

Viacom Inc.  
Form 10-Q  
February 09, 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 December 31, 2015

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 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 January 29, 2016
Class A common stock, par value \$0.001 per share	49,434,385
Class B common stock, par value \$0.001 per share	346,456,384

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Table of Contents

VIACOM INC.  
INDEX TO FORM 10-Q

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1. Consolidated Financial Statements (Unaudited)</u>	
Consolidated Statements of Earnings for the quarters ended December 31, 2015 and 2014	1
Consolidated Statements of Comprehensive Income for the quarters ended December 31, 2015 and 2014	2
Consolidated Balance Sheets as of December 31, 2015 and September 30, 2015	3
<u>Consolidated Statements of Cash Flows for the quarters ended December 31, 2015 and 2014</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management’s Discussion and Analysis of Results of Operations and Financial Condition</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 4. Controls and Procedures</u>	23
 <u>PART II—OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 3. Defaults Upon Senior Securities</u>	24
<u>Item 4. Mine Safety Disclosures</u>	24
<u>Item 5. Other Information</u>	24
<u>Item 6. Exhibits</u>	25

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## VIACOM INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended		
	December 31,		
	2015	2014	
Revenues	\$3,154	\$3,344	
Expenses:			
Operating	1,593	1,623	
Selling, general and administrative	667	731	
Depreciation and amortization	55	55	
Total expenses	2,315	2,409	
Operating income	839	935	
Interest expense, net	(155	) (160	)
Equity in net earnings of investee companies	31	33	
Other items, net	2	(18	)
Earnings before provision for income taxes	717	790	
Provision for income taxes	(256	) (277	)
Net earnings (Viacom and noncontrolling interests)	461	513	
Net earnings attributable to noncontrolling interests	(12	) (13	)
Net earnings attributable to Viacom	\$449	\$500	
Basic earnings per share attributable to Viacom	\$1.13	\$1.22	
Diluted earnings per share attributable to Viacom	\$1.13	\$1.20	
Weighted average number of common shares outstanding:			
Basic	396.6	410.6	
Diluted	398.4	416.1	
Dividends declared per share of Class A and Class B common stock	\$0.40	\$0.33	

See accompanying notes to Consolidated Financial Statements

Table of Contents

VIACOM INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

(in millions)	Quarter Ended	
	December 31,	
	2015	2014
Net earnings (Viacom and noncontrolling interests)	\$461	\$513
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(40	) (104
Defined benefit pension plans	(5	) (20
Cash flow hedges	(1	) —
Other comprehensive loss (Viacom and noncontrolling interests)	(46	) (124
Comprehensive income	415	389
Less: Comprehensive income attributable to noncontrolling interest	9	11
Comprehensive income attributable to Viacom	\$406	\$378

See accompanying notes to Consolidated Financial Statements

Table of Contents

## VIACOM INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	December 31, 2015	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$327	\$506
Receivables, net	3,012	2,807
Inventory, net	808	786
Prepaid and other assets	552	479
Total current assets	4,699	4,578
Property and equipment, net	903	947
Inventory, net	3,766	3,616
Goodwill	11,434	11,456
Intangibles, net	328	340
Other assets	1,232	1,206
Total assets	\$22,362	\$22,143
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$289	\$506
Accrued expenses	618	748
Participants' share and residuals	913	860
Program obligations	638	703
Deferred revenue	459	481
Current portion of debt	1,073	18
Other liabilities	478	537
Total current liabilities	4,468	3,853
Noncurrent portion of debt	11,494	12,267
Participants' share and residuals	306	351
Program obligations	321	356
Deferred tax liabilities, net	448	150
Other liabilities	1,338	1,348
Redeemable noncontrolling interest	231	219
Commitments and contingencies (Note 6)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 49.5 and 50.1 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 346.6 and 348.0 outstanding, respectively	—	—
Additional paid-in capital	10,051	10,017
Treasury stock, 400.1 and 398.0 common shares held in treasury, respectively	(20,825)	(20,725)
Retained earnings	15,049	14,780
Accumulated other comprehensive loss	(577)	(534)
Total Viacom stockholders' equity	3,698	3,538
Noncontrolling interests	58	61
Total equity	3,756	3,599
Total liabilities and equity	\$22,362	\$22,143

See accompanying notes to Consolidated Financial Statements

3

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Table of Contents

VIACOM INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Quarter Ended	
	December 31, 2015	2014
<b>OPERATING ACTIVITIES</b>		
Net earnings (Viacom and noncontrolling interests)	\$461	\$513
Reconciling items:		
Depreciation and amortization	55	55
Feature film and program amortization	1,028	1,027
Equity-based compensation	26	26
Equity in net earnings and distributions from investee companies	(29	) (29
Deferred income taxes	299	232
Operating assets and liabilities, net of acquisitions:		
Receivables	(188	) 42
Inventory, program rights and participations	(1,292	) (1,448
Accounts payable and other current liabilities	(481	) (421
Other, net	(5	) 59
Net cash provided by/(used in) operating activities	(126	) 56
<b>INVESTING ACTIVITIES</b>		
Acquisitions and investments, net	(30	) (1
Capital expenditures	(26	) (34
Net cash flow used in investing activities	(56	) (35
<b>FINANCING ACTIVITIES</b>		
Borrowings	—	990
Commercial paper	290	—
Purchase of treasury stock	(100	) (754
Dividends paid	(159	) (137
Excess tax benefits on equity-based compensation awards	—	35
Exercise of stock options	1	104
Other, net	(22	) (45
Net cash flow provided by financing activities	10	193
Effect of exchange rate changes on cash and cash equivalents	(7	) (29
Net change in cash and cash equivalents	(179	) 185
Cash and cash equivalents at beginning of period	506	1,000
Cash and cash equivalents at end of period	\$327	\$1,185

See accompanying notes to Consolidated Financial Statements



Table of Contents

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.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. 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 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. 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.

Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## NOTE 2. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	December 31, 2015	September 30, 2015
Film inventory:		
Released, net of amortization	\$609	\$576
Completed, not yet released	249	55
In process and other	690	806
Total film inventory, net of amortization	1,548	1,437
Television productions	27	8
Total film and television production inventory	1,575	1,445
Original programming:		
Released, net of amortization	1,125	1,161
In process and other	632	599
Total original programming, net of amortization	1,757	1,760
Acquired program rights, net of amortization	1,149	1,108
Home entertainment inventory	93	89
Total inventory, net	4,574	4,402
Less: current portion	(808	) (786
Total inventory-noncurrent, net	\$3,766	\$3,616

Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## NOTE 3. DEBT

Our total debt consists of the following:

Debt (in millions)	December 31, 2015	September 30, 2015
Senior Notes and Debentures:		
Senior notes due April 2016, 6.250%	368	368
Senior notes due December 2016, 2.500%	399	399
Senior notes due April 2017, 3.500%	498	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%	398	398
Senior notes due March 2021, 4.500%	494	494
Senior notes due December 2021, 3.875%	592	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%	1,233	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%	1,086	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%	544	544
Commercial paper	290	—
Capital lease and other obligations	131	143
Total debt	12,567	12,285
Less: current portion	(1,073)	(18)
Total noncurrent portion of debt	\$11,494	\$12,267

The total unamortized discount and issuance fees and expenses related to our senior notes and debentures was \$474 million as of December 31, 2015 and \$478 million as of September 30, 2015. The fair value of our senior notes and debentures was approximately \$11.9 billion as of December 31, 2015. The valuation of our publicly traded debt is based on quoted prices in active markets.

## Credit Facility

At December 31, 2015, 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 \$290 million with a weighted average maturity of 21 days and weighted average interest rate of 1.16%, was \$2.2 billion as of December 31, 2015. 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 December 31, 2015.



Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## 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 December 31,	
	2015	2014
Interest cost	\$9	\$12
Expected return on plan assets	(10	) (13
Recognized actuarial loss	1	1
Loss on pension settlement	—	24
Net periodic benefit cost	\$—	\$24

## 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)	Quarter Ended December 31,	
	2015	2014
Beginning balance	\$219	\$216
Net earnings	7	7
Distributions	(7	) (8
Translation adjustment	(8	) (9
Redemption value adjustment	20	1
Ending Balance	\$231	\$207

## 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 \$250 million as of December 31, 2015. 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 December 31, 2015. 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

Litigation is inherently uncertain and always difficult to predict. However, based on our understanding and evaluation of the relevant facts and circumstances, we believe that the legal matters described below and other litigation to which we are a party are not likely, in the aggregate, to have a material adverse effect on our results of operations, financial position or operating cash flows.

8

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Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

In July 2015, the Directorate-General for Competition (“DG Comp”) of the European Commission (the “EC”) issued a Statement of Objections (the “SO”) to the six major Hollywood film studios, including Paramount Pictures, 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 are 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. Paramount has responded to the SO. If the SO directed at Paramount is not closed or resolved by settlement and the EC decides that violations have in fact occurred, it has the power to impose fines. Any such decision by the EC could be subject to judicial review in the EU’s General Court and, thereafter, the Court of Justice of the EU. The full process, including appeals, could last several years. We believe that Paramount’s licensing practices in the EU are consistent with the region’s competition and other rules, and the objections presented by the EC are without merit. We will vigorously defend against the claims made by the EC.

In November 2015, Robert J. Casey, II, a Viacom shareholder, commenced a shareholder derivative action in the Court of Chancery of the State of Delaware naming, as defendants, all of the members of our Board of Directors, our Chief Financial Officer and our Controller. The complaint alleged breaches of fiduciary duties and unjust enrichment in connection with (i) our decision to recognize a pre-tax charge in the second quarter of fiscal 2015, reflecting the impact of write-downs of underperforming programming, costs associated with workforce reductions and the accelerated amortization of programming expenses, as we publicly announced on April 6, 2015, (ii) our decision to temporarily pause our stock repurchase program in order to stay within our target leverage ratio, also as publicly announced on April 6, 2015, and (iii) the matters relating to the European Statement of Objections, as discussed above. The complaint was filed following communication to Mr. Casey’s counsel that the Board unanimously determined not to authorize commencement of a civil action against members of management in connection with the above matters, as requested by Mr. Casey’s counsel in previous demand letters. We believe the complaint is meritless and, in January 2016, moved to dismiss it.

