

Viacom Inc.
Form 10-Q
May 01, 2014

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 March 31, 2014

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 April 15, 2014
Class A common stock, par value \$0.001 per share	50,973,288
Class B common stock, par value \$0.001 per share	378,847,996

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

VIACOM INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended		Six Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Revenues	\$3,174	\$3,135	\$6,371	\$6,449
Expenses:				
Operating	1,538	1,539	3,012	3,302
Selling, general and administrative	712	689	1,416	1,386
Depreciation and amortization	52	60	111	117
Total expenses	2,302	2,288	4,539	4,805
Operating income	872	847	1,832	1,644
Interest expense, net	(152)	(110)	(301)	(220)
Equity in net earnings of investee companies	10	16	36	40
Other items, net	(3)	(6)	(3)	1
Earnings from continuing operations before provision for income taxes	727	747	1,564	1,465
Provision for income taxes	(216)	(258)	(496)	(494)
Net earnings from continuing operations	511	489	1,068	971
Discontinued operations, net of tax	—	(3)	—	(6)
Net earnings (Viacom and noncontrolling interests)	511	486	1,068	965
Net earnings attributable to noncontrolling interests	(9)	(8)	(19)	(17)
Net earnings attributable to Viacom	\$502	\$478	\$1,049	\$948
Amounts attributable to Viacom:				
Net earnings from continuing operations	\$502	\$481	\$1,049	\$954
Discontinued operations, net of tax	—	(3)	—	(6)
Net earnings attributable to Viacom	\$502	\$478	\$1,049	\$948
Basic earnings per share attributable to Viacom:				
Continuing operations	\$1.15	\$0.98	\$2.38	\$1.92
Discontinued operations	—	(0.01)	—	(0.01)
Net earnings	\$1.15	\$0.97	\$2.38	\$1.91
Diluted earnings per share attributable to Viacom:				
Continuing operations	\$1.13	\$0.96	\$2.33	\$1.89
Discontinued operations	—	—	—	(0.01)
Net earnings	\$1.13	\$0.96	\$2.33	\$1.88
Weighted average number of common shares outstanding:				
Basic	436.1	492.0	440.5	496.8
Diluted	444.6	500.3	449.3	504.7
Dividends declared per share of Class A and Class B common stock	\$0.30	\$0.275	\$0.60	\$0.55

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in millions)	Quarter Ended March 31,		Six Months Ended March 31,		
	2014	2013	2014	2013	
Net earnings (Viacom and noncontrolling interests)	\$511	\$486	\$1,068	\$965	
Other comprehensive income, net of tax:					
Foreign currency translation adjustments	7	(46	) 33	(64)
Defined benefit pension plans	—	2	—	16	
Cash flow hedges	1	(1	) 1	6	
Available for sale securities	—	—	—	3	
Other comprehensive income (Viacom and noncontrolling interests)	8	(45	) 34	(39)
Comprehensive income	519	441	1,102	926	
Less: Comprehensive income attributable to noncontrolling interests	9	8	20	15	
Comprehensive income attributable to Viacom	\$510	\$433	\$1,082	\$911	

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	March 31, 2014	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,580	\$2,403
Receivables, net	2,674	2,987
Inventory, net	717	770
Deferred tax assets, net	51	58
Prepaid and other assets	574	508
Total current assets	6,596	6,726
Property and equipment, net	1,011	1,040
Inventory, net	4,087	3,945
Goodwill	11,096	11,079
Intangibles, net	258	279
Other assets	814	760
Total assets	\$23,862	\$23,829
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$341	\$316
Accrued expenses	792	1,074
Participants' share and residuals	968	1,110
Program rights obligations	576	576
Deferred revenue	216	230
Current portion of debt	618	18
Other liabilities	403	466
Total current liabilities	3,914	3,790
Noncurrent portion of debt	12,761	11,867
Participants' share and residuals	373	437
Program rights obligations	461	527
Deferred tax liabilities, net	562	649
Other liabilities	1,160	1,169
Redeemable noncontrolling interest	210	200
Commitments and contingencies (Note 7)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 51.0 and 51.1 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 380.5 and 398.2 outstanding, respectively	—	—
Additional paid-in capital	9,607	9,490
Treasury stock, 356.6 and 336.3 common shares held in treasury, respectively	(17,525)	(15,825)
Retained earnings	12,410	11,629
Accumulated other comprehensive loss	(68)	(101)
Total Viacom stockholders' equity	4,424	5,193
Noncontrolling interests	(3)	(3)
Total equity	4,421	5,190
Total liabilities and equity	\$23,862	\$23,829

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Six Months Ended		
	March 31,		
	2014	2013	
OPERATING ACTIVITIES			
Net earnings (Viacom and noncontrolling interests)	\$1,068	\$965	
Discontinued operations, net of tax	—	6	
Net earnings from continuing operations	1,068	971	
Reconciling items:			
Depreciation and amortization	111	117	
Feature film and program amortization	1,862	2,005	
Equity-based compensation	63	60	
Equity in net earnings and distributions from investee companies	(22) (30)
Deferred income taxes	(94) 475)
Operating assets and liabilities, net of acquisitions:			
Receivables	323	(18)
Inventory, program rights and participations	(2,168) (1,988)
Accounts payable and other current liabilities	(224) (247)
Other, net	(106) (49)
Discontinued operations, net	—	(3)
Cash provided by operations	813	1,293	
INVESTING ACTIVITIES			
Acquisitions and investments, net of cash acquired	13	12	
Capital expenditures	(49) (67)
Net cash flow used in investing activities	(36) (55)
FINANCING ACTIVITIES			
Borrowings	1,485	784	
Stock repurchases	(1,830) (1,398)
Dividends paid	(271) (277)
Excess tax benefits on equity-based compensation awards	38	20	
Exercise of stock options	75	169	
Other, net	(103) (92)
Net cash flow used in financing activities	(606) (794)
Effect of exchange rate changes on cash and cash equivalents	6	(32)
Net change in cash and cash equivalents	177	412	
Cash and cash equivalents at beginning of period	2,403	848	
Cash and cash equivalents at end of period	\$2,580	\$1,260	

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 Inc. is a leading global entertainment content company that connects with audiences in over 160 countries and territories and creates compelling television programs, motion pictures, short-form video, applications ("apps"), games, consumer products, social media and other entertainment content. Viacom operates through two reporting segments: Media Networks, which includes Music and Logo, Nickelodeon, Entertainment 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 and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, Insurge Pictures, MTV Films and Nickelodeon Movies 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, 2014 ("fiscal 2014") or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2013, as filed with the SEC on November 14, 2013 (the "2013 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, allowance for doubtful accounts, 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 2014 presentation.

