hierarchy).

The fair value of our foreign exchange contracts was a liability of \$1 million and \$8 million as of June 30, 2019 and September 30, 2018, respectively, as determined utilizing a market-based approach (Level 2 in the fair value hierarchy).

The notional value of all foreign exchange contracts was \$725 million and \$642 million as of June 30, 2019 and September 30, 2018, respectively. As of June 30, 2019, \$433 million related to future production costs and \$292 million related to our foreign currency balances. As of September 30, 2018, \$345 million related to future production costs and \$297 million related to our foreign currency balances.

NOTE 14. REPORTABLE SEGMENTS

The following tables set forth our financial performance by reportable segment. Our reportable segments have been determined in accordance with our internal management structure. We manage our operations through two reportable segments: (i) *Media Networks* and (ii) *Filmed Entertainment*. Typical intersegment transactions include the purchase of advertising by the *Filmed Entertainment* segment on *Media Networks*' properties and the licensing of *Filmed Entertainment*'s feature film and television content by *Media Networks*. The elimination of such intercompany transactions in our consolidated financial statements is included within eliminations in the tables below.

Our measure of segment performance is adjusted operating income. Adjusted operating income is defined as operating income, before equity-based compensation and certain other items identified as affecting comparability, when applicable.

Revenues by Segment (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Media Networks	\$ 2,504	\$ 2,502	\$ 7,269	\$ 7,491
Filmed Entertainment	877	772	2,228	2,057
Eliminations	(24)	(37)	(92)	(90)
Total revenues	\$ 3,357	\$ 3,237	\$ 9,405	\$ 9,458

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Adjusted Operating Income/(Loss) (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Media Networks	\$ 748	\$ 799	\$ 2,343	\$ 2,419
Filmed Entertainment	85	44	24	(77)
Corporate expenses	(65)	(60)	(182)	(175)
Eliminations	3	(6)	(1)	(2)
Equity-based compensation	(14)	(10)	(40)	(39)
Restructuring, related costs and programming charges ⁽¹⁾	—	(15)	(172)	(200)
Legal settlement	—	—	(40)	—
Operating income	757	752	1,932	1,926
Interest expense, net	(119)	(138)	(364)	(428)
Equity in net earnings of investee companies	—	2	1	5
Gain on marketable securities	29	—	21	—
Gain on extinguishment of debt	—	—	18	25
Other items, net	(1)	(9)	(13)	(41)
Earnings from continuing operations before provision for income taxes	\$ 666	\$ 607	\$ 1,595	\$ 1,487

(1) Includes equity-based compensation expense of \$1 million in the nine months ended June 30, 2019 and \$6 million in the nine months ended June 30, 2018.

Total Assets (in millions)	June 30, 2019	September 30, 2018
Media Networks	\$ 17,811	\$ 17,576
Filmed Entertainment	5,537	5,297
Corporate/Eliminations	300	910
Total assets	\$ 23,648	\$ 23,783

During the first quarter of fiscal 2019, we changed our presentation of revenues by component to better align the revenue classification to the inherent nature of the underlying revenue transactions. Amounts previously reported as ancillary revenues in *Media Networks* were renamed to consumer products, recreation and live events. Further, certain components of *Media Networks* revenue, including syndication and download-to-own revenues, previously reported within ancillary revenues were reclassified to affiliate revenues. Amounts previously reported as feature film revenues in *Filmed Entertainment* were disaggregated among (i) theatrical, (ii) home entertainment and (iii) licensing. Prior period amounts have been recast to conform to the current presentation.

Revenues by Component (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Media Networks				
Advertising	\$ 1,226	\$ 1,191	\$ 3,489	\$ 3,604
Affiliate	1,189	1,203	3,497	3,550
Consumer products, recreation and live events	89	108	283	337
Filmed Entertainment				
Theatrical	152	208	473	358
Home entertainment	161	119	493	465
Licensing	521	404	1,056	1,094
Ancillary	43	41	206	140
Eliminations	(24)	(37)	(92)	(90)
Total revenues	\$ 3,357	\$ 3,237	\$ 9,405	\$ 9,458

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(continued)

NOTE 15. RELATED PARTY TRANSACTIONS

National Amusements, Inc. (“National Amusements”), directly and indirectly, is the controlling stockholder of both Viacom and CBS Corporation (“CBS”). National Amusements owns shares in Viacom representing approximately 79.8% of the voting interest in Viacom and approximately 9.9% of Viacom’s combined common stock. National Amusements is controlled by Sumner M. Redstone, our Chairman Emeritus, who is the Chairman and Chief Executive Officer of National Amusements, through the Sumner M. Redstone National Amusements Trust (the “SMR Trust”), which owns shares in National Amusements representing 80% of the voting interest of National Amusements. The shares representing the other 20% of the voting interest of National Amusements are held through a trust controlled by Shari E. Redstone, who is Mr. Redstone’s daughter, the non-executive Vice Chair of Viacom’s Board of Directors, the non-executive Vice Chair of CBS’s board of directors, and the President and a member of the Board of Directors of National Amusements. The shares of National Amusements held by the SMR Trust are voted solely by Mr. Redstone until such time as his incapacity or death. Upon Mr. Redstone’s incapacity or death, Ms. Redstone will also become a trustee of the SMR Trust and the shares of National Amusements held by the SMR Trust will be voted by the trustees of the SMR Trust. The current trustees include Mr. Redstone, who is also a member of the Board of Directors of National Amusements and serves as Chairman Emeritus of CBS.

Transactions between Viacom and related parties are overseen by our Governance and Nominating Committee.

Viacom and National Amusements Related Party Transactions

National Amusements licenses films in the ordinary course of business for its movie theaters from all major studios, including Paramount. During the nine months ended June 30, 2019 and 2018, Paramount earned revenues from National Amusements in connection with these licenses in the aggregate amount of approximately \$4 million and \$5 million, respectively.

Viacom and CBS Corporation Related Party Transactions

In the ordinary course of business, we are involved in transactions with CBS and its various businesses that result in the recognition of revenues and expenses by us. Transactions with CBS are settled in cash.

Our *Filmed Entertainment* segment earns revenues and recognizes expenses associated with its distribution of certain television products into the home entertainment market on behalf of CBS. Pursuant to its agreement with CBS, Paramount distributes CBS’s library of television and other content on DVD and Blu-ray disc on a worldwide basis. Under the terms of the agreement, Paramount is entitled to retain a fee based on a percentage of gross receipts and is generally responsible for all out-of-pocket costs, which are recoupable prior to any participation amounts paid. Paramount also earns revenues from CBS through leasing of studio space and licensing of certain film products.

Our *Media Networks* segment recognizes advertising revenues and licenses television programming from CBS. The cost of the programming purchases is initially recorded as acquired program rights inventory and amortized over the estimated period that revenues will be generated.

