

Viacom Inc.  
Form 10-Q  
April 28, 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 March 31, 2016

OR

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

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

VIACOM INC.  
(Exact name of registrant as specified in its charter)  
DELAWARE 20-3515052  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Class of Stock \_\_\_\_\_ Shares Outstanding \_\_\_\_\_

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as of April 15,  
2016

Class A common stock, par value \$0.001 per share	49,434,379
Class B common stock, par value \$0.001 per share	346,608,679

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## PART I – FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## VIACOM INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Revenues	\$3,001	\$3,078	\$6,155	\$6,422
Expenses:				
Operating	1,654	2,056	3,247	3,679
Selling, general and administrative	705	721	1,372	1,452
Depreciation and amortization	56	57	111	112
Restructuring	—	206	—	206
Total expenses	2,415	3,040	4,730	5,449
Operating income	586	38	1,425	973
Interest expense, net	(155 )	(166 )	(310 )	(326 )
Equity in net earnings of investee companies	35	42	66	75
Other items, net	(6 )	(12 )	(4 )	(30 )
Earnings/(loss) before provision for income taxes	460	(98 )	1,177	692
Provision for income taxes	(151 )	50	(407 )	(227 )
Net earnings/(loss) (Viacom and noncontrolling interests)	309	(48 )	770	465
Net earnings attributable to noncontrolling interests	(6 )	(5 )	(18 )	(18 )
Net earnings/(loss) attributable to Viacom	\$303	\$(53 )	\$752	\$447
Basic earnings/(loss) per share attributable to Viacom	\$0.76	\$(0.13 )	\$1.90	\$1.10
Diluted earnings/(loss) per share attributable to Viacom	\$0.76	\$(0.13 )	\$1.89	\$1.09
Weighted average number of common shares outstanding:				
Basic	396.1	402.5	396.4	406.6
Diluted	397.4	402.5	397.9	411.4
Dividends declared per share of Class A and Class B common stock	\$0.40	\$0.33	\$0.80	\$0.66

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Quarter Ended		Six Months Ended	
(in millions)	March 31, 2016	2015	March 31, 2016	2015
Net earnings/(loss) (Viacom and noncontrolling interests)	\$ 309	\$(48 )	\$ 770	\$ 465
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	22	(158 )	(18 )	(262 )
Defined benefit pension plans	1	(1 )	(4 )	(21 )
Cash flow hedges	2	—	1	—
Available for sale securities	—	(1 )	—	(1 )
Other comprehensive income/(loss) (Viacom and noncontrolling interests)	25	(160 )	(21 )	(284 )
Comprehensive income/(loss)	334	(208 )	749	181
Less: Comprehensive income attributable to noncontrolling interest	5	1	14	12
Comprehensive income/(loss) attributable to Viacom	\$ 329	\$(209)	\$ 735	\$ 169

See accompanying notes to Consolidated Financial Statements

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## VIACOM INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	March 31, 2016	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 480	\$ 506
Receivables, net	2,784	2,807
Inventory, net	806	786
Prepaid and other assets	664	479
Total current assets	4,734	4,578
Property and equipment, net	879	947
Intangible assets, net	3,876	3,616
Goodwill	11,436	11,456
Other assets	333	340
Total assets	1,307	1,206
	\$ 22,565	\$ 22,143
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 343	\$ 506
Accrued expenses	679	748
Participants' share and residuals	848	860
Program obligations	692	703
Deferred revenue	413	481
Current portion of debt	1,033	18
Other liabilities	462	537
Total current liabilities	4,470	3,853
Noncurrent portion of debt	11,496	12,267
Participants' share and residuals	322	351
Program obligations	288	356
Deferred tax liabilities, net	531	150
Other liabilities	1,290	1,348
Redeemable noncontrolling interest	221	219
Commitments and contingencies (Note 6)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 49.4 and 50.1 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 346.8 and 348.0 outstanding, respectively	—	—
Additional paid-in capital	10,073	10,017
Treasury stock, 400.1 and 398.0 common shares held in treasury, respectively	(20,825 )	(20,725 )
Retained earnings	15,192	14,780
Accumulated other comprehensive loss	(551 )	(534 )
Total Viacom stockholders' equity	3,889	3,538
Noncontrolling interests	58	61
Total equity	3,947	3,599
Total liabilities and equity	\$ 22,565	\$ 22,143