NOTE 2. 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 shares:

Weighted Average Number of Common Shares Outstanding and Anti-dilutive Common Shares (in millions)	Quarter Ended		Six Months Ended	
	March 31, 2014	2013	March 31, 2014	2013

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Weighted average number of common shares outstanding, basic	436.1	492.0	440.5	496.8
Dilutive effect of equity awards	8.5	8.3	8.8	7.9
Weighted average number of common shares outstanding, diluted	444.6	500.3	449.3	504.7
Anti-dilutive common shares	0.1	—	0.1	3.6

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 3. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	March 31, 2014	September 30, 2013
Film inventory:		
Released, net of amortization	\$661	\$570
Completed, not yet released	—	40
In process and other	777	653
Total film inventory, net of amortization	1,438	1,263
Original programming:		
Released, net of amortization	1,392	1,343
In process and other	569	590
Total original programming, net of amortization	1,961	1,933
Acquired program rights, net of amortization	1,291	1,391
Home entertainment inventory, net of allowance of \$69 and \$75, respectively	114	128
Total inventory, net	4,804	4,715
Less current portion	(717)	(770)
Total inventory-noncurrent, net	\$4,087	\$3,945

NOTE 4. DEBT

Our total debt consists of the following:

Debt (in millions)	March 31, 2014	September 30, 2013
Senior Notes and Debentures:		
Senior notes due September 2014, 4.375%	\$600	\$599
Senior notes due February 2015, 1.250%	600	600
Senior notes due September 2015, 4.250%	250	250
Senior notes due April 2016, 6.250%	917	917
Senior notes due December 2016, 2.500%	398	398
Senior notes due April 2017, 3.500%	498	497
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%	400	—
Senior notes due September 2019, 5.625%	552	552
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%	298	298
Senior notes due September 2023, 4.250%	1,238	1,237
Senior notes due April 2024, 3.875%	546	—
Senior debentures due April 2036, 6.875%	1,072	1,072
Senior debentures due October 2037, 6.750%	76	76
Senior debentures due February 2042, 4.500%	245	245
Senior debentures due March 2043, 4.375%	1,087	1,085
Senior debentures due June 2043, 4.875%	249	249
Senior debentures due September 2043, 5.850%	1,242	1,242

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Senior debentures due April 2044, 5.250%	549	—
Capital lease and other obligations	184	190
Total debt	13,379	11,885
Less current portion	(618) (18
Total noncurrent portion of debt	\$12,761	\$11,867

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Senior Notes and Debentures

We issued a total of \$1.5 billion of senior notes and debentures in March 2014 as follows:

• 2.200% Senior Notes due April 2019 with an aggregate principal amount of \$400 million at a price equal to 99.947% of the principal amount.

• 3.875% Senior Notes due April 2024 with an aggregate principal amount of \$550 million at a price equal to 99.192% of the principal amount.

• 5.250% Senior Debentures due April 2044 with an aggregate principal amount of \$550 million at a price equal to 99.831% of the principal amount.

The proceeds, net of the discount and other issuance fees and expenses, from the issuance of the senior notes and debentures were \$1.485 billion.

On April 3, 2014, we redeemed all \$600 million of our outstanding 4.375% Senior Notes due September 2014 (the "2014 Notes") at a redemption price equal to the sum of the principal amount and a make-whole amount, together totaling \$611 million, and accrued and unpaid interest of \$1 million. As a result of the redemption, we will recognize a pre-tax extinguishment loss of \$11 million in the third quarter.

The total unamortized net discount related to our senior notes and debentures was \$425 million as of March 31, 2014.

The fair value of our senior notes and debentures was approximately \$14.3 billion as of March 31, 2014. The valuation of our publicly traded debt is based on quoted prices in active markets.

The Senior Notes due in February 2015 are classified as long-term debt as we have the intent as well as the ability, through utilization of our \$2.5 billion revolving credit facility, to refinance this debt.

Credit Facility

At March 31, 2014, there were no amounts outstanding under our \$2.5 billion revolving credit facility due November 2017. 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 March 31, 2014.

NOTE 5. PENSION BENEFITS

The components of net periodic benefit cost (income) for our defined benefit pension plans are as follows:

Net Periodic Benefit Cost (Income) (in millions)	Quarter Ended		Six Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Service cost	\$—	\$—	\$—	\$8
Interest cost	12	10	24	21
Expected return on plan assets	(12	) (11	) (25	) (22
Recognized actuarial loss	—	2	—	5
Prior service cost	—	—	—	1
Net periodic benefit cost (income)	\$—	\$1	\$(1) \$13

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 6. FAIR VALUE MEASUREMENTS

The following table summarizes our financial assets and liabilities measured and recorded at fair value on a recurring basis as of March 31, 2014 and September 30, 2013:

Financial Asset (Liability)	Total	Quoted Prices	Significant	Significant
		In Active Markets for Identical Assets	Other Observable Inputs	Unobservable Inputs
(in millions)		Level 1	Level 2	Level 3
March 31, 2014				
Marketable securities	\$ 104	\$ 104	\$—	\$—
Derivatives	9	—	9	—
Total	\$ 113	\$ 104	\$ 9	\$—
September 30, 2013				
Marketable securities	\$ 89	\$ 89	\$—	\$—
Derivatives	(2	) —	(2) —
Total	\$ 87	\$ 89	\$(2) \$—

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 \$412 million and \$196 million as of March 31, 2014 and September 30, 2013, respectively. At March 31, 2014, \$206 million related to our foreign currency balances, \$143 million related to anticipated investing cash flows and \$63 million related to future production costs and programming obligations. At September 30, 2013, \$178 million related to our foreign currency balances and \$18 million related to future production costs and programming obligations.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Commitments

As more fully described in Notes 3 and 11 of the 2013 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. Additionally, we are subject to a redeemable put option, payable in a foreign currency, with respect to an international subsidiary. The put option expires in January 2016 and is classified as Redeemable noncontrolling interest in the Consolidated Balance Sheets.

