

Viacom Inc.  
Form 10-Q  
August 02, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2013**

**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)

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**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

|   | <b>Shares Outstanding</b>  |
|---|----------------------------|
| <b>Class of Stock</b>                             | <b>as of July 15, 2013</b> |
| Class A common stock, par value \$0.001 per share | 51,151,558                 |
| Class B common stock, par value \$0.001 per share | 425,777,936                |

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**VIACOM INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****VIACOM INC.****CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)**

| (in millions, except per share amounts)                               | Quarter Ended<br>June 30, |          | Nine Months Ended<br>June 30, |           |
|---|---------------------------|----------|-------------------------------|-----------|
|   | 2013                      | 2012     | 2013                          | 2012      |
| Revenues  | \$ 3,693                  | \$ 3,241 | \$ 10,142                     | \$ 10,524 |
| Expenses:   |                           |          |                               |           |
| Operating   | 1,845                     | 1,599    | 5,147                         | 5,429     |
| Selling, general and administrative                                   | 705                       | 682      | 2,091                         | 2,066     |
| Depreciation and amortization   | 58                        | 57       | 175                           | 178       |
| Total expenses  | 2,608                     | 2,338    | 7,413                         | 7,673     |
| Operating income  | 1,085                     | 903      | 2,729                         | 2,851     |
| Interest expense, net   | (114)                     | (104)    | (334)                         | (312)     |
| Equity in net earnings of investee companies                          | 6                         | 10       | 46                            | 25        |
| Loss on extinguishment of debt  | -                         | -        | -                             | (21)      |
| Other items, net  | (2)                       | (7)      | (1)                           | (12)      |
| Earnings from continuing operations before provision for income taxes | 975                       | 802      | 2,440                         | 2,531     |
| Provision for income taxes  | (309)                     | (266)    | (803)                         | (795)     |
| Net earnings from continuing operations                               | 666                       | 536      | 1,637                         | 1,736     |
| Discontinued operations, net of tax                                   | (4)                       | 11       | (10)                          | (371)     |
| Net earnings (Viacom and noncontrolling interests)                    | 662                       | 547      | 1,627                         | 1,365     |
| Net earnings attributable to noncontrolling interests                 | (19)                      | (13)     | (36)                          | (34)      |
| Net earnings attributable to Viacom                                   | \$ 643                    | \$ 534   | \$ 1,591                      | \$ 1,331  |
| Amounts attributable to Viacom:                                       |                           |          |                               |           |
| Net earnings from continuing operations                               | \$ 647                    | \$ 523   | \$ 1,601                      | \$ 1,702  |
| Discontinued operations, net of tax                                   | (4)                       | 11       | (10)                          | (371)     |
| Net earnings attributable to Viacom                                   | \$ 643                    | \$ 534   | \$ 1,591                      | \$ 1,331  |
| Basic earnings per share attributable to Viacom:                      |                           |          |                               |           |
| Continuing operations   | \$ 1.34                   | \$ 1.00  | \$ 3.25                       | \$ 3.17   |
| Discontinued operations   | (0.01)                    | 0.02     | (0.02)                        | (0.69)    |
| Net earnings  | \$ 1.33                   | \$ 1.02  | \$ 3.23                       | \$ 2.48   |
| Diluted earnings per share attributable to Viacom:                    |                           |          |                               |           |
| Continuing operations   | \$ 1.32                   | \$ 0.99  | \$ 3.20                       | \$ 3.13   |
| Discontinued operations   | (0.01)                    | 0.02     | (0.02)                        | (0.68)    |

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|  |    |              |    |       |    |              |    |       |
|--|----|--------------|----|-------|----|--------------|----|-------|
| Net earnings   | \$ | <b>1.31</b>  | \$ | 1.01  | \$ | <b>3.18</b>  | \$ | 2.45  |
| <b>Weighted average number of common shares outstanding:</b>     |    |              |    |       |    |              |    |       |
| Basic  |    | <b>482.6</b> |    | 523.7 |    | <b>492.1</b> |    | 537.3 |
| Diluted  |    | <b>491.9</b> |    | 530.4 |    | <b>500.5</b> |    | 544.1 |
| Dividends declared per share of Class A and Class B common stock | \$ | <b>0.30</b>  | \$ | 0.275 | \$ | <b>0.85</b>  | \$ | 0.775 |

*See accompanying notes to Consolidated Financial Statements*

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## VIACOM INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| (in millions)   | Quarter Ended<br>June 30, |        | Nine Months Ended<br>June 30, |          |
|---|---------------------------|--------|-------------------------------|----------|
|   | 2013                      | 2012   | 2013                          | 2012     |
| Net earnings (Viacom and noncontrolling interests)                      | \$ 662                    | \$ 547 | \$ 1,627                      | \$ 1,365 |
| Other comprehensive income (loss), net of tax:                          |                           |        |                               |          |
| Foreign currency translation adjustments                                | 24                        | (44)   | (40)                          | (82)     |
| Defined benefit pension plans   | 1                         | 3      | 17                            | 8        |
| Cash flow hedges  | 1                         | -      | 7                             | 5        |
| Available for sale securities   | -                         | 2      | 3                             | 1        |
| Other comprehensive income (loss) (Viacom and noncontrolling interests) | 26                        | (39)   | (13)                          | (68)     |
| Comprehensive income  | 688                       | 508    | 1,614                         | 1,297    |
| Less: Comprehensive income attributable to noncontrolling interests     | 20                        | 13     | 35                            | 34       |
| Comprehensive income attributable to Viacom                             | \$ 668                    | \$ 495 | \$ 1,579                      | \$ 1,263 |

*See accompanying notes to Consolidated Financial Statements*

**Table of Contents****VIACOM INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| (in millions, except par value)  | June 30,<br>2013 | September 30,<br>2012 |
|--|------------------|-----------------------|
| <b>ASSETS</b>  |                  |                       |
| Current assets:  |                  |                       |
| Cash and cash equivalents  | \$ 1,144         | \$ 848                |
| Receivables, net   | 2,904            | 2,533                 |
| Inventory, net   | 794              | 832                   |
| Deferred tax assets, net   | 46               | 68                    |
| Prepaid and other assets   | 520              | 572                   |
| Total current assets   | 5,408            | 4,853                 |
| Property and equipment, net  | 1,013            | 1,068                 |
| Inventory, net   | 3,921            | 4,205                 |
| Goodwill   | 11,061           | 11,045                |
| Intangibles, net   | 293              | 328                   |
| Other assets   | 768              | 751                   |
| Total assets   | \$ 22,464        | \$ 22,250             |
| <b>LIABILITIES AND EQUITY</b>  |                  |                       |
| Current liabilities:   |                  |                       |
| Accounts payable   | \$ 229           | \$ 255                |
| Accrued expenses   | 951              | 943                   |
| Participants' share and residuals  | 1,047            | 989                   |
| Program rights obligations   | 554              | 569                   |
| Deferred revenue   | 241              | 230                   |
| Current portion of debt  | 20               | 18                    |
| Other liabilities  | 727              | 826                   |
| Total current liabilities  | 3,769            | 3,830                 |
| Noncurrent portion of debt   | 8,893            | 8,131                 |
| Participants' share and residuals  | 423              | 533                   |
| Program rights obligations   | 476              | 642                   |
| Deferred tax liabilities, net  | 502              | 5                     |
| Other liabilities  | 1,416            | 1,491                 |
| Redeemable noncontrolling interest   | 173              | 179                   |
| Commitments and contingencies (Note 7)   |                  |                       |
| Viacom stockholders' equity:   |                  |                       |
| Class A common stock, par value \$0.001, 375.0 authorized; 51.1 and 51.1 outstanding, respectively     | -                | -                     |
| Class B common stock, par value \$0.001, 5,000.0 authorized; 427.1 and 455.9 outstanding, respectively | -                | 1                     |
| Additional paid-in capital   | 9,229            | 8,916                 |
| Treasury stock, 302.6 and 267.1 common shares held in treasury, respectively                           | (13,125)         | (11,025)              |
| Retained earnings  | 10,986           | 9,820                 |
| Accumulated other comprehensive loss   | (276)            | (264)                 |
| Total Viacom stockholders' equity  | 6,814            | 7,448                 |

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|                              |  |                  |    |        |
|------------------------------|--|------------------|----|--------|
| Noncontrolling interests     |  | (2)              |    | (9)    |
| Total equity                 |  | <b>6,812</b>     |    | 7,439  |
| Total liabilities and equity |  | \$ <b>22,464</b> | \$ | 22,250 |