In January 2016, E.F. Greenberg, a putative Viacom shareholder, commenced a shareholder derivative action in the Court of Chancery of the State of Delaware against the Company and all the current members of our Board of Directors. The complaint alleges breaches of the fiduciary duties of loyalty and candor, waste of corporate assets, and unjust enrichment in connection with compensation arrangements between Viacom and Sumner and Shari Redstone since October 1, 2013. CBS Corporation and its directors were also named in the complaint in connection with arrangements between CBS and Mr. Redstone and Ms. Redstone. We believe the complaint is meritless and will seek its dismissal pursuant to the procedural rules of the court.

**NOTE 7. STOCKHOLDERS’ EQUITY**

The components of stockholders’ equity are as follows:

Stockholders’ Equity (in millions)	Quarter Ended December 31, 2015			Quarter Ended December 31, 2014		
	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity
Beginning Balance	\$3,538	\$ 61	\$3,599	\$3,719	\$ 28	\$3,747
Net earnings	449	12	461	500	13	513
Other comprehensive loss (1)	(43	) (3	) (46	) (122	) (2	) (124
Noncontrolling interests	(20	) (12	) (32	) (1	) (14	) (15
Dividends declared	(159	) —	(159	) (136	) —	(136



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Purchase of treasury stock (100 )	—	(100 )	(750 )	—	(750 )
Equity-based compensation and other	33	—	33	142	—
Ending Balance	\$3,698	\$ 58	\$3,756	\$3,352	\$ 25

(1) The components of other comprehensive loss are net of tax expense of \$3 million and a tax benefit of \$10 million for the quarters ended December 31, 2015 and 2014, respectively.

Table of Contents

VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## NOTE 8. RESTRUCTURING

Our restructuring liability as of December 31, 2015 by reporting segment is as follows:

## 2015 Restructuring Liability

(in millions)	Media Networks	Filmed Entertainment	Corporate	Total
September 30, 2015	\$87	\$51	\$9	\$147
Severance payments	(25 )	(5 )	(2 )	(32 )
December 31, 2015	\$62	\$46	\$7	\$115

The liability as of December 31, 2015 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 substantially all of the remaining restructuring liability 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 (in millions)	Quarter Ended December 31,	
	2015	2014
Weighted average number of common shares outstanding, basic	396.6	410.6
Dilutive effect of equity awards	1.8	5.5
Weighted average number of common shares outstanding, diluted	398.4	416.1
Anti-dilutive common shares	12.7	4.1

## NOTE 10. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

Supplemental Cash Flow Information (in millions)	Quarter Ended December 31,	
	2015	2014
Cash paid for interest	\$157	\$156
Cash paid for income taxes	\$65	\$48

Accounts Receivable  
We had \$545 million and \$577 million of noncurrent trade receivables as of December 31, 2015 and September 30, 2015, respectively. Accounts receivables are principally related to content distribution arrangements at Media Networks and long-term television license arrangements at Filmed Entertainment. 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

10

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Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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:** We have an unconsolidated investment in Prism TV Private Limited (“Prism”), a 50% owned joint venture in India that qualifies as a VIE. In connection with our investment, we do not have the power to direct matters that most significantly impact the activities of Prism and therefore we do not qualify as the primary beneficiary. Our carrying value in Prism was \$152 million and \$145 million as of December 31, 2015 and September 30, 2015, respectively.

**Consolidated Variable Interest Entities:** Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$207 million in assets and \$55 million in liabilities as of December 31, 2015, and \$207 million in assets and \$54 million in liabilities as of September 30, 2015. The consolidated VIEs’ revenues, expenses and operating income were not significant for all periods presented.

**Income Taxes**

We recognized net discrete tax expense of \$21 million in the quarter ended December 31, 2015 and \$23 million in the quarter ended December 31, 2014, principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Our effective tax rate was 35.7% in the quarter ended December 31, 2015, which included discrete tax expense that contributed 2.9 percentage points to the effective tax rate. Our effective tax rate was 35.1% in the quarter ended December 31, 2014, which included discrete tax expense and a loss on pension settlement that, when taken together, contributed 2.8 percentage points to the effective tax rate.

**NOTE 11. FAIR VALUE MEASUREMENTS**

The following table summarizes our financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2015 and September 30, 2015:

Financial Asset/(Liability)	Total	Quoted Prices		
		In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(in millions)		Level 1	Level 2	Level 3
December 31, 2015				
Marketable securities	\$ 106	\$ 106	\$—	\$—
Derivatives	(9	) —	(9	) —
Total	\$97	\$ 106	\$(9	) \$—
September 30, 2015				
Marketable securities	\$ 100	\$ 100	\$—	\$—
Derivatives	(10	) —	(10	) —
Total	\$90	\$ 100	\$(10	) \$—

The fair value for marketable securities is determined utilizing a market approach based on quoted market prices in active markets at period end and the fair value for derivatives is determined utilizing a market-based approach. The notional value of all foreign exchange contracts was \$1.171 billion and \$1.040 billion as of December 31, 2015 and September 30, 2015, respectively. At December 31, 2015, \$809 million related to our foreign currency balances and \$362 million related to future production costs. At September 30, 2015, \$769 million related to our foreign currency balances and \$271 million related to future production costs.