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 \$420 million as of March 31, 2014. 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 \$195 million with respect to such obligations as of March 31, 2014. 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 continuing operations, financial position or operating cash flows.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

In March 2007, we filed a complaint in the United States District Court for the Southern District of New York against Google Inc. (“Google”) and its wholly-owned subsidiary YouTube, alleging that Google and YouTube violated and continued to violate our copyrights. We sought both damages and injunctive relief. After extended discovery and decisions by both the District Court and the U.S. Court of Appeals, the matter was settled on March 18, 2014. The terms of the settlement were not material to our financial statements.

In February 2013, Cablevision Systems Corporation filed a lawsuit in the United States District Court for the Southern District of New York alleging that Viacom’s industry standard practice of offering discounts for additional network distribution constituted a “tying” arrangement in violation of federal and New York state antitrust laws. Similar arrangements have been upheld by numerous federal and state courts, including in a federal case in which Cablevision itself advocated for the legality of such arrangements. We believe the lawsuit is without merit and, in May 2013, we filed a motion to dismiss. In July 2013, Cablevision filed an amended complaint, and in August 2013, Viacom once again moved to dismiss the action. Briefing on the motion is now complete, and discovery in the action has been stayed pending the court’s decision on the motion to dismiss.

In August 2012, a complaint was filed in the United States District Court for the District of Delaware by a Viacom Class B stockholder against us and each member of our Board of Directors. The complaint purported to be a derivative action alleging that, between 2008 and 2011, we violated the terms of our 2007 Senior Executive Short-Term Incentive Plan (the “2007 Plan”) by allegedly using improper subjective criteria to determine the bonuses paid to Messrs. Redstone, Dauman and Dooley in each of those years, which, according to the complaint, constituted a breach of fiduciary duty by the members of the Board of Directors. The plaintiff alleged that during this period Messrs. Redstone, Dauman and Dooley were paid more than the 2007 Plan permitted and the plaintiff sought to recover the amount of the claimed overpayment, plus interest, for the Company. The plaintiff also alleged that adoption of the Viacom 2012 Senior Executive Short-Term Incentive Plan (the “2012 Plan”) required the vote of all Viacom stockholders and not simply holders of our voting Class A common stock. Accordingly, the plaintiff sought to enjoin any overpayment under the 2012 Plan until a new vote on that plan that included Class B stockholders occurred. In July 2013, the District Court granted our motion to dismiss the complaint, whereupon the plaintiff appealed to the United States Court of Appeals for the Third Circuit. Oral argument on the appeal was heard on March 25, 2014, and we now await a decision.

NOTE 8. STOCKHOLDERS’ EQUITY

The components of stockholders’ equity are as follows:

Stockholders’ Equity (in millions)	Six Months Ended March 31, 2014			Six Months Ended March 31, 2013		
	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity
Beginning Balance	\$5,193	\$ (3)	\$5,190	\$7,448	\$ (9)	\$7,439
Net earnings	1,049	19	1,068	948	17	965
Other comprehensive income (loss) ⁽¹⁾	33	1	34	(37)	(2)	(39)
Noncontrolling interests	—	(20)	(20)	(3)	(18)	(21)
Dividends declared	(268)	—	(268)	(277)	—	(277)
Purchase of treasury stock	(1,700)	—	(1,700)	(1,400)	—	(1,400)
Equity-based compensation and other	117	—	117	210	—	210
Ending Balance	\$4,424	\$ (3)	\$4,421	\$6,889	\$ (12)	\$6,877

(1) The components of other comprehensive income (loss) are net of a tax benefit of \$1 million for the six months ended March 31, 2014, and net of tax expense of \$8 million for the six months ended March 31, 2013.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 9. RESTRUCTURING

Our restructuring liability as of March 31, 2014 by reporting segment is as follows:

Restructuring Liability	Media Networks	Filmed Entertainment	Total
(in millions)			
September 30, 2013	\$76	\$27	\$103
Severance payments	(22)	(10)	(32)
Revisions to initial estimates	(4)	—	(4)
March 31, 2014	\$50	\$17	\$67

The liability as of March 31, 2014 is primarily related to future severance payments in connection with the restructuring plan undertaken in fiscal 2013, as further described in Note 13 of the 2013 Form 10-K. We expect that the restructuring plan will be substantially completed by September 30, 2014 and the majority of the severance will be paid in fiscal 2014.

NOTE 10. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

Supplemental Cash Flow Information	Six Months Ended March 31,	
(in millions)	2014	2013
Cash paid for interest	\$291	\$230
Cash paid for income taxes	\$506	\$118

The increase in cash paid for income taxes in the six months ended March 31, 2014 is primarily due to the timing of payments.

Our redeemable noncontrolling interest is as follows:

Redeemable Noncontrolling Interest	Six Months Ended March 31,	
(in millions)	2014	2013
Beginning balance	\$200	\$179
Net earnings	11	7
Distributions	(11)	(11)
Translation adjustment	10	(13)
Redemption value adjustment	—	3
Ending Balance	\$210	\$165

Accounts Receivable

We had \$378 million of noncurrent trade receivables as of March 31, 2014. The accounts receivable were primarily in the Filmed Entertainment segment, included within Other assets in our Consolidated Balance Sheets, and principally related to long-term television license arrangements. Such amounts are due in accordance with the underlying terms of the respective agreements and are principally from investment grade companies with which we have historically done business under similar terms, for which credit loss allowances are generally not considered necessary.

