

Viacom Inc.  
Form 10-Q  
August 04, 2016

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, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-32686

VIACOM INC.

(Exact name of registrant as specified in its charter)

DELAWARE 20-3515052

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Class of Stock

Shares Outstanding

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	as of July 15, 2016
Class A common stock, par value \$0.001 per share	49,431,379
Class B common stock, par value \$0.001 per share	347,224,638

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## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## VIACOM INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended		Nine Months	
	June 30,		Ended	
	2016	2015	2016	2015
Revenues	\$3,107	\$3,058	\$9,262	\$9,480
Expenses:				
Operating	1,575	1,252	4,822	4,931
Selling, general and administrative	708	666	2,080	2,118
Depreciation and amortization	55	56	166	168
Restructuring	—	—	—	206
Total expenses	2,338	1,974	7,068	7,423
Operating income	769	1,084	2,194	2,057
Interest expense, net	(156 )	(166 )	(466 )	(492 )
Equity in net earnings of investee companies	19	28	85	103
Other items, net	3	—	(1 )	(30 )
Earnings before provision for income taxes	635	946	1,812	1,638
Provision for income taxes	(195 )	(301 )	(602 )	(528 )
Net earnings (Viacom and noncontrolling interests)	440	645	1,210	1,110
Net earnings attributable to noncontrolling interests	(8 )	(54 )	(26 )	(72 )
Net earnings attributable to Viacom	\$432	\$591	\$1,184	\$1,038
Basic earnings per share attributable to Viacom	\$1.09	\$1.49	\$2.99	\$2.57
Diluted earnings per share attributable to Viacom	\$1.09	\$1.47	\$2.98	\$2.54
Weighted average number of common shares outstanding:				
Basic	396.5	397.5	396.4	403.6
Diluted	398.0	401.2	397.9	408.0
Dividends declared per share of Class A and Class B common stock	\$0.40	\$0.40	\$1.20	\$1.06

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

(in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net earnings (Viacom and noncontrolling interests)	\$ 440	\$ 645	\$ 1,210	\$ 1,110
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(75 )	73	(93 )	(189 )
Defined benefit pension plans	1	43	(3 )	22
Cash flow hedges	(2 )	2	(1 )	2
Available for sale securities	—	1	—	—
Other comprehensive income/(loss) (Viacom and noncontrolling interests)	(76 )	119	(97 )	(165 )
Comprehensive income	364	764	1,113	945
Less:				
Comprehensive income attributable to noncontrolling interest	11	57	25	69
Comprehensive income attributable to Viacom	\$ 353	\$ 707	\$ 1,088	\$ 876

See accompanying notes to Consolidated Financial Statements

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## VIACOM INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	June 30, 2016	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 192	\$ 506
Receivables, net	2,973	2,807
Inventory, net	829	786
Prepaid and other assets	615	479
Total current assets	4,609	4,578
Property and equipment, net	852	947
Intangible assets, net	4,106	3,616
Goodwill	11,411	11,456
Other assets	326	340
Total assets	\$22,605	\$ 22,143
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$277	\$ 506
Accrued expenses	702	748
Participants' share and residuals	773	860
Program obligations	634	703
Deferred revenue	428	481
Current portion of debt	1,369	18
Other liabilities	452	537
Total current liabilities	4,635	3,853
Noncurrent portion of debt	10,996	12,267
Participants' share and residuals	380	351
Program obligations	326	356
Deferred tax liabilities, net	632	150
Other liabilities	1,281	1,348
Redeemable noncontrolling interest	203	219
Commitments and contingencies (Note 6)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 49.4 and 50.1 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 347.4 and 348.0 outstanding, respectively	—	—
Additional paid-in capital	10,059	10,017
Treasury stock, 399.5 and 398.0 common shares held in treasury, respectively	(20,804 )	(20,725 )
Retained earnings	15,467	14,780
Accumulated other comprehensive loss	(630 )	(534 )
Total Viacom stockholders' equity	4,092	3,538
Noncontrolling interests	60	61
Total equity	4,152	3,599
Total liabilities and equity	\$22,605	\$ 22,143

