

Viacom Inc.  
Form 424B3  
September 21, 2006  
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Filed Pursuant to Rule 424(b)(3)  
Registration No.: 333-136756

VIACOM INC.

#### OFFER TO EXCHANGE

Unregistered Floating Rate Senior Notes due 2009  
(\$750,000,000 aggregate principal amount issued June 16, 2006)  
for  
Floating Rate Senior Notes due 2009  
that have been registered under the Securities Act of 1933

and

Unregistered 5.75% Senior Notes due 2011  
(\$1,500,000,000 aggregate principal amount issued April 12, 2006)  
for  
5.75% Senior Notes due 2011  
that have been registered under the Securities Act of 1933

and

Unregistered 6.25% Senior Notes due 2016  
(\$1,500,000,000 aggregate principal amount issued April 12, 2006)  
for  
6.25% Senior Notes due 2016  
that have been registered under the Securities Act of 1933

and

Unregistered 6.875% Senior Debentures due 2036  
(\$1,750,000,000 aggregate principal amount issued April 12, 2006)  
for  
6.875% Senior Debentures due 2036  
that have been registered under the Securities Act of 1933

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#### TERMS OF EXCHANGE OFFER

- The exchange offer will expire at 5:00 p.m., New York City time, on October 18, 2006, unless we extend the offer.
- Tenders of outstanding unregistered senior notes and debentures may be withdrawn at any time before 5:00 p.m. on the date of expiration of the exchange offer.
- All outstanding unregistered senior notes and debentures that are validly tendered and not validly withdrawn will be exchanged.

- The terms of the exchange senior notes and debentures to be issued are substantially similar to the unregistered senior notes and debentures, except for being registered under the Securities Act of 1933 (the “Securities Act”) and not having any transfer restrictions, registration rights or rights to additional interest.
- The exchange of senior notes and debentures will not be a taxable exchange for U.S. federal income tax purposes.
- We will not receive any proceeds from the exchange offer.

Please see “Risk Factors” beginning on page 18 for a discussion of certain factors you should consider in connection with the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the senior securities to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 20, 2006

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since then. We are not making an offer of the senior notes and debentures in any jurisdiction where the offer is not permitted.

References to “Viacom,” “we,” “us” and “our” in this prospectus are references to Viacom Inc., a Delaware corporation, and consolidated subsidiaries, unless the context otherwise requires. References to “\$” and “dollars” are to United States dollars.

Whenever we refer in this prospectus to the floating rate senior notes due 2009 issued on June 16, 2006, the 5.75% senior notes due 2011 issued on April 12, 2006, the 6.25% senior notes due 2016 issued on April 12, 2006 or the 6.875% senior debentures due 2036 issued on April 12, 2006, we will refer to them as the “unregistered 2009 senior notes,” the “unregistered 2011 senior notes,” the “unregistered 2016 senior notes” or the “unregistered 2036 senior debentures,” respectively, and collectively as the “unregistered senior notes and debentures.” Whenever we refer in this prospectus to the registered floating rate senior notes due 2009, the registered 5.75% senior notes due 2011, the registered 6.25% senior notes due 2016 or the registered 6.875% senior debentures due 2036, we will refer to them as the “exchange 2009 senior notes,” the “exchange 2011 senior notes,” the “exchange 2016 senior notes” or the “exchange 2036 senior debentures,” respectively, and collectively as the “exchange senior notes and debentures.” The unregistered 2009 senior notes and the exchange 2009 senior notes are collectively referred to as the “2009 senior notes,” the unregistered 2011 senior notes and the exchange 2011 senior notes are collectively referred to as the “2011 senior notes,” the unregistered 2016 senior notes and the exchange 2016 senior notes are collectively referred to as the “2016 senior notes,” and the unregistered 2036 senior debentures and the exchange 2036 senior

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debentures are collectively referred to as the “2036 senior debentures.” The unregistered senior notes and debentures and the exchange senior notes and debentures are collectively referred to as the “senior notes and debentures.”

Each holder of an unregistered senior note or debenture wishing to accept the exchange offer must deliver the unregistered senior notes or debentures to be exchanged, together with the letter of transmittal that accompanies this prospectus and any other required documentation, to the exchange agent identified in this prospectus. Alternatively, you may effect a tender of unregistered senior notes and debentures by book-entry transfer into the exchange agent’s account at Euroclear Bank S.A./N.A., as operator of the Euroclear System (“Euroclear”), Clearstream Banking, société anonyme, Luxembourg (“Clearstream Luxembourg”) or The Depository Trust Company (“DTC”). All deliveries are at the risk of the holder. You can find detailed instructions concerning delivery in the section called “The Exchange Offer” in this prospectus and in the accompanying letter of transmittal.