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended March 31,	
(in millions)	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net earnings (Viacom and noncontrolling interests)	\$770	\$465
Reconciling items:		
Depreciation and amortization	111	112
Feature film and program amortization	2,106	2,581
Equity-based compensation	52	51
Equity in net earnings and distributions from investee companies	(62 )	(71 )
Deferred income taxes	377	46
Operating assets and liabilities, net of acquisitions:		
Receivables	52	329
Inventory, program rights and participations	(2,500)	(2,567)
Accounts payable and other current liabilities	(508 )	(248 )
Other, net	(114 )	(18 )
Net cash provided by operating activities	284	680
<b>INVESTING ACTIVITIES</b>		
Acquisitions and investments, net	(44 )	5
Capital expenditures	(54 )	(64 )
Net cash flow used in investing activities	(98 )	(59 )
<b>FINANCING ACTIVITIES</b>		
Borrowings	—	990
Debt repayments	—	(600 )
Commercial paper	250	75
Purchase of treasury stock	(100 )	(1,506)
Dividends paid	(318 )	(273 )
Excess tax benefits on equity-based compensation awards	—	39
Exercise of stock options	3	126
Other, net	(43 )	(79 )
Net cash flow used in financing activities	(208 )	(1,228)
Effect of exchange rate changes on cash and cash equivalents	(4 )	(87 )
Net change in cash and cash equivalents	(26 )	(694 )
Cash and cash equivalents at beginning of period	506	1,000
Cash and cash equivalents at end of period	\$480	\$306

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Viacom is home to premier global media brands that create compelling television programs, motion pictures, short-form content, apps, games, consumer products, social media experiences and other entertainment content for audiences in 180 countries. Viacom operates through two reporting segments: Media Networks, which includes the Music & Entertainment Group, the Kids & Family Group and BET Networks, and Filmed Entertainment. The Media Networks segment provides entertainment content and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. The Filmed Entertainment segment produces, finances, acquires and distributes motion pictures, television programming and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, Paramount Animation, Insurge Pictures, Nickelodeon Movies, MTV Films and Paramount Television brands. References in this document to “Viacom,” “Company,” “we,” “us” and “our” mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

Unaudited Interim Financial Statements

The accompanying unaudited consolidated quarterly financial statements have been prepared on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of our results of operations, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results expected for the fiscal year ending September 30, 2016 (“fiscal 2016”) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2015, as filed with the SEC on November 12, 2015 (the “2015 Form 10-K”).

Use of Estimates

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

Reclassification

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

Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02 - Leases. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. For income statement purposes, leases will be classified

as either operating or finance, generally resulting in straight-line expense recognition for operating leases (similar to current operating leases) and accelerated expense recognition for financing leases (similar to current capital leases). The guidance will be effective for the first interim period of our 2020 fiscal year, with early adoption permitted. We are currently evaluating the impact of the new standard.

In January 2016, the FASB issued 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

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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.

## NOTE 2. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	March 31, 2016	September 30, 2015
Film inventory:		
Released, net of amortization	\$ 684	\$ 576
Completed, not yet released	143	55
In process and other	847	806
Total film inventory, net of amortization	1,674	1,437
Television productions	50	8
Total film and television production inventory	1,724	1,445
Original programming:		
Released, net of amortization	1,189	1,161
In process and other	525	599
Total original programming, net of amortization	1,714	1,760
Acquired program rights, net of amortization	1,149	1,108
Home entertainment inventory	95	89
Total inventory, net	4,682	4,402
Less: current portion	(806 )	(786 )
Total inventory-noncurrent, net	\$ 3,876	\$ 3,616

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 3. DEBT

Our total debt consists of the following:

Debt (in millions)	March 31, 2016	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%	499	498
Senior notes due October 2017, 6.125%	499	499
Senior notes due September 2018, 2.500%	497	497
Senior notes due April 2019, 2.200%	399	398
Senior notes due September 2019, 5.625%	550	550
Senior notes due December 2019, 2.750%	398	398
Senior notes due March 2021, 4.500%	494	494
Senior notes due December 2021, 3.875%	593	592
Senior notes due June 2022, 3.125%	296	296
Senior notes due March 2023, 3.250%	297	297
Senior notes due September 2023, 4.250%	1,234	1,233
Senior notes due April 2024, 3.875%	544	543
Senior debentures due December 2034, 4.850%	593	592
Senior debentures due April 2036, 6.875%	1,066	1,066
Senior debentures due October 2037, 6.750%	75	75
Senior debentures due February 2042, 4.500%	244	244
Senior debentures due March 2043, 4.375%	1,088	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	250	—
Capital lease and other obligations	128	143
Total debt	12,529	12,285
Less: current portion	(1,033 )	(18 )
Total noncurrent portion of debt	\$ 11,496	\$ 12,267

The total unamortized discount and issuance fees and expenses related to our senior notes and debentures was \$469 million as of March 31, 2016 and \$478 million as of September 30, 2015. The fair value of our senior notes and debentures was approximately \$12.4 billion as of March 31, 2016. The valuation of our publicly traded debt is based on quoted prices in active markets.