*See accompanying notes to Consolidated Financial Statements*



**Table of Contents****VIACOM INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| (in millions)  | <b>Nine Months Ended<br/>June 30,</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2013</b>                           | <b>2012</b> |
| <b>OPERATING ACTIVITIES</b>                                    |                                       |             |
| Net earnings (Viacom and noncontrolling interests)             | \$ 1,627                              | \$ 1,365    |
| Discontinued operations, net of tax                            | 10                                    | 371         |
| Net earnings from continuing operations                        | 1,637                                 | 1,736       |
| Reconciling items:   |                                       |             |
| Depreciation and amortization                                  | 175                                   | 178         |
| Feature film and program amortization                          | 3,164                                 | 3,270       |
| Equity-based compensation                                      | 95                                    | 92          |
| Equity in net income and distributions from investee companies | (11)                                  | (19)        |
| Deferred income taxes  | 513                                   | (205)       |
| Operating assets and liabilities, net of acquisitions:         |                                       |             |
| Receivables  | (302)                                 | 228         |
| Inventory, program rights and participations                   | (3,059)                               | (3,542)     |
| Accounts payable and other current liabilities                 | (74)                                  | (99)        |
| Other, net   | (103)                                 | 103         |
| Discontinued operations, net                                   | (3)                                   | (6)         |
| Cash provided by operations                                    | 2,032                                 | 1,736       |
| <b>INVESTING ACTIVITIES</b>                                    |                                       |             |
| Acquisitions and investments                                   | 11                                    | (19)        |
| Capital expenditures   | (97)                                  | (109)       |
| Discontinued operations, net                                   | -                                     | (84)        |
| Net cash flow used in investing activities                     | (86)                                  | (212)       |
| <b>FINANCING ACTIVITIES</b>                                    |                                       |             |
| Borrowings   | 784                                   | 2,116       |
| Debt repayments  | -                                     | (892)       |
| Commercial paper   | -                                     | (423)       |
| Purchase of treasury stock                                     | (2,094)                               | (2,112)     |
| Dividends paid   | (411)                                 | (411)       |
| Excess tax benefits on equity-based compensation awards        | 39                                    | 35          |
| Exercise of stock options                                      | 230                                   | 81          |
| Other, net   | (165)                                 | (144)       |
| Net cash flow used in financing activities                     | (1,617)                               | (1,750)     |
| Effect of exchange rate changes on cash and cash equivalents   | (33)                                  | (21)        |
| Net change in cash and cash equivalents                        | 296                                   | (247)       |
| Cash and cash equivalents at beginning of period               | 848                                   | 1,021       |

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|  |    |              |    |     |
|--|----|--------------|----|-----|
| Cash and cash equivalents at end of period | \$ | <b>1,144</b> | \$ | 774 |
|--|----|--------------|----|-----|

*See accompanying notes to Consolidated Financial Statements*

**Table of Contents****VIACOM INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1. BASIS OF PRESENTATION****Description of Business**

Viacom Inc. is a leading global entertainment content company that connects with audiences through compelling content across television, motion picture, online and mobile platforms in over 160 countries and territories. 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 and distributes motion pictures and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, Insurge Pictures, MTV Films and Nickelodeon Movies brands. It also acquires films for distribution and has distribution relationships with third parties. 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, 2013 ( fiscal 2013 ) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2012, as filed with the SEC on November 15, 2012 (the 2012 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 2013 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<br>(in millions) | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | June 30,<br>2013 | June 30,<br>2012 | June 30,<br>2013  | June 30,<br>2012 |
|   |                  |                  |                   |                  |

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|   |              |       |              |       |
|---|--------------|-------|--------------|-------|
| Weighted average number of common shares outstanding, basic   | <b>482.6</b> | 523.7 | <b>492.1</b> | 537.3 |
| Dilutive effect of equity awards                              | <b>9.3</b>   | 6.7   | <b>8.4</b>   | 6.8   |
| Weighted average number of common shares outstanding, diluted | <b>491.9</b> | 530.4 | <b>500.5</b> | 544.1 |
| Anti-dilutive common shares                                   | <b>3.2</b>   | 12.8  | <b>3.5</b>   | 13.3  |

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(continued)

**NOTE 3. INVENTORY**

| <b>Inventory</b>   | <b>June 30,</b> | <b>September 30,</b> |
|--|-----------------|----------------------|
| (in millions)  | <b>2013</b>     | <b>2012</b>          |
| Film inventory:  |                 |                      |
| Released, net of amortization                                      | \$ 765          | \$ 612               |
| Completed, not yet released  | -               | 108                  |
| In process and other   | 478             | 706                  |
| Total film inventory, net of amortization                          | 1,243           | 1,426                |
| Original programming:  |                 |                      |
| Released, net of amortization                                      | 1,370           | 1,414                |
| In process and other   | 585             | 506                  |
| Total original programming, net of amortization                    | 1,955           | 1,920                |
| Acquired program rights, net of amortization                       | 1,383           | 1,557                |
| Merchandise and other inventory, net of allowance of \$76 and \$74 | 134             | 134                  |
| Total inventory, net   | 4,715           | 5,037                |
| Less current portion   | (794)           | (832)                |
| Total inventory-noncurrent, net                                    | \$ 3,921        | \$ 4,205             |

**NOTE 4. DEBT**

Our total debt consists of the following:

| <b>Debt</b>                             | <b>June 30,</b> | <b>September 30,</b> |
|---|-----------------|----------------------|
| (in millions)                           | <b>2013</b>     | <b>2012</b>          |
| Senior Notes and Debentures:            |                 |                      |
| Senior notes due September 2014, 4.375% | \$ 599          | \$ 599               |
| Senior notes due February 2015, 1.250%  | 599             | 599                  |
| Senior notes due September 2015, 4.250% | 250             | 250                  |
| Senior notes due April 2016, 6.250%     | 916             | 916                  |
| Senior notes due December 2016, 2.500%  | 398             | 398                  |

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|   |                 |                 |
|---|-----------------|-----------------|
| Senior notes due April 2017, 3.500%         | 497             | 497             |
| Senior notes due October 2017, 6.125%       | 498             | 498             |
| Senior notes due September 2019, 5.625%     | 553             | 553             |
| Senior notes due March 2021, 4.500%         | 494             | 493             |
| Senior notes due December 2021, 3.875%      | 592             | 591             |
| Senior notes due June 2022, 3.125%          | 296             | 296             |
| Senior notes due March 2023, 3.250%         | 298             | -               |
| Senior debentures due April 2036, 6.875%    | 1,072           | 1,736           |
| Senior debentures due October 2037, 6.750%  | 76              | 249             |
| Senior debentures due February 2042, 4.500% | 245             | 245             |
| Senior debentures due March 2043, 4.375%    | 1,084           | -               |
| Senior debentures due June 2043, 4.875%     | 249             | -               |
| Capital lease and other obligations         | 197             | 230             |
| <b>Total debt</b>                           | <b>8,913</b>    | <b>8,149</b>    |
| Less current portion                        | (20)            | (18)            |
| <b>Total noncurrent portion of debt</b>     | <b>\$ 8,893</b> | <b>\$ 8,131</b> |

### Senior Notes and Debentures

During the nine months ended June 30, 2013, we issued a total of \$1.996 billion of senior notes and debentures.

In November 2012, we issued 4.375% Senior Debentures due March 2043 (the 2043 Debentures ) with an aggregate principal amount of \$250 million at a price equal to 97.755% of the principal amount. The proceeds, net of discount and other issuance fees and expenses, were \$242 million. In December 2012, we issued an additional \$1.196 billion of 2043 Debentures in exchange for a portion of our outstanding 6.875% Senior Debentures due 2036 and 6.750% Senior Debentures due 2037 totaling \$844 million. There was no gain or loss recognized as a result of the exchange.

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In March 2013, we issued 3.250% Senior Notes due March 2023 with an aggregate principal amount of \$300 million at a price equal to 99.148% of the principal amount, and 4.875% Senior Debentures due June 2043 with an aggregate principal amount of \$250 million at a price equal to 99.474% of the principal amount. The proceeds, net of discount and other issuance fees and expenses, were \$542 million.

At June 30, 2013, the total unamortized net discount related to the senior notes and debentures was \$404 million. The fair value of our senior notes and debentures was approximately \$9.375 billion at June 30, 2013. The valuation of our publicly traded debt is based on quoted prices in active markets.

**Credit Facility**

During the first quarter of our 2013 fiscal year, we amended our revolving credit agreement, originally dated as of October 8, 2010, to, among other things, increase the amount of the credit facility from \$2.1 billion to \$2.5 billion and extend the maturity date from December 2015 to November 2017. The credit facility is used for general corporate purposes and to support commercial paper outstanding, if any. The borrowing rate under the credit facility is LIBOR plus a margin ranging from 0.5% to 1.5% based on our current public debt rating. 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 at June 30, 2013. Our two 364-day credit facilities with an aggregate amount of \$600 million were terminated during the same quarter.

There were no amounts outstanding under our credit facility as of June 30, 2013.

**NOTE 5. PENSION BENEFITS**

In November 2012, we amended our funded defined benefit pension plan to freeze future benefits effective January 1, 2013.

