

Viacom Inc.
Form 10-Q
April 30, 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 March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-32686

VIACOM INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

20-3515052

(I.R.S. Employer
Identification Number)

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

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

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

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

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

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

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

Class of Stock

Shares Outstanding

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	as of April 15, 2015
Class A common stock, par value \$0.001 per share	50,373,269
Class B common stock, par value \$0.001 per share	346,592,776

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

VIACOM INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in millions, except per share amounts)	Quarter Ended		Six Months Ended		
	March 31,		March 31,		
	2015	2014	2015	2014	
Revenues	\$3,078	\$3,174	\$6,422	\$6,371	
Expenses:					
Operating	2,056	1,538	3,679	3,012	
Selling, general and administrative	721	712	1,452	1,416	
Depreciation and amortization	57	52	112	111	
Restructuring	206	—	206	—	
Total expenses	3,040	2,302	5,449	4,539	
Operating income	38	872	973	1,832	
Interest expense, net	(166) (152) (326) (301)
Equity in net earnings of investee companies	42	10	75	36	
Other items, net	(12) (3) (30) (3)
Earnings/(loss) before provision for income taxes	(98	) 727	692	1,564
Provision for income taxes	50	(216) (227) (496)
Net earnings/(loss) (Viacom and noncontrolling interests)	(48	) 511	465	1,068
Net earnings attributable to noncontrolling interests	(5) (9) (18) (19)
Net earnings/(loss) attributable to Viacom	\$(53	) \$502	\$447	\$1,049
Basic earnings/(loss) per share attributable to Viacom	\$(0.13	) \$1.15	\$1.10	\$2.38
Diluted earnings/(loss) per share attributable to Viacom	\$(0.13	) \$1.13	\$1.09	\$2.33
Weighted average number of common shares outstanding:					
Basic	402.5	436.1	406.6	440.5	
Diluted	402.5	444.6	411.4	449.3	
Dividends declared per share of Class A and Class B common stock	\$0.33	\$0.30	\$0.66	\$0.60	

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in millions)	Quarter Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net earnings/(loss) (Viacom and noncontrolling interests)	\$(48	) \$511	\$465	\$1,068
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustments	(158	) 7	(262	) 33
Defined benefit pension plans	(1	) —	(21) —
Cash flow hedges	—	1	—	1
Available for sale securities	(1	) —	(1) —
Other comprehensive income/(loss) (Viacom and noncontrolling interests)	(160	) 8	(284	) 34
Comprehensive income/(loss)	(208	) 519	181	1,102
Less: Comprehensive income attributable to noncontrolling interest	1	9	12	20
Comprehensive income/(loss) attributable to Viacom	\$(209) \$510	\$169	\$1,082

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value)	March 31, 2015	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$306	\$1,000
Receivables, net	2,758	3,066
Inventory, net	787	846
Prepaid and other assets	532	340
Total current assets	4,383	5,252
Property and equipment, net	949	1,016
Inventory, net	3,663	3,897
Goodwill	11,429	11,535
Intangibles, net	351	399
Other assets	982	1,018
Total assets	\$21,757	\$23,117
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$359	\$475
Accrued expenses	727	969
Participants' share and residuals	835	993
Program obligations	704	703
Deferred revenue	270	259
Current portion of debt	17	18
Other liabilities	655	518
Total current liabilities	3,567	3,935
Noncurrent portion of debt	13,213	12,751
Participants' share and residuals	274	403
Program obligations	413	459
Deferred tax liabilities, net	369	266
Other liabilities	1,405	1,340
Redeemable noncontrolling interest	194	216
Commitments and contingencies (Note 6)		
Viacom stockholders' equity:		
Class A common stock, par value \$0.001, 375.0 authorized; 50.4 and 50.9 outstanding, respectively	—	—
Class B common stock, par value \$0.001, 5,000.0 authorized; 346.7 and 363.3 outstanding, respectively	—	—
Additional paid-in capital	9,961	9,772
Treasury stock, 398.0 and 377.0 common shares held in treasury, respectively	(20,725)	(19,225)
Retained earnings	13,638	13,465
Accumulated other comprehensive loss	(571)	(293)
Total Viacom stockholders' equity	2,303	3,719
Noncontrolling interests	19	28
Total equity	2,322	3,747
Total liabilities and equity	\$21,757	\$23,117