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If you are a broker-dealer that receives exchange senior notes and debentures for your own account you must acknowledge that you will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange senior notes and debentures. The letter of transmittal accompanying this prospectus states that by so acknowledging and by delivering a prospectus, you will not be deemed to admit that you are an “underwriter”

within the meaning of the Securities Act. You may use this prospectus, as we may amend or supplement it in the future, for your resales of exchange senior notes and debentures. We will make this prospectus available to any broker-dealer for use in connection with any such resale for a period of 180 days after the date of expiration of this exchange offer or such shorter period which will terminate when the broker-dealers have completed all resales subject to applicable prospectus delivery requirements.

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### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “will” or other similar words. Similarly, statements that describe our objectives, plans or goals are or may be forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. More information about risks, uncertainties and other factors is included in Viacom’s filings with the SEC including, but not limited to, Viacom’s Form 10-K for the year ended December 31, 2005, Viacom’s Form 10-Q for the quarter ended March 31, 2006 and Viacom’s Form 10-Q for the quarter ended June 30, 2006. There may be additional risks, uncertainties and factors that we do not currently view as material or that are not necessarily known. We cannot make any assurance that projected results or events will be achieved. The forward-looking statements included in this prospectus are only made as of the date of this prospectus and we do not have any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances. The risk factors in the section entitled “Risk Factors” beginning on page 18, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements.

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### SUMMARY

#### The Company

#### Separation from the Former Viacom Inc.

On December 31, 2005, we became a stand-alone public entity by separating from the former Viacom Inc. (“Former Viacom”). Prior to the separation, we were a wholly-owned subsidiary of Former Viacom. The separation was effected

through a merger of Former Viacom and one of its wholly-owned subsidiaries, pursuant to which Former Viacom continued as the surviving entity and was renamed CBS Corporation and we were renamed Viacom Inc. In connection with the merger and the separation, each share of Former Viacom Class A common stock was converted into the right to receive 0.5 of a share of Viacom Class A common stock and 0.5 of a share of CBS Corporation Class A common stock. Similarly, each share of Former Viacom Class B common stock was converted into the right to receive 0.5 of a share of Viacom Class B common stock and 0.5 of a share of CBS Corporation Class B common stock. Holders of Viacom Class A and Class B common stock received cash in lieu of fractional shares.

In accordance with the terms of the Separation Agreement between CBS Corporation and Viacom, on December 29, 2005, we paid a preliminary special dividend of \$5.4 billion to CBS Corporation, subject to certain adjustments. On March 14, 2006, CBS Corporation provided an initial statement that the dividend should be increased by a net amount of approximately \$460 million. On April 28, 2006, we served CBS Corporation with a notice of disagreement. Based on an assessment of the amount and underlying components of the proposed additional dividend payment, we recorded a net amount of \$170.2 million at March 31, 2006, which was paid to CBS Corporation on May 5, 2006. Under the Separation Agreement, after an opportunity for the parties to negotiate resolution of differences, any disputed amounts are subject to arbitration. Any further adjustment to the special dividend will be reflected as an adjustment to additional paid-in capital.

## Overview

We are a leading worldwide multiplatform, pure play content company with operations in the following segments:

**Cable Networks:** The Cable Networks segment consists of the businesses of MTV Networks, including MTV: Music Television® (“MTV”), MTV2®, Nickelodeon®, Nick at Nite®, Noggin®, The N®, Nicktoons Network™, Turbo Nick™, VH1®, TV Land®, Spike TV®, CMT®: Country Music Television™, Logo™, Comedy Central®, Comedy Central’s MotherLoad™, MTV Desi™, MTV Chi™, MTV Espana™, mtvU Uber™, MTV Hits™, MTV Jams™, TEMPO™, MTV Overdrive™, MHD™, VH1 Classic™, VHUno™, VH1 Soul™, VH1 Country™, VH1’s Vspot™, Game One™, VIVA™, TMN™, Paramount Comedy™, Neopets™, GameTrailers.com™ and **Film** the businesses of BET Networks, which include BET® (Black Entertainment Television) and BET J™; and other program services, including online programming services such as websites, broadband channels and wireless applications.

**Entertainment:** The Entertainment segment includes Paramount Pictures®, which produces and distributes feature motion pictures, Famous Music®, which engages in the music publishing business, and interests in 19 movie theaters.