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Nine Months Ended June 30,	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net earnings (Viacom and noncontrolling interests)	\$1,210	\$1,110
Reconciling items:		
Depreciation and amortization	166	168
Feature film and program amortization	3,253	3,475
Equity-based compensation	71	72
Equity in net earnings and distributions from investee companies	(81 )	(99 )
Deferred income taxes	470	38
Operating assets and liabilities, net of acquisitions:		
Receivables	(137 )	317
Inventory, program rights and participations	(3,915 )	(3,885 )
Accounts payable and other current liabilities	(482 )	(23 )
Other, net	(155 )	(93 )
Net cash provided by operating activities	400	1,080
<b>INVESTING ACTIVITIES</b>		
Acquisitions and investments, net	(59 )	5
Capital expenditures	(80 )	(90 )
Net cash flow used in investing activities	(139 )	(85 )
<b>FINANCING ACTIVITIES</b>		
Borrowings	—	990
Debt repayments	(368 )	(600 )
Commercial paper	453	—
Purchase of treasury stock	(100 )	(1,548 )
Dividends paid	(476 )	(405 )
Excess tax benefits on equity-based compensation awards	—	45
Exercise of stock options	10	142
Other, net	(64 )	(131 )
Net cash flow used in financing activities	(545 )	(1,507 )
Effect of exchange rate changes on cash and cash equivalents	(30 )	(67 )
Net change in cash and cash equivalents	(314 )	(579 )
Cash and cash equivalents at beginning of period	506	1,000
Cash and cash equivalents at end of period	\$192	\$421

See accompanying notes to Consolidated Financial Statements



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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Viacom is home to premier global media brands that create compelling television programs, motion pictures, short-form content, apps, games, consumer products, social media experiences and other entertainment content for audiences in 180 countries. Viacom operates through two reporting segments: Media Networks, which includes the Music & Entertainment Group, the Kids & Family Group and BET Networks, and Filmed Entertainment. The Media Networks segment provides entertainment content and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. The Filmed Entertainment segment produces, finances, acquires and distributes motion pictures, television programming and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, Paramount Animation, Insurge Pictures, Nickelodeon Movies, MTV Films and Paramount Television brands. 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 presentation 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, 2016 (“fiscal 2016”) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2015, as filed with the SEC on November 12, 2015 (the “2015 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.

Reclassification

Certain prior year amounts have been reclassified to conform to the fiscal 2016 presentation.

Recent Accounting Pronouncements

In connection with its financial instruments project, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments in June 2016 and ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities in January 2016.

ASU 2016-13 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.

ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, the new guidance requires the fair value measurement of investments in certain

equity securities. For investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. All changes in measurement will be recognized in net income. The guidance will be effective for the first interim period of our 2019 fiscal year. Early adoption is not permitted, except for certain provisions relating to financial liabilities. We are currently evaluating the impact of the new standards.

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

In March 2016, the FASB issued ASU 2016-09 - Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, such as requiring all income tax effects of awards to be recognized in the income statement when the awards vest or are settled and allowing a policy election to account for forfeitures as they occur. In addition, all related cash flows resulting from share-based payments will be reported as operating activities on the statement of cash flows. The guidance will be effective for the first interim period of our 2018 fiscal year, with early adoption permitted. The new standard will impact our financial statements by increasing or decreasing our income tax provision and increasing cash flow from operating activities.

In February 2016, the FASB issued ASU 2016-02 - Leases. 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 our 2020 fiscal year, with early adoption permitted. We are currently evaluating the impact of the new standard.

In November 2015, the FASB issued ASU 2015-17 - Income Taxes: Balance Sheet Classification of Deferred Taxes, which requires that all deferred taxes be classified as noncurrent in the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted on either a prospective or retrospective basis. In the quarter ended December 31, 2015, we adopted the new guidance on a retrospective basis.

As a result, our \$99 million net deferred tax liability in the Consolidated Balance Sheet as of September 30, 2015 is presented as a deferred tax asset of \$51 million within Other assets and \$150 million in Deferred tax liabilities, net.

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers, a comprehensive revenue recognition model that supersedes the current revenue recognition requirements and most industry-specific guidance. Subsequent accounting standard updates have also been issued which amend and/or clarify the application of ASU 2014-09. 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 expects to be entitled to in exchange for those goods or services. The guidance will be effective for the first interim period of our 2019 fiscal year (with early adoption permitted beginning fiscal year 2018), and allows adoption either under a full retrospective or a modified retrospective approach. We are currently evaluating the impact of the new standard.