Table of Contents

VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## NOTE 12. REPORTING SEGMENTS

The following tables set forth our financial performance by reporting segment. Our reporting segments have been determined in accordance with our internal management structure. We manage our operations through two reporting 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 purchase of Filmed Entertainment's feature films and television programming exhibition rights by Media Networks. The elimination of such intercompany transactions in the Consolidated Financial Statements is included within eliminations in the tables below.

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

Revenues by Segment (in millions)	Quarter Ended December 31,	
	2015	2014
Media Networks	\$2,565	\$2,654
Filmed Entertainment	612	720
Eliminations	(23	) (30
Total revenues	\$3,154	\$3,344

Adjusted Operating Income/(Loss) (in millions)	Quarter Ended December 31,	
	2015	2014
Media Networks	\$1,057	\$1,104
Filmed Entertainment	(146	) (60
Corporate expenses	(50	) (61
Eliminations	4	2
Equity-based compensation	(26	) (26
Loss on pension settlement	—	(24
Operating income	839	935
Interest expense, net	(155	) (160
Equity in net earnings of investee companies	31	33
Other items, net	2	(18
Earnings before provision for income taxes	\$717	\$790

Total Assets (in millions)	December 31,	September 30,
	2015	2015
Media Networks	\$17,039	\$17,251
Filmed Entertainment	6,380	5,928
Corporate/Eliminations	(1,057	) (1,036
Total assets	\$22,362	\$22,143



Table of Contents

VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Revenues by Component (in millions)	Quarter Ended December 31,	
	2015	2014
Advertising	\$1,320	\$1,367
Feature film	570	674
Affiliate fees	1,119	1,132
Ancillary	168	201
Eliminations	(23	) (30
Total revenues	\$3,154	\$3,344

## NOTE 13. RELATED PARTY TRANSACTIONS

National Amusements, Inc. (“NAI”), directly and indirectly, is the controlling stockholder of both Viacom and CBS Corporation (“CBS”). Sumner M. Redstone, the controlling shareholder, Chairman and Chief Executive Officer of NAI, serves as our Chairman Emeritus and as the Chairman Emeritus of CBS. Shari Redstone, who is Sumner Redstone’s daughter, is the President and a director of NAI, and serves as non-executive Vice Chair of the Board of Directors of both Viacom and CBS. George Abrams, one of our directors, serves on the boards of both NAI and Viacom, and Frederic Salerno, another of our directors, serves on the boards of both Viacom and CBS. Philippe Dauman, our Executive Chairman, President and Chief Executive Officer, also serves on the boards of both NAI and Viacom. Transactions between Viacom and related parties are overseen by our Governance and Nominating Committee.

## Viacom and NAI Related Party Transactions

NAI licenses films in the ordinary course of business for its motion picture theaters from all major studios, including Paramount. During the quarters ended December 31, 2015 and 2014, Paramount earned revenues from NAI in connection with these licenses in the aggregate amounts of approximately \$1 million and \$2 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 together with any advance amounts paid. Paramount made advance payments of \$60 million to CBS during the quarter ended December 31, 2015. 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 purchases 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.



Table of Contents

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 December 31,	
	2015	2014
Consolidated Statements of Earnings		
Revenues	\$43	\$59
Operating expenses	\$59	\$68
	December 31, 2015	September 30, 2015
Consolidated Balance Sheets		
Accounts receivable	\$4	\$5
Accounts payable	\$1	\$1
Participants' share and residuals, current	65	77
Program obligations, current	88	62
Program obligations, noncurrent	42	55
Other liabilities	2	2
Total due to CBS	\$198	\$197

## 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, distribution of films and provision of certain administrative support services, for which the impact on our Consolidated Financial Statements is as follows:

Other Related Party Transactions (in millions)	Quarter Ended December 31,	
	2015	2014
Consolidated Statements of Earnings		
Revenues	\$5	\$13
Operating expenses	\$2	\$2
Selling, general and administrative	\$(2)	\$(2)
	December 31, 2015	September 30, 2015
Consolidated Balance Sheets		
Accounts receivable	\$61	\$60
Other assets	1	1
Total due from other related parties	\$62	\$61
Accounts payable	\$7	\$5
Other liabilities	54	55
Total due to other related parties	\$61	\$60

All other related party transactions are 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, 2015, as filed with the Securities and Exchange Commission ("SEC") on November 12, 2015 (the "2015 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 ended December 31, 2015, compared with the quarter ended December 31, 2014. 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 quarter ended December 31, 2015, compared with the quarter ended December 31, 2014, and of our outstanding debt, commitments and contingencies existing as of December 31, 2015.

## OVERVIEW

### Summary

We are 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. Our media networks, including Nickelodeon®, COMEDY CENTRAL®, MTV®, VH1®, SPIKE®, BET®, CMT®, TV Land®, Nick at Nite®, Nick Jr.®, Channel 5® (UK), Logo®, Nicktoons®, TeenNick® and Paramount Channel™, reach 510 million households worldwide. Viacom Media Networks also provides extensive online, mobile and app experiences. Paramount Pictures® is a major global producer and distributor of filmed entertainment. Paramount Television™ develops and produces programming for television and video-on-demand platforms.