Both of our segments recognize advertising expenses related to the placement of advertisements with CBS.

VIACOM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The following table summarizes the transactions with CBS as included in our consolidated financial statements:

CBS Related Party Transactions (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Consolidated Statements of Earnings				
Revenues	\$ 29	\$ 21	\$ 80	\$ 90
Operating expenses	\$ 5	\$ 25	\$ 67	\$ 110
			June 30, 2019	September 30, 2018
Consolidated Balance Sheets				
Accounts receivable			\$ 5	\$ 7
Accounts payable			\$ 1	\$ —
Participants' share and residuals, current			40	58
Program obligations, current			26	38
Program obligations, noncurrent			16	32
Other liabilities			—	2
Total due to CBS			\$ 83	\$ 130

Other Related Party Transactions

In the ordinary course of business, we are involved in related party transactions with equity investees. These related party transactions primarily relate to the provision of advertising services, licensing of film and programming content and distribution of films, for which the impact on our consolidated financial statements is as follows:

Other Related Party Transactions (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Consolidated Statements of Earnings				
Revenues	\$ 10	\$ 7	\$ 35	\$ 38
Operating expenses	\$ 1	\$ 3	\$ 5	\$ 8
			June 30, 2019	September 30, 2018
Consolidated Balance Sheets				
Accounts receivable			\$ 25	\$ 43
Other assets			3	3
Total due from other related parties			\$ 28	\$ 46
Accounts payable			\$ 6	\$ 7
Other liabilities			1	2
Total due to other related parties			\$ 7	\$ 9

All other related party transactions were not material in the periods presented.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.

Management's discussion and analysis of results of operations and financial condition is provided as a supplement to and should be read in conjunction with the unaudited consolidated financial statements and related notes to enhance the understanding of our results of operations, financial condition and cash flows. Additional context can also be found in our Form 10-K for the fiscal year ended September 30, 2018, as filed with the Securities and Exchange Commission ("SEC") on November 16, 2018 (the "2018 Form 10-K"). References in this document to "Viacom," "Company," "we," "us" and "our" mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

Significant components of management's discussion and analysis of results of operations and financial condition include:

Overview: The overview section provides a summary of our business.

Results of Operations: The results of operations section provides an analysis of our results on a consolidated and reportable segment basis for the quarter and nine months ended June 30, 2019, compared with the quarter and nine months ended June 30, 2018. In addition, we provide a discussion of items that affect the comparability of our results of operations.

Liquidity and Capital Resources: The liquidity and capital resources section provides a discussion of our cash flows for the nine months ended June 30, 2019, compared with the nine months ended June 30, 2018, and of our outstanding debt, commitments and contingencies existing as of June 30, 2019.

OVERVIEW

Summary

Viacom creates entertainment experiences that drive conversation and culture around the world. Through television, film, digital media, live events, merchandise and solutions, our brands connect with diverse, young and young at heart audiences in more than 180 countries.

We operate through two reportable segments: *Media Networks* and *Filmed Entertainment*. Our measure of segment performance is adjusted operating income. We define adjusted operating income for our segments as operating income, before equity-based compensation and certain other items identified as affecting comparability, when applicable. Equity-based compensation is excluded from our segment measure of performance since it is set and approved by the Compensation Committee of Viacom's Board of Directors in consultation with corporate executive management, and is included as a component of consolidated adjusted operating income.

Media Networks

Our *Media Networks* segment provides entertainment content, services and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. We create, acquire, distribute and sell programming and other content for our audiences worldwide, distributed through cable, satellite and broadband services, on linear, streaming, on-demand and transactional bases, for viewing on a wide range of devices such as televisions, PCs, tablets, smartphones and other connected devices. The *Media Networks* segment also delivers advertising and marketing services, including those under our advanced marketing solutions portfolio, which both utilizes advanced addressable video inventory to allow dynamic ad insertion and advanced targeting, and provides our marketing partners with a variety of consulting and creative services and associated activations. The *Media Networks* segment also licenses its brands and properties for consumer products and recreation experiences, produces live events and creates original programming for third-party distributors.

Globally, our *Media Networks* segment reaches approximately 4.4 billion cumulative television subscribers in more than 180 countries and 46 languages, via 314 locally programmed and operated television channels, including our multimedia brands Nickelodeon, MTV, BET, Comedy Central, Paramount Network, Nick Jr., VH1, TV Land, CMT and Logo, as well as Pluto TV, our free streaming television service. Outside of the United States (the "U.S."), Viacom International Media Networks ("VIMN") operates the international extensions of our multimedia brands and our program services created specifically for international audiences, such as British public service broadcaster Channel 5 and Milkshake! in the United Kingdom ("UK"), Televisión Federal S.A. ("Telefe") in Argentina, Colors in India and Paramount Channel. "Cumulative television subscribers" is an aggregation of the total subscribers to (or viewers of, in the case of our free-to-air channels) each Viacom owned-and-operated, joint venture and licensee channel.

Our *Media Networks* segment generates revenues in three categories: (i) the sale of advertising and marketing services, (ii) affiliate fees from distributors of our programming and program services and (iii) consumer products, recreation and live events.

**Management’s Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Media Networks segment expenses consist of operating expenses, selling, general and administrative (“SG&A”) expenses and depreciation and amortization. Operating expenses are comprised of costs related to original and acquired programming, including programming amortization, expenses associated with the distribution of home entertainment products and consumer products licensing, participations and residuals, royalties, marketing services expenses and other costs of sales. SG&A expenses consist primarily of employee compensation, marketing, research and professional service fees and facility and occupancy costs. Depreciation and amortization expenses reflect depreciation of fixed assets, including transponders financed under capital leases, and amortization of finite-lived intangible assets.

Filmed Entertainment

Our *Filmed Entertainment* segment develops, produces, finances, acquires and distributes films, television programming and other entertainment content through its Paramount Pictures, Paramount Players, Paramount Animation and Paramount Television divisions, in various markets and media worldwide. It partners on various projects with key Viacom brands, including Nickelodeon Movies, MTV Films and BET Films.

Our *Filmed Entertainment* segment generates revenues in four categories: (i) the release and/or distribution of films theatrically, (ii) the release and/or distribution of film and television product through home entertainment, (iii) the licensing of film and television product to television and digital platforms and (iv) other ancillary activities.

Filmed Entertainment segment expenses consist of operating expenses, SG&A expenses and depreciation and amortization. Operating expenses principally include the amortization of costs of our released feature films and television programming (including participations and residuals), print and advertising expenses and other distribution costs. SG&A expenses include employee compensation, facility and occupancy costs, professional service fees and other overhead costs. Depreciation and amortization expense principally consists of depreciation of fixed assets.