## NOTE 2. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	June 30, September 30, 2016      2015	
Film inventory:		
Released, net of amortization	\$695	\$ 576
Completed, not yet released	160	55
In process and other	1,018	806
Total film inventory, net of amortization	1,873	1,437
Television productions	85	8
Total film and television production inventory	1,958	1,445
Original programming:		
Released, net of amortization	1,164	1,161
In process and other	599	599
Total original programming, net of amortization	1,763	1,760
Acquired program rights, net of amortization	1,123	1,108
Home entertainment inventory	91	89
Total inventory, net	4,935	4,402

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Less: current portion	(829 )	(786 )
Total inventory-noncurrent, net	\$4,106	\$ 3,616

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 3. DEBT

Our total debt consists of the following:

Debt (in millions)	June 30, 2016	September 30, 2015
Senior Notes and Debentures:		
Senior notes due April 2016, 6.250%	—	368
Senior notes due December 2016, 2.500%	400	399
Senior notes due April 2017, 3.500%	499	498
Senior notes due October 2017, 6.125%	499	499
Senior notes due September 2018, 2.500%	497	497
Senior notes due April 2019, 2.200%	399	398
Senior notes due September 2019, 5.625%	550	550
Senior notes due December 2019, 2.750%	399	398
Senior notes due March 2021, 4.500%	495	494
Senior notes due December 2021, 3.875%	593	592
Senior notes due June 2022, 3.125%	296	296
Senior notes due March 2023, 3.250%	297	297
Senior notes due September 2023, 4.250%	1,234	1,233
Senior notes due April 2024, 3.875%	544	543
Senior debentures due December 2034, 4.850%	593	592
Senior debentures due April 2036, 6.875%	1,066	1,066
Senior debentures due October 2037, 6.750%	75	75
Senior debentures due February 2042, 4.500%	244	244
Senior debentures due March 2043, 4.375%	1,089	1,085
Senior debentures due June 2043, 4.875%	246	246
Senior debentures due September 2043, 5.850%	1,228	1,228
Senior debentures due April 2044, 5.250%	545	544
Commercial paper	453	—
Capital lease and other obligations	124	143
Total debt	12,365	12,285
Less: current portion	(1,369 )	(18 )
Total noncurrent portion of debt	\$10,996	\$ 12,267

In the third quarter, we repaid the \$368 million aggregate principal amount of our 6.250% Senior Notes due April 2016.

The total unamortized discount and issuance fees and expenses related to our senior notes and debentures was \$464 million as of June 30, 2016 and \$478 million as of September 30, 2015. The fair value of our senior notes and debentures was approximately \$12.3 billion as of June 30, 2016. The valuation of our publicly traded debt is based on quoted prices in active markets.

## Credit Facility

At June 30, 2016, there were no amounts outstanding under our \$2.5 billion revolving credit facility due November 2019. The credit facility is used for general corporate purposes and to support commercial paper outstanding. The amount of unused capacity under the credit facility, after deducting commercial paper outstanding of \$453 million with a weighted average maturity of 29 days and weighted average interest rate of 1.24%, was \$2.05 billion as of June 30, 2016. The credit facility has one principal financial covenant that requires our interest coverage for the most recent four consecutive fiscal quarters to be at least 3.0x, which we met as of June 30, 2016.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 4. 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 (in millions)	Quarter Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Interest cost	\$9	\$10	\$26	\$32
Expected return on plan assets	(10)	(11)	(29)	(35)
Recognized actuarial loss	1	2	4	5
Loss on pension settlement	—	—	—	24
Net periodic benefit cost	\$—	\$1	\$1	\$26

## NOTE 5. 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,	
	2016	2015
Beginning balance	\$219	\$216
Net earnings	12	11
Distributions	(16)	(16)
Translation adjustment	(30)	(9)
Redemption value adjustment	18	4
Ending Balance	\$203	\$206

## NOTE 6. COMMITMENTS AND CONTINGENCIES

## Commitments

As more fully described in Note 11 of the 2015 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 \$242 million as of June 30, 2016. 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 have recorded a liability of \$192 million with respect to such obligations as of June 30, 2016. 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.

Legal Matters

Various Litigations Involving National Amusements, Inc. and the Sumner M. Redstone National Amusements Trust  
National Amusements, Inc. ("National Amusements"), directly and indirectly, is the controlling stockholder of Viacom. National Amusements owns shares in Viacom representing approximately 79.8% of the voting interest in Viacom and approximately 10% 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



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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 and the non-executive Vice Chair of Viacom 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, (1) Ms. Redstone will also become a trustee of the SMR Trust and (2) the shares of National Amusements held by the SMR Trust will be voted by the trustees of the SMR Trust.

