

Viacom Inc.
Form 10-Q
January 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-32686

VIACOM INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

20-3515052

(I.R.S. Employer
Identification Number)

1515 Broadway
New York, NY 10036
(212) 258-6000

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

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

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

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

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

Class of Stock

Shares Outstanding

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	as of January 15, 2015
Class A common stock, par value \$0.001 per share	50,607,121
Class B common stock, par value \$0.001 per share	355,154,549

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

VIACOM INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended		
	December 31,		
	2014	2013	
Revenues	\$3,344	\$3,197	
Expenses:			
Operating	1,623	1,474	
Selling, general and administrative	731	704	
Depreciation and amortization	55	59	
Total expenses	2,409	2,237	
Operating income	935	960	
Interest expense, net	(160) (149)
Equity in net earnings of investee companies	33	26	
Other items, net	(18) —)
Earnings before provision for income taxes	790	837	
Provision for income taxes	(277) (280)
Net earnings (Viacom and noncontrolling interests)	513	557	
Net earnings attributable to noncontrolling interests	(13) (10)
Net earnings attributable to Viacom	\$500	\$547	
Basic earnings per share attributable to Viacom	\$1.22	\$1.23	
Diluted earnings per share attributable to Viacom	\$1.20	\$1.20	
Weighted average number of common shares outstanding:			
Basic	410.6	444.9	
Diluted	416.1	454.0	
Dividends declared per share of Class A and Class B common stock	\$0.33	\$0.30	

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(in millions)	Quarter Ended	
	December 31,	
	2014	2013
Net earnings (Viacom and noncontrolling interests)	\$513	\$557
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(104	) 26
Defined benefit pension plans	(20) —
Other comprehensive income (loss) (Viacom and noncontrolling interests)	(124	) 26
Comprehensive income	389	583
Less: Comprehensive income attributable to noncontrolling interest	11	11
Comprehensive income attributable to Viacom	\$378	\$572

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	December 31, 2014	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,185	\$1,000
Receivables, net	3,024	3,066
Inventory, net	870	846
Prepaid and other assets	391	340
Total current assets	5,470	5,252
Property and equipment, net	976	1,016
Inventory, net	4,100	3,897
Goodwill	11,495	11,535
Intangibles, net	372	399
Other assets	1,003	1,018
Total assets	\$23,416	\$23,117
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$370	\$475
Accrued expenses	710	969
Participants' share and residuals	949	993
Program obligations	673	703
Deferred revenue	252	259
Current portion of debt	617	18
Other liabilities	468	518
Total current liabilities	4,039	3,935
Noncurrent portion of debt	13,146	12,751
Participants' share and residuals	289	403
Program obligations	435	459
Deferred tax liabilities, net	527	266
Other liabilities	1,396	1,340
Redeemable noncontrolling interest	207	216
Commitments and contingencies (Note 6)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 50.6 and 50.9 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 356.7 and 363.3 outstanding, respectively	—	—
Additional paid-in capital	9,914	9,772
Treasury stock, 387.1 and 377.0 common shares held in treasury, respectively	(19,975)	(19,225)
Retained earnings	13,828	13,465
Accumulated other comprehensive loss	(415)	(293)
Total Viacom stockholders' equity	3,352	3,719
Noncontrolling interests	25	28
Total equity	3,377	3,747
Total liabilities and equity	\$23,416	\$23,117