The amendment to freeze the funded plan resulted in a loss of \$44 million in connection with the remeasurement of the pension obligation and plan assets as well as a curtailment gain of \$65 million due to the elimination of the accrual of benefits for all future services of employees. Therefore, in connection with the plan freeze, we recognized a net decrease to the benefit obligation of \$21 million, with a corresponding decrease to the unrecognized actuarial loss included within *Accumulated other comprehensive loss* in the Consolidated Balance Sheet.

The components of net periodic benefit cost for our defined benefit pension plans are set forth below. The amendment reduced the net periodic costs for the funded defined benefit plan.

| Net Periodic Benefit Costs     | Quarter Ended    |                  | Nine Months Ended |                  |
|--------------------------------|------------------|------------------|-------------------|------------------|
|                                | June 30,<br>2013 | June 30,<br>2012 | June 30,<br>2013  | June 30,<br>2012 |
| (in millions)                  |                  |                  |                   |                  |
| Service cost                   | \$ -             | \$ 8             | \$ 8              | \$ 24            |
| Interest cost                  | 10               | 12               | 31                | 36               |
| Expected return on plan assets | (11)             | (10)             | (33)              | (28)             |
| Recognized actuarial loss      | 2                | 5                | 7                 | 14               |
| Prior service cost             | -                | -                | 1                 | -                |
| Net periodic benefit costs     | \$ 1             | \$ 15            | \$ 14             | \$ 46            |

**NOTE 6. FAIR VALUE MEASUREMENTS**

At June 30, 2013, we had recurring financial assets and liabilities reflected in the financial statements at fair value consisting of marketable securities and derivatives. Fair value for marketable securities is determined utilizing a market approach based on quoted market prices in active markets at period end. Fair value for derivatives is determined utilizing a market-based approach.



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(continued)

The following table summarizes our financial assets and liabilities as of June 30, 2013 and September 30, 2012:

| <b>Financial Asset (Liability)</b><br>(in millions) | <b>Total</b> | <b>Quoted<br/>Prices In<br/>Active<br/>Markets for<br/>Identical<br/>Level 1</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>Level 2</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>Level 3</b> |
|---|--------------|--|--|--|
| <b>June 30, 2013</b>                                |              |  |  |  |
| Marketable securities                               | \$ 87        | \$ 87  | \$ -   | \$ -   |
| Derivatives   | -            | -  | -  | -  |
| <b>Total</b>  | <b>\$ 87</b> | <b>\$ 87</b>   | <b>\$ -</b>  | <b>\$ -</b>  |
| <b>September 30, 2012</b>                           |              |  |  |  |
| Marketable securities                               | \$ 84        | \$ 84  | \$ -   | \$ -   |
| Derivatives   | (1)          | -  | (1)  | -  |
| <b>Total</b>  | <b>\$ 83</b> | <b>\$ 84</b>   | <b>\$ (1)</b>  | <b>\$ -</b>  |

The fair value of our senior notes and debentures is disclosed in Note 4.

**NOTE 7. COMMITMENTS AND CONTINGENCIES****Commitments**

As more fully described in Notes 3 and 15 of the 2012 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 associated with the previously discontinued operations of Famous Players and Blockbuster Inc. In addition, Viacom has certain indemnities provided by the acquirer of Famous Players. At June 30, 2013, these lease commitments, substantially all of which relate to Famous Players, amounted to approximately \$500 million. 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 \$196 million with respect to such obligations. We believe our accrual is sufficient to

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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.

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 continue to violate our copyrights. We are seeking both damages and injunctive relief. In March 2010, we and Google filed motions for summary judgment, and in June 2010, Google's motion was granted. In April 2012, the U.S. Court of Appeals for the Second Circuit vacated the District Court's decision and remanded the case to the District Court for further proceedings. In December 2012, Google renewed its motion for summary judgment. On April 18, 2013, the District Court granted Google's renewed motion for summary judgment. We have appealed the District Court's decision, and the court has set a briefing schedule.

Our 2006 acquisition agreement with Harmonix Music Systems, Inc. ( Harmonix ), a developer of music-based games, including the *Rock Band* franchise, provided that to the extent financial results exceeded specific contractual targets against a defined gross

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**VIACOM INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

profit metric for the calendar years 2007 and 2008, former Harmonix shareholders would be eligible for incremental earn-out payments. In 2008, we paid \$150 million, subject to adjustment, under this earn-out agreement. A private dispute resolution process was commenced as provided in the acquisition agreement to determine the final amount of the earn-out. On December 19, 2011, the resolution accountants in the private dispute resolution process issued their determination, finding that we owe an additional \$383 million under the agreement, as compared to the additional \$700 million sought by the former shareholders. We recorded a reserve of \$383 million in the quarter ended December 31, 2011, which is reflected in *Other liabilities - current* on the Consolidated Balance Sheets, and paid \$84 million of this amount in the quarter ended June 30, 2012, plus accrued interest of \$3 million. At June 30, 2013, the amount of the reserve was \$325 million, including accrued post-judgment interest.

On December 27, 2011, we commenced a lawsuit in the Delaware Court of Chancery to vacate the determination of the resolution accountants on the grounds that they improperly failed to consider arguments and evidence put before them. In responsive pleadings and motions, the shareholder representative has sought confirmation of the determination of the resolution accountants and has opposed our efforts to vacate that determination. Our motion to vacate the resolution accountants' decision based on the resolution accountants' determination not to consider the impact of inventory write-downs on the 2008 earn-out calculation was denied by the Delaware Chancery Court on August 9, 2012. The Court held that (i) the resolution accountants had the authority to, and did, determine what issues were and were not properly before them; (ii) there was no reason to vacate the determination under the applicable standards of the Federal Arbitration Act; and (iii) in any event, the resolution accountants made the correct decision in refusing to consider the impact of inventory write-downs on the 2008 earn-out calculation. On September 17, 2012, we appealed the decision of the Chancery Court to the Delaware Supreme Court. On September 21, 2012, the Chancery Court entered an order staying payment of the judgment pending the appeal. On July 16, 2013, the Delaware Supreme Court affirmed the decision of the Chancery Court, and we plan to pay the amount due of approximately \$327 million, which includes interest and is fully reserved.

Approximately \$13 million is being held in escrow to secure the former shareholders' indemnification obligations to us under the acquisition agreement. We believe we are entitled to all the funds being held in escrow and that we are also entitled to reduce the earn-out payment to the extent the amount we are entitled to recover under the former shareholders' indemnification obligations exceeds the amount held in escrow. In December 2010, the shareholder representative filed a lawsuit in the Court of Chancery for the State of Delaware seeking the release of the funds being held in escrow. The lawsuit also asserted certain other claims. In May 2011, we filed a motion to dismiss the portion of the shareholder representative's amended complaint that related to the other claims as meritless, and in November 2011, the court dismissed those claims. On December 12, 2012, the Delaware Chancery Court granted the shareholder representative's motion for summary judgment on our indemnification claims. Each party has appealed the adverse judgment against it to the Delaware Supreme Court. Oral argument occurred on July 10, 2013, and we are awaiting a decision.

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 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. The claim was dismissed on motion on July 16, 2013 and the court has closed the case.

On February 26, 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, and Cablevision itself has advocated for the legality of such arrangements as a party in a recent federal case. We believe the lawsuit is without merit and filed a motion to dismiss on May 8, 2013. On July 12, 2013, Cablevision filed an amended complaint, and Viacom has until August 23, 2013 to answer or move to dismiss that complaint. In the meantime, discovery in the action has been stayed.



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(continued)

In 2006, Paramount and DreamWorks L.L.C. (now known as DW Studios L.L.C.) entered into a Motion Picture Investment Agreement with Melrose Investors 2 LLC ( Melrose 2 ) in connection with the financing of a slate of up to thirty motion pictures distributed by Paramount. In late November 2011, the Melrose 2 investors filed a lawsuit in state court in Los Angeles against Paramount and DW Studios alleging breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, and unfair competition in relation to Paramount's accounting to the investors. The investors filed an amended complaint in October 2012 claiming that revenues received by Viacom and National Amusements, Inc. ( NAI ) as part of certain transactions were misapplied to their detriment. Paramount and DW Studios denied these allegations. In early January 2013, the parties settled the dispute. In connection with the settlement, Paramount re-acquired all of the Melrose 2 investors' remaining interests in the film slate.