## Credit Facility

At March 31, 2016, there were no amounts outstanding under our \$2.5 billion revolving credit facility due November 2019. The credit facility is used for general corporate purposes and to support commercial paper outstanding. The amount of unused capacity under the credit facility, after deducting commercial paper outstanding of \$250 million with a weighted average maturity of 26 days and weighted average interest rate of 1.28%, was \$2.25 billion as of March 31, 2016. The credit facility has one principal financial covenant that requires our interest coverage for the most recent four consecutive fiscal quarters to be at least 3.0x, which we met as of March 31, 2016.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 4. PENSION BENEFITS

The components of net periodic benefit cost for our defined benefit pension plans, which are currently frozen to future benefit accruals, are set forth below.

Net Periodic Benefit Cost (in millions)	Quarter Ended		Six Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Interest cost	\$8	\$10	\$17	\$22
Expected return on plan assets	(9)	(11)	(19)	(24)
Recognized actuarial loss	2	2	3	3
Loss on pension settlement	—	—	—	24
Net periodic benefit cost	\$1	\$1	\$1	\$25

## 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)	Six Months Ended	
	March 31, 2016	March 31, 2015
Beginning balance	\$219	\$216
Net earnings	9	8
Distributions	(12)	(12)
Translation adjustment	(16)	(23)
Redemption value adjustment	21	5
Ending Balance	\$221	\$194

## 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 March 31, 2016. The amount of lease commitments varies over time depending on expiration or termination of individual underlying leases, or of the related indemnification obligation, and foreign exchange rates, among other things. We may also have exposure for certain other expenses related to the leases, such as property taxes and common area maintenance. We have recorded a liability of \$192 million with respect to such obligations as of March 31, 2016. We believe our accrual is sufficient to meet any future obligations based on our consideration of

available financial information, the lessees' historical performance in meeting their lease obligations and the underlying economic factors impacting the lessees' business models.

Legal Matters

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

In July 2015, the Directorate-General for Competition (“DG Comp”) of the European Commission (the “Commission”) issued a Statement of Objections (the “SO”) to the six major Hollywood film studios, including Paramount 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 were designed to enforce the territorial nature of the content Paramount licenses for distribution on Sky’s online and mobile pay television platforms. In addition, the SO challenges certain provisions in the 2009 agreement regarding Sky’s satellite distribution of Paramount content. While we believe that Paramount's licensing practices in the EU are consistent with the region's competition and other rules, Paramount has chosen to reach agreement with the Commission rather than prolong the dispute. Subject to final Commission approval, Viacom and Paramount will give binding commitments to neither enforce nor renew the types of geo-filtering clauses in premium pay television license agreements that were described in the SO and that restrict European Economic Area (“EEA”) broadcasters from responding to unsolicited requests by consumers located in a different territory in the EEA. No admission of liability will be made. The commitments permit Paramount to continue to license films through premium pay television license agreements in Europe on an exclusive territorial basis. In addition, the agreement eliminates the possibility of fines and enables the Commission to close similar pending cases against Viacom and Paramount relating to broadcasters in Italy, France, Germany and Spain. If Paramount's commitments do not receive final Commission approval and the Commission ultimately decides that violations have in fact occurred, it has the power to impose fines. Any such decision would 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.

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. In January 2016, we moved to dismiss the complaint, and Mr. Casey filed an amended complaint in March 2016. On April 7, Mr. Casey voluntarily dismissed the action. The dismissal was approved by the court on the same day.

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. In March 2016, Mr. Greenberg voluntarily dismissed the action, and the dismissal was approved by the court.

## NOTE 7. STOCKHOLDERS’ EQUITY

The components of stockholders’ equity are as follows:

	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
Stockholders’ Equity		

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(in millions)	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	752	18	770	447	18	465
Other comprehensive loss <sup>(1)</sup>	(17 )	(4 )	(21 )	(278 )	(6 )	(284 )
Noncontrolling interests	(21 )	(17 )	(38 )	(5 )	(21 )	(26 )
Dividends declared	(318 )	—	(318 )	(269 )	—	(269 )
Purchase of treasury stock	(100 )	—	(100 )	(1,500 )	—	(1,500 )
Equity-based compensation and other	55	—	55	189	—	189
Ending Balance	\$3,889	\$ 58	\$3,947	\$2,303	\$ 19	\$2,322

(1) The components of other comprehensive loss are net of tax expense of \$5 million and a tax benefit of \$11 million for the six months ended March 31, 2016 and 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 8. RESTRUCTURING

Our restructuring liability as of March 31, 2016 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	(37 )	(16 )	(3 )	(56 )
March 31, 2016	\$ 50	\$ 35	\$ 6	\$91

The liability as of March 31, 2016 is related to future severance payments in connection with the restructuring plan undertaken in fiscal 2015, as further described in Note 14 of the 2015 Form 10-K. We anticipate that substantially all of the liability associated with the restructuring plan will be paid by September 30, 2016.