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.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Unconsolidated Variable Interest Entities

We have an unconsolidated investment in Viacom 18, a 50% owned joint venture in India with Network 18 Fincap Limited that qualifies as a VIE. Our aggregate investment carrying value in Viacom 18 was \$63 million and \$54 million as of March 31, 2014 and September 30, 2013, respectively.

Consolidated Variable Interest Entities

Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$75 million in assets and \$63 million in liabilities as of March 31, 2014, and \$77 million in assets and \$56 million in liabilities as of September 30, 2013. The consolidated VIEs' revenues, expenses and operating income were not significant for all periods presented.

Income Taxes

We recognized discrete tax benefits of \$20 million in the quarter and six months ended March 31, 2014, principally related to the recognition of capital loss carryforward benefits.

We recognized discrete tax benefits of \$12 million in the six months ended March 31, 2013, principally reflecting the release of tax reserves with respect to certain effectively settled tax positions.

NOTE 11. 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 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, including restructuring and other charges, when applicable.

Revenues by Segment (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Media Networks	\$2,375	\$2,233	\$4,916	\$4,627
Filmed Entertainment	831	941	1,512	1,916
Eliminations	(32)	(39)	(57)	(94)
Total revenues	\$3,174	\$3,135	\$6,371	\$6,449

Adjusted Operating Income (Loss) (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Media Networks	\$949	\$873	\$2,063	\$1,903
Filmed Entertainment	11	65	(63)	(74)
Corporate expenses	(52)	(57)	(103)	(117)
Equity-based compensation	(31)	(29)	(63)	(60)
Eliminations	(5)	(5)	(2)	(8)
Operating income	872	847	1,832	1,644
Interest expense, net	(152)	(110)	(301)	(220)
Equity in net earnings of investee companies	10	16	36	40

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Other items, net	(3) (6) (3) 1
Earnings from continuing operations before provision for income taxes	\$727	\$747	\$1,564	\$1,465

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VIACOM INC.

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Total Assets (in millions)	March 31, 2014	September 30, 2013
Media Networks	\$16,615	\$16,653
Filmed Entertainment	5,269	5,647
Corporate/Eliminations	1,978	1,529
Total assets	\$23,862	\$23,829

Revenues by Component (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Advertising	\$1,124	\$1,091	\$2,449	\$2,360
Feature film	715	827	1,310	1,723
Affiliate fees	1,114	1,010	2,180	1,982
Ancillary	253	246	489	478
Eliminations	(32	) (39	) (57	) (94
Total revenues	\$3,174	\$3,135	\$6,371	\$6,449

NOTE 12. RELATED PARTY TRANSACTIONS

National Amusements Inc. ("NAI"), directly and through a wholly-owned subsidiary, 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 Executive Chairman and Founder and as the Executive Chairman and Founder 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 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 six months ended March 31, 2014 and 2013, Paramount earned revenues from NAI in connection with these licenses in the aggregate amounts of approximately \$5 million and \$8 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 \$75 million to CBS in the six months ended March 31, 2014. 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.

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VIACOM INC.

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The following table summarizes the transactions with CBS as included in our Consolidated Financial Statements:

CBS Related Party Transactions (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Consolidated Statement of Earnings				
Revenue	\$38	\$44	\$111	\$125
Operating expenses	\$57	\$60	\$153	\$158
			March 31, 2014	September 30, 2013
Consolidated Balance Sheets				
Accounts receivable			\$3	\$5
Other assets			—	—
Total due from CBS			\$3	\$5
Accounts payable			\$1	\$3
Participants' share and residuals, current			109	115
Program rights obligations, current			74	99
Program rights obligations, noncurrent			112	139
Other liabilities			14	15
Total due to CBS			\$310	\$371

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 March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Consolidated Statement of Earnings				
Revenue	\$67	\$62	\$80	\$98
Operating expenses	\$28	\$31	\$30	\$35
Selling, general and administrative	\$(4	) \$(4	) \$(6	) \$(8
			March 31, 2014	September 30, 2013
Consolidated Balance Sheets				
Account receivable			\$62	\$84
Other assets			1	1
Total due from other related parties			\$63	\$85
Accounts payable			\$2	\$4
Other liabilities			31	26
Total due to other related parties			\$33	\$30

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

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 13. SUBSEQUENT EVENT

On May 1, 2014, we announced a definitive agreement with Northern & Shell Media Group for the acquisition of Channel 5 Broadcasting Limited, a UK television public service broadcaster, for £450 million. The transaction is subject to customary regulatory approvals.

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, 2013, as filed with the Securities and Exchange Commission ("SEC") on November 14, 2013 (the "2013 Form 10-K"). References in this document to "Viacom," "Company," "we," "us" and "our" mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise. Significant components of management's discussion and analysis of results of operations and financial condition include:

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

Results of Operations. The results of operations section provides an analysis of our results on a consolidated and reportable segment basis for the quarter and six months ended March 31, 2014, compared to the quarter and six months ended March 31, 2013. 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 six months ended March 31, 2014, compared to the six months ended March 31, 2013, and of our outstanding debt, commitments and contingencies existing as of March 31, 2014.

OVERVIEW

Summary

We are a leading global entertainment content company that connects with audiences in over 160 countries and territories and creates compelling television programs, motion pictures, short-form video, apps, games, consumer products, social media and other entertainment content. With media networks reaching approximately 700 million households worldwide, Viacom's leading brands include MTV[®], VH1[®], CMT[®], Logo[®], BET[®], CENTRIC[®], Nickelodeon[®], Nick Jr.[®], TeenNick[®], Nicktoons[®], Nick at Nite[®], COMEDY CENTRAL[®], TV Land[®], SPIKE[®], Tr3s[®], Paramount Channel[™] and VIVA[™], among others. Paramount Pictures[®], America's oldest film studio, is a major global producer and distributor of filmed entertainment.