**NOTE 8. STOCKHOLDERS' EQUITY****Components of Stockholders' Equity**

The components of stockholders' equity are as follows:

| Stockholders' Equity<br>(in millions)            | As of June 30, 2013                       |                             |                 | As of June 30, 2012                       |                             |                 |
|--|---|-----------------------------|-----------------|---|-----------------------------|-----------------|
|  | Total<br>Viacom<br>Stockholders<br>Equity | Noncontrolling<br>Interests | Total Equity    | Total<br>Viacom<br>Stockholders<br>Equity | Noncontrolling<br>Interests | Total Equity    |
| <b>Balance at beginning of year</b>              | \$ 7,448                                  | \$ (9)                      | \$ 7,439        | \$ 8,644                                  | \$ (11)                     | \$ 8,633        |
| Net earnings                                     | <b>1,591</b>                              | <b>36</b>                   | <b>1,627</b>    | 1,331                                     | 34                          | 1,365           |
| Other comprehensive income (loss) <sup>(1)</sup> | (12)                                      | (1)                         | (13)            | (68)                                      | -                           | (68)            |
| Noncontrolling interests                         | (2)                                       | (28)                        | (30)            | 5   | (28)                        | (23)            |
| Dividends declared                               | (423)                                     | -                           | (423)           | (418)                                     | -                           | (418)           |
| Purchase of treasury stock                       | (2,100)                                   | -                           | (2,100)         | (2,100)                                   | -                           | (2,100)         |
| Equity-based compensation and other              | 312                                       | -                           | 312             | 84  | -                           | 84              |
| <b>Balance at end of year</b>                    | <b>\$ 6,814</b>                           | <b>\$ (2)</b>               | <b>\$ 6,812</b> | <b>\$ 7,478</b>                           | <b>\$ (5)</b>               | <b>\$ 7,473</b> |

(1) The components of other comprehensive income (loss) are recorded net of a tax provision of \$9 million and \$10 million for the nine months ended June 30, 2013 and 2012, respectively.

**Stock Repurchase Program**

On August 1, 2013, we increased the size of our Class B common stock repurchase program from \$10.0 billion to \$20.0 billion, leaving \$12.4 billion of remaining capacity.

**Equity Awards**

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During the quarter ended June 30, 2013, we granted 2.4 million stock options and 0.8 million restricted share units with a grant date fair value of \$13.02 and \$69.56 per share, respectively.

### NOTE 9. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

| Supplemental Cash Flow Information<br>(in millions) | Nine Months Ended<br>June 30, |        |
|---|-------------------------------|--------|
|   | 2013                          | 2012   |
| Cash paid for interest                              | \$ 351                        | \$ 345 |
| Cash paid for income taxes                          | \$ 174                        | \$ 593 |

Cash paid for income taxes in the nine months ended June 30, 2013 reflects the benefit from the retroactive reenactment of legislation allowing for accelerated tax deductions on certain qualified film and television productions. Also as a result of this legislation, deferred tax liabilities, net in our Consolidated Balance Sheets were \$502 million as of June 30, 2013, compared to \$5 million as of September 30, 2012. Cash paid for income taxes in the nine month period of 2012 is net of approximately \$100 million related to a federal tax refund resulting from the carryback of capital losses against taxes previously paid on capital gains.

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(continued)

| <b>Redeemable Noncontrolling Interest</b><br>(in millions) | <b>Nine Months Ended</b> |                          |
|--|--------------------------|--------------------------|
|  | <b>2013</b>              | <b>June 30,<br/>2012</b> |
| <b>Beginning balance</b>                                   | \$ 179                   | \$ 152                   |
| Net earnings   | <b>11</b>                | 13                       |
| Distributions  | <b>(13)</b>              | (15)                     |
| Translation adjustment                                     | <b>(6)</b>               | -                        |
| Redemption value adjustment                                | <b>2</b>                 | (5)                      |
| <b>Ending balance</b>                                      | <b>\$ 173</b>            | <b>\$ 145</b>            |

**Accounts Receivable**

At June 30, 2013, there were \$405 million of noncurrent trade receivables, primarily in the *Filmed Entertainment* segment, included within *Other assets* in our Consolidated Balance Sheets 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.

**Investments in Variable Interest Entities**

At June 30, 2013 and September 30, 2012, our aggregate investment carrying value in unconsolidated variable interest entities ( VIEs ) was \$156 million and \$143 million, respectively. See Note 11 for further information regarding the impact of related party transactions with our unconsolidated VIEs on our Consolidated Financial Statements.

Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$76 million in assets and \$56 million in liabilities as of June 30, 2013, and \$44 million in assets and \$86 million of liabilities as of September 30, 2012. The consolidated VIEs revenues, expenses and operating income are not significant.

**Income Taxes**

We recognized discrete tax benefits of \$12 million and \$24 million in the quarter and nine months ended June 30, 2013, principally reflecting the release of tax reserves with respect to certain effectively settled tax positions.

During the quarter and nine months ended June 30, 2012, we recognized \$11 million and \$77 million of discrete tax benefits, respectively. The benefits recognized in the quarter principally reflect the release of tax reserves with respect to certain effectively settled tax positions. The benefits earlier in fiscal 2012 were recognized upon determining that certain operating and capital loss carryforward benefits were more likely than not to be realized.

**Discontinued Operations**

Discontinued operations activity for the nine months ended June 30, 2012 principally reflects the \$383 million charge related to the earn-out dispute with the former shareholders of Harmonix, which we sold in December 2010. To the extent paid, the charge will generate a tax benefit of

up to \$135 million, which will be available to offset qualifying future cash taxes.

**NOTE 10. 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.



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(continued)

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 asset impairment, when applicable.

| Revenues by Segment<br>(in millions) | Quarter Ended<br>June 30, |          | Nine Months Ended<br>June 30, |           |
|--------------------------------------|---------------------------|----------|-------------------------------|-----------|
|                                      | 2013                      | 2012     | 2013                          | 2012      |
| Media Networks                       | \$ 2,569                  | \$ 2,266 | \$ 7,196                      | \$ 6,904  |
| Filmed Entertainment                 | 1,158                     | 1,006    | 3,074                         | 3,733     |
| Eliminations                         | (34)                      | (31)     | (128)                         | (113)     |
| Total revenues                       | \$ 3,693                  | \$ 3,241 | \$ 10,142                     | \$ 10,524 |

| Adjusted Operating Income (Loss)<br>(in millions)                     | Quarter Ended<br>June 30, |        | Nine Months Ended<br>June 30, |          |
|---|---------------------------|--------|-------------------------------|----------|
|   | 2013                      | 2012   | 2013                          | 2012     |
| Media Networks  | \$ 1,158                  | \$ 934 | \$ 3,061                      | \$ 2,956 |
| Filmed Entertainment  | 17                        | 46     | (57)                          | 130      |
| Corporate expenses  | (54)                      | (43)   | (171)                         | (144)    |
| Equity-based compensation   | (35)                      | (35)   | (95)                          | (92)     |
| Eliminations  | (1)                       | 1      | (9)                           | 1        |
| Operating income  | 1,085                     | 903    | 2,729                         | 2,851    |
| Interest expense, net   | (114)                     | (104)  | (334)                         | (312)    |
| Equity in net earnings of investee companies                          | 6                         | 10     | 46                            | 25       |
| Loss on extinguishment of debt  | -                         | -      | -                             | (21)     |
| Other items, net  | (2)                       | (7)    | (1)                           | (12)     |
| Earnings from continuing operations before provision for income taxes | \$ 975                    | \$ 802 | \$ 2,440                      | \$ 2,531 |

| Total Assets<br>(in millions) | June 30,<br>2013 | September 30,<br>2012 |
|-------------------------------|------------------|-----------------------|
| Media Networks                | \$ 16,580        | \$ 16,401             |
| Filmed Entertainment          | 5,545            | 5,251                 |

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|                        |  |  |    |               |    |        |
|------------------------|--|--|----|---------------|----|--------|
| Corporate/Eliminations |  |  |    | <b>339</b>    |    | 598    |
| Total assets           |  |  | \$ | <b>22,464</b> | \$ | 22,250 |

| Revenues by Component<br>(in millions) | Quarter Ended<br>June 30, |          | Nine Months Ended<br>June 30, |           |
|--|---------------------------|----------|-------------------------------|-----------|
|  | 2013                      | 2012     | 2013                          | 2012      |
| Advertising                            | \$ 1,220                  | \$ 1,166 | \$ 3,580                      | \$ 3,593  |
| Feature film                           | 1,037                     | 902      | 2,760                         | 3,426     |
| Affiliate fees                         | 1,230                     | 976      | 3,212                         | 2,911     |
| Ancillary                              | 240                       | 228      | 718                           | 707       |
| Eliminations                           | (34)                      | (31)     | (128)                         | (113)     |
| Total revenues                         | \$ 3,693                  | \$ 3,241 | \$ 10,142                     | \$ 10,524 |

**NOTE 11. RELATED PARTY TRANSACTIONS**

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.

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(continued)

**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 nine months ended June 30, 2013 and 2012, Paramount earned revenues from NAI in connection with these licenses in the aggregate amounts of approximately \$15 million and \$16 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 Viacom. Transactions with CBS are settled in cash.