## NOTE 9. EARNINGS PER SHARE

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

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

Weighted Average Number of Common Shares Outstanding and Anti-dilutive Common Shares	Quarter Ended		Six Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
(in millions)				
Weighted average number of common shares outstanding, basic	396.1	402.5	396.4	406.6
Dilutive effect of equity awards	1.3	—	1.5	4.8
Weighted average number of common shares outstanding, diluted	397.4	402.5	397.9	411.4
Anti-dilutive common shares	13.2	8.6	13.0	4.3

## 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, 2016	March 31, 2015
(in millions)		
Cash paid for interest	\$302	\$305
Cash paid for income taxes	\$204	\$211
Accounts Receivable		

We had \$567 million and \$577 million of noncurrent trade receivables as of March 31, 2016 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.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Variable Interest Entities

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

**Unconsolidated Variable Interest Entities:** 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 \$157 million and \$145 million as of March 31, 2016 and September 30, 2015, respectively.

**Consolidated Variable Interest Entities:** Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$212 million in assets and \$56 million in liabilities as of March 31, 2016, 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

Our effective income tax rate was 32.8% and 34.6% in the quarter and six months ended March 31, 2016, respectively. Discrete tax expense of \$21 million contributed 1.8 percentage points to the effective income tax rate in the six months. This discrete tax expense was principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Our effective income tax rate was 51.0% in the quarter ended March 31, 2015, which included restructuring and programming charges that contributed 19.8 percentage points to the effective income tax rate. Our effective tax rate was 32.8% in the six months ended March 31, 2015. Discrete tax expense of \$23 million in the six months, taken together with the restructuring and programming charges and a pension settlement loss, contributed 1.0 percentage point to the effective income tax rate. This discrete tax expense was principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

## 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 March 31, 2016 and September 30, 2015:

Financial Asset/(Liability)	Total	Quoted	Significant Other Observable Inputs	Significant Unobservable Inputs
		Prices In Active Markets for Identical Assets		
(in millions)		Level 1	Level 2	Level 3
March 31, 2016				
Marketable securities	\$ 108	\$ 108	\$ —	\$ —
Derivatives	(7 )	—	(7 )	—
Total	\$ 101	\$ 108	\$ (7 )	\$ —
September 30, 2015				
Marketable securities	\$ 100	\$ 100	\$ —	\$ —

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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 \$963 million and \$1.040 billion as of March 31, 2016 and September 30, 2015, respectively. At March 31, 2016, \$678 million related to our foreign currency balances and \$285 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.

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VIACOM INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 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, including restructuring and programming charges, when applicable.

Revenues by Segment (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Media Networks	\$2,381	\$2,452	\$4,946	\$5,106
Filmed Entertainment	655	659	1,267	1,379
Eliminations	(35 )	(33 )	(58 )	(63 )
Total revenues	\$3,001	\$3,078	\$6,155	\$6,422

Adjusted Operating Income/(Loss) (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Media Networks	\$805	\$903	\$1,862	\$2,007
Filmed Entertainment	(136 )	1	(282 )	(59 )
Corporate expenses	(53 )	(57 )	(103 )	(118 )
Eliminations	(4 )	—	—	2
Equity-based compensation	(26 )	(25 )	(52 )	(51 )
Restructuring and programming charges	—	(784 )	—	(784 )
Loss on pension settlement	—	—	—	(24 )
Operating income	586	38	1,425	973
Interest expense, net	(155 )	(166 )	(310 )	(326 )
Equity in net earnings of investee companies	35	42	66	75
Other items, net	(6 )	(12 )	(4 )	(30 )
Earnings/(loss) before provision for income taxes	\$460	\$(98 )	\$1,177	\$692

Total Assets (in millions)	March 31, September 30,	
	2016	2015
Media Networks	\$ 16,792	\$ 17,088
Filmed Entertainment	6,190	5,914
Corporate/Eliminations	(417 )	(859 )
Total assets	\$ 22,565	\$ 22,143



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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Revenues by Component (in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Advertising	\$1,123	\$1,172	\$2,443	\$2,539
Feature film	610	605	1,180	1,279
Affiliate fees	1,129	1,146	2,248	2,278
Ancillary	174	188	342	389
Eliminations	(35 )	(33 )	(58 )	(63 )
Total revenues	\$3,001	\$3,078	\$6,155	\$6,422