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, including restructuring and other charges, 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 from continuing operations attributable to Viacom and adjusted diluted earnings per share ("EPS") from continuing operations, 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 from continuing operations 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 related to our content and marketing services, (ii) affiliate fees from multichannel television service providers, including cable television operators, direct-to-home satellite television operators and telecommunications operators, subscription and advertising supported video-on-

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Management's Discussion and Analysis
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demand services, and other distributors of our programming and program services, and (iii) ancillary revenues, which include consumer products licensing, brand licensing, home entertainment sales and licensing of our programming, television syndication and casual gaming.

Demand and pricing for our advertising depends on our ratings and overall market conditions. We also drive additional demand through integrated sales of digital advertising inventory and through our integrated marketing services, providing unique branded entertainment and custom sponsorship opportunities to our advertisers. Our advertising revenues may be affected by the strength of advertising markets and general economic conditions and may fluctuate depending on the success of our programming, as measured by viewership, at any given time. Audience measurement ratings may vary due to the timing of availability of new episodes of popular programming, success of our programming, performance of competing programs and other entertainment alternatives for viewers, as well as variations related to the methods used by third parties to measure ratings.

Advertising revenues are principally generated from the sale of advertising time comprised of multiple commercial units. Each advertising spot comprises a deliverable for accounting purposes. Consideration for these arrangements is allocated among the individual advertising spots based on relative fair value using Viacom-specific prices, and revenue is recognized when the advertisement is aired and the contracted audience rating is met.

Affiliate revenue arrangements with certain digital distributors include multiple programs made available for distribution on one or more dates for a fixed fee. Consideration for such arrangements is allocated among the programs based on relative fair value using management's best estimate considering viewing performance and other factors, and revenue is recognized upon initial availability of the respective programs.

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, (iii) licensing of film exhibition rights to television services, including video-on-demand, subscription video-on-demand, pay and basic cable television, broadcast television and syndicated television and (iv) ancillary revenues from licensing of film exhibition rights to digital platforms, providing production services to third parties, primarily at Paramount's studio lot, licensing of its brands for consumer products and theme parks, and distribution of content specifically developed for digital platforms and game distribution.

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. SG&A expenses include employee compensation, facility and occupancy costs, professional service fees and other overhead costs. Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets.

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RESULTS OF OPERATIONS

Consolidated Results of Operations

Our summary consolidated results of operations are presented below for the quarters and six months ended March 31, 2014 and 2013.

	Quarter Ended March 31,		Better/(Worse)		Six Months Ended March 31,		Better/(Worse)		
	2014	2013	\$	%	2014	2013	\$	%	
(in millions, except per share amounts)									
Revenues	\$3,174	\$3,135	\$39	1	% \$6,371	\$6,449	\$(78)	(1))%
Operating income	872	847	25	3	1,832	1,644	188	11	
Net earnings from continuing operations attributable to Viacom	502	481	21	4	1,049	954	95	10	
Adjusted net earnings from continuing operations attributable to Viacom	482	481	1	—	1,029	942	87	9	
Diluted EPS from continuing operations	1.13	0.96	0.17	18	2.33	1.89	0.44	23	
Adjusted diluted EPS from continuing operations	\$1.08	\$0.96	\$0.12	13	% \$2.29	\$1.87	\$0.42	22)%

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

Revenues

Worldwide revenues increased \$39 million, or 1%, in the quarter ended March 31, 2014. The Media Networks revenues increase of \$142 million, which reflected higher affiliate fees and advertising revenues, was partially offset by a decline in Filmed Entertainment revenues of \$110 million, driven by lower home entertainment and theatrical revenues.

Worldwide revenues decreased \$78 million, or 1%, to \$6.371 billion in the six months ended March 31, 2014. A decline in Filmed Entertainment revenues of \$404 million, driven by lower theatrical and home entertainment revenues, was partially offset by an increase in Media Networks revenues of \$289 million, reflecting higher affiliate fees and advertising revenues.

Operating Income

Operating income increased \$25 million, or 3%, to \$872 million in the quarter. Media Networks adjusted operating income increased \$76 million, reflecting higher revenues partially offset by an increase in expenses. Filmed Entertainment adjusted operating income decreased \$54 million reflecting the number and mix of current year releases.

Operating income increased \$188 million, or 11%, to \$1.832 billion in the six months. Media Networks adjusted operating income increased \$160 million, driven by higher revenues, partially offset by an increase in expenses. Filmed Entertainment generated an adjusted operating loss of \$63 million in the six months, compared to \$74 million in the prior period. Corporate expenses decreased \$14 million, or 12%, in the six months, primarily driven by lower professional fees.

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 from Continuing Operations Attributable to Viacom

Adjusted net earnings from continuing operations attributable to Viacom increased \$1 million to \$482 million in the quarter and \$87 million, or 9%, to \$1.029 billion in the six months, principally due to the increase in tax-effected operating income described above and a lower effective income tax rate, partially offset in both periods by an increase in interest expense driven by higher levels of debt outstanding.

Our effective income tax rate was 32.5% and 33.0% in the quarter and six months, respectively, compared to 34.5% in both the quarter and six months ended March 31, 2013, excluding the impact of discrete tax items. The decrease in the effective income tax rate is principally due to a change in the mix of domestic and international income.

Adjusted diluted EPS from continuing operations increased \$0.12 per diluted share to \$1.08 in the quarter due to fewer shares outstanding. Including the impact of discrete taxes in the current quarter, net earnings from continuing operations attributable to Viacom increased \$21 million, or 4%, and diluted EPS from continuing operations increased \$0.17. Adjusted diluted EPS

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from continuing operations increased \$0.42 per diluted share to \$2.29 in the six months, reflecting fewer shares outstanding and the increase in net earnings from continuing operations. Including the impact of discrete taxes, net earnings from continuing operations attributable to Viacom increased \$95 million, or 10%, and diluted EPS from continuing operations increased \$0.44 per diluted share.