RESULTS OF OPERATIONS

Summary Consolidated Results of Operations

(in millions, except per share amounts)	Quarter Ended June 30,		Better/(Worse)		Nine Months Ended June 30,		Better/(Worse)	
	2019	2018	\$	%	2019	2018	\$	%
GAAP								
Revenues	\$ 3,357	\$ 3,237	\$ 120	4 %	\$ 9,405	\$ 9,458	\$ (53)	(1)%
Operating income	757	752	5	1	1,932	1,926	6	—
Net earnings from continuing operations attributable to Viacom	538	511	27	5	1,219	1,302	(83)	(6)
Diluted earnings per share from continuing operations	1.33	1.27	0.06	5	3.02	3.23	(0.21)	(7)
Non-GAAP*								
Adjusted operating income	\$ 757	\$ 767	\$ (10)	(1)%	\$ 2,144	\$ 2,126	\$ 18	1 %
Adjusted net earnings from continuing operations attributable to Viacom	484	475	9	2	1,320	1,259	61	5
Adjusted diluted earnings per share from continuing operations	1.20	1.18	0.02	2	3.27	3.12	0.15	5

* See “Factors Affecting Comparability” section below for a reconciliation of our reported results to our adjusted results, which are calculated on a non-GAAP basis.

Factors Affecting Comparability

We utilize certain financial measures that are not in accordance with accounting principles generally accepted in the United States of America (“GAAP”), including consolidated adjusted operating income, adjusted earnings from continuing operations before provision for income taxes, adjusted provision for income taxes, adjusted net earnings from continuing operations attributable to Viacom and adjusted diluted earnings per share (“EPS”) from continuing operations, to evaluate our actual operating performance and for planning and forecasting of future periods.

We believe that each of these adjusted measures provides relevant and useful information for investors because they clarify our actual operating performance, make it easier to compare our results with those of other companies, facilitate period-to-period comparisons of our business performance and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with GAAP, they should not be considered in isolation of, or as a substitute for, operating income, earnings from continuing operations before provision for income taxes, provision

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**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

for income taxes, net earnings from continuing operations attributable to Viacom and diluted EPS from continuing operations as indicators of operating performance and they may not be comparable to similarly titled measures employed by other companies.

The following tables reconcile our results of operations reported in accordance with GAAP for the quarter and nine months ended June 30, 2019 and 2018 to adjusted results that exclude the impact of certain items identified as affecting comparability (non-GAAP). The tax impacts included in the tables below have been calculated using the rates applicable to the adjustments presented.

(in millions, except per share amounts)

	Quarter Ended June 30, 2019				
	Operating Income	Earnings from Continuing Operations Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results (GAAP)	\$ 757	\$ 666	\$ 122	\$ 538	\$ 1.33
Factors Affecting Comparability:					
Gain on marketable securities	—	(29)	(7)	(22)	(0.05)
Discrete tax benefit	—	—	32	(32)	(0.08)
Adjusted results (Non-GAAP)	<u>\$ 757</u>	<u>\$ 637</u>	<u>\$ 147</u>	<u>\$ 484</u>	<u>\$ 1.20</u>

(in millions, except per share amounts)

	Nine Months Ended June 30, 2019				
	Operating Income	Earnings from Continuing Operations Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results (GAAP)	\$ 1,932	\$ 1,595	\$ 352	\$ 1,219	\$ 3.02
Factors Affecting Comparability:					
Restructuring, related costs and programming charges	172	172	40	132	0.32
Legal settlement	40	40	9	31	0.08
Gain on extinguishment of debt	—	(18)	(4)	(14)	(0.03)
Gain on marketable securities	—	(21)	(5)	(16)	(0.04)
Discrete tax benefit	—	—	32	(32)	(0.08)
Adjusted results (Non-GAAP)	<u>\$ 2,144</u>	<u>\$ 1,768</u>	<u>\$ 424</u>	<u>\$ 1,320</u>	<u>\$ 3.27</u>

(in millions, except per share amounts)

	Quarter Ended June 30, 2018				
	Operating Income	Earnings from Continuing Operations Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results (GAAP)	\$ 752	\$ 607	\$ 93	\$ 511	\$ 1.27
Factors Affecting Comparability:					
Restructuring and related costs	15	15	4	11	0.03
Discrete tax benefit	—	—	47	(47)	(0.12)
Adjusted results (Non-GAAP)	<u>\$ 767</u>	<u>\$ 622</u>	<u>\$ 144</u>	<u>\$ 475</u>	<u>\$ 1.18</u>

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**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

(in millions, except per share amounts)

	Nine Months Ended June 30, 2018				
	Operating Income	Earnings from Continuing Operations Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results (GAAP)	\$ 1,926	\$ 1,487	\$ 158	\$ 1,302	\$ 3.23
Factors Affecting Comparability:					
Restructuring and related costs	200	200	48	152	0.38
Gain on extinguishment of debt	—	(25)	(6)	(19)	(0.05)
Gain on asset sale	—	(16)	—	(16)	(0.04)
Investment impairment	—	46	10	36	0.09
Discrete tax benefit	—	—	196	(196)	(0.49)
Adjusted results (Non-GAAP)	<u>\$ 2,126</u>	<u>\$ 1,692</u>	<u>\$ 406</u>	<u>\$ 1,259</u>	<u>\$ 3.12</u>

Restructuring, related costs and programming charges: During fiscal 2018, we launched a program of cost transformation initiatives to improve our margins. We recognized pre-tax charges of \$172 million in the nine months ended June 30, 2019, associated with continuing initiatives primarily related to recent management changes and reorganization at *Media Networks*, comprised of \$95 million of restructuring and related costs and \$77 million of programming charges. The programming charges resulted from decisions by management newly in place, as part of our 2018 restructuring activities, to cease the use of certain programming, and are included within *Operating expenses* in the Consolidated Statements of Earnings.

Our cost transformation initiatives are expected to give rise to over \$300 million of run-rate savings, the benefit of which will be phased in through fiscal 2020.

Restructuring, Related Costs and Programming Charges (in millions)	Nine Months Ended June 30, 2019			
	Media Networks	Filmed Entertainment	Corporate	Total
Severance	\$ 23	\$ 14	\$ 4	\$ 41
Exit costs	51	—	—	51
Other related costs	—	—	3	3
Restructuring and related costs	74	14	7	95
Programming	74	3	—	77
Total	<u>\$ 148</u>	<u>\$ 17</u>	<u>\$ 7</u>	<u>\$ 172</u>

We recognized restructuring and related costs of \$15 million and \$200 million in the quarter and nine months ended June 30, 2018, respectively, resulting from the program of cost transformation initiatives described above.