Prior to May 20, 2016, the trustees of the SMR Trust were Mr. Dauman and George Abrams, a member of the Board of Directors, as well as Mr. Redstone, Phyllis Redstone, David R. Andelman, Norman Jacobs, and Leonard Lewin. The Board of Directors of National Amusements consisted of Mr. Redstone, Shari Redstone, Mr. Abrams, Mr. Andelman, Mr. Dauman, and Tyler Korff, Ms. Redstone's son and Mr. Redstone's grandson. On May 20, 2016, Messrs. Dauman and Abrams received notices stating that they had been removed as Trustees of the SMR Trust and as directors and managers of National Amusements and its subsidiaries and replaced, as to the SMR Trust, by Thaddeus Jankowski, the general counsel of National Amusements, and Jill Krutick; and as to National Amusements, by Ms. Krutick and Kimberlee Korff Ostheimer, Ms. Redstone's daughter and Mr. Redstone's granddaughter (the May 20, 2016 removals collectively, the "Purported Removals").

On May 23, 2016, Messrs. Dauman and Abrams filed a lawsuit (the "Massachusetts Action") in the Probate and Family Court in Norfolk County, Massachusetts, in which they challenged the Purported Removals on the grounds that such removals were the result of Mr. Redstone's incapacity and/or the product of undue influence or other improper conduct by Ms. Redstone or others. After commencing the Massachusetts Action, Messrs. Dauman and Abrams moved the court for expedited discovery and trial, as well as an evaluation of Mr. Redstone's mental competency, and the defendants moved to dismiss the action. On July 28, 2016, the Massachusetts court denied the defendants' motion to dismiss, and ordered defendants to produce certain medical records of Mr. Redstone. The case will now proceed to the discovery phase and the Massachusetts court noted that it would schedule a trial on the merits in October 2016.

Also on May 23, 2016, attorneys for Mr. Redstone filed a petition in the Superior Court of California, Los Angeles County (the "California Action"), seeking that court's confirmation that the Purported Removals were valid.

On June 6, 2016, National Amusements and NAI Entertainment Holdings LLC (together, "NAI") delivered to Viacom stockholder written consents purporting to amend certain provisions of our Amended and Restated Bylaws (the "Bylaws"), (i) requiring that any sale or financial transaction affecting all or a portion of Paramount Pictures Corporation ("Paramount") and various other Viacom subsidiaries that are utilized in the conduct of business of Paramount must be unanimously approved by all of the members of the Board of Directors then in office, (ii) specifying that the Board of Directors can amend the Bylaws only by an affirmative vote of all members of the Board of Directors then in office, and (iii) modifying, in certain respects, Viacom's existing Bylaws provision requiring that the Court of Chancery of the State of Delaware (the "Delaware Chancery Court") is the exclusive jurisdiction for certain types of corporate litigation.

On June 13, 2016, Viacom entered into a costs and expenses agreement with each of Mr. Dauman and Mr. Abrams (together, the "Agreements"), each of which was approved in advance by a committee comprised of independent members of the Board of Directors. Under the Agreements, Viacom will pay or promptly reimburse Mr. Dauman's and Mr. Abrams' costs and expenses (including attorneys' fees, expert witness fees and fees of public relations and other consultants) actually and reasonably incurred in connection with the Massachusetts Action and the California Action. Under the Agreements, each of Messrs. Dauman and Abrams is required to repay to Viacom (1) all amounts received from Viacom to the extent it is finally determined by a court of competent jurisdiction that, in instituting the Massachusetts Action, he acted in breach of his fiduciary or other duties to Viacom or that he has not acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interest of Viacom and (2) any amounts received after taking reasonable steps, as required under the Agreements, to seek recoupment or other economic recovery of costs and expenses related to the subject matter of the Massachusetts Action and the California Action

from the SMR Trust and National Amusements and its subsidiaries as authorized under the respective governing documents of, and agreements with, those entities.