## 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, our Lead Independent Director, 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 six months ended March 31, 2016 and 2015, Paramount earned revenues from NAI in connection with these licenses in the aggregate amounts of approximately \$4 million and \$6 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 six months ended March 31, 2016. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

CBS Related Party Transactions	Quarter		Six Months Ended	
	Ended	March	Ended	March 31,
(in millions)	March	2015	March 31,	2015
Consolidated Statements of Earnings				
Revenues	\$22	\$33	\$65	\$92
Operating expenses	\$29	\$80	\$88	\$148
			March 31,	September 30,
			2016	2015
Consolidated Balance Sheets				
Accounts receivable			\$2	\$5
Accounts payable			\$—	\$1
Participants' share and residuals, current			63	77
Program obligations, current			71	62
Program obligations, noncurrent			44	55
Other liabilities			2	2
Total due to CBS			\$180	\$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	Quarter		Six Months Ended	
	Ended	March	Ended	March 31,
(in millions)	March	2015	March 31,	2015
Consolidated Statements of Earnings				
Revenues	\$25	\$45	\$30	\$58
Operating expenses	\$14	\$19	\$16	\$21
Selling, general and administrative	\$(4)	\$(4)	\$(6)	\$(6)
			March 31,	September 30,
			2016	2015
Consolidated Balance Sheets				
Accounts receivable			\$57	\$60
Other assets			1	1
Total due from other related parties			\$58	\$61
Accounts payable			\$5	\$5
Other liabilities			55	55

Total due to other related parties \$60 \$ 60

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

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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 and six months ended March 31, 2016, compared with the quarter and six months ended March 31, 2015. 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, 2016, compared with the six months ended March 31, 2015, and of our outstanding debt, commitments and contingencies existing as of March 31, 2016.

## 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. In February 2016, the Company announced that it initiated a process to explore opportunities for a significant strategic minority equity investment in Paramount Pictures.

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.

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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 and six months ended March 31, 2016 and 2015.

(in millions, except per share amounts)	Quarter Ended March 31,		Better/(Worse)		Six Months Ended March 31,		Better/(Worse)	
	2016	2015	\$	%	2016	2015	\$	%
Revenues	\$3,001	\$3,078	\$(77)	(3)%	\$6,155	\$6,422	\$(267)	(4)%
Operating income	586	38	548	NM	1,425	973	452	46
Net earnings/(loss) attributable to Viacom	303	(53)	356	NM	752	447	305	68
Diluted earnings/(loss) per share	0.76	(0.13)	0.89	NM	1.89	1.09	0.80	73
Non-GAAP*								
Adjusted operating income	586	822	(236)	(29)	1,425	1,781	(356)	(20)
Adjusted net earnings attributable to Viacom	303	467	(164)	(35)	773	1,005	(232)	(23)
Adjusted diluted earnings per share	\$0.76	\$1.16	\$(0.40)	(34)%	\$1.94	\$2.44	\$(0.50)	(20)%

NM - Not Meaningful

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

#### Factors Affecting Comparability

The Consolidated Financial Statements reflect our results of operations, financial position and cash flows reported in accordance with GAAP. Our results have been affected by certain items identified as affecting comparability. Accordingly, when applicable, we use non-GAAP measures, including consolidated adjusted operating income, adjusted net earnings attributable to Viacom and adjusted diluted EPS, 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. These measures of performance are calculated on a basis other than GAAP and should not be considered in isolation of, or as a substitute for, operating income, net earnings attributable to Viacom

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and diluted EPS as indicators of operating performance, and they may not be comparable to similarly titled measures employed by other companies.

There were no adjustments to our results for the quarter ended March 31, 2016. The following tables reconcile our reported results to our adjusted results, calculated on a non-GAAP basis, for the six months ended March 31, 2016 and quarter and six months ended March 31, 2015. The tax impacts included in the tables have been calculated using the rates applicable to the adjustments presented.