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Quarter Ended	
	December 31, 2014	2013
OPERATING ACTIVITIES		
Net earnings (Viacom and noncontrolling interests)	\$513	\$557
Reconciling items:		
Depreciation and amortization	55	59
Feature film and program amortization	1,027	907
Equity-based compensation	26	32
Equity in net earnings and distributions from investee companies	(29	) (22
Deferred income taxes	232	(30
Operating assets and liabilities, net of acquisitions:		
Receivables	42	90
Inventory, program rights and participations	(1,448	) (1,185
Accounts payable and other current liabilities	(421	) (121
Other, net	59	6
Cash provided by operations	56	293
INVESTING ACTIVITIES		
Acquisitions and investments, net	(1	) 6
Capital expenditures	(34	) (20
Net cash flow used in investing activities	(35	) (14
FINANCING ACTIVITIES		
Borrowings	990	—
Purchase of treasury stock	(754	) (970
Dividends paid	(137	) (271
Excess tax benefits on equity-based compensation awards	35	5
Exercise of stock options	104	11
Other, net	(45	) (42
Net cash flow provided by/(used) in financing activities	193	(1,267
Effect of exchange rate changes on cash and cash equivalents	(29	) 2
Net change in cash and cash equivalents	185	(986
Cash and cash equivalents at beginning of period	1,000	2,403
Cash and cash equivalents at end of period	\$1,185	\$1,417

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Viacom Inc. is a leading global entertainment content company that connects with audiences in more than 165 countries and territories and creates compelling television programs, motion pictures, short-form videos, apps, games, brands for consumer products, social media and other entertainment content. Viacom operates through two reporting segments: Media Networks, which includes Music, Nickelodeon, Entertainment and BET Networks and Filmed Entertainment. The Media Networks segment provides entertainment content and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. The Filmed Entertainment segment produces, finances, acquires and distributes motion pictures, television programming and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, Insurge Pictures, MTV Films, Nickelodeon Movies and Paramount Television brands. References in this document to “Viacom”, “Company”, “we”, “us” and “our” mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.

Unaudited Interim Financial Statements

The accompanying unaudited consolidated quarterly financial statements have been prepared on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of our results of operations, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results expected for the fiscal year ending September 30, 2015 (“fiscal 2015”) or any future period. These financial statements should be read in conjunction with our Form 10-K for the year ended September 30, 2014, as filed with the SEC on November 13, 2014 (the “2014 Form 10-K”).

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09 - Revenue from Contracts with Customers (“ASU 2014-09”), a comprehensive revenue recognition model that supersedes the current revenue recognition requirements and most industry-specific guidance. The underlying core principle of ASU 2014-09 is that a company should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. ASU 2014-09 will be effective for the first interim period within annual reporting periods beginning after December 15, 2016, and allows adoption either under a full retrospective or a modified retrospective approach. Early adoption is not permitted. We will adopt ASU 2014-09 during the first quarter of fiscal 2018. We are currently evaluating the impact of the new standard.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	December 31, 2014	September 30, 2014
Film inventory:		
Released, net of amortization	\$712	\$664
Completed, not yet released	28	131
In process and other	673	436
Total film inventory, net of amortization	1,413	1,231
Original programming:		
Released, net of amortization	1,452	1,409
In process and other	605	631
Total original programming, net of amortization	2,057	2,040
Acquired program rights, net of amortization	1,402	1,367
Home entertainment inventory	98	105
Total inventory, net	4,970	4,743
Less: current portion	(870) (846
Total inventory-noncurrent, net	\$4,100	\$3,897

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 3. DEBT

Our total debt consists of the following:

Debt (in millions)	December 31, 2014	September 30, 2014
Senior Notes and Debentures:		
Senior notes due February 2015, 1.250%	\$600	\$600
Senior notes due September 2015, 4.250%	250	250
Senior notes due April 2016, 6.250%	917	917
Senior notes due December 2016, 2.500%	399	399
Senior notes due April 2017, 3.500%	498	498
Senior notes due October 2017, 6.125%	499	499
Senior notes due September 2018, 2.500%	498	498
Senior notes due April 2019, 2.200%	400	400
Senior notes due September 2019, 5.625%	552	552
Senior notes due December 2019, 2.750%	400	—
Senior notes due March 2021, 4.500%	495	495
Senior notes due December 2021, 3.875%	593	593
Senior notes due June 2022, 3.125%	297	296
Senior notes due March 2023, 3.250%	298	298
Senior notes due September 2023, 4.250%	1,239	1,238
Senior notes due April 2024, 3.875%	546	546
Senior debentures due December 2034, 4.850%	597	—
Senior debentures due April 2036, 6.875%	1,072	1,072
Senior debentures due October 2037, 6.750%	76	76
Senior debentures due February 2042, 4.500%	246	245
Senior debentures due March 2043, 4.375%	1,090	1,089
Senior debentures due June 2043, 4.875%	249	249
Senior debentures due September 2043, 5.850%	1,242	1,242
Senior debentures due April 2044, 5.250%	549	549
Capital lease and other obligations	161	168
Total debt	13,763	12,769
Less: current portion	(617)	(18)
Total noncurrent portion of debt	\$13,146	\$12,751