Paramount earns revenues and recognizes expenses associated with its distribution of certain television products into the home entertainment market on behalf of CBS. Pursuant to its agreement with CBS, Paramount distributes CBS's library of television and other content on DVD and Blu-ray disc on a worldwide basis. Under the terms of the agreement, Paramount is entitled to retain a fee based on a percentage of gross receipts and is generally responsible for all out-of-pocket costs, which are recoupable prior to any participation payments to CBS. In April 2013, Paramount and CBS extended the term of the agreement. Paramount also earns revenues from CBS through leasing of studio space and licensing of certain film products.

The *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.

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

| CBS Related Party Transactions<br>(in millions) | Quarter Ended<br>June 30, |       | Nine Months Ended<br>June 30, |        |
|---|---------------------------|-------|-------------------------------|--------|
|   | 2013                      | 2012  | 2013                          | 2012   |
| <b>Consolidated Statements of Earnings</b>      |                           |       |                               |        |
| Revenues  | \$ 66                     | \$ 52 | \$ 191                        | \$ 196 |
| Operating expenses                              | \$ 90                     | \$ 71 | \$ 248                        | \$ 252 |
| <b>Consolidated Balance Sheets</b>              |                           |       |                               |        |
| Accounts receivable                             |                           |       | \$ 3                          | \$ 7   |
| Other assets                                    |                           |       | 1                             | 1      |
| Total due from CBS                              |                           |       | \$ 4                          | \$ 8   |
| Accounts payable                                |                           |       | \$ 2                          | \$ 1   |
| Participants' share and residuals, current      |                           |       | 116                           | 143    |
| Program rights obligations, current             |                           |       | 101                           | 110    |

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|  |        |        |
|--|--------|--------|
| Program rights obligations, noncurrent | 94     | 169    |
| Other liabilities                      | 20     | 24     |
| Total due to CBS                       | \$ 333 | \$ 447 |

### Other Related Party Transactions

In the ordinary course of business, we are involved in related party transactions with equity investees, principally related to investments in unconsolidated VIEs. 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:

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(continued)

| <b>Other Related Party Transactions</b><br>(in millions) | <b>Quarter Ended</b><br><b>June 30,</b> |             | <b>Nine Months Ended</b><br><b>June 30,</b> |                      |
|--|---|-------------|---|----------------------|
|  | <b>2013</b>                             | <b>2012</b> | <b>2013</b>                                 | <b>2012</b>          |
| <b>Consolidated Statements of Earnings</b>               |   |             |   |                      |
| Revenues   | \$ 19                                   | \$ 60       | \$ 117                                      | \$ 177               |
| Operating expenses                                       | \$ 2                                    | \$ 22       | \$ 37                                       | \$ 75                |
| Selling, general and administrative                      | \$ (5)                                  | \$ (4)      | \$ (13)                                     | \$ (12)              |
| <b>Consolidated Balance Sheets</b>                       |   |             |   |                      |
|  |   |             | <b>June 30,</b>                             | <b>September 30,</b> |
|  |   |             | <b>2013</b>                                 | <b>2012</b>          |
| Accounts receivable                                      |   |             | \$ 89                                       | \$ 114               |
| Other assets   |   |             | 7   | 3                    |
| Total due from other related parties                     |   |             | \$ 96                                       | \$ 117               |
| Accounts payable   |   |             | \$ 4  | \$ 8                 |
| Other liabilities  |   |             | 24  | 17                   |
| Total due to other related parties                       |   |             | \$ 28                                       | \$ 25                |

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

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

Management's discussion and analysis of results of operations and financial condition is provided as a supplement to and should be read in conjunction with the unaudited consolidated financial statements and related notes to enhance the understanding of our results of operations, financial condition and cash flows. Additional context can also be found in our Form 10-K for the fiscal year ended September 30, 2012, as filed with the Securities and Exchange Commission (SEC) on November 15, 2012 (the 2012 Form 10-K). References in this document to Viacom, Company, we, us and our mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

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

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

*Results of Operations.* The results of operations section provides an analysis of our results on a consolidated and reportable segment basis for the quarter and nine months ended June 30, 2013, compared to the quarter and nine months ended June 30, 2012. In addition, we provide a discussion of items that affect the comparability of our results of operations.

*Liquidity and Capital Resources.* The liquidity and capital resources section provides a discussion of our cash flows for the nine months ended June 30, 2013, compared to the nine months ended June 30, 2012, and our liquidity capacity and requirements.

## OVERVIEW

### Summary

We are a leading global entertainment content company that connects with audiences through compelling content across television, motion picture, online and mobile platforms in over 160 countries and territories. With media networks reaching approximately 700 million global subscribers, 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® is a major global producer and distributor of filmed entertainment. Viacom operates a large portfolio of branded digital media experiences, including many of the world's most popular properties for entertainment, community and casual online gaming.

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

(continued)

We manage our operations 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 charges and asset impairments, 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 Viacom's 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 principally in three categories: (i) the sale of advertising related to our content and marketing services, (ii) affiliate fees from cable television operators, direct-to-home satellite television operators, digital distributors, telecommunications operators and mobile networks and (iii) ancillary revenues, which include consumer products licensing, brand licensing, home entertainment sales of our programming, television syndication and casual gaming. 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.

*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 manufacturing and 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, Blu-ray discs and other products relating to the motion pictures we release theatrically and direct-to-DVD, as well as certain other programming, including content we distribute on behalf of third parties, (iii) television and digital license fees paid worldwide by third parties for film exhibition rights during the various other distribution windows and (iv) ancillary revenues from digital license fees paid worldwide by third parties for film exhibition rights through digital distributors, 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 accrued under our third-party distribution arrangements), print and advertising expenses and other distribution costs. SG&A expenses include employee compensation, facility and

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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 quarter and nine months ended June 30, 2013 and 2012.

| (in millions, except per share amounts)                                 | Quarter Ended    |          | Better/<br>(Worse) |     | Nine Months Ended |           | Better/<br>(Worse) |      |
|---|------------------|----------|--------------------|-----|-------------------|-----------|--------------------|------|
|   | June 30,<br>2013 | 2012     | \$                 | %   | June 30,<br>2013  | 2012      | \$                 | %    |
| Revenues  | \$ 3,693         | \$ 3,241 | \$ 452             | 14% | \$ 10,142         | \$ 10,524 | \$ (382)           | (4)% |
| Operating income  | 1,085            | 903      | 182                | 20  | 2,729             | 2,851     | (122)              | (4)  |
| Net earnings from continuing operations attributable to Viacom          | 647              | 523      | 124                | 24  | 1,601             | 1,702     | (101)              | (6)  |
| Adjusted net earnings from continuing operations attributable to Viacom | 635              | 512      | 123                | 24  | 1,577             | 1,638     | (61)               | (4)  |
| Diluted EPS from continuing operations                                  | 1.32             | 0.99     | 0.33               | 33  | 3.20              | 3.13      | 0.07               | 2    |
| Adjusted diluted EPS from continuing operations                         | \$ 1.29          | \$ 0.97  | \$ 0.32            | 33% | \$ 3.15           | \$ 3.01   | \$ 0.14            | 5%   |

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

**Revenues**

Worldwide revenues increased \$452 million, or 14%, to \$3.693 billion in the quarter ended June 30, 2013, driven by higher revenues at both *Media Networks* and *Filmed Entertainment*. *Media Networks* revenues increased \$303 million reflecting higher affiliate fee and advertising revenues and *Filmed Entertainment* revenues increased \$152 million primarily driven by higher theatrical revenues.

Worldwide revenues decreased \$382 million, or 4%, to \$10.142 billion in the nine months ended June 30, 2013, primarily from declines in *Filmed Entertainment* revenues of \$659 million, principally driven by lower home entertainment revenues, as well as decreases in theatrical and television license fee revenues, partially offset by an increase in revenues of \$292 million at *Media Networks* reflecting higher affiliate fee revenues.

**Operating Income**

Operating income increased \$182 million, or 20%, to \$1.085 billion in the quarter ended June 30, 2013, driven by an increase in *Media Networks* adjusted operating income of \$224 million, partially offset by a decrease in *Filmed Entertainment* adjusted operating income of \$29 million. *Media Networks* adjusted operating income reflects higher revenues partially offset by higher operating expenses. The decrease in *Filmed Entertainment* adjusted operating income reflects distribution costs associated with the release of *World War Z* late in the quarter. Corporate expenses increased 26% in the quarter, due to higher deferred compensation costs reflecting our increased stock price in the quarter.

Operating income decreased \$122 million, or 4%, to \$2.729 billion in the nine months ended June 30, 2013. *Filmed Entertainment* generated an adjusted operating loss of \$57 million in the nine months ended June 30, 2013, compared to adjusted operating income of \$130 million in the prior year period, driven by the number, timing and overall performance of our theatrical and home entertainment releases. *Media Networks* adjusted operating income increased \$105 million, reflecting higher revenues, partially offset by our continuing investment in original content. Corporate expenses increased 19% in the nine months, primarily due to higher deferred compensation costs reflecting our increased stock price

and higher 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.