(in millions, except per share amounts)

	Six Months Ended March 31, 2016		Diluted
	Operating	Net Earnings	Income Attributable to Viacom
			EPS
Reported results (GAAP)	\$1,425	\$ 752	\$ 1.89
Factors Affecting Comparability:			
Discrete tax expense	—	21	0.05
Adjusted results (Non-GAAP)	\$1,425	\$ 773	\$ 1.94

(in millions, except per share amounts)

	Quarter Ended March 31, 2015		Diluted
	Operating	Net Earnings/(Loss)	Income Attributable to Viacom
			EPS
Reported results (GAAP)	\$38	\$ (53)	\$(0.13)
Factors Affecting Comparability:			
Restructuring and programming charges	784	520	1.29
Adjusted results (Non-GAAP)	\$822	\$ 467	\$ 1.16

(in millions, except per share amounts)

	Six Months Ended March 31, 2015		Diluted
	Operating	Net Earnings	Income Attributable to Viacom
			EPS
Reported results (GAAP)	\$973	\$ 447	\$ 1.09
Factors Affecting Comparability:			
Restructuring and programming charges	784	520	1.26
Loss on pension settlement	24	15	0.04
Discrete tax expense	—	23	0.05
Adjusted results (Non-GAAP)	\$1,781	\$ 1,005	\$ 2.44

Restructuring and programming charges: The quarter and six months ended March 31, 2015 reflect a pre-tax charge of \$784 million recognized in connection with a company-wide review across our worldwide Media Networks, Filmed Entertainment operations and corporate functions. The company-wide review resulted in the implementation of significant strategic and operational improvements aimed at addressing the ratings challenges experienced by our networks and enhancing the effectiveness and efficiency of our operations, including a new programming strategy shifting focus away from repeated acquired programming and toward fresher, first-run original programming specifically targeted to appeal to our youth and family-oriented demographics.

As a result of the review, we reorganized our operating segments and the newly structured operating segment management performed a comprehensive strategic review of existing programming, resulting in the identification of programming not aligned with the Company's new strategy. Decisions were made to cease airing certain programs, alter future airing patterns of certain other programs, and move some programming to secondary networks that would not generate sufficient revenues to support their carrying value.

The charge consisted of \$578 million of programming charges and a \$206 million restructuring charge associated with workforce reductions. See "Segment Results of Operations" for additional discussion of the impact of the restructuring and programming charges on segment expenses.

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Loss on pension settlement: The pre-tax non-cash charge of \$24 million in the six months ended March 31, 2015 was driven by the settlement of pension benefits of certain participants of our funded pension plan.

Discrete tax expense: The net discrete tax expense in each of the six months ended March 31, 2016 and 2015 is principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Revenues

Worldwide revenues decreased \$77 million, or 3%, to \$3.001 billion in the quarter ended March 31, 2016. Media Networks revenues decreased \$71 million, or 3%, principally reflecting lower advertising and affiliate revenues, and Filmed Entertainment revenues decreased \$4 million.

Worldwide revenues decreased \$267 million, or 4%, to \$6.155 billion in the six months ended March 31, 2016. Media Networks revenues decreased \$160 million, or 3%, reflecting lower advertising, affiliate and ancillary revenues.

Filmed Entertainment revenues decreased \$112 million, or 8%, primarily driven by lower theatrical and home entertainment revenues, partially offset by higher license fees.

Expenses

Total expenses decreased \$625 million, or 21%, to \$2.415 billion and \$719 million, or 13%, to \$4.730 billion in the quarter and six months ended March 31, 2016, respectively, due to \$784 million of restructuring and programming charges in the prior year quarter and six months and a \$24 million loss on pension settlement in the prior year six months, partially offset by higher segment expenses. Media Networks expenses increased \$27 million, or 2%, in the quarter primarily driven by higher operating expenses and decreased \$15 million in the six months, primarily driven by lower SG&A expenses. Filmed Entertainment expenses increased \$133 million, or 20%, in the quarter and \$111 million, or 8%, in the six months driven by higher operating expenses.

Operating

Operating expenses decreased \$402 million, or 20%, to \$1.654 billion in the quarter and \$432 million, or 12%, to \$3.247 billion in the six months. Consolidated operating expenses included a programming charge of \$578 million in the prior year quarter and six months, as described in more detail in the "Factors Affecting Comparability" discussion above. Media Networks operating expenses increased \$39 million, or 4%, in the quarter and \$9 million in the six months. Filmed Entertainment operating expenses increased \$136 million, or 25%, in the quarter and \$131 million, or 11%, in the six months.

Selling, General and Administrative

SG&A expenses decreased \$16 million, or 2%, to \$705 million in the quarter and \$80 million, or 6%, to \$1.372 billion in the six months. Media Networks SG&A expenses decreased \$13 million, or 2%, in the quarter and \$25 million, or 2%, in the six months. Filmed Entertainment SG&A expenses decreased \$3 million, or 3%, in the quarter and \$20 million, or 11%, in the six months. Consolidated SG&A expenses included a \$24 million loss on pension settlement in the prior year six month period, as described in more detail in the "Factors Affecting Comparability" discussion above.