See accompanying notes to Consolidated Financial Statements

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VIACOM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Six Months Ended	
	March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net earnings (Viacom and noncontrolling interests)	\$465	\$1,068
Reconciling items:		
Depreciation and amortization	112	111
Feature film and program amortization	2,581	1,862
Equity-based compensation	51	63
Equity in net earnings and distributions from investee companies	(71)	(22)
Deferred income taxes	46	(94)
Operating assets and liabilities, net of acquisitions:		
Receivables	329	323
Inventory, program rights and participations	(2,567)	(2,168)
Accounts payable and other current liabilities	(248)	(224)
Other, net	(18)	(106)
Cash provided by operations	680	813
INVESTING ACTIVITIES		
Acquisitions and investments, net	5	13
Capital expenditures	(64)	(49)
Net cash flow used in investing activities	(59)	(36)
FINANCING ACTIVITIES		
Borrowings	990	1,485
Debt repayments	(600)	—
Commercial paper	75	—
Purchase of treasury stock	(1,506)	(1,830)
Dividends paid	(273)	(271)
Excess tax benefits on equity-based compensation awards	39	38
Exercise of stock options	126	75
Other, net	(79)	(103)
Net cash flow used in financing activities	(1,228)	(606)
Effect of exchange rate changes on cash and cash equivalents	(87)	6
Net change in cash and cash equivalents	(694)	177
Cash and cash equivalents at beginning of period	1,000	2,403
Cash and cash equivalents at end of period	\$306	\$2,580

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 the Music & Entertainment Group, the Kids & Family Group and BET Networks, and Filmed Entertainment. The Media Networks segment provides entertainment content and related branded products for consumers in targeted demographics attractive to advertisers, content distributors and retailers. The Filmed Entertainment segment produces, finances, acquires and distributes motion pictures, television programming and other entertainment content under the Paramount Pictures, Paramount Vantage, Paramount Classics, 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 (“FASB”) 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. On April 29, 2015, the FASB issued an exposure draft to defer the effective date by one year. We are currently evaluating the impact of the new standard.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2. INVENTORY

Our total inventory consists of the following:

Inventory (in millions)	March 31, 2015	September 30, 2014
Film inventory:		
Released, net of amortization	\$687	\$664
Completed, not yet released	3	131
In process and other	704	436
Total film inventory, net of amortization	1,394	1,231
Original programming:		
Released, net of amortization	1,122	1,409
In process and other	608	631
Total original programming, net of amortization	1,730	2,040
Acquired program rights, net of amortization	1,227	1,367
Home entertainment inventory	99	105
Total inventory, net	4,450	4,743
Less: current portion	(787) (846
Total inventory-noncurrent, net	\$3,663	\$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)	March 31, 2015	September 30, 2014
Senior Notes and Debentures:		
Senior notes due February 2015, 1.250%	\$—	\$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%	499	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%	594	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%	1,091	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
Commercial paper	75	—
Capital lease and other obligations	150	168
Total debt	13,230	12,769
Less: current portion	(17	) (18
Total noncurrent portion of debt	\$13,213	\$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 \$415 million as of March 31, 2015.

The fair value of our senior notes and debentures was approximately \$14.2 billion as of March 31, 2015. The valuation of our publicly traded debt is based on quoted prices in active markets.

During the quarter, we repaid the \$600 million aggregate principal amount of our 1.250% Senior Notes due in February 2015.