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**Net Earnings from Continuing Operations Attributable to Viacom**

Our effective income tax rate was 32.9% and 33.9% in the quarter and nine months ended June 30, 2013, respectively, and 34.5% in both the quarter and nine months ended June 30, 2012, excluding the impact of discrete tax items. The decrease in the effective income tax rate is principally due to a change in mix of domestic and international income.

Adjusted net earnings from continuing operations attributable to Viacom increased \$123 million, or 24%, and decreased \$61 million, or 4%, in the quarter and nine months ended June 30, 2013, respectively, principally due to the change in operating income described above for each respective period. Including the impact of discrete taxes in both years and the loss on the extinguishment of debt in the prior year, net earnings from continuing operations attributable to Viacom increased \$124 million, or 24%, and decreased \$101 million, or 6%, in the quarter and nine months ended June 30, 2013, respectively.

Adjusted diluted EPS from continuing operations increased \$0.32 per diluted share to \$1.29 in the quarter, reflecting the increase in net earnings from continuing operations and fewer outstanding shares. Adjusted diluted EPS from continuing operations increased \$0.14 per diluted share to \$3.15 in the nine months ended June 30, 2013, reflecting the impact of fewer outstanding shares, partially offset by the decline in adjusted net earnings from continuing operations. Including the impact of discrete taxes in both years and the loss on the extinguishment of debt in the prior year, diluted EPS from continuing operations increased \$0.33 per diluted share to \$1.32 and \$0.07 per diluted share to \$3.20 in the quarter and nine months ended June 30, 2013, respectively.

**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<br>June 30, |          | Better/<br>(Worse) |      | Nine Months Ended<br>June 30, |          | Better/<br>(Worse) |      |
|-------------------------------------|---------------------------|----------|--------------------|------|-------------------------------|----------|--------------------|------|
|                                     | 2013                      | 2012     | \$                 | %    | 2013                          | 2012     | \$                 | %    |
| <b>Revenues by Component</b>        |                           |          |                    |      |                               |          |                    |      |
| Advertising                         | \$ 1,220                  | \$ 1,166 | \$ 54              | 5 %  | \$ 3,580                      | \$ 3,593 | \$ (13)            | -    |
| Affiliate fees                      | 1,230                     | 976      | 254                | 26   | 3,212                         | 2,911    | 301                | 10 % |
| Ancillary                           | 119                       | 124      | (5)                | (4)  | 404                           | 400      | 4                  | 1    |
| Total revenues by component         | \$ 2,569                  | \$ 2,266 | \$ 303             | 13 % | \$ 7,196                      | \$ 6,904 | \$ 292             | 4 %  |
| <b>Expenses</b>                     |                           |          |                    |      |                               |          |                    |      |
| Operating                           | \$ 867                    | \$ 798   | \$ (69)            | (9)% | \$ 2,524                      | \$ 2,348 | \$ (176)           | (7)% |
| Selling, general and administrative | 510                       | 499      | (11)               | (2)  | 1,505                         | 1,490    | (15)               | (1)  |
| Depreciation and amortization       | 34                        | 35       | 1                  | 3    | 106                           | 110      | 4                  | 4    |
| Total expenses                      | \$ 1,411                  | \$ 1,332 | \$ (79)            | (6)% | \$ 4,135                      | \$ 3,948 | \$ (187)           | (5)% |
| Adjusted Operating Income           | \$ 1,158                  | \$ 934   | \$ 224             | 24 % | \$ 3,061                      | \$ 2,956 | \$ 105             | 4 %  |

**Revenues**

Worldwide revenues increased \$303 million, or 13%, to \$2.569 billion in the quarter ended June 30, 2013, driven by higher affiliate fees and advertising revenues, and increased \$292 million, or 4%, to \$7.196 billion in the nine months ended June 30, 2013, driven by increased affiliate fee revenues. Domestic revenues were \$2.224 billion in the quarter, an increase of \$289 million, or 15%, and \$6.148 billion in the nine months ended June 30, 2013, an increase of \$311 million, or 5%. International revenues were \$345 million in the quarter, an increase of \$14 million, or 4%, and \$1.048 billion in the nine months ended June 30, 2013, a decrease of \$19 million, or 2%. Foreign exchange had a 2-percentage point and 1-percentage point unfavorable impact on international revenues in the quarter and nine months ended June 30, 2013, respectively.

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*Advertising*

Worldwide advertising revenues increased \$54 million, or 5%, to \$1.220 billion in the quarter ended June 30, 2013. Domestic advertising revenues increased 6%. Ratings trends and strong marketplace demand drove an increase in the volume of commercial units. International advertising revenues decreased 6% reflecting economic conditions in Europe. Foreign exchange had a 2-percentage point unfavorable impact on international revenues.

Worldwide advertising revenues were substantially flat in the nine months ended June 30, 2013. Domestic advertising revenues increased slightly, while international advertising revenues decreased 6% reflecting economic conditions in Europe and certain ratings challenges. Foreign exchange also had a 1-percentage point unfavorable impact on international revenues in the nine months ended June 30, 2013.

*Affiliate Fees*

Worldwide affiliate fee revenues increased \$254 million, or 26%, to \$1.230 billion in the quarter, and \$301 million, or 10%, to \$3.212 billion in the nine months ended June 30, 2013. Domestic affiliate revenues increased 28% and 12% in the quarter and nine months ended June 30, 2013, respectively, driven by the benefit from the availability of certain programming related to digital distribution arrangements and rate increases. Excluding the impact of digital distribution arrangements, the domestic affiliate revenue growth rate was in the high-single digits in the quarter, and low-double digits in the nine months. International affiliate revenues increased 16% and 4% in the quarter and nine months ended June 30, 2013, respectively, primarily driven by growth in subscribers and rate increases. Foreign exchange had a 2-percentage point and 1-percentage point unfavorable impact on international revenues in the quarter and nine months ended June 30, 2013, respectively.

*Ancillary*

Ancillary revenues decreased \$5 million, or 4%, to \$119 million in the quarter, and increased \$4 million, or 1%, to \$404 million in the nine months ended June 30, 2013.

**Expenses**

Total expenses increased \$79 million, or 6%, to \$1.411 billion and \$187 million, or 5%, to \$4.135 billion in the quarter and nine months ended June 30, 2013, respectively, principally driven by higher operating expenses.

*Operating*

Operating expenses increased \$69 million, or 9%, to \$867 million in the quarter, and \$176 million, or 7%, to \$2.524 billion in the nine months ended June 30, 2013. Due to our continuing investment in original content, programming costs increased \$33 million, or 5%, in the quarter, and \$146 million, or 7%, in the nine months ended June 30, 2013. Distribution and other expenses, including participations related to digital distribution arrangements, increased \$36 million, or 47%, in the quarter, and \$30 million, or 12%, in the nine months.

*Selling, General and Administrative*

SG&A expenses increased \$11 million, or 2%, to \$510 million in the quarter, and \$15 million, or 1%, to \$1.505 billion in the nine months ended June 30, 2013, primarily driven by higher incentive compensation costs.

*Depreciation and Amortization*

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Depreciation and amortization was substantially flat in the quarter at \$34 million and decreased \$4 million, or 4%, to \$106 million in the nine months ended June 30, 2013.

### **Adjusted Operating Income**

Adjusted operating income increased \$224 million, or 24%, to \$1.158 billion and \$105 million, or 4%, to \$3.061 billion in the quarter and nine months ended June 30, 2013, respectively, reflecting higher revenues partially offset by higher operating expenses as discussed above.

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**Filmed Entertainment**

| (in millions)                           | Quarter Ended<br>June 30, |              | Better/(Worse) |              | Nine Months Ended<br>June 30, |               | Better/(Worse)  |           |
|---|---------------------------|--------------|----------------|--------------|-------------------------------|---------------|-----------------|-----------|
|   | 2013                      | 2012         | \$             | %            | 2013                          | 2012          | \$              | %         |
| <b>Revenues by Component</b>            |                           |              |                |              |                               |               |                 |           |
| Theatrical                              | \$ 464                    | \$ 283       | \$ 181         | 64%          | \$ 1,068                      | \$ 1,179      | \$ (111)        | (9)%      |
| Home entertainment                      | 275                       | 304          | (29)           | (10)         | 872                           | 1,317         | (445)           | (34)      |
| Television license fees                 | 298                       | 315          | (17)           | (5)          | 820                           | 930           | (110)           | (12)      |
| Ancillary                               | 121                       | 104          | 17             | 16           | 314                           | 307           | 7               | 2         |
| Total revenues by component             | \$ 1,158                  | \$ 1,006     | \$ 152         | 15%          | \$ 3,074                      | \$ 3,733      | \$ (659)        | (18)%     |
| <b>Expenses</b>                         |                           |              |                |              |                               |               |                 |           |
| Operating                               | \$ 1,011                  | \$ 833       | \$ (178)       | (21)%        | \$ 2,742                      | \$ 3,195      | \$ 453          | 14%       |
| Selling, general & administrative       | 108                       | 106          | (2)            | (2)          | 324                           | 343           | 19              | 6         |
| Depreciation & amortization             | 22                        | 21           | (1)            | (5)          | 65                            | 65            | -               | -         |
| Total expenses                          | \$ 1,141                  | \$ 960       | \$ (181)       | (19)%        | \$ 3,131                      | \$ 3,603      | \$ 472          | 13%       |
| <b>Adjusted Operating Income/(Loss)</b> | <b>\$ 17</b>              | <b>\$ 46</b> | <b>\$ (29)</b> | <b>(63)%</b> | <b>\$ (57)</b>                | <b>\$ 130</b> | <b>\$ (187)</b> | <b>NM</b> |