On June 16, 2016, NAI delivered to Viacom stockholder written consents purporting to amend additional provisions of the Bylaws to provide that any and all vacancies on the Board of Directors occurring as a result of stockholder action to remove directors or to increase the number of authorized directors shall be filled only by the affirmative vote of stockholders representing at least a majority of stock entitled to vote generally in the election of directors, except that in the case of a vacancy for any other reason, a majority of the Board of Directors then in office, though less than a quorum, or a sole remaining director shall fill such vacancy if not filled by stockholder action within 30 days of the occurrence of such other vacancy. The June 16th written consents also claimed to remove from the Board of Directors, without cause, Mr. Abrams, Mr. Dauman, Blythe J. McGarvie, Frederic V. Salerno and William Schwartz and to fill the resulting vacancies with Kenneth Lerer, Thomas J. May, Judith McHale, Ronald Nelson and Nicole Seligman (the "Purported Director Replacements").

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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On June 16, 2016, NAI filed a lawsuit (the “NAI Delaware Action”) in the Delaware Chancery Court pursuant to 8 Del. C. § 225, (1) seeking the court’s confirmation of the validity and effectiveness of the stockholder written consents delivered by NAI to Viacom on June 6th and June 16th and (2) requesting that, pending a final court ruling, the court maintain the existing Board of Directors and prohibit the Board of Directors from taking any action not in the ordinary course of business. Also on June 16, 2016, Mr. Salerno, Viacom’s lead independent director, filed a lawsuit in the Delaware Chancery Court pursuant to 8 Del. C. § 225 (the “Salerno Delaware Action” and, together with the NAI Delaware Action, the “Delaware Actions”), with the support of the independent directors of the Board of Directors, seeking an expedited determination (1) that the Purported Director Replacements are invalid, (2) that the Board of Directors remains as currently comprised, (3) enjoining NAI from taking further wrongful actions under the authority of Mr. Redstone and (4) entering a status quo order providing that NAI shall not take any actions that would disrupt the Board of Directors’ continuing management of the business and affairs of the Company in the ordinary course. The Delaware Actions are being managed under a coordination order. The Company is paying the expenses incurred in contesting the actions purportedly taken by NAI pursuant to its written consents.

On June 27, 2016, the Delaware Chancery Court entered a status quo order preserving the Board of Directors as constituted prior to the Purported Director Replacements during the pendency of the Delaware Actions. The status quo order further provides that none of Viacom, the Board of Directors, any committee of the Board of Directors, any member of the Board of Directors or any Viacom executive officer, or any person acting at the direction of any of them, shall authorize, agree to, knowingly cause or permit or take, directly or indirectly, any action that is outside the routine day-to-day operations of Viacom and its subsidiaries taken as a whole (the “Consolidated Company”) without providing five business days’ prior written notice to NAI (which notice shall be treated confidentially). For purposes of the status quo order, “action that is outside the routine day-to-day operations” of the Consolidated Company includes in summary, but is not limited to:

- declaring any spin-off or other similar distribution of capital stock of Viacom or distributing any securities or assets of Viacom, other than Viacom’s regular quarterly dividend;
- authorizing or entering into agreements with third parties not otherwise permitted by the status quo order, except for agreements entered into in the ordinary course of business consistent with past practice which do not effect a change in (i) the current business operations material to the Consolidated Company or (ii) the voting control or equity ownership of Viacom;
- authorizing, creating or amending securities of the Consolidated Company, subject to certain exceptions including if such action is taken in the ordinary course of business consistent with past practice or pursuant to existing agreements;
- authorizing or entering into agreements to issue, sell or dispose of securities of the Consolidated Company, subject to certain exceptions including if such action is taken in the ordinary course of business consistent with past practice or pursuant to mandatory provisions of existing agreements in existence as of June 15, 2016 (provided that under no circumstances may Viacom issue, sell or dispose of any Class A Common Stock or Class B Common Stock of Viacom);
- authorizing or entering into any action or transaction that would require Viacom stockholder approval;
- authorizing or entering into any transaction that is material to the business of Paramount and that is not in the ordinary course of business consistent with past practice, for any disposition of equity or assets of Paramount and its subsidiaries to a party other than the Consolidated Company;
- increasing the compensation and benefits payable to current officers and employees, hiring new officers or employees, or terminating or amending existing employment agreements, subject to certain exceptions including if such action is pursuant to agreements in existence as of June 15, 2016 or would not have required the approval of the Board of Directors or a committee of the Board of Directors prior to June 27, 2016;
- hiring a financial advisor where the aggregate fees would reasonably be expected to exceed \$10 million;
- entering into an agreement that is reasonably likely to result in Viacom incurring liability or making any payment based upon the resolution of the claims alleged in the Delaware Actions regarding the validity of the