Restructuring and Related Costs (in millions)	Quarter Ended June 30, 2018				Nine Months Ended June 30, 2018			
	Media Networks	Filmed Entertainment	Corporate	Total	Media Networks	Filmed Entertainment	Corporate	Total
Severance	\$ —	\$ —	\$ —	\$ —	\$ 123	\$ —	\$ —	\$ 123
Exit costs	—	—	—	—	40	—	—	40
Other related costs	—	—	15	15	—	—	37	37
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ 163</u>	<u>\$ —</u>	<u>\$ 37</u>	<u>\$ 200</u>

Legal settlement: An expense of \$40 million was recognized in connection with the settlement of a commercial dispute in the quarter ended March 31, 2019.

Gain on extinguishment of debt: We redeemed senior notes and debentures totaling \$1.128 billion in the nine months ended June 30, 2019. As a result, we recognized a pre-tax extinguishment gain of \$18 million in the Consolidated Statements of Earnings.

We redeemed senior notes and debentures totaling \$1.039 billion in the nine months ended June 30, 2018. As a result of these transactions, we recognized a pre-tax extinguishment gain of \$25 million in the Consolidated Statements of Earnings.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Gain on marketable securities: Pursuant to our adoption of Accounting Standards Update 2016-01, which requires the changes in fair value measurement of marketable securities to be recognized in the Consolidated Statements of Earnings, we recorded a non-operating gain on marketable securities of \$29 million and \$21 million in the quarter and nine months ended June 30, 2019, respectively, in the Consolidated Statements of Earnings.

Gain on asset sale: We completed the sale of a 1% equity interest in Viacom18 to our joint venture partner for \$20 million, resulting in a gain of \$16 million in the nine months ended June 30, 2018, included within *Other items, net* in the Consolidated Statements of Earnings.

Investment impairment: We recognized a \$46 million impairment loss in the nine months ended June 30, 2018, included within *Other items, net* in the Consolidated Statements of Earnings, in connection with the write off of certain cost method investments.

Discrete taxes: The net discrete tax benefit in the quarter and nine months ended June 30, 2019 was principally related to the tax benefit triggered by the bankruptcy of an investee.

The net discrete tax benefit in the quarter ended June 30, 2018 was principally related to a tax accounting method change granted by the Internal Revenue Service and the release of tax reserves with respect to certain effectively settled tax positions. In addition to the items in the quarter, the net discrete tax benefit in the nine months ended June 30, 2018 was principally related to tax reform, as well as the measurement of the deferred tax balances from the retroactive reenactment of legislation allowing for accelerated tax deductions on certain qualified film and television productions.

Consolidated Results of Operations

The consolidated results discussed below should be read in conjunction with the “*Segment Results of Operations*” section.

Revenues

Worldwide revenues increased \$120 million, or 4%, to \$3.357 billion in the quarter ended June 30, 2019, and included a 2-percentage point unfavorable impact of foreign exchange. *Media Networks* revenues remained substantially flat at \$2.504 billion in the quarter. *Filmed Entertainment* revenues increased \$105 million, or 14%, in the quarter primarily due to increased licensing and home entertainment revenues, partially offset by lower theatrical revenues.

Worldwide revenues decreased \$53 million, or 1%, to \$9.405 billion in the nine months ended June 30, 2019, and included a 3-percentage point unfavorable impact of foreign exchange. *Media Networks* revenues decreased \$222 million, or 3%, in the nine months, principally driven by the unfavorable impact of foreign exchange. *Filmed Entertainment* revenues increased \$171 million, or 8%, in the nine months, reflecting increased theatrical, ancillary and home entertainment revenues, partially offset by a decrease in licensing revenues.

Expenses

Total expenses increased \$115 million, or 5%, to \$2.600 billion in the quarter ended June 30, 2019, while total expenses decreased \$59 million, or 1%, to \$7.473 billion in the nine months. Consolidated expenses in the nine months ended June 30, 2019 included restructuring and related costs of \$95 million, programming charges of \$77 million and an expense of \$40 million in connection with the settlement of a commercial dispute, compared with restructuring and related costs of \$15 million and \$200 million in the quarter and nine months ended June 30, 2018, respectively, as described in more detail in “*Factors Affecting Comparability*”. *Media Networks* expenses increased \$53 million, or 3%, in the quarter and decreased \$146 million, or 3%, in the nine months. *Filmed Entertainment* expenses increased \$64 million, or 9%, in the quarter and \$70 million, or 3%, in the nine months.

Operating

Operating expenses increased \$36 million, or 2%, to \$1.717 billion in the quarter and remained substantially flat at \$4.924 billion in the nine months. Consolidated operating expenses included programming charges of \$77 million in the nine months ended June 30, 2019, as described in more detail in “*Factors Affecting Comparability*”. *Media Networks* operating expenses increased \$6 million, or 1%, in the quarter and decreased \$120 million, or 4%, in the nine months. *Filmed Entertainment* operating expenses increased \$24 million, or 4%, in the quarter and \$43 million, or 2%, in the nine months.

Selling, General and Administrative

SG&A expenses increased \$90 million, or 12%, to \$828 million in the quarter and remained substantially flat at \$2.255 billion in the nine months. SG&A expenses included a 3-percentage point and 4-percentage point benefit of cost savings in the quarter and nine months, respectively, from our restructuring activities. *Media Networks* SG&A expenses increased \$44 million, or 7%, in the quarter and decreased \$27 million, or 2%, in the nine months. *Filmed Entertainment* SG&A expenses increased \$38 million, or 48%, in the quarter and \$27 million, or 11%, in the nine months.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Restructuring and Related Costs

Restructuring and related costs of \$95 million were recognized in the nine months ended June 30, 2019, compared with \$15 million and \$200 million in the quarter and nine months ended June 30, 2018, respectively, as described in more detail in “*Factors Affecting Comparability*”.

Legal Settlement

An expense of \$40 million was recognized in connection with the settlement of a commercial dispute in the quarter ended March 31, 2019.

Operating Income

Operating income increased \$5 million, or 1%, to \$757 million in the quarter ended June 30, 2019, while operating income remained substantially flat at \$1.932 billion in the nine months ended June 30, 2019, reflecting the operating results discussed above. Excluding the items discussed in “*Factors Affecting Comparability*”, adjusted operating income decreased \$10 million, or 1%, to \$757 million in the quarter and increased \$18 million, or 1%, to \$2.144 billion in the nine months, including a 1-percentage point unfavorable impact of foreign exchange in each period. *Filmed Entertainment* adjusted operating results improved by \$41 million, or 93%, in the quarter and \$101 million in the nine months. *Media Networks* adjusted operating income decreased \$51 million, or 6%, in the quarter and \$76 million, or 3%, in the nine months.

Income Taxes

As of December 31, 2018, all relevant provisions of the Tax Cuts and Jobs Act (the “Act”), enacted on December 22, 2017, became applicable to us. Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, provided a measurement period of one year from the date of enactment for which provisional amounts could be recorded. As of one year from enactment, we completed our analysis with regard to the Act and therefore do not have any remaining provisional amounts recorded in the Consolidated Balance Sheet. As guidance regarding the Act continues to be forthcoming, the application of such guidance may result in additional charges to our income tax provision. We have also elected to account for the effects of global intangible low tax income as a component of income tax expense in the period the tax arises.