NM Not Meaningful

**Revenues**

Worldwide revenues increased \$152 million, or 15%, to \$1.158 billion in the quarter ended June 30, 2013 driven by higher theatrical revenues, and decreased \$659 million, or 18%, to \$3.074 billion in the nine months ended June 30, 2013 principally driven by lower home entertainment revenues, as well as decreases in theatrical and television license fee revenues. Domestic and international revenues were \$548 million and \$610 million, an increase of 22% and 10%, respectively, in the quarter ended June 30, 2013. Domestic and international revenues were \$1.421 billion and \$1.653 billion, a decrease of 16% and 19%, respectively, in the nine months ended June 30, 2013.

**Theatrical**

Worldwide theatrical revenues increased \$181 million, or 64%, to \$464 million in the quarter ended June 30, 2013, consisting of higher carryover revenues from prior periods of \$98 million and higher revenues from current quarter releases of \$83 million. The increase in carryover revenues was attributable to the prior quarter release of *G.I. Joe: Retaliation*. Our current quarter releases were *Star Trek into Darkness*, *World War Z* and *Pain and Gain*. Domestic and international theatrical revenues increased 63% and 65%, respectively. Foreign exchange had a 1-percentage point favorable impact on international revenues.

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Worldwide theatrical revenues decreased \$111 million, or 9%, to \$1.068 billion in the nine months ended June 30, 2013. Revenues from our current releases were \$151 million lower than the prior year. In the current year, we released thirteen films, including *Star Trek into Darkness*, *G.I. Joe: Retaliation*, *World War Z*, DreamWorks Animation's *Rise of the Guardians*, *Hansel and Gretel: Witch Hunters*, *Jack Reacher*, *Flight* and *Paranormal Activity 4*, compared to fourteen films in the prior year. The decline in revenues from our current releases was partially offset by higher carryover revenues from prior periods of \$40 million, principally attributable to the prior year release of *Madagascar 3: Europe's Most Wanted*. Domestic and international theatrical revenues decreased 8% and 11%, respectively.

### *Home Entertainment*

Worldwide home entertainment revenues decreased \$29 million, or 10%, to \$275 million in the quarter ended June 30, 2013. The decline in revenues primarily reflects lower carryover revenues due to the number and mix of titles released in prior periods. During the quarter we released *Jack Reacher*, *Hansel & Gretel: Witch Hunters* and *The Guilt Trip*. Domestic home entertainment revenues increased 10%, reflecting the performance of current quarter titles, while international home entertainment revenues decreased 24%. Foreign exchange had a 1-percentage point unfavorable impact on international revenues.

Worldwide home entertainment revenues decreased \$445 million, or 34%, to \$872 million in the nine months ended June 30, 2013. Revenues from our current period releases were \$269 million lower than the prior year due to the number and mix of titles released. In the current year, we released ten titles, including *Madagascar 3: Europe's Most Wanted*, *Rise of the Guardians*, *Jack Reacher*, *Flight*, *Hansel & Gretel: Witch Hunters* and *Paranormal Activity 4*. In the prior year period, we released fifteen titles, including Marvel's *Captain America: The First Avenger*, DreamWorks Animation's *Kung Fu Panda 2* and *Puss in Boots*, *Mission Impossible - Ghost Protocol* and *Super 8*. The decline in revenues also reflects lower carryover and catalog revenues of \$176 million principally attributable to the prior period release of *Transformers: Dark of the Moon*. Domestic and international home entertainment revenues decreased 30% and 38%, respectively.



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*Television License Fees*

Television license fees decreased \$17 million, or 5%, to \$298 million, and \$110 million, or 12%, to \$820 million, in the quarter and nine months ended June 30, 2013, respectively, driven by the number and mix of available titles.

*Ancillary*

Ancillary revenues increased \$17 million, or 16%, to \$121 million, and \$7 million, or 2%, to \$314 million in the quarter and nine months ended June 30, 2013, respectively, principally driven by the sale to The Walt Disney Company of the future distribution rights to the four Marvel films that we previously released theatrically. The increase in revenues in the nine month period was partially offset by lower merchandising revenues reflecting *Transformers: Dark of the Moon* merchandise sales in the prior year.

**Expenses**

Total expenses increased \$181 million, or 19%, to \$1.141 billion in the quarter and decreased \$472 million, or 13%, to \$3.131 billion in the nine months ended June 30, 2013, principally driven by variances in operating expenses resulting from the timing, number and mix of our theatrical and home entertainment releases.

*Operating*

Operating expenses increased \$178 million, or 21%, to \$1.011 billion in the quarter ended June 30, 2013. Film costs increased \$99 million, or 22%, and distribution and other costs, principally print and advertising expenses, increased \$79 million, or 20%, as a result of the timing and mix of current quarter theatrical releases, including the impact of two tentpole releases in the quarter.

Operating expenses decreased \$453 million, or 14%, to \$2.742 billion in the nine months ended June 30, 2013, principally due to the timing, number and mix of our home entertainment and theatrical releases. Film costs decreased \$268 million, or 17%, in the period. Distribution and other costs, principally print and advertising expenses, decreased \$185 million, or 12%, in the nine months ended June 30, 2013.

*Selling, General and Administrative*

SG&A expenses increased \$2 million, or 2%, to \$108 million in the quarter. In the nine months ended June 30, 2013, SG&A expenses decreased \$19 million, or 6%, to \$324 million, primarily driven by lower employee costs.

**Adjusted Operating Income (Loss)**

Adjusted operating income decreased \$29 million, or 63%, to \$17 million in the quarter ended June 30, 2013, principally reflecting distribution costs associated with the release of *World War Z* late in the quarter, partially offset by the benefit from the Marvel distribution rights sale. Adjusted operating loss was \$57 million in the nine months ended June 30, 2013 compared to adjusted operating income of \$130 million in the prior year. The loss in the nine months compared to income in the prior year period reflects the number, timing and overall performance of our theatrical and home entertainment releases, as well as less carryover revenues from prior period releases. The generation of an operating loss is driven by the recognition of print and advertising expenses associated with theatrical releases in the period while revenues for the respective films are recognized as earned.

**Factors Affecting Comparability**

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The Consolidated Financial Statements as of and for the quarter and nine months ended June 30, 2013 and 2012 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.

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The following tables reconcile our adjusted measures to our reported results for the quarter and nine months ended June 30, 2013 and 2012.

(in millions, except per share amounts)

|                                  | Quarter Ended       |   |   |   |
|----------------------------------|---------------------|---|---|---|
|                                  | June 30, 2013       |   |   |   |
|                                  | Operating<br>Income | Pre-tax Earnings<br>from Continuing<br>Operations | Net Earnings from<br>Continuing Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
| Reported results                 | \$ 1,085            | \$ 975  | \$ 647  | \$ 1.32   |
| Factors Affecting Comparability: |                     |   |   |   |
| Discrete tax benefits            | -                   | -   | (12)  | (0.03)  |
| Adjusted results                 | \$ 1,085            | \$ 975  | \$ 635  | \$ 1.29   |

|                                  | Nine Months Ended   |  |  |   |
|----------------------------------|---------------------|--|--|---|
|                                  | June 30, 2013       |  |  |   |
|                                  | Operating<br>Income | Pre-tax<br>Earnings<br>from Continuing<br>Operations | Net Earnings from<br>Continuing<br>Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
| Reported results                 | \$ 2,729            | \$ 2,440   | \$ 1,601   | \$ 3.20   |
| Factors Affecting Comparability: |                     |  |  |   |
| Discrete tax benefits            | -                   | -  | (24)   | (0.05)  |
| Adjusted results                 | \$ 2,729            | \$ 2,440   | \$ 1,577   | \$ 3.15   |

|                                  | Quarter Ended       |  |  |   |
|----------------------------------|---------------------|--|--|---|
|                                  | June 30, 2012       |  |  |   |
|                                  | Operating<br>Income | Pre-tax<br>Earnings<br>from Continuing<br>Operations | Net Earnings from<br>Continuing<br>Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
| Reported results                 | \$ 903              | \$ 802   | \$ 523   | \$ 0.99   |
| Factors Affecting Comparability: |                     |  |  |   |
| Discrete tax benefits            | -                   | -  | (11)   | (0.02)  |
| Adjusted results                 | \$ 903              | \$ 802   | \$ 512   | \$ 0.97   |

|                                       | Nine Months Ended   |  |  |   |
|---------------------------------------|---------------------|--|--|---|
|                                       | June 30, 2012       |  |  |   |
|                                       | Operating<br>Income | Pre-tax<br>Earnings<br>from Continuing<br>Operations | Net Earnings from<br>Continuing<br>Operations<br>Attributable to<br>Viacom | Diluted<br>EPS from<br>Continuing<br>Operations |
| Reported results                      | \$ 2,851            | \$ 2,531   | \$ 1,702   | \$ 3.13   |
| Factors Affecting Comparability:      |                     |  |  |   |
| Extinguishment of debt <sup>(1)</sup> | -                   | 21   | 13   | 0.02  |
| Discrete tax benefits                 | -                   | -  | (77)   | (0.14)  |
| Adjusted results                      | \$ 2,851            | \$ 2,552   | \$ 1,638   | \$ 3.01   |

<sup>(1)</sup> The tax impact has been calculated using the rate applicable to this adjustment.