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June 6 purported Bylaw amendments or the June 16 purported Bylaw amendments; instituting or funding legal proceedings seeking the relief sought in the consolidated action, Dauman et al. v. Redstone, et al. pending in Probate and Family Court in Norfolk County, Massachusetts, or Mr. Redstone's petition pending in California Superior Court, subject to certain exceptions including the defense of legal proceedings seeking the relief sought in those actions and any advancement or indemnification obligations of the Consolidated Company in effect on June 16, 2016; and amending the Bylaws by action of the Board of Directors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The status quo order will remain in place until a final judgment is entered in the Delaware Actions (or until the Delaware Chancery Court enters a superseding order).

On July 1, 2016, Viacom filed an answer in the NAI Delaware Action, contesting the validity and effectiveness of the stockholder written consents delivered by NAI to Viacom on June 6th and June 16th. Mr. Salerno filed a joinder in that answer and asserted additional affirmative defenses. On July 11, 2016, the plaintiffs in the NAI Delaware Action filed motions for Judgment on the Pleadings in the NAI Delaware Action and motions to dismiss in the Salerno Delaware Action. On July 29, 2016, the Delaware Chancery Court denied all of the material motions. The case will now proceed to the discovery phase and the Delaware Chancery Court noted that it would schedule trial for the week of October 17, 2016.

On July 15, 2016, Viacom received “reservation of rights” letters from counsel to each of Mr. Dauman and Mr. Dooley. The letters were delivered in light of the Purported Director Replacements and note that Messrs. Dauman and Dooley are highly engaged in overseeing Viacom's operations and are committed to pursuing and executing Viacom's strategic plan for the duration of their respective employment agreements. The letters refer to each executive's right under his employment agreement to resign upon the occurrence of certain events that constitute “Good Reason” (subject to Viacom's opportunity to cure). The letters note the belief of the authors and each executive that such events have not occurred, but, in order to preserve their rights, each executive exercises the right to resign for “Good Reason” effective 31 days after the entry of a judicial order from which no appeal may be taken establishing the validity of the Purported Director Replacements, which could potentially result in significant costs to Viacom. The letters further note that if there is an entry of a judicial order from which no appeal may be taken establishing the invalidity of the Purported Director Replacements, the executives' resignation of employment shall not take effect.

**Purported Class and Derivative Actions**

Between June 17, 2016 and August 1, 2016, three substantially similar purported class action complaints were filed in the Delaware Chancery Court by purported Viacom stockholders, against Viacom, Viacom's directors, NAI and the purported new directors named in NAI's June 16th written consents. The complaints - brought on behalf of the class of all holders of Viacom Class B common stock except the named defendants and any person or entity affiliated with any of the defendants - allege claims for breaches of fiduciary duty against the incumbent director defendants and NAI. The purported new directors named in NAI's June 16th written consents are alleged to have aided and abetted these breaches. In addition to damages and attorneys' fees, the complaints seek declarations invalidating the June 2016 purported Bylaw amendments described above and “such other and further relief as the Court deems just and proper.” Viacom and certain Viacom directors have moved to dismiss the first two complaints and expect to shortly move to dismiss the third.

On July 20, 2016, a purported derivative action was commenced in Delaware Chancery Court by a purported Viacom stockholder against Viacom and its directors. The complaint alleges that Viacom's directors breached their fiduciary duties to Viacom in connection with compensation paid to Mr. Redstone. These breaches, it is alleged, permitted a waste of corporate assets and the unjust enrichment of Mr. Redstone.