Our effective income tax rate was 18.3% and 22.1% in the quarter and nine months ended June 30, 2019, respectively. A net discrete tax benefit of \$32 million in the quarter and nine months, taken together with the net discrete tax benefit of the items discussed in “*Factors Affecting Comparability*” decreased the effective income tax rate by 4.8 and 1.9 percentage points in the quarter and nine months, respectively. Excluding the impact of the items discussed in “*Factors Affecting Comparability*”, our adjusted effective income tax rate was 23.1% in the quarter and 24.0% in the nine months.

Our effective income tax rate was 15.3% and 10.6% in the quarter and nine months ended June 30, 2018, respectively. A net discrete tax benefit of \$47 million in the quarter and \$196 million in the nine months, taken together with the discrete tax impact of the items discussed in “*Factors Affecting Comparability*” reduced the effective income tax rate by 7.9 and 13.4 percentage points in the quarter and nine months, respectively. Excluding the impact of the items discussed in “*Factors Affecting Comparability*”, our adjusted effective income tax rate was 23.2% in the quarter and 24.0% in the nine months.

Net Earnings from Continuing Operations Attributable to Viacom

Net earnings from continuing operations attributable to Viacom increased \$27 million, or 5%, to \$538 million in the quarter ended June 30, 2019, primarily due to the operating results discussed above, as well as the increased value of marketable securities. The lower interest expense in the quarter as a result of our reduction in debt was substantially offset by a lower discrete tax benefit as compared with the prior year quarter. Excluding the items discussed in “*Factors Affecting Comparability*”, adjusted net earnings from continuing operations attributable to Viacom increased \$9 million, or 2%, to \$484 million in the quarter, including a 1-percentage point unfavorable impact of foreign exchange.

Net earnings from continuing operations attributable to Viacom decreased \$83 million, or 6%, to \$1.219 billion in the nine months, primarily due to lapping the discrete tax benefit in the prior year resulting from the enactment of the Act, partially offset by lower interest expense as a result of debt reduction and the increased value of marketable securities. Excluding the items discussed in “*Factors Affecting Comparability*”, adjusted net earnings from continuing operations attributable to Viacom increased \$61 million, or 5%, to \$1.320 billion in the nine months, including a 2-percentage point unfavorable impact of foreign exchange, also benefiting from lower interest expense.

Diluted Earnings Per Share from Continuing Operations

Diluted EPS from continuing operations increased \$0.06 per diluted share to \$1.33 in the quarter ended June 30, 2019 and decreased \$0.21 per diluted share to \$3.02 in the nine months, reflecting the impact of net earnings. Excluding the items discussed in “*Factors Affecting Comparability*”, adjusted diluted EPS from continuing operations increased \$0.02 per diluted share to \$1.20 in the quarter and \$0.15 per diluted share to \$3.27 in the nine months, which included a \$0.02 and \$0.05 unfavorable impact of foreign exchange, respectively.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Segment Results of Operations

Transactions between reportable segments are accounted for as third-party arrangements for the purposes of presenting segment results of operations. Typical intersegment transactions include the purchase of advertising by the *Filmed Entertainment* segment on *Media Networks*' properties and the licensing of *Filmed Entertainment*'s feature film and television content by *Media Networks*.

During the first quarter of fiscal 2019, we changed our presentation of revenues by component to better align the revenue classification to the inherent nature of the underlying revenue transactions. Amounts previously reported as ancillary revenues in *Media Networks* were renamed to consumer products, recreation and live events. Further, certain components of *Media Networks* revenue, including syndication and download-to-own revenues, previously reported within ancillary revenues were reclassified to affiliate revenues. Prior period amounts have been recast to conform to the current presentation.

Media Networks

(in millions)	Quarter Ended June 30,		Better/(Worse)		Nine Months Ended June 30,		Better/(Worse)	
	2019	2018	\$	%	2019	2018	\$	%
Revenues by Component								
Advertising	\$ 1,226	\$ 1,191	\$ 35	3 %	\$ 3,489	\$ 3,604	\$ (115)	(3)%
Affiliate	1,189	1,203	(14)	(1)	3,497	3,550	(53)	(1)
Consumer products, recreation and live events	89	108	(19)	(18)	283	337	(54)	(16)
Total revenues by component	<u>2,504</u>	<u>2,502</u>	<u>2</u>	<u>—</u>	<u>7,269</u>	<u>7,491</u>	<u>(222)</u>	<u>(3)</u>
Expenses								
Operating	1,078	1,072	(6)	(1)	3,045	3,165	120	4
Selling, general and administrative	633	589	(44)	(7)	1,753	1,780	27	2
Depreciation and amortization	45	42	(3)	(7)	128	127	(1)	(1)
Total expenses	<u>1,756</u>	<u>1,703</u>	<u>(53)</u>	<u>(3)</u>	<u>4,926</u>	<u>5,072</u>	<u>146</u>	<u>3</u>
Adjusted Operating Income	<u>\$ 748</u>	<u>\$ 799</u>	<u>\$ (51)</u>	<u>(6)%</u>	<u>\$ 2,343</u>	<u>\$ 2,419</u>	<u>\$ (76)</u>	<u>(3)%</u>

Revenues

Worldwide revenues remained substantially flat at \$2.504 billion in the quarter ended June 30, 2019 and included a 3-percentage point unfavorable impact of foreign exchange. Domestic revenues increased \$28 million, or 1%, to \$2.021 billion in the quarter. International revenues decreased \$26 million, or 5%, to \$483 million reflecting the unfavorable impact of foreign exchange, partially offset by growth in Latin America. International revenues included a 12-percentage point unfavorable impact of foreign exchange.

Worldwide revenues decreased \$222 million, or 3%, to \$7.269 billion in the nine months ended June 30, 2019 and included a 2-percentage point unfavorable impact of foreign exchange. Domestic revenues remained substantially flat at \$5.778 billion. International revenues decreased \$215 million, or 13%, to \$1.491 billion in the nine months, principally driven by an 11-percentage point unfavorable impact of foreign exchange.