Senior Notes and Debentures

In December 2014, we issued a total of \$1.0 billion of senior notes and debentures as follows:

2.750% Senior Notes due December 2019 with an aggregate principal amount of \$400 million at a price equal to 99.986% of the principal amount.

4.850% Senior Debentures due December 2034 with an aggregate principal amount of \$600 million at a price equal to 99.543% of the principal amount.

The proceeds, net of the discount and other issuance fees and expenses, from the issuance of the senior notes and debentures were \$990 million.

The total unamortized net discount related to our senior notes and debentures was \$418 million as of December 31, 2014. The fair value of our senior notes and debentures was approximately \$14.7 billion as of December 31, 2014.

The valuation of our publicly traded debt is based on quoted prices in active markets.

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

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Credit Facility

In November 2014, we amended our revolving credit agreement, originally dated as of October 8, 2010, to, among other things, extend the maturity date of the \$2.5 billion revolving credit facility from November 9, 2017 to November 18, 2019. At December 31, 2014, there were no amounts outstanding under the credit facility. The credit facility has one principal financial covenant that requires our interest coverage for the most recent four consecutive fiscal quarters to be at least 3.0x, which we met as of December 31, 2014.

NOTE 4. PENSION BENEFITS

We offered certain participants of our funded pension plan the option to receive a one-time lump-sum payment equal to the present value of their respective pension benefit. The settlement triggered a remeasurement of the net pension obligation and settlement accounting. The remeasurement resulted in a \$53 million increase to the net benefit obligation, primarily driven by a decline in the discount rate to 4.0% from 4.5%. The settlement resulted in the recognition of a non-cash settlement loss of \$24 million reclassified from unrecognized actuarial loss included within Accumulated other comprehensive income (loss) in the Consolidated Balance Sheet.

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

Net Periodic Benefit Cost (Income) (in millions)	Quarter Ended December 31,	
	2014	2013
Interest cost	\$12	\$12
Expected return on plan assets	(13	) (13
Recognized actuarial loss	1	—
Loss on pension settlement	24	—
Net periodic benefit cost (income)	\$24	\$(1

NOTE 5. REDEEMABLE NONCONTROLLING INTEREST

We are subject to a redeemable put option, payable in a foreign currency, with respect to an international subsidiary. The put option expires in January 2016 and is classified as Redeemable noncontrolling interest in the Consolidated Balance Sheets.

The components of redeemable noncontrolling interest are as follows:

Redeemable Noncontrolling Interest (in millions)	Quarter Ended December 31,	
	2014	2013
Beginning balance	\$216	\$200
Net earnings	7	6
Distributions	(8	) (8
Translation adjustment	(9) 6
Redemption value adjustment	1	2
Ending Balance	\$207	\$206

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 6. COMMITMENTS AND CONTINGENCIES

Commitments

As more fully described in Notes 4 and 11 of the 2014 Form 10-K, our commitments primarily consist of programming and talent commitments, operating and capital lease arrangements, and purchase obligations for goods and services. These arrangements result from our normal course of business and represent obligations that may be payable over several years.

Contingencies

We have certain indemnification obligations with respect to leases primarily associated with the previously discontinued operations of Famous Players Inc. (“Famous Players”). In addition, we have certain indemnities provided by the acquirer of Famous Players. These lease commitments amounted to approximately \$348 million as of December 31, 2014. The amount of lease commitments varies over time depending on expiration or termination of individual underlying leases, or of the related indemnification obligation, and foreign exchange rates, among other things. We may also have exposure for certain other expenses related to the leases, such as property taxes and common area maintenance. We have recorded a liability of \$192 million with respect to such obligations as of December 31, 2014. We believe our accrual is sufficient to meet any future obligations based on our consideration of available financial information, the lessees’ historical performance in meeting their lease obligations and the underlying economic factors impacting the lessees’ business models.