We operate through two reporting segments: Media Networks and Filmed Entertainment. Our measure of segment performance is adjusted operating income/(loss). We define adjusted operating income/(loss) for our segments as operating income/(loss), 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.

When applicable, we use consolidated adjusted operating income, adjusted net earnings attributable to Viacom and adjusted diluted earnings per share ("EPS"), among other measures, to evaluate our actual operating performance and for planning and forecasting of future periods. We believe that the adjusted results provide 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 and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"), they should not be considered in isolation of, or as a substitute for, operating income, net earnings attributable to Viacom and diluted EPS as indicators of operating performance and they may not be comparable to similarly titled measures employed by other companies. For a reconciliation of our adjusted measures and discussion of the items affecting comparability, refer to the section entitled "Factors Affecting Comparability".

### Media Networks

Our Media Networks segment generates revenues in three categories: (i) the sale of advertising and marketing services, (ii) affiliate fees from cable television operators, direct-to-home satellite television operators, mobile networks, video-on-demand services, and other distributors of our programming and program services, and (iii) ancillary revenues, which include consumer products licensing, brand licensing, sale of content on DVDs and Blu-ray discs, licensing of our content for download-to-own and download-to-rent services and television syndication.



Table of ContentsManagement'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, participation fees, integrated marketing 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 generates revenues worldwide principally from: (i) the theatrical release and/or distribution of motion pictures, (ii) home entertainment, which includes sales of DVDs and Blu-ray discs relating to the motion pictures we release theatrically and direct-to-DVD, as well as content distributed on behalf of Viacom and third parties, transactional video-on-demand and download-to-own services, (iii) licensing of film and television exhibition rights to pay and basic cable television, free television, subscription video-on-demand and free video-on-demand services and (iv) ancillary revenues from providing production services to third parties, primarily at Paramount's studio lot, licensing of its brands for consumer products, theme parks and other uses, and distribution of content specifically developed for digital platforms.

Filmed Entertainment segment expenses consist of operating expenses, SG&A expenses and depreciation and amortization. Operating expenses principally include the amortization of film costs of our released feature films (including participations and residuals), print and advertising expenses and other distribution costs. We incur marketing costs before and throughout the theatrical release of a film and, to a lesser extent, other distribution windows. Such costs are incurred to generate public interest in our films and are expensed as incurred; therefore, we typically incur losses with respect to a particular film prior to and during the film's theatrical exhibition and profitability may not be realized until well after a film's theatrical release. Therefore, the results of the Filmed Entertainment segment can be volatile as films work their way through the various distribution windows. 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

## Consolidated Results of Operations

Our summary consolidated results of operations are presented below for the quarters ended December 31, 2015 and 2014.

(in millions, except per share amounts)	Quarter Ended		Better/(Worse)		
	December 31,		\$	%	
	2015	2014			
Revenues	\$3,154	\$3,344	\$(190)	(6)	)%
Operating income	839	935	(96)	(10)	)
Adjusted operating income	839	959	(120)	(13)	)
Net earnings attributable to Viacom	449	500	(51)	(10)	)
Adjusted net earnings attributable to Viacom	470	538	(68)	(13)	)
Diluted EPS	1.13	1.20	(0.07)	(6)	)
Adjusted diluted EPS	\$1.18	\$1.29	\$(0.11)	(9)	)%

See the section entitled "Factors Affecting Comparability" for a reconciliation of our adjusted measures to our reported results.

Revenues

Worldwide revenues decreased \$190 million, or 6%, to \$3.154 billion in the quarter ended December 31, 2015. Excluding foreign exchange, which had a 2-percentage point unfavorable impact, worldwide revenues decreased 4%. Filmed Entertainment revenues decreased \$108 million, or 15%, primarily driven by lower theatrical and home entertainment revenues, partially offset by increased license fees, and Media Networks revenues decreased \$89 million, or 3%, principally reflecting lower advertising and ancillary revenues. Excluding foreign exchange, which had a 1-percentage point and 3-percentage point unfavorable impact, respectively, Media Networks revenues declined 2% and Filmed Entertainment revenues declined 12%.

Operating Income

Adjusted operating income decreased \$120 million, or 13%, to \$839 million in the quarter ended December 31, 2015. Filmed Entertainment adjusted operating results decreased \$86 million reflecting the timing and mix of current quarter releases, as well

Table of ContentsManagement's Discussion and Analysis  
of Results of Operations and Financial Condition  
(continued)

as lower contributions from films in release in the post-theatrical distribution windows. Media Networks adjusted operating income decreased \$47 million, or 4%, as the decline in revenues was partially offset by lower expenses. In addition, corporate expenses decreased \$11 million, or 18%, due to lower employee-related costs. Adjusted results in the quarter ended December 31, 2014 exclude the impact of a non-cash pension settlement loss of \$24 million. Including the pension settlement loss, operating income decreased \$96 million, or 10%.

See the section entitled "Segment Results of Operations" for a more in-depth discussion of the revenues, expenses and adjusted operating income/(loss) for each of the Media Networks and Filmed Entertainment segments.

Net Earnings Attributable to Viacom

Adjusted net earnings attributable to Viacom decreased \$68 million, or 13%, to \$470 million in the quarter ended December 31, 2015, principally due to the decline in tax-effected operating income described above, partially offset by the impact of foreign currency losses in the prior year quarter.