Advertising

Worldwide advertising revenues increased \$35 million, or 3%, to \$1.226 billion in the quarter, while worldwide advertising revenues decreased \$115 million, or 3%, to \$3.489 billion in the nine months. Worldwide advertising revenues included a 4-percentage point and 3-percentage point unfavorable impact of foreign exchange in the quarter and nine months, respectively. Domestic advertising revenues increased \$54 million, or 6%, to \$976 million in the quarter and remained substantially flat at \$2.703 billion in the nine months, principally reflecting growth in revenues from advanced marketing solutions ("AMS") and higher pricing, partially offset by lower linear impressions. AMS, now comprising nearly 20% of domestic advertising revenues, increased 84% and 73% in the quarter and nine months, respectively, and includes advertising on our new Pluto TV free streaming service. International advertising revenues decreased \$19 million, or 7%, to \$250 million in the quarter and \$118 million, or 13%, to \$786 million in the nine months, principally driven by the unfavorable impact of foreign exchange, partially offset by growth in Latin America. Foreign exchange had a 16-percentage point and 14-percentage point unfavorable impact on international advertising revenues in the quarter and nine months.

Affiliate

Worldwide affiliate revenues decreased \$14 million, or 1%, to \$1.189 billion and \$53 million, or 1%, to \$3.497 billion in the quarter and nine months, respectively, driven by a 1-percentage point unfavorable impact from foreign exchange in each period.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Domestic affiliate revenues decreased \$14 million, or 1%, to \$988 million in the quarter, driven by subscriber declines, partially offset by higher contractual rates and over-the-top ("OTT") and studio production revenues. Domestic affiliate revenues remained substantially flat at \$2.893 billion in the nine months, primarily driven by contractual rate increases and higher OTT and studio production revenues, substantially offset by subscriber declines. International affiliate revenues remained flat at \$201 million in the quarter, while international affiliate revenues decreased \$63 million, or 9%, to \$604 million in the nine months, principally due to the unfavorable impact of foreign exchange and the timing of delivery of content made available under subscription video-on-demand and other OTT arrangements. Foreign exchange had an 8-percentage point and 7-percentage point unfavorable impact on international affiliate revenues in the quarter and nine months, respectively.

Consumer Products, Recreation and Live Events

Worldwide consumer products, recreation and live events revenues decreased \$19 million, or 18%, to \$89 million and \$54 million, or 16%, to \$283 million in the in the quarter and nine months, respectively, principally driven by lower revenues from certain consumer products franchises as well as lower live events revenue. Worldwide consumer products, recreation and live events revenues included a 2-percentage point unfavorable impact from foreign exchange in each period. Domestic consumer products, recreation and live events revenues decreased \$12 million, or 17%, to \$57 million in the quarter and \$20 million, or 10%, to \$182 million in the nine months. International revenues decreased \$7 million, or 18%, to \$32 million in the quarter and \$34 million, or 25%, to \$101 million in the nine months. Foreign exchange had a 5-percentage point and 4-percentage point unfavorable impact on international consumer products, recreation and live events revenues in the quarter and nine months, respectively.

Expenses

Media Networks segment expenses increased \$53 million, or 3%, to \$1.756 billion in the quarter ended June 30, 2019, and decreased \$146 million, or 3%, to \$4.926 billion in the nine months ended June 30, 2019. Segment expenses included a 3-percentage point favorable impact of foreign exchange in the quarter and nine months, respectively.

Operating

Operating expenses increased \$6 million, or 1%, to \$1.078 billion in the quarter, while operating expenses decreased \$120 million, or 4%, to \$3.045 billion in the nine months. Production and programming costs decreased \$7 million, or 1%, to \$916 million in the quarter and \$132 million, or 5%, to \$2.634 billion in the nine months, primarily due to the favorable impact from foreign exchange and reflecting the timing and mix of programming. Distribution and other expenses increased \$13 million, or 9%, to \$162 million in the quarter and \$12 million, or 3%, to \$411 million in the nine months, impacted by our investment in AMS and other growth initiatives.

Selling, General and Administrative

SG&A expenses increased \$44 million, or 7%, to \$633 million in the quarter, primarily due to higher advertising and promotional expenses. SG&A expenses decreased \$27 million, or 2%, to \$1.753 billion in the nine months, primarily driven by cost savings from our restructuring initiatives. SG&A expenses included a 4-percentage point and 5-percentage point benefit of savings in the quarter and nine months, respectively, from our cost transformation initiatives implemented in fiscal year 2018.

Adjusted Operating Income

Adjusted operating income decreased \$51 million, or 6%, to \$748 million and \$76 million, or 3%, to \$2.343 billion in the quarter and nine months ended June 30, 2019, respectively, reflecting the operating results discussed above. Adjusted operating income included a 1-percentage point unfavorable impact from foreign exchange in each period.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

Filmed Entertainment

(in millions)	Quarter Ended June 30,		Better/(Worse)		Nine Months Ended June 30,		Better/(Worse)	
	2019	2018	\$	%	2019	2018	\$	%
Revenues by Component								
Theatrical	\$ 152	\$ 208	\$ (56)	(27)%	\$ 473	\$ 358	\$ 115	32 %
Home entertainment	161	119	42	35	493	465	28	6
Licensing	521	404	117	29	1,056	1,094	(38)	(3)
Ancillary	43	41	2	5	206	140	66	47
Total revenues by component	877	772	105	14	2,228	2,057	171	8
Expenses								
Operating	665	641	(24)	(4)	1,892	1,849	(43)	(2)
Selling, general and administrative	117	79	(38)	(48)	284	257	(27)	(11)
Depreciation and amortization	10	8	(2)	(25)	28	28	—	—
Total expenses	792	728	(64)	(9)	2,204	2,134	(70)	(3)
Adjusted Operating Income/Loss	\$ 85	\$ 44	\$ 41	93 %	\$ 24	\$ (77)	\$ 101	NM

NM - Not meaningful

Revenues

Worldwide revenues increased \$105 million, or 14%, to \$877 million and \$171 million, or 8%, to \$2.228 billion in the quarter and nine months ended June 30, 2019, respectively. Worldwide revenues included a 1-percentage point and 2-percentage point unfavorable impact from foreign exchange in the quarter and nine months, respectively. Domestic revenues decreased \$18 million, or 4%, to \$446 million in the quarter, primarily due to lower theatrical revenues, partially offset by increased home entertainment and licensing revenues. Domestic revenues increased \$53 million, or 5%, to \$1.165 billion in the nine months due to increased home entertainment and ancillary revenues, partially offset by lower licensing revenues. International revenues increased \$123 million, or 40%, to \$431 million in the quarter, reflecting increases across all revenue streams. International revenues increased \$118 million, or 12%, to \$1.063 billion in the nine months, primarily due to increased theatrical revenues. Foreign exchange had a 3-percentage point and 4-percentage point unfavorable impact on international revenues in the quarter and nine months, respectively.

Theatrical

Worldwide theatrical revenues decreased \$56 million, or 27%, to \$152 million in the quarter, reflecting a difficult comparison against the prior year release of *A Quiet Place*, partially offset by the strong performance of current quarter releases *Rocketman* and *Pet Sematary*. Worldwide theatrical revenues included a 2-percentage point unfavorable impact from foreign exchange in the quarter. Domestic theatrical revenues decreased \$69 million, or 51%, to \$65 million against the strong domestic performance of *A Quiet Place* in the prior year quarter, while international theatrical revenues increased \$13 million, or 18%, to \$87 million, reflecting the mix of titles available in each market. Foreign exchange had a 6-percentage point unfavorable impact on international theatrical revenues.