**European Commission Statement of Objections**

In July 2015, the Directorate-General for Competition (“DG Comp”) of the European Commission (the “Commission”) issued a Statement of Objections (the “SO”) to the six major Hollywood film studios, including Paramount, and to Sky UK (“Sky”), in connection with DG Comp's investigation into whether conventional territorial restrictions in agreements licensing content to pay television broadcasters impeded European Union (“EU”) single market imperatives in an anti-competitive way. The SO directed at Paramount takes issue with certain geo-filtering provisions in Paramount's 2009 and 2014 agreements with Sky, which were designed to enforce the territorial nature of the content Paramount licenses for distribution on Sky's online and mobile pay television platforms. In addition, the SO challenges certain provisions in the 2009 agreement regarding Sky's satellite distribution of Paramount content. While we believe that Paramount's licensing practices in the EU have been consistent with the region's competition and other rules, rather than prolong the dispute, Viacom and Paramount have chosen to reach agreement with the Commission in the form of

binding commitments related to the types of geo-filtering clauses permitted in premium pay television license agreements with broadcasters to the extent they restrict European Economic Area (“EEA”) broadcasters from responding to unsolicited requests by consumers located in a different territory in the EEA. The commitments permit Paramount to continue to license films through premium pay television license agreements in Europe on an exclusive territorial basis. No admission of liability has been made. In addition, the commitments eliminate the possibility of fines and enable the Commission to close similar pending cases against Viacom and Paramount relating to broadcasters in Italy, France, Germany and Spain. The Commission adopted the commitments on July 26, 2016, bringing the matter to conclusion apart from ongoing compliance monitoring.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 7. STOCKHOLDERS' EQUITY

The components of stockholders' equity are as follows:

Stockholders' Equity (in millions)	Nine Months Ended June 30, 2016			Nine Months Ended June 30, 2015		
	Total			Total		
	Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity	Viacom Stockholders' Equity	Noncontrolling Interests	Total Equity
Beginning Balance	\$3,538	\$ 61	\$3,599	\$3,719	\$ 28	\$3,747
Net earnings	1,184	26	1,210	1,038	72	1,110
Other comprehensive loss <sup>(1)</sup>	(96 )	(1 )	(97 )	(162 )	(3 )	(165 )
Noncontrolling interests	(18 )	(26 )	(44 )	(4 )	(29 )	(33 )
Dividends declared	(478 )	—	(478 )	(428 )	—	(428 )
Purchase of treasury stock	(100 )	—	(100 )	(1,500 )	—	(1,500 )
Equity-based compensation and other	62	—	62	209	—	209
Ending Balance	\$4,092	\$ 60	\$4,152	\$2,872	\$ 68	\$2,940

(1) The components of other comprehensive loss are net of tax expense of \$4 million and \$16 million for the nine months ended June 30, 2016 and 2015, respectively.

## Equity Awards

During the quarter ended June 30, 2016, we granted 3.8 million stock options and 1.3 million restricted share units to employees with a weighted average grant date fair value of \$8.65 and \$38.86 per share, respectively.

## NOTE 8. RESTRUCTURING

Our restructuring liability as of June 30, 2016 by reporting segment is as follows:

(in millions)	Media Networks	Filmed Entertainment	Corporate	Total
September 30, 2015	\$ 87	\$ 51	\$ 9	\$147
Severance payments	(41 )	(24 )	(4 )	(69 )
Revisions to initial estimates	—	(5 )	—	(5 )
June 30, 2016	\$ 46	\$ 22	\$ 5	\$73

The liability as of June 30, 2016 is related to future severance payments in connection with the restructuring plan undertaken in fiscal 2015, as further described in Note 14 of the 2015 Form 10-K. We anticipate that most of the liability associated with the restructuring plan will be paid by September 30, 2016.

## NOTE 9. 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	Quarter Ended June 30,	Nine Months Ended
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(in millions)	June 30,			
	2016	2015	2016	2015
Weighted average number of common shares outstanding, basic	396.5	397.5	396.4	403.6
Dilutive effect of equity awards	1.5	3.7	1.5	4.4
Weighted average number of common shares outstanding, diluted	398.0	401.2	397.9	408.0
Anti-dilutive common shares	17.0	8.1	14.3	5.6



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 10. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

	Nine Months Ended June 30,	
(in millions)	2016	2015
Cash paid for interest	\$464	\$479
Cash paid for income taxes	\$253	\$388
Accounts Receivable		

We had \$549 million and \$577 million of noncurrent trade receivables as of June 30, 2016 and September 30, 2015, respectively. Accounts receivables are principally related to long-term television license arrangements at Filmed Entertainment and content distribution arrangements at Media Networks. These amounts are included within Other assets - noncurrent in our Consolidated Balance Sheets. Such amounts are due in accordance with the underlying terms of the respective agreements with companies that are investment grade or with which we have historically done business under similar terms. We have determined that credit loss allowances are generally not considered necessary for these amounts.

## 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.

## Unconsolidated Variable Interest Entities