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 exhibition rights by Media Networks.

Media Networks

(in millions)	Quarter Ended		Better/(Worse)		Six Months Ended		Better/(Worse)		
	March 31,				March 31,				
	2014	2013	\$	%	2014	2013	\$	%	
Revenues by Component									
Advertising	\$1,124	\$1,091	\$33	3 %	\$2,449	\$2,360	\$89	4 %	
Affiliate fees	1,114	1,010	104	10	2,180	1,982	198	10	
Ancillary	137	132	5	4	287	285	2	1	
Total revenues by component	\$2,375	\$2,233	\$142	6 %	\$4,916	\$4,627	\$289	6 %	
Expenses									
Operating	\$861	\$824	\$(37)	(4) %	\$1,729	\$1,657	\$(72)	(4) %	
Selling, general and administrative	529	498	(31)	(6)	1,052	995	(57)	(6)	
Depreciation and amortization	36	38	2	5	72	72	—	—	
Total expenses	\$1,426	\$1,360	\$(66)	(5) %	\$2,853	\$2,724	\$(129)	(5) %	
Adjusted Operating Income	\$949	\$873	\$76	9 %	\$2,063	\$1,903	\$160	8 %	

Revenues

Worldwide revenues increased \$142 million, or 6%, to \$2.375 billion in the quarter ended March 31, 2014, and \$289 million, or 6%, to \$4.916 billion in the six months ended March 31, 2014, driven by higher affiliate fees and advertising revenues. Domestic revenues were \$2.025 billion in the quarter, an increase of 6%, and \$4.143 billion in the six months, an increase of 6%. International revenues were \$350 million in the quarter, an increase of 10%, and \$773 million in the six months, an increase of 10%. Foreign exchange had a 2-percentage point and 1-percentage point favorable impact on international revenues in the quarter and six months, respectively.

Advertising

Worldwide advertising revenues increased \$33 million, or 3%, to \$1.124 billion in the quarter. Domestic advertising revenues increased 2% as demand for commercial units sold increased, partially offset by lower average unit pricing. International advertising revenues increased 14% reflecting new channels and European market improvements. Foreign exchange had a 4-percentage point favorable impact on international revenues.

Worldwide advertising revenues increased \$89 million, or 4%, to \$2.449 billion in the six months. Domestic advertising revenues increased 2% driven by an increase in commercial units sold. International advertising revenues increased 15%. Foreign exchange also had a 2-percentage point favorable impact on international revenues.

Affiliate Fees

Worldwide affiliate fee revenues increased \$104 million, or 10%, to \$1.114 billion in the quarter, and \$198 million, or 10%, to \$2.180 billion in the six months, reflecting rate increases and the benefit from the availability of certain programming related to distribution arrangements. Excluding the impact from the timing of product available under certain distribution agreements, domestic affiliate revenues grew high-single digits in both periods. Domestic affiliate revenues increased 11% and 10% and international affiliate revenues increased 7% and 8% in the quarter and six months, respectively. Foreign exchange had a 1-percentage point favorable impact on international revenues in the quarter.

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Expenses

Total expenses increased \$66 million, or 5%, to \$1.426 billion and \$129 million, or 5%, to \$2.853 billion in the quarter and six months, respectively.

Operating

Operating expenses increased \$37 million, or 4%, to \$861 million in the quarter, and \$72 million, or 4%, to \$1.729 billion in the six months. Due to our continuing investment in original content, programming costs increased \$38 million, or 5%, in the quarter, and \$56 million, or 4%, in the six months. Distribution and other expenses were flat in the quarter and increased \$16 million, or 9%, in the six months, primarily driven by new channels in international markets, which were offset by lower ancillary expenses.

Selling, General and Administrative

SG&A expenses increased \$31 million, or 6%, to \$529 million in the quarter, and \$57 million, or 6%, to \$1.052 billion in the six months, primarily driven by higher advertising and promotional expenses related to marketing original programming, as well as increased expenses resulting from new channels in international markets.

Adjusted Operating Income

Adjusted operating income increased \$76 million, or 9%, to \$949 million and \$160 million, or 8%, to \$2.063 billion in the quarter and six months, respectively, reflecting higher revenues partially offset by an increase in expenses as discussed above.

Filmed Entertainment

(in millions)	Quarter Ended March 31,		Better/(Worse)		Six Months Ended March 31,		Better/(Worse)		
	2014	2013	\$	%	2014	2013	\$	%	
Revenues by Component									
Theatrical	\$229	\$276	\$(47)	(17)%	\$388	\$604	\$(216)	(36)%	
Home entertainment	180	256	(76)	(30)	396	597	(201)	(34)	
Television license fees	306	295	11	4	526	522	4	1	
Ancillary	116	114	2	2	202	193	9	5	
Total revenues by component	\$831	\$941	\$(110)	(12)%	\$1,512	\$1,916	\$(404)	(21)%	
Expenses									
Operating	\$704	\$749	\$45	6%	\$1,338	\$1,731	\$393	23%	
Selling, general & administrative	100	106	6	6	200	216	16	7	
Depreciation & amortization	16	21	5	24	37	43	6	14	
Total expenses	\$820	\$876	\$56	6%	\$1,575	\$1,990	\$415	21%	
Adjusted Operating Income/(Loss)	\$11	\$65	\$(54)	(83)%	\$(63)	\$(74)	\$11	15%	

Revenues

Worldwide revenues decreased \$110 million, or 12%, to \$831 million, and \$404 million, or 21%, to \$1.512 billion in the quarter and six months ended March 31, 2014 driven by lower home entertainment and theatrical revenues.