Worldwide theatrical revenues increased \$115 million, or 32%, to \$473 million in the nine months, principally reflecting the mix of current year releases. Worldwide theatrical revenues included a 4-percentage point unfavorable impact from foreign exchange. Significant current year releases included *Bumblebee*, *Rocketman*, *Instant Family* and *Pet Sematary*, compared with *A Quiet Place* and *Daddy's Home 2* in the prior year. Domestic theatrical revenues decreased \$3 million, or 1%, to \$220 million, reflecting a difficult comparison against *A Quiet Place*, while international theatrical revenues increased \$118 million, or 87%, to \$253 million primarily due to the strong performance of *Bumblebee* in the current year. Foreign exchange had an 11-percentage point unfavorable impact on international theatrical revenues.

Home Entertainment

Worldwide home entertainment revenues increased \$42 million, or 35%, to \$161 million in the quarter. Worldwide home entertainment revenues included a 2-percentage point unfavorable impact from foreign exchange. The current quarter benefited from carryover revenues from *Bumblebee*. Domestic and international home entertainment revenues increased \$30 million, or 38%, to \$109 million, and \$12 million, or 30%, to \$52 million, respectively. Foreign exchange had a 5-percentage point unfavorable impact on international home entertainment revenues.

Worldwide home entertainment revenues increased \$28 million, or 6%, to \$493 million in the nine months. Worldwide home entertainment revenues included a 2-percentage point unfavorable impact from foreign exchange. Domestic home entertainment revenues increased \$45 million, or 16%, to \$324 million, reflecting the strong performance in the current year

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

from *Mission: Impossible - Fallout* and *Bumblebee*. International home entertainment revenues decreased \$17 million, or 9%, to \$169 million, reflecting the mix of titles available in each market. Foreign exchange had a 4-percentage point unfavorable impact on international home entertainment revenues.

Licensing

Worldwide licensing revenues increased \$117 million, or 29%, to \$521 million in the quarter, primarily due to an increase in current year library and television production licensing revenues. Worldwide licensing revenues included a 1-percentage point unfavorable impact from foreign exchange in the quarter. Domestic licensing revenues increased \$22 million, or 10%, to \$240 million. International licensing revenues increased \$95 million, or 51%, to \$281 million. Foreign exchange had a 2-percentage point unfavorable impact on international licensing revenues in the quarter.

Worldwide licensing revenues decreased \$38 million, or 3%, to \$1.056 billion in the nine months, primarily due to the difficult comparison against the prior year release of *The Cloverfield Paradox*, partially offset by an increase in current year library licensing revenues. Worldwide licensing revenues included a 1-percentage point unfavorable impact from foreign exchange in the nine months. Domestic licensing revenues decreased \$17 million, or 3%, to \$492 million in the nine months. International licensing revenues decreased \$21 million, or 4%, to \$564 million in the nine months. Foreign exchange had a 2-percentage point unfavorable impact on international licensing revenues in the nine months.

Ancillary

Worldwide ancillary revenues increased \$2 million, or 5%, to \$43 million in the quarter. Domestic ancillary revenues decreased \$1 million, or 3%, to \$32 million and international ancillary revenues increased \$3 million, or 38%, to \$11 million, driven by higher international theme park revenues. Worldwide ancillary revenues increased \$66 million, or 47%, to \$206 million in the nine months ended June 30, 2019, driven by higher international theme park revenues and a new music rights agreement. Domestic ancillary revenues increased \$28 million, or 28%, to \$129 million and international ancillary revenues increased \$38 million, or 97%, to \$77 million.

Expenses

Filmed Entertainment segment expenses increased \$64 million, or 9%, to \$792 million in the quarter ended June 30, 2019, and \$70 million, or 3%, to \$2.204 billion in the nine months ended June 30, 2019, primarily due to increased operating and SG&A expenses.

Operating

Operating expenses increased \$24 million, or 4%, to \$665 million in the quarter and \$43 million, or 2%, to \$1.892 billion in the nine months. Distribution and other costs, principally advertising and print expenses, increased \$16 million, or 7%, in the quarter and \$133 million, or 19%, in the nine months, primarily driven by higher theatrical distribution costs to support our current year releases. Film costs increased \$8 million, or 2%, in the quarter, primarily related to the current quarter Paramount Television releases, and decreased \$90 million, or 8%, in the nine months, reflecting the timing and mix of current year releases.

Selling, General and Administrative

SG&A expenses increased \$38 million, or 48%, to \$117 million in the quarter and \$27 million, or 11%, to \$284 million in the nine months, principally driven by higher employee related costs.

Adjusted Operating Income/Loss

Adjusted operating income was \$85 million in the quarter and \$24 million in the nine months ended June 30, 2019, compared with adjusted operating income of \$44 million and an adjusted operating loss of \$77 million in the respective prior year periods. The improvements of \$41 million, or 93%, in the quarter and \$101 million in the nine months principally reflect higher profits from our film library and, in the nine months, the new music rights agreement. Operating losses reflect the recognition of advertising and print expenses incurred in the period, generally before and throughout the theatrical release of a film, while revenues for the respective film are recognized as earned through its theatrical exhibition and subsequent distribution windows.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and Uses of Cash

Our primary source of liquidity is cash provided through the operations of our businesses. We have access to external financing sources such as our revolving credit facility and the capital markets. Our principal uses of cash from operations include the creation of new programming and film content, acquisitions of third-party content, and interest and income tax payments. We also use cash for the repayment of debt, quarterly cash dividends, capital expenditures and acquisitions of businesses.

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

We believe that our cash flows from operating activities together with our credit facility provide us with adequate resources to fund our anticipated ongoing cash requirements. We anticipate that future debt maturities will be funded with cash and cash equivalents, cash flows from operating activities and future access to capital markets, including our credit facility.

We may continue to access external financing from time to time depending on our cash requirements, assessments of current and anticipated market conditions and after-tax cost of capital. Our access to capital markets can be impacted by factors outside our control, including economic conditions; however, we believe that our strong cash flows and balance sheet, our credit facility and our credit rating will provide us with adequate access to funding given our expected cash needs. Any new borrowing cost would be affected by market conditions and short and long-term debt ratings assigned by independent rating agencies, and there can be no assurance that we will be able to access capital markets on terms and conditions that will be favorable to us.