Our effective income tax rate was 32.8% in the quarter, compared with 32.3% in the quarter ended December 31, 2014, excluding the impact of discrete tax items.

Adjusted diluted EPS decreased \$0.11 per diluted share to \$1.18 in the quarter, reflecting lower earnings, partially offset by the impact of fewer shares. Foreign exchange had an unfavorable \$0.02 impact on adjusted diluted EPS. In addition to the pension settlement loss in the prior year quarter mentioned above, adjusted net earnings attributable to Viacom exclude net discrete tax expense of \$21 million and \$23 million in the quarters ended December 31, 2015 and 2014, respectively. Including these items, net earnings attributable to Viacom declined \$51 million, or 10% and diluted EPS decreased \$0.07.

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 purchase of Filmed Entertainment's feature films and television programming exhibition rights by Media Networks.

Media Networks

(in millions)	Quarter Ended		Better/(Worse)		
	December 31, 2015	December 31, 2014	\$	%	
Revenues by Component					
Advertising	\$1,320	\$1,367	\$(47)	(3)	)%
Affiliate fees	1,119	1,132	(13)	(1)	)
Ancillary	126	155	(29)	(19)	)
Total revenues by component	\$2,565	\$2,654	\$(89)	(3)	)%
Expenses					
Operating	\$957	\$987	\$30	3	%
Selling, general and administrative	510	522	12	2	
Depreciation and amortization	41	41	—	—	
Total expenses	\$1,508	\$1,550	\$42	3	%
Adjusted Operating Income	\$1,057	\$1,104	\$(47)	(4)	)%

Revenues

Worldwide revenues decreased \$89 million, or 3%, to \$2.565 billion in the quarter ended December 31, 2015.

Excluding foreign exchange, which had a 1-percentage point unfavorable impact, worldwide revenues decreased 2%.

Domestic revenues decreased \$67 million, or 3%, to \$2.057 billion, principally due to lower advertising and ancillary revenues. International revenues decreased 4% to \$508 million, driven by the impact of foreign exchange, which had a

7-percentage point unfavorable impact on international revenues. Excluding the impact of foreign exchange, international revenues increased 3% reflecting higher advertising and affiliate revenues.



Table of ContentsManagement's Discussion and Analysis  
of Results of Operations and Financial Condition  
(continued)

## Advertising

Worldwide advertising revenues decreased \$47 million, or 3%, to \$1.320 billion in the quarter. Excluding foreign exchange, which had a 1-percentage point unfavorable impact, worldwide advertising revenues decreased 2%. Domestic advertising revenues decreased 4%. While pricing increased, softer ratings at certain of our networks caused lower audience delivery, reducing impressions and associated revenue. International advertising revenues decreased 2%, driven by the impact of foreign exchange, which had an 8-percentage point unfavorable impact on international revenues. Excluding the impact of foreign exchange, international advertising revenues increased 6% driven by growth in Europe.

## Affiliate Fees

Worldwide affiliate fee revenues decreased \$13 million, or 1%, to \$1.119 billion in the quarter. Excluding foreign exchange, which had a 1-percentage point unfavorable impact, worldwide affiliate revenues were flat. Domestic affiliate revenues were substantially flat. Excluding the impact from the timing of product available under certain distribution agreements, domestic affiliate revenues grew in the low mid single digits as rate increases were partially offset by a modest decline in subscribers compared to the prior year quarter. International affiliate revenues decreased 6%, driven by the impact of foreign exchange, which had a 9-percentage point unfavorable impact on international revenues. Excluding the impact of foreign exchange, international affiliate revenues increased 3% driven by the launch of new channels and increased subscribers.

## Ancillary

Worldwide ancillary revenue decreased \$29 million, or 19%, to \$126 million in the quarter, driven by lower consumer product revenue, reflecting Teenage Mutant Ninja Turtles merchandise sales in the prior year quarter, and a decline in television syndication revenue.

## Expenses

Total expenses decreased \$42 million, or 3%, to \$1.508 billion in the quarter.

## Operating

Operating expenses decreased \$30 million, or 3%, to \$957 million in the quarter. Programming costs decreased \$25 million, or 3%, to \$847 million primarily driven by the benefit associated with programming charges taken in the second quarter of fiscal 2015, partially offset by our continuing investment in original content. Distribution and other expenses decreased \$5 million, or 4%, to \$110 million.

## Selling, General and Administrative

SG&A expenses decreased \$12 million, or 2%, to \$510 million in the quarter, reflecting lower employee costs, partially offset by higher advertising and promotional expenses related to marketing original programming.

## Adjusted Operating Income

Adjusted operating income decreased \$47 million, or 4%, to \$1.057 billion in the quarter, reflecting the operating results discussed above and a 1-percentage point unfavorable foreign exchange impact.