Operating Income

Operating income increased \$548 million in the quarter ended March 31, 2016, reflecting the operating results discussed above. Excluding the items discussed in "Factors Affecting Comparability", adjusted operating income decreased \$236 million, or 29%, to \$586 million in the quarter. Media Networks adjusted operating income decreased \$98 million, or 11%, primarily reflecting revenue declines as well as an increase in programming expenses. Filmed Entertainment adjusted operating results decreased \$137 million principally reflecting the performance of certain films released in the quarter. In addition, corporate expenses decreased \$4 million, or 7%, due to lower employee-related costs.

Operating income increased \$452 million in the six months ended March 31, 2016, reflecting the operating results discussed above. Excluding the items discussed in "Factors Affecting Comparability", adjusted operating income

decreased \$356 million, or 20%, to \$1.425 billion in the six months. Media Networks adjusted operating income decreased \$145 million, or 7%, principally reflecting the decline in revenues. Filmed Entertainment adjusted operating loss decreased \$223 million, reflecting lower contribution from current year films in release across the distribution windows. In addition, corporate expenses decreased \$15 million, or 13%, due to lower employee-related costs.

#### Income Taxes

Our effective income tax rate was 32.8% and 34.6% in the quarter and six months ended March 31, 2016, respectively. Discrete tax expense of \$21 million contributed 1.8 percentage points to the effective income tax rate in the six months. Excluding the impact of discrete tax items, our adjusted effective income tax rate was 32.8% in the six months.

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Our effective income tax rate was 51.0% and 32.8% in the quarter and six months ended March 31, 2015, respectively. Discrete tax expense of \$23 million in the six months, taken together with the other factors affecting comparability discussed above, as applicable, contributed 19.8 and 1.0 percentage points to the effective income tax rate in the quarter and six months, respectively. Excluding the impact of discrete tax items, our adjusted effective income tax rate was 31.2% and 31.8% in the quarter and six months, respectively.

**Net Earnings Attributable to Viacom**

Net earnings attributable to Viacom increased \$356 million in the quarter and \$305 million in the six months, principally due to the increase in tax-effected operating income described above. Excluding the items noted above under "Factors Affecting Comparability", adjusted net earnings attributable to Viacom decreased \$164 million, or 35%, to \$303 million in the quarter and \$232 million, or 23%, to \$773 million in the six months.

**Diluted Earnings Per Share**

Diluted EPS increased \$0.89 per diluted share to \$0.76 in the quarter and \$0.80 per diluted share to \$1.89 in the six months, primarily reflecting higher net earnings. Excluding the items noted above under "Factors Affecting Comparability", adjusted diluted EPS decreased \$0.40 per diluted share to \$0.76 in the quarter and \$0.50 per diluted share to \$1.94 in the six months.

**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				Six Months			
	March 31,		Better/(Worse)		Ended		Better/(Worse)	
	2016	2015	\$	%	2016	2015	\$	%
<b>Revenues by Component</b>								
Advertising	\$1,123	\$1,172	\$ (49 )	(4 )%	\$2,443	\$2,539	\$ (96 )	(4 )%
Affiliate fees	1,129	1,146	(17 )	(1 )	2,248	2,278	(30 )	(1 )
Ancillary	129	134	(5 )	(4 )	255	289	(34 )	(12 )
<b>Total revenues by component</b>	<b>\$2,381</b>	<b>\$2,452</b>	<b>\$ (71 )</b>	<b>(3 )%</b>	<b>\$4,946</b>	<b>\$5,106</b>	<b>\$ (160 )</b>	<b>(3 )%</b>
<b>Expenses</b>								
Operating	\$996	\$957	\$ (39 )	(4 )%	\$1,953	\$1,944	\$ (9 )	— %
Selling, general and administrative	538	551	13	2	1,048	1,073	25	2
Depreciation and amortization	42	41	(1 )	(2 )	83	82	(1 )	(1 )
<b>Total expenses</b>	<b>\$1,576</b>	<b>\$1,549</b>	<b>\$ (27 )</b>	<b>(2 )%</b>	<b>\$3,084</b>	<b>\$3,099</b>	<b>\$ 15</b>	<b>— %</b>
<b>Adjusted Operating Income</b>	<b>\$805</b>	<b>\$903</b>	<b>\$ (98 )</b>	<b>(11 )%</b>	<b>\$1,862</b>	<b>\$2,007</b>	<b>\$ (145 )</b>	<b>(7 )%</b>

**Revenues**

Worldwide revenues decreased \$71 million, or 3%, to \$2.381 billion and \$160 million, or 3%, to \$4.946 billion in the quarter and six months ended March 31, 2016, respectively. Domestic revenues decreased 4% to \$1.949 billion and 3% to \$4.006 billion in the quarter and six months, respectively. International revenues were substantially flat in the quarter at \$432 million and decreased 2% in the six months to \$940 million. Foreign exchange had a 7-percentage point unfavorable impact on international revenues in both the quarter and six months.