Cash Flows

Cash and cash equivalents were \$722 million as of June 30, 2019, which decreased \$835 million compared with September 30, 2018. The following tables include information driving the change in cash and cash equivalents and a reconciliation of net cash provided by operating activities (GAAP) to free cash flow (non-GAAP). We define free cash flow as net cash provided by operating activities minus capital expenditures. Free cash flow is a non-GAAP measure. Management believes the use of this measure provides investors with an important perspective on our liquidity, including our ability to service debt and make investments in our businesses.

Change in cash and cash equivalents (in millions)	Nine Months Ended June 30,		Better/(Worse) \$
	2019	2018	
Net cash provided by operating activities	\$ 1,103	\$ 997	\$ 106
Net cash used in investing activities	(506)	(128)	(378)
Net cash used in financing activities	(1,429)	(1,309)	(120)
Effect of exchange rate changes on cash and cash equivalents	(3)	(20)	17
Decrease in cash and cash equivalents	<u>\$ (835)</u>	<u>\$ (460)</u>	<u>\$ (375)</u>
Reconciliation of net cash provided by operating activities to free cash flow			
Net cash provided by operating activities (GAAP)	\$ 1,103	\$ 997	\$ 106
Capital expenditures	(119)	(102)	(17)
Free cash flow (Non-GAAP)	<u>\$ 984</u>	<u>\$ 895</u>	<u>\$ 89</u>

Operating Activities

Cash provided by operating activities increased \$106 million for the nine months ended June 30, 2019, primarily reflecting the impact of favorable working capital requirements.

Investing Activities

Cash used in investing activities increased \$378 million for the nine months ended June 30, 2019, principally driven by the acquisition of Pluto Inc. and investment activity and, to a lesser extent, a decrease in proceeds received from asset sales and higher capital expenditures.

Financing Activities

Cash used in financing activities increased \$120 million for the nine months ended June 30, 2019, primarily reflecting the impact of the current and prior year debt transactions.

Capital Resources

Capital Structure and Debt

Total debt was \$8.958 billion as of June 30, 2019, a decrease of \$1.124 billion from \$10.082 billion as of September 30, 2018.

In the nine months ended June 30, 2019, we redeemed \$1.128 billion of senior notes and debentures for a redemption price of \$1.100 billion. As a result, we recognized a pre-tax extinguishment gain of \$18 million, net of \$10 million of unamortized debt costs and transaction fees.

Our 5.875% Junior subordinated debentures due February 2057 and 6.250% Junior subordinated debentures due February 2057 accrue interest at the stated fixed rates until February 28, 2022 and February 28, 2027, respectively, on which dates the rates

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
(continued)**

will switch to floating rates based on three-month LIBOR plus 3.895% and 3.899%, respectively, reset quarterly. These debentures can be called by us at any time after the expiration of the fixed-rate period.

The subordination, interest deferral option and extended term of the junior subordinated debentures provide significant credit protection measures for senior creditors and as a result of these features, the debentures received a 50% equity credit by S&P and Fitch, and a 25% equity credit by Moody's.

Credit Facility

In February 2019, we amended our revolving credit agreement, originally dated as of October 8, 2010, to, among other things, extend the maturity date of the \$2.5 billion revolving credit facility from November 18, 2019 to February 11, 2024. As of June 30, 2019, there were no amounts outstanding under the credit facility. See Note 4 to the Consolidated Financial Statements for further information.

Commitments and Contingencies

See Note 7 to the Consolidated Financial Statements for information regarding our commitments and contingencies.

OTHER MATTERS

Related Parties

In the ordinary course of business, we enter into transactions with related parties, including National Amusements, Inc., CBS Corporation, their respective subsidiaries and affiliates, and companies that we account for under the equity method of accounting. For additional information, see Note 15 to the Consolidated Financial Statements.

Recent Pronouncements and Adoption of New Accounting Standards

See Note 1 to the Consolidated Financial Statements for further information on recently issued and adopted accounting and reporting standards.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q, including "Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition," contains both historical and forward-looking statements. All statements that are not statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements reflect our current expectations concerning future results, objectives, plans and goals, and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause future results, performance or achievements to differ. These risks, uncertainties and other factors include, among others: technological developments, alternative content offerings and their effects in our markets and on consumer behavior; competition for content, audiences, advertising and distribution in a swiftly consolidating industry; the public acceptance of our brands, programs, films and other entertainment content on the various platforms on which they are distributed; the impact on our advertising revenues of declines in linear television viewing, deficiencies in audience measurement and advertising market conditions; the potential for loss of carriage or other reduction in the distribution of our content; evolving cybersecurity and similar risks; the failure, destruction or breach of our critical satellites or facilities; content theft; increased costs for programming, films and other rights; the loss of key talent; domestic and global political, economic and/or regulatory factors affecting our businesses generally; volatility in capital markets or a decrease in our debt ratings; a potential inability to realize the anticipated goals underlying our ongoing investments in new businesses, products, services and technologies; fluctuations in our results due to the timing, mix, number and availability of our films and other programming; potential conflicts of interest arising from our ownership structure with a controlling stockholder; and other factors described in our news releases and filings with the Securities and Exchange Commission, including but not limited to our 2018 Form 10-K and reports on Form 10-Q and Form 8-K. The forward-looking statements included in this document are made only as of the date of this document, and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk related to foreign currency exchange rates and interest rates. In the ordinary course of business, we may employ established and prudent policies and procedures to manage our exposure principally to changes in interest rates and foreign exchange risks. The objective of such policies and procedures is to manage exposure to market risks in order to minimize the impact on earnings and cash flows. In accordance with our policy, we do not use derivative instruments unless there is an underlying exposure, and we do not hold or enter into financial instruments for speculative trading purposes.

Item 4. Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”)) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Exchange Act.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings.*

Since our 2018 Form 10-K, there have been no material developments in the material legal proceedings in which we are involved.

Item 1A. *Risk Factors.*

A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in our 2018 Form 10-K to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

None.

Item 3. *Defaults Upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not Applicable.

Item 5. *Other Information.*

None.

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Item 6. Exhibits.

Exhibit No.	Description of Exhibit
31.1*	Certification of the Chief Executive Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer of Viacom Inc. furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer of Viacom Inc. furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith

CERTIFICATION

I, Robert M. Bakish, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Viacom Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ ROBERT M. BAKISH

President and Chief Executive Officer

CERTIFICATION

I, Wade Davis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Viacom Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ WADE DAVIS

Executive Vice President, Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Viacom Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Robert M. Bakish, President and Chief Executive Officer of the Company, certify that to my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT M. BAKISH

Robert M. Bakish
President and Chief Executive Officer

August 8, 2019

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to Viacom Inc. and will be retained by Viacom Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Viacom Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Wade Davis, Executive Vice President, Chief Financial Officer of the Company, certify that to my knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ WADE DAVIS

Wade Davis

Executive Vice President, Chief Financial Officer

August 8, 2019

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to Viacom Inc. and will be retained by Viacom Inc. and furnished to the Securities and Exchange Commission or its staff upon request.