The Senior Notes due in September 2015 and commercial paper outstanding 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 March 31, 2015, 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 March 31, 2015.

NOTE 4. PENSION BENEFITS

During the quarter ended December 31, 2014, 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 March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Interest cost	\$10	\$12	\$22	\$24
Expected return on plan assets	(11	) (12	) (24	) (25
Recognized actuarial loss	2	—	3	—
Loss on pension settlement	—	—	24	—
Net periodic benefit cost/(income)	\$1	\$—	\$25	\$(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)	Six Months Ended March 31,	
	2015	2014
Beginning balance	\$216	\$200
Net earnings	8	11
Distributions	(12	) (11
Translation adjustment	(23) 10
Redemption value adjustment	5	—
Ending Balance	\$194	\$210

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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 \$314 million as of March 31, 2015. The amount of lease commitments varies over time depending on expiration or termination of individual underlying leases, or of the related indemnification obligation, and foreign exchange rates, among other things. We may also have exposure for certain other expenses related to the leases, such as property taxes and common area maintenance. We have recorded a liability of \$192 million with respect to such obligations as of March 31, 2015. We believe our accrual is sufficient to meet any future obligations based on our consideration of available financial information, the lessees’ historical performance in meeting their lease obligations and the underlying economic factors impacting the lessees’ business models.

Legal Matters

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

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 is now in the discovery phase.

NOTE 7. STOCKHOLDERS’ EQUITY

The components of stockholders’ equity are as follows:

Stockholders’ Equity (in millions)	Six Months Ended March 31, 2015			Six Months Ended March 31, 2014		
	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	447	18	465	1,049	19	1,068
Other comprehensive income/(loss) ⁽¹⁾	(278)	(6)	(284)	33	1	34
Noncontrolling interests	(5)	(21)	(26)	—	(20)	(20)
Dividends declared	(269)	—	(269)	(268)	—	(268)
Purchase of treasury stock	(1,500)	—	(1,500)	(1,700)	—	(1,700)
Equity-based compensation and other	189	—	189	117	—	117

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Ending Balance	\$2,303	\$ 19	\$2,322	\$4,424	\$(3) \$4,421
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(1) The components of other comprehensive income/(loss) are net of a tax benefit of \$11 million and \$1 million for the six months ended March 31, 2015 and March 31, 2014, respectively.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8. RESTRUCTURING AND PROGRAMMING CHARGES

Following a company-wide review across our worldwide Media Networks, Filmed Entertainment operations and corporate functions, we are implementing significant strategic and operational improvements. This includes reorganizing three of our operating segments (Music, Entertainment and Nickelodeon) into two new segments (Music & Entertainment and Kids & Family). The new structure realigns sales, marketing, creative and support functions, increases efficiencies in program and product development, enhances opportunities to share expertise, and promotes greater cross-marketing and cross channel programming activity. We are also reallocating resources to expand our capabilities in critical business areas including data analysis, technology development and consumer insights, reflecting the rapidly changing media marketplace, shifting consumer behavior and evolving measurement practices. In connection with the strategic realignment, we recognized a pre-tax charge of \$784 million in the quarter ending March 31, 2015, reflecting \$578 million of programming charges, of which \$432 million reflect write-downs, and a \$206 million restructuring charge associated with workforce reductions. The programming charges are included within Operating expenses in the Consolidated Statement of Earnings.

Media Networks recognized programming charges of \$411 million for the write-down of underperforming programming, including the abandonment of select acquired titles, and \$123 million of accelerated amortization of programming expenses associated with a change in our ultimate revenue projections for certain original programming genres that have been impacted by changing media consumption habits. Filmed Entertainment recognized charges of \$21 million for the write-down of certain films not yet released and \$23 million related to the abandonment of development projects. The strategic realignment is largely complete and we anticipate that a majority of the severance will be paid by March 31, 2016.