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***Extinguishment of Debt***

During the nine months ended June 30, 2012, we redeemed all \$750 million of our outstanding 6.850% Senior Notes due December 2055 (the 2055 Notes ) at a redemption price equal to 100% of the principal amount of each 2055 Note, plus accrued interest thereon. As a result of the redemption, we expensed the unamortized issuance costs associated with the 2055 Notes, which resulted in a pre-tax extinguishment loss of \$21 million.

***Discrete Tax Items***

Our effective income tax rate was 32.9% and 33.9% in the quarter and nine months ended June 30, 2013, respectively, and 34.5% in both the quarter and nine months ended June 30, 2012, excluding the impact of discrete tax items.

In the quarter and nine months ended June 30, 2013, discrete tax benefits of \$12 million and \$24 million contributed 1.2 and 1.0 percentage points of tax benefit, which reconcile to the reported effective tax rate of 31.7% and 32.9%, respectively. These tax benefits principally reflect the release of tax reserves with respect to certain effectively settled tax positions.

Discrete tax benefits of \$11 million and \$77 million, taken together with the effective income tax rate impact of the loss on extinguishment of debt in the nine month period, contributed 1.3 and 3.1 percentage points of tax benefit in the quarter and nine months ended June 30, 2012, respectively, which reconcile to our reported effective tax rates of 33.2% and 31.4% for the respective periods. The discrete tax benefits recognized in the quarter ended June 30, 2012 principally reflect the release of tax reserves with respect to certain effectively settled tax positions. The benefits earlier in fiscal 2012 were recognized upon determining that certain operating and capital loss carryforward benefits were more likely than not to be realized.

**LIQUIDITY AND CAPITAL RESOURCES**

***Liquidity***

**Sources and Uses of Cash**

Our primary source of liquidity is cash provided through the operations of our businesses. Our principal uses of cash in 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 capital expenditures, acquisitions of businesses, quarterly cash dividends and discretionary share repurchases under our stock repurchase program, as deemed appropriate. Our cash flows from operations, together with our credit facility, provide us with adequate resources to fund our anticipated ongoing cash requirements.

We have and 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.

**Cash Flows**

Cash and cash equivalents increased by \$296 million in the nine months ended June 30, 2013.

***Operating Activities***

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Cash provided by operations was \$2.032 billion for the nine months ended June 30, 2013, an increase of \$296 million compared with the same period in 2012. The increase reflects favorable working capital, principally driven by lower income tax payments.

### *Investing Activities*

Cash used in investing activities was \$86 million and \$212 million for the nine months ended June 30, 2013 and 2012, respectively, principally driven by the level of acquisition and investment activity in the respective periods. In 2012, cash used in investing activities includes a payment related to the earn-out dispute with former shareholders of Harmonix.

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*Financing Activities*

Cash used in financing activities was \$1.617 billion for the nine months ended June 30, 2013, compared with \$1.750 billion in the same period in 2012. Net cash used in the period was primarily driven by the settlement of share repurchases of \$2.094 billion and dividend payments totaling \$411 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.

Net cash used in the prior year was primarily driven by the settlement of share repurchases of \$2.112 billion and dividend payments of \$411 million, partially offset by the net impact of our issuance of \$2.150 billion of senior notes and debentures and debt repayments.

In May 2013, we increased our quarterly dividend to \$0.30 per share of Class A and B common stock from \$0.275 per share, beginning with the dividend paid on July 1, 2013.

*Capital Resources*

**Capital Structure and Debt**

At June 30, 2013, total debt was \$8.913 billion, an increase of \$764 million from \$8.149 billion at September 30, 2012. During the nine months ended June 30, 2013, we issued a total of \$1.996 billion of senior notes and debentures. The net proceeds from the issuances were used for general corporate purposes, including the repurchase of shares under our stock repurchase program. These transactions are detailed below.

In November 2012, we issued 4.375% Senior Debentures due March 2043 (the 2043 Debentures) with an aggregate principal amount of \$250 million at a price equal to 97.755% of the principal amount. The proceeds, net of the discount and other issuance fees and expenses, were \$242 million. In December 2012, we issued an additional \$1.196 billion of 2043 Debentures in exchange for a portion of our outstanding 6.875% Senior Debentures due 2036 and 6.750% Senior Debentures due 2037 totaling \$844 million. There was no gain or loss recognized as a result of the exchange.

In March 2013, we issued 3.250% Senior Notes due March 2023 with an aggregate principal amount of \$300 million at a price equal to 99.148% of the principal amount, and 4.875% Senior Debentures due June 2043 with an aggregate principal amount of \$250 million at a price equal to 99.474% of the principal amount. The proceeds, net of the discount and other issuance fees and expenses, were \$542 million.

**Credit Facility**

During the first quarter of our 2013 fiscal year, we amended our revolving credit agreement, originally dated as of October 8, 2010, to, among other things, increase the amount of the credit facility from \$2.1 billion to \$2.5 billion and extend the maturity date from December 2015 to November 2017. The credit facility is used for general corporate purposes and to support commercial paper outstanding, if any. The borrowing rate under the credit facility is LIBOR plus a margin ranging from 0.5% to 1.5% based on our current public debt rating. 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 at June 30, 2013. Our two 364-day credit facilities with an aggregate amount of \$600 million were terminated during the same quarter.

At June 30, 2013, there were no amounts outstanding under our credit facility.

**Stock Repurchase Program**

During the nine months ended June 30, 2013, we repurchased 35.5 million shares of Class B common stock for an aggregate purchase price of \$2.1 billion, and from July 1, 2013 through August 1, 2013, we repurchased an additional 2.5 million shares for an aggregate purchase price of \$180 million. On August 1, 2013, we increased the size of our Class B common stock repurchase program from \$10.0 billion to \$20.0 billion,

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leaving \$12.4 billion of remaining capacity. We anticipate continuing our ongoing quarterly pace of share repurchases. In addition, over the next several months we will augment our overall buyback pace with purchases of an additional \$2.0 billion of shares under the \$20.0 billion stock repurchase program. Share repurchases under the program are expected to be funded through a combination of debt and cash generated by operations, as deemed appropriate.



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

(continued)

*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 11 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 2012 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.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market value of investments. In the ordinary course of business, we may employ established and prudent policies and procedures to manage our exposure principally to changes in interest rates and foreign exchange risks. The objective of such policies and procedures is to manage exposure to market risks in order to minimize the impact on earnings and cash flows. We do not enter into financial instrument transactions for speculative 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.

As disclosed in the 2012 Form 10-K, we continued our global business transformation initiative to integrate and upgrade our systems and processes, which in turn resulted in changes in internal controls over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

Since our 2012 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 2012 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 June 30, 2013 under our publicly announced stock repurchase program.

|                              | Total Number<br>of Shares<br>Purchased<br>(thousands) | Average Price<br>Paid per Share<br>(dollars) | Total Number<br>of<br>Shares<br>Purchased<br>as Part of Publicly<br>Announced<br>Plans<br>or Programs <sup>(1)</sup><br>(thousands) | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under Program<br>(millions) |
|------------------------------|---|--|---|--|
| <b>Open Market Purchases</b> |   |  |   |  |
| Month ended April 30, 2013   | 2,631   | \$ 64.61                                     | 2,631   | \$ 3,130   |
| Month ended May 31, 2013     | 3,974   | \$ 68.45                                     | 3,974   | \$ 2,858   |
| Month ended June 30, 2013    | 3,863   | \$ 66.79                                     | 3,863   | \$ 2,600   |
| <b>Total</b>                 | <b>10,468</b>   |  | <b>10,468</b>   |  |

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<sup>(1)</sup> On August 1, 2013, we increased the size of our Class B common stock repurchase program from \$10.0 billion to \$20.0 billion. 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.**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 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: August 2, 2013

By:

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

Date: August 2, 2013

By:

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