**Advertising**

Worldwide advertising revenues decreased \$49 million, or 4%, to \$1.123 billion in the quarter and \$96 million, or 4%, to \$2.443 billion in the six months. Domestic advertising revenues decreased 5% in the quarter and 4% in the six months. While pricing increased, softer ratings at certain of our networks caused lower audience delivery, reducing impressions and associated revenue. International advertising revenues decreased 1% in the quarter and 2% in the six months. Excluding foreign exchange, which had a 7-percentage point and 8-percentage point unfavorable impact in the quarter and six months, respectively, international advertising revenues increased 6% in both the quarter and six months, driven by growth in Europe.

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Affiliate Fees

Worldwide affiliate fee revenues decreased \$17 million, or 1%, to \$1.129 billion in the quarter and \$30 million, or 1%, to \$2.248 billion in the six months. In the six months, excluding foreign exchange, which had a 1-percentage point unfavorable impact, worldwide affiliate revenues remained flat. Domestic affiliate revenues decreased 2% in the quarter and 1% in the six months, reflecting a modest decline in subscribers and a rate adjustment with a major distributor, partially offset by rate increases across the remaining subscriber base. International affiliate revenues increased 4% in the quarter and decreased 1% in the six months. Excluding the impact of foreign exchange, which had a 7-percentage point and 8-percentage point unfavorable impact, international affiliate revenues increased 11% and 7% in the quarter and six months, respectively, driven by new channel launches, increased subscribers and rate increases.

Ancillary

Worldwide ancillary revenue decreased \$5 million, or 4%, to \$129 million in the quarter. Worldwide ancillary revenues decreased \$34 million, or 12%, to \$255 million in the six months, driven by lower consumer product revenue, reflecting Teenage Mutant Ninja Turtles merchandise sales in the prior year, and a decline in television syndication revenue.

Expenses

Total expenses increased \$27 million, or 2%, to \$1.576 billion in the quarter and remained substantially flat at \$3.084 billion in the six months.

Operating

Operating expenses increased \$39 million, or 4%, to \$996 million in the quarter, and \$9 million to \$1.953 billion in the six months. Programming costs increased \$50 million, or 6%, in the quarter, with an 11-percentage point increase reflecting our continuing investment in original content, partially offset by a 5-percentage point benefit in the current quarter attributable to programming abandoned or impaired in the second fiscal quarter of 2015, as previously described in the "Factors Affecting Comparability" section. Programming costs increased \$25 million, or 1%, in the six months, with an 8-percentage point increase reflecting our continuing investment in original content, partially offset by a 7-percentage point benefit in the current quarter attributable to the aforementioned programming abandonments and impairments. Distribution and other expenses decreased \$11 million, or 10%, in the quarter and \$16 million, or 7%, in the six months, primarily driven by lower ancillary expenses.

Selling, General and Administrative

SG&A expenses decreased \$13 million, or 2%, to \$538 million in the quarter and \$25 million, or 2%, to \$1.048 billion in the six months, primarily due to lower employee costs. SG&A expenses reflect 4-percentage points and 5-percentage points of benefit in the quarter and six months, respectively, from our 2015 restructuring. Refer to the "Factors Affecting Comparability" section above for a discussion of our restructuring charge taken in the second fiscal quarter of 2015.

Adjusted Operating Income

Adjusted operating income decreased \$98 million, or 11%, to \$805 million and \$145 million, or 7%, to \$1.862 billion in the quarter and six months, respectively, reflecting the operating results discussed above.

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## Filmed Entertainment

	Quarter				Six Months			
	Ended		Better/(Worse)		Ended		Better/(Worse)	
(in millions)	March 31,		\$	%	March 31,		\$	%
	2016	2015			2016	2015		
<b>Revenues by Component</b>								
Theatrical	\$217	\$205	\$12	6%	\$311	\$374	\$(63)	(17)%
Home entertainment	153	194	(41)	(21)	392	510	(118)	(23)
License fees	240	206	34	17	477	395	82	21
Ancillary	45	54	(9)	(17)	87	100	(13)	(13)
<b>Total revenues by component</b>	<b>\$655</b>	<b>\$659</b>	<b>\$(4)</b>	<b>(1)%</b>	<b>\$1,267</b>	<b>\$1,379</b>	<b>\$(112)</b>	<b>(8)%</b>
<b>Expenses</b>								
Operating	\$690	\$						