## Filmed Entertainment

(in millions)	Quarter Ended		Better/(Worse)	
	2015	2014	\$	%
Revenues by Component				
Theatrical	\$94	\$169	\$(75 )	(44 )%
Home entertainment	239	316	(77 )	(24 )
License fees	237	189	48	25
Ancillary	42	46	(4 )	(9 )
Total revenues by component	\$612	\$720	\$(108 )	(15 )%
Expenses				

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Operating	\$663	\$668	\$5	1	%
Selling, general and administrative	82	99	17	17	
Depreciation and amortization	13	13	—	—	
Total expenses	\$758	\$780	\$22	3	%
Adjusted Operating Loss	\$(146 )	\$(60 )	\$(86 )	(143 )	%

18

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Table of Contents

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

Revenues

Worldwide revenues decreased \$108 million, or 15%, to \$612 million in the quarter ended December 31, 2015. Excluding foreign exchange, which had a 3-percentage point unfavorable impact, worldwide revenues declined 12%. Domestic revenues were \$311 million and international revenues were \$301 million, a decline of 16% and 14%, respectively. Foreign exchange had a 7-percentage point unfavorable impact on international revenues.

Theatrical

Worldwide theatrical revenues decreased \$75 million, or 44%, to \$94 million in the quarter. Carryover revenues decreased \$46 million principally due to revenues from Teenage Mutant Ninja Turtles in the prior year quarter, and revenues from our current quarter releases were lower by \$29 million due to the timing and mix of releases. Significant current quarter releases included Daddy's Home, Paranormal Activity: The Ghost Dimension and The Big Short, while the prior year quarter included Interstellar. Domestic theatrical revenues decreased 51% and international theatrical revenues decreased 33%. Foreign exchange had an 8-percentage point unfavorable impact on international theatrical revenues.

Home Entertainment

Worldwide home entertainment revenues decreased \$77 million, or 24%, to \$239 million in the quarter, primarily reflecting carryover revenues from Transformers: Age of Extinction in the prior year quarter. Significant titles in the current quarter included Mission: Impossible - Rogue Nation and Terminator: Genisys, while the prior year quarter included Teenage Mutant Ninja Turtles. Domestic home entertainment revenues decreased 18% and international home entertainment revenues decreased 32%. Foreign exchange had a 7-percentage point unfavorable impact on international home entertainment revenues.

License Fees

License fees increased \$48 million, or 25%, to \$237 million in the quarter, primarily driven by the licensing of certain titles in subscription video-on-demand and television.

Expenses

Total expenses decreased \$22 million, or 3%, to \$758 million in the quarter, principally driven by savings in SG&A expenses.

Operating

Operating expenses decreased \$5 million, or 1%, to \$663 million in the quarter. Distribution and other costs, principally print and advertising expenses, decreased \$30 million, or 9%, principally driven by home entertainment distribution costs for Transformers: Age of Extinction in the prior year quarter. Film costs increased \$25 million, or 8%, reflecting higher participations and residuals.

Selling, General and Administrative

SG&A expenses decreased \$17 million, or 17%, to \$82 million in the quarter, primarily driven by lower employee costs.

Adjusted Operating Loss

Adjusted operating loss was \$146 million for the quarter ended December 31, 2015 compared with \$60 million for the quarter ended December 31, 2014. The decline of \$86 million in operating results reflects the timing and mix of current quarter releases, as well as lower contributions from films in release in the post-theatrical distribution windows. The generation of an operating loss reflects the recognition of print and advertising expenses incurred in the period, generally before and throughout the theatrical release of a film, while revenues for the respective films are recognized as earned through its theatrical exhibition and subsequent distribution windows.

Factors Affecting Comparability

The Consolidated Financial Statements as of and for the quarters ended December 31, 2015 and 2014 reflect our results of operations, financial position and cash flows reported in accordance with GAAP. Results for the aforementioned periods, as discussed in the section entitled "Overview", have been affected by certain items identified

as affecting comparability. Accordingly, when applicable, we use adjusted measures to evaluate our actual operating performance.

Table of ContentsManagement's Discussion and Analysis  
of Results of Operations and Financial Condition  
(continued)

The following tables reconcile our adjusted measures to our reported results for the quarters ended December 31, 2015 and 2014. The tax impacts included in the tables have been calculated using the rates applicable to the adjustments presented.

(in millions, except per share amounts)

	Quarter Ended December 31, 2015			
	Operating Income	Pre-tax Earnings	Net Earnings Attributable to Viacom	Diluted EPS
Reported results	\$839	\$ 717	\$ 449	\$1.13
Factors Affecting Comparability:				
Discrete tax expense	—	—	21	0.05
Adjusted results	\$839	\$ 717	\$ 470	\$1.18

(in millions, except per share amounts)

	Quarter Ended December 31, 2014			
	Operating Income	Pre-tax Earnings	Net Earnings Attributable to Viacom	Diluted EPS
Reported results	\$935	\$ 790	\$ 500	\$1.20
Factors Affecting Comparability:				
Loss on pension settlement	24	24	15	0.04
Discrete tax expense	—	—	23	0.05
Adjusted results	\$959	\$ 814	\$ 538	\$1.29

Discrete tax expense: The net discrete tax expense in the quarters ended December 31, 2015 and 2014 is principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Loss on pension settlement: The pre-tax non-cash charge of \$24 million in the quarter ended December 31, 2014 was driven by the settlement of pension benefits of certain participants of our funded pension plan.