Domestic revenues were \$427 million, a decrease of 1%, and \$731 million, a decrease of 16%, and international revenues were \$404 million, a decrease of 21%, and \$781 million, a decrease of 25%, in the quarter and six months, respectively. Foreign exchange had a 2-percentage point unfavorable impact on international revenues in both the quarter and six months.

Theatrical

Worldwide theatrical revenues decreased \$47 million, or 17%, to \$229 million in the the quarter, principally driven by lower carryover revenues from prior period releases. Current quarter releases were Jack Ryan: Shadow Recruit, Noah and Paranormal Activity: The Marked Ones. Releases in the prior year were Hansel and Gretel: Witch Hunters and G.I. Joe: Retaliation. Domestic theatrical revenues increased 59% due to strong carryover revenues from The Wolf of Wall Street, while international theatrical revenues decreased 47% reflecting a difficult comparison against the strong international performance of Hansel and Gretel: Witch Hunters in the prior year and timing of international releases. Foreign exchange had a 4-percentage point unfavorable impact on international revenues.

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Worldwide theatrical revenues decreased \$216 million, or 36%, to \$388 million in the six months. Revenues from our current year releases were \$168 million lower than the prior year, driven by the number and mix of titles released. During the current year we released eight titles, including Anchorman 2: The Legend Continues, Jackass Presents: Bad Grandpa, The Wolf of Wall Street, Jack Ryan: Shadow Recruit, Noah and Paranormal Activity: The Marked Ones, compared to ten titles in the prior year. Carryover revenues from prior period releases were \$48 million lower. Domestic theatrical revenues increased 3% and international revenues decreased 60%. Foreign exchange had a 3-percentage point unfavorable impact on international revenues.

Home Entertainment

Worldwide home entertainment revenues decreased \$76 million, or 30%, to \$180 million in the quarter, primarily driven by a \$46 million decrease in revenues from current quarter releases and a \$30 million decrease in carryover revenues. We released three titles in the current quarter, The Wolf of Wall Street, Jackass Presents: Bad Grandpa and Nebraska, and released five titles in the prior year, including Rise of the Guardians, Flight and Paranormal Activity 4. Domestic home entertainment revenues decreased 34%, and international home entertainment revenues decreased 23%. Foreign exchange had a 3-percentage point unfavorable impact on international revenues.

Worldwide home entertainment revenues decreased \$201 million, or 34%, to \$396 million in the six months. Revenues from our current releases were \$156 million lower than the prior year due to the number and mix of titles released. In the current year, we released three titles including The Wolf of Wall Street and Jackass Presents: Bad Grandpa. In the prior period, we released six titles, including Madagascar 3: Europe's Most Wanted, Rise of the Guardians, Flight and Paranormal Activity 4. Carryover revenues from prior period releases were lower by \$45 million. Domestic and international home entertainment revenues decreased 52% and 12%, respectively. Foreign exchange had a 2-percentage point unfavorable impact on international revenues.

Television License Fees

Television license fees increased \$11 million, or 4%, to \$306 million, and \$4 million, or 1%, to \$526 million, in the quarter and six months, respectively, driven by the number and mix of available titles.

Ancillary

Ancillary revenues increased \$2 million, or 2%, to \$116 million, and \$9 million, or 5%, to \$202 million, in the quarter and six months, respectively, principally driven by higher digital revenues.

Expenses

Total expenses decreased \$56 million, or 6%, to \$820 million, and \$415 million, or 21%, to \$1.575 billion, in the quarter and six months, respectively, principally driven by lower operating expenses.

Operating

Operating expenses decreased \$45 million, or 6%, to \$704 million, and \$393 million, or 23%, to \$1.338 billion in the quarter and six months ended March 31, 2014, respectively. Film costs decreased \$44 million, or 12%, in the quarter, and \$151 million, or 19%, in the six months, primarily reflecting lower participation costs on third-party distribution arrangements. Distribution and other costs, principally print and advertising expenses, were flat in the quarter and decreased \$242 million, or 26%, in the six months as a result of the number and mix of current year theatrical releases.

Selling, General and Administrative

SG&A expenses decreased \$6 million, or 6%, to \$100 million, and \$16 million, or 7%, to \$200 million in the quarter and six months, respectively, primarily driven by lower employee costs.

Adjusted Operating Income (Loss)

Adjusted operating income decreased \$54 million, or 83%, to \$11 million in the quarter, principally reflecting the number and mix of current year releases. Adjusted operating loss for the six months was \$63 million, representing an \$11 million, or 15%, improvement over the prior year, reflecting cost savings. 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.

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Factors Affecting Comparability

The Consolidated Financial Statements as of and for the quarters and six months ended March 31, 2014 and 2013 reflect our results of operations, financial position and cash flows reported in accordance with GAAP. Results for certain of 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.

The following table reconciles our adjusted measures to our reported results for the quarter and six months ended March 31, 2014 and the six months ended March 31, 2013. There were no adjustments to our results for the quarter ended March 31, 2013.

(in millions, except per share amounts)

	Quarter Ended March 31, 2014			
	Operating Income	Pre-tax Earnings from Continuing Operations	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results	\$872	\$727	\$502	\$1.13
Factors Affecting Comparability:				
Discrete tax benefits	—	—	(20	) (0.05
Adjusted results	\$872	\$727	\$482	\$1.08
)
	Six Months Ended March 31, 2014			
	Operating Income	Pre-tax Earnings from Continuing Operations	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results	\$1,832	\$1,564	\$1,049	\$2.33
Factors Affecting Comparability:				
Discrete tax benefits	—	—	(20	) (0.04
Adjusted results	\$1,832	\$1,564	\$1,029	\$2.29
)
	Six Months Ended March 31, 2013			
	Operating Income	Pre-tax Earnings from Continuing Operations	Net Earnings from Continuing Operations Attributable to Viacom	Diluted EPS from Continuing Operations
Reported results	\$1,644	\$1,465	\$954	\$1.89
Factors Affecting Comparability:				
Discrete tax benefits	—	—	(12) (0.02
)

Adjusted results	\$1,644	\$1,465	\$942	\$1.87
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Discrete Tax Items

Our effective income tax rate was 32.5% and 33.0% in the quarter and six months ended March 31, 2014, respectively, and 34.5% in both the quarter and six months ended March 31, 2013, excluding the impact of discrete tax items.