The following table presents the 2015 restructuring and programming charges by segment:

2015 Restructuring and Programming Charges	(in	Media	Filmed	Corporate	Total
millions)		Networks	Entertainment		
Restructuring charge		\$137	\$57	\$12	\$206
Programming charges		534	44	—	578
Total		\$671	\$101	\$12	\$784

NOTE 9. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per common share is computed by dividing Net earnings/(loss) attributable to Viacom by the weighted average number of common shares outstanding during the period. The determination of diluted earnings/(loss) 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/(loss) per common share.

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

Weighted Average Number of Common Shares Outstanding and Anti-dilutive Common Shares (in millions)	Quarter Ended		Six Months Ended	
	March 31, 2015	2014	March 31, 2015	2014
Weighted average number of common shares outstanding, basic	402.5	436.1	406.6	440.5
Dilutive effect of equity awards	—	8.5	4.8	8.8
Weighted average number of common shares outstanding, diluted	402.5	444.6	411.4	449.3

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Anti-dilutive common shares	8.6	0.1	4.3	0.1
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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 10. SUPPLEMENTAL CASH FLOW AND OTHER INFORMATION

Our supplemental cash flow information is as follows:

Supplemental Cash Flow Information (in millions)	Six Months Ended March 31,	
	2015	2014
Cash paid for interest	\$305	\$291
Cash paid for income taxes	\$211	\$506

Cash paid for income taxes in the six months ended March 31, 2015 reflects the benefit from the retroactive reenactment of legislation allowing for accelerated tax deductions on certain qualified film and television productions.

Accounts Receivable

We had \$406 million and \$482 million of noncurrent trade receivables as of March 31, 2015 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 \$74 million and \$68 million as of March 31, 2015 and September 30, 2014, respectively.

Consolidated Variable Interest Entities: Our Consolidated Balance Sheets include amounts related to consolidated VIEs totaling \$125 million in assets and \$53 million in liabilities as of March 31, 2015, 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.

Income Taxes

Our effective tax rate was 51.0% in the quarter ended March 31, 2015, which included the restructuring and programming charges that contributed 19.8 percentage points to the effective tax rate. Our effective tax rate was 32.8% in the six months ended March 31, 2015, which included the restructuring and programming charges, the pension settlement loss and other discrete tax expense that, when taken together, contributed 1 percentage point to the effective tax rate. This discrete tax expense was principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Our effective tax rate was 29.7% in the quarter and 31.7% in the six months ended March 31, 2014, which included discrete tax benefits that reduced the effective tax rate by 2.8 and 1.3 percentage points, respectively. This discrete tax benefit was principally related to the recognition of capital loss carryforward benefits.

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VIACOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 11. FAIR VALUE MEASUREMENTS

The following table summarizes our financial assets and liabilities measured and recorded at fair value on a recurring basis as of March 31, 2015 and September 30, 2014:

Financial Asset/(Liability)	Total	Quoted Prices		
		In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
(in millions)	Total	Level 1	Level 2	Level 3
March 31, 2015				
Marketable securities	\$ 115	\$ 115	\$—	\$—
Derivatives	(12	) —	(12) —
Total	\$ 103	\$ 115	\$(12) \$—
September 30, 2014				
Marketable securities	\$ 107	\$ 107	\$—	\$—
Derivatives	(8	) —	(8) —
Total	\$ 99	\$ 107	\$(8) \$—

The fair value for marketable securities is determined utilizing a market approach based on quoted market prices in active markets at period end and the fair value for derivatives is determined utilizing a market-based approach. The notional value of all foreign exchange contracts was \$924 million and \$628 million as of March 31, 2015 and September 30, 2014, respectively. At March 31, 2015, \$629 million related to our foreign currency balances, \$151 million related to anticipated investing cash flows and \$144 million related to future production and programming costs. At September 30, 2014, \$390 million related to our foreign currency balances, \$154 million related to anticipated investing cash flows and \$84 million related to future production costs.