Our effective tax rate was 32.8% in the quarter ended December 31, 2015 and 32.3% in the quarter ended December 31, 2014, excluding the impact of the discrete tax expense and loss on pension settlement. Discrete tax expense contributed 2.9 percentage points to the effective tax rate, which reconciles to the reported effective tax rate of 35.7% in the quarter ended December 31, 2015. Discrete tax expense, taken together with the impact of the pension settlement loss, contributed 2.8 percentage points to the effective tax rate, which reconciles to the reported effective tax rate of 35.1% in the quarter ended December 31, 2014.

Table of Contents

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

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 \$2.5 billion five-year 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 discretionary share repurchases under our stock repurchase program, as deemed appropriate, as well as quarterly cash dividends, capital expenditures and acquisitions of businesses.

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. Share repurchases under the program are expected to be funded through a combination of debt and cash generated by operations, as deemed appropriate.

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 \$327 million as of December 31, 2015, a decrease of \$179 million compared with September 30, 2015.

Operating Activities

Cash used in operating activities was \$126 million for the quarter ended December 31, 2015, compared with cash provided by operating activities of \$56 million for the quarter ended December 31, 2014, primarily reflecting unfavorable working capital requirements and the impact from lower earnings in the current quarter.

Investing Activities

Cash used in investing activities was \$56 million and \$35 million for the quarters ended December 31, 2015 and 2014, respectively.

Financing Activities

Cash provided by financing activities was \$10 million for the quarter ended December 31, 2015, primarily driven by \$290 million of commercial paper borrowings, partially offset by dividend payments of \$159 million and the settlement of share repurchases totaling \$100 million.

Cash provided by financing activities was \$193 million for the quarter ended December 31, 2014, primarily driven by proceeds of \$990 million from the issuance of senior notes and debentures and proceeds of \$104 million from the exercise of stock options, partially offset by the settlement of share repurchases of \$754 million and dividend payments totaling \$137 million.

Capital Resources

Capital Structure and Debt

Total debt was \$12.567 billion as of December 31, 2015, an increase of \$282 million from \$12.285 billion at September 30, 2015.



Table of Contents

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

Credit Facility

At December 31, 2015, there were no amounts outstanding under our credit facility. 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 \$290 million with a weighted average maturity of 21 days and weighted average interest rate of 1.16%, was \$2.2 billion as of December 31, 2015. 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 December 31, 2015.

Stock Repurchase Program

During the quarter ended December 31, 2015, we repurchased 2.1 million shares of Class B common stock for an aggregate purchase price of \$100 million, leaving \$4.9 billion of remaining capacity under our program.

Commitments and Contingencies

Legal Matters

Litigation is inherently uncertain and difficult to predict. However, based on our understanding and evaluation of the relevant facts and circumstances, we believe that the legal matters described in this document and other litigation to which we are a party are not likely, in the aggregate, to have a material adverse effect on our results of operations, financial position or operating cash flows. For additional information, see Note 6 to the Consolidated Financial Statements.

**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 13 to the Consolidated Financial Statements.

**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: the public acceptance of our brands, programs, motion pictures and other entertainment content on the various platforms on which they are distributed; the impact of inadequate audience measurement on our program ratings, advertising revenues and affiliate fees; technological developments and their effect in our markets and on consumer behavior; competition for content, audiences, advertising and distribution; the impact of piracy; economic fluctuations in advertising and retail markets, and economic conditions generally; fluctuations in our results due to the timing, mix, number and availability of our motion pictures and other programming; the potential for loss of carriage or other reduction in the distribution of our content; changes in the Federal communications or other laws and regulations; evolving cybersecurity and similar risks; other domestic and global economic, business, competitive and/or regulatory factors affecting our businesses generally; and other factors described in our news releases and filings with the Securities and Exchange Commission, including but not limited to our 2015 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 the impact of interest rate changes, foreign currency fluctuations and changes in the market value of investments. 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. We do not hold or enter into financial instruments for speculative trading purposes.

Table of Contents

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 December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings.

Since our 2015 Form 10-K, there have been no material developments in the material legal proceedings in which we are involved, except as set forth in Note 6 to the Consolidated Financial Statements.

## 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 2015 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.

The following table provides information about our purchases of Viacom Class B common stock during the quarter ended December 31, 2015 under our publicly announced stock repurchase program.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under Program
	(thousands)	(dollars)	(thousands)	(millions)
Open Market Purchases				
Month ended October 31, 2015	1,281	\$46.82	1,281	\$4,940
Month ended November 30, 2015	694	\$50.42	694	\$4,905
Month ended December 31, 2015	105	\$47.94	105	\$4,900
Total	2,080		2,080	

(1) There is no expiration date for the program.

## Item 3. Defaults Upon Senior Securities.

None.

## Item 4. Mine Safety Disclosures.

Not Applicable.

## Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

Exhibit No. Description of Exhibit

10.1*	Employment Agreement between Viacom Inc. and Scott Mills, dated as of October 1, 2014.
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.
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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIACOM INC.

Date: February 9, 2016

By: /s/ WADE DAVIS  
Wade Davis  
Executive Vice President, Chief Financial Officer

Date: February 9, 2016

By: /s/ KATHERINE GILL-CHAREST  
Katherine Gill-Charest  
Senior Vice President, Controller  
(Chief Accounting Officer)