In the quarter and six months ended March 31, 2014, discrete tax benefits of \$20 million contributed 2.8 and 1.3 percentage points of tax benefit, which reconcile to the reported effective tax rate of 29.7% and 31.7%, respectively.

The discrete tax benefits are principally related to the recognition of capital loss carryforward benefits.

In the six months ended March 31, 2013, discrete tax benefits of \$12 million contributed 0.8 percentage points of tax benefit, which reconciles to our reported effective tax rate of 33.7%. These tax benefits principally reflected the release of tax reserves with respect to certain effectively settled tax positions.

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Management's Discussion and Analysis
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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.

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 as of March 31, 2014 increased \$177 million compared to September 30, 2013.

Operating Activities

Cash provided by operations was \$813 million for the six months ended March 31, 2014, a decrease of \$480 million compared with the six months ended March 31, 2013. The decrease is primarily driven by working capital requirements primarily reflecting higher income taxes paid.

Investing Activities

Cash used in investing activities was \$36 million and \$55 million for the six months ended March 31, 2014 and 2013, respectively, reflecting lower capital expenditures in the current year.

Financing Activities

Cash used in financing activities was \$606 million for the six months ended March 31, 2014, primarily driven by the settlement of share repurchases of \$1.830 billion and dividend payments totaling \$271 million, partially offset by net proceeds of \$1.485 billion from the issuance of senior notes and debentures with an aggregate face value of \$1.5 billion.

Cash used in financing activities was \$794 million in the six months ended March 31, 2013, primarily driven by the settlement of share repurchases of \$1.398 billion and dividend payments totaling \$277 million, partially offset by net proceeds of \$784 million from the issuance of senior notes and debentures with an aggregate face value of \$800 million.

Capital Resources

Capital Structure and Debt

Total debt was \$13.379 billion as of March 31, 2014, an increase of \$1.494 billion from \$11.885 billion at September 30, 2013.

We issued a total of \$1.5 billion of senior notes and debentures in March 2014 as follows:

• 2.200% Senior Notes due April 2019 with an aggregate principal amount of \$400 million at a price equal to 99.947% of the principal amount.

3.875% Senior Notes due April 2024 with an aggregate principal amount of \$550 million at a price equal to 99.192% of the principal amount.

5.250% Senior Debentures due April 2044 with an aggregate principal amount of \$550 million at a price equal to 99.831% of the principal amount.

The proceeds, net of the discount and other issuance fees and expenses, from the issuance of the senior notes and debentures were \$1.485 billion. We utilized a portion of the proceeds to redeem our Senior Notes due September 2014 (the "2014 Notes")

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Management's Discussion and Analysis
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as detailed below. We intend to use the remaining proceeds for general corporate purposes, including the repurchase of shares under our stock repurchase program.

On April 3, 2014, we redeemed all \$600 million of our outstanding 2014 Notes at a redemption price equal to the sum of the principal amount and a make-whole amount, together totaling \$611 million, and accrued and unpaid interest of \$1 million. As a result of the redemption, we will recognize a pre-tax extinguishment loss of \$11 million in the third quarter.

Credit Facility

At March 31, 2014, there were no amounts outstanding under our credit facility.

Stock Repurchase Program

During the six months ended March 31, 2014, we repurchased 20.3 million shares of Class B common stock for an aggregate purchase price of \$1.7 billion. From April 1, 2014 through April 30, 2014, we repurchased an additional 2.3 million shares for an aggregate purchase price of \$192 million, leaving \$8.008 billion of remaining capacity under our program. Share repurchases under the program are expected to be funded through a combination of debt and cash generated by operations, as deemed appropriate.

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 herein 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 continuing operations, financial position or operating cash flows. For additional information, see Note 7 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 12 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 programs, motion pictures and other entertainment content on the various platforms on which they are distributed; technological developments and their effect in our markets and on consumer behavior; competition for audiences and distribution; the impact of piracy; economic conditions generally, and in advertising and retail markets in particular; fluctuations in our results due to the timing, mix and availability of our motion pictures and other programming; changes in the Federal communications laws and regulations; 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 2013 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

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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.

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.

We began to migrate certain financial processing systems to an enterprise-wide general ledger system in the fourth quarter of our 2012 fiscal year. The new system is a material component of our internal control over financial reporting and is being rolled out on a regional basis across our business segments based on a schedule that currently provides for substantial completion of the implementation by September 30, 2014. In connection with this implementation we are updating our internal controls over financial reporting, as necessary, through further automation and standardization of our financial transaction processes and procedures, and we continue to evaluate and monitor such changes. Except for the new system implementation noted above, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Since our 2013 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 7 to the Consolidated Financial Statements included elsewhere in this report.

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 2013 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 March 31, 2014 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 ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under Program
	(thousands)	(dollars)	(thousands)	(millions)
Open Market Purchases				
Month ended January 31, 2014	2,749	\$84.76	2,749	\$8,817
Month ended February 28, 2014	3,475	\$84.20	3,475	\$8,524
Month ended March 31, 2014	3,727	\$87.03	3,727	\$8,200
Total	9,951		9,951	

(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.

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Item 6. Exhibits.

Exhibit No.	Description of Exhibit
4.1	Seventeenth Supplemental Indenture, dated as of March 11, 2014, between Viacom Inc. and The Bank of New York Mellon, as Trustee (including forms of the Securities) (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Viacom Inc. filed March 11, 2014) (Filed No. 001-32686).
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

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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: May 1, 2014

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

Date: May 1, 2014

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