Legal Matters

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

In February 2013, Cablevision Systems Corporation filed a lawsuit in the United States District Court for the Southern District of New York alleging that Viacom’s industry standard practice of offering discounts for additional network distribution constituted a “tying” arrangement in violation of federal and New York state antitrust laws. Similar arrangements have been upheld by numerous federal and state courts, including in a federal case in which Cablevision itself advocated for the legality of such arrangements. We believe the lawsuit is without merit. In July 2014, Viacom answered the amended complaint and asserted counterclaims against Cablevision for having fraudulently induced Viacom to renew their affiliate agreement at the end of 2012 on terms which Cablevision intended to challenge in the courts. Cablevision answered the counterclaims in September 2014. The litigation has now entered the discovery phase.

NOTE 7. STOCKHOLDERS’ EQUITY

The components of stockholders’ equity are as follows:

Stockholders’ Equity (in millions)	Quarter Ended December 31, 2014			Quarter Ended December 31, 2013		
	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity	Total Viacom Stockholders’ Equity	Noncontrolling Interests	Total Equity
Beginning Balance	\$3,719	\$ 28	\$3,747	\$5,193	\$ (3)	\$5,190
Net earnings	500	13	513	547	10	557
Other comprehensive income (loss) ⁽¹⁾	(122)	(2)	(124)	25	1	26
Noncontrolling interests	(1)	(14)	(15)	(2)	(11)	(13)
Dividends declared	(136)	—	(136)	(134)	—	(134)
Purchase of treasury stock	(750)	—	(750)	(850)	—	(850)
	142	—	142	23	—	23

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Equity-based
compensation and other

Ending Balance	\$3,352	\$ 25	\$3,377	\$4,802	\$(3)	\$4,799
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(1) The components of other comprehensive income (loss) are net of a tax benefit of \$10 million for the quarter ended December 31, 2014.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8. EARNINGS PER SHARE

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

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

Weighted Average Number of Common Shares Outstanding and Anti-dilutive Common Shares (in millions)	Quarter Ended December 31,	
	2014	2013
Weighted average number of common shares outstanding, basic	410.6	444.9
Dilutive effect of equity awards	5.5	9.1
Weighted average number of common shares outstanding, diluted	416.1	454.0
Anti-dilutive common shares	4.1	—

NOTE 9. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

Supplemental Cash Flow Information (in millions)	Quarter Ended December 31,	
	2014	2013
Cash paid for interest	\$156	\$122
Cash paid for income taxes	\$48	\$124

Accounts Receivable

We had \$458 million and \$482 million of noncurrent trade receivables as of December 31, 2014 and September 30, 2014, respectively. The accounts receivable were primarily in the Filmed Entertainment segment, included within Other assets in our Consolidated Balance Sheets, and principally related to long-term television license arrangements. Such amounts are due in accordance with the underlying terms of the respective agreements and are principally from investment grade companies with which we have historically done business under similar terms, for which credit loss allowances are generally not considered necessary.

Variable Interest Entities

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

Unconsolidated Variable Interest Entities: We have an unconsolidated investment in Viacom 18, a 50% owned joint venture in India with Network 18 Media and Investments Limited that qualifies as a VIE. Our aggregate investment carrying value in Viacom 18 was \$71 million and \$68 million as of December 31, 2014 and September 30, 2014, respectively.

Consolidated Variable Interest Entities: Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$132 million in assets and \$53 million in liabilities as of December 31, 2014, and \$138 million in assets and \$54 million in liabilities as of September 30, 2014. The consolidated VIEs' revenues, expenses and operating income were not significant for all periods presented.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Income Taxes

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

NOTE 10. FAIR VALUE MEASUREMENTS

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

Financial Asset (Liability)	Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(in millions)			