Our revenues from the Cable Networks segment accounted for 64% of our consolidated revenues for the six months ended June 30, 2006 and for 70% of our consolidated revenues for 2005. Our revenues from the Entertainment segment accounted for 37% of our consolidated revenues for the six months ended June 30, 2006 and for 31% of our consolidated revenues for 2005. Elimination of intercompany revenues accounted for (1)% of our consolidated revenues for the six months ended June 30, 2006 and for (1)% of our consolidated revenues for 2005. Revenues from the Cable Networks

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segment are generated primarily from advertising sales, affiliate fees, home entertainment sales and licensing and merchandising of branded products. Revenues from the Entertainment segment are generated primarily from the licensing and sale of feature film rights in various media and territories.

Recent acquisitions and dispositions. On August 9, 2006, we agreed to acquire Atom Entertainment, Inc., a portfolio of four online destinations for casual games, short films and animation, for cash consideration of approximately \$200 million. The acquisition is subject to customary closing conditions and is expected to close in the third quarter. On June 1, 2006, we acquired an additional ten percent interest in Nickelodeon UK Limited (“Nick UK”) for \$8.9 million. Previously, Nick UK was a fifty-fifty joint venture with BSkyB. With the additional interest, we obtained control of Nick UK and began consolidating its operations as of June 1, 2006. On May 9, 2006, we completed the acquisition of Xfire, Inc, a leading gaming and social networking service, for initial cash consideration of approximately \$102 million. An additional \$8 million is expected to be paid out over four years based upon continued service of the employees. On January 31, 2006, we completed our acquisition of DreamWorks L.L.C. (“DreamWorks”), a leading producer of live-action motion pictures, television programming and home entertainment products, for approximately \$1.53 billion, net of cash acquired. We also entered into exclusive seven-year agreements for worldwide distribution rights and fulfillment services to films produced by DreamWorks Animation SKG, Inc. Among the assets acquired with the purchase of DreamWorks was a live-action film library consisting of 59 films released through September 16, 2005. On May 5, 2006, we sold a fifty-one percent controlling interest in the entity that owns the library to Soros Strategic Partners LP and Dune Entertainment II LLC, an affiliate of Dune Capital Management LP, for net proceeds of \$675.3 million. We retained a minority interest in the entity that owns the library. In connection with the sale of the live-action film library, Soros entered into exclusive five-year agreements with Paramount Pictures and its international affiliates for distribution and fulfillment services of the live-action library by Paramount Pictures. In the event that Soros and Dune continue to control the entity that owns the film library after the fifth year, the distribution agreement with Paramount Pictures will automatically renew.

We compete with many different entities and media in various markets worldwide. Our primary competitors in the cable and entertainment businesses include Time Warner Inc., News Corporation, The Walt Disney Company, NBC Universal Inc., The E.W. Scripps Company and Discovery Holding Company.

We were organized as a Delaware corporation in 2005 and our principal offices are located at 1515 Broadway, New York, New York 10036. Our telephone number is (212) 258-6000 and our website address is [www.viacom.com](http://www.viacom.com).

#### Recent Developments

On September 5, 2006, we announced that our Board of Directors elected Philippe P. Dauman as our President and Chief Executive Officer, effective September 5, 2006. Mr. Dauman succeeds Thomas E. Freston, who resigned his positions with Viacom, including as a member of the Board. As a result of his separation from employment, Mr. Freston's payments are currently expected to be generally consistent with the terms of his employment agreement, including, without limitation, the expense and payment of approximately \$60 million in cash and the recognition of approximately \$10 million in previously unrecognized compensation expense related to vesting of previously granted stock based compensation. Our Board of Directors also elected Thomas E. Dooley as Viacom's Senior Executive Vice President and Chief Administrative Officer. Messrs. Dauman and Dooley are currently members of our Board of Directors and will continue as directors. For more information, see “Management” beginning on page 76.

#### Competitive Strengths

We believe we possess a number of strengths that enable us to compete successfully:

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One of the largest collections of cable programming assets in the world, with leading global brands that are attractive advertiser vehicles. We have one of the largest collections of cable programming assets in the world. Our leading program services reach 179 territories through more than 120 worldwide cable networks presented in 28 different languages and reach over 480 million subscriber households worldwide. In the United States, our leading networks program approximately 1,720 hours per week and, according to Nielsen Media Research®, reached approximately 150 million television viewers each week in the period from February 2006 to June 2006. Many of our brands, such as MTV, Nickelodeon and VH1, are known worldwide. MTV is one of the most widely distributed television brands and is regularly cited, most recently in 2006, as The World's Most Valuable Media Brand by Interbrand Corp., an international brand consultancy. Nickelodeon, which as of June 2006 was available in approximately 300 million television households worldwide as a full channel or a branded program block, is the world's most widely distributed children's television brand and has been the top-rated cable network for children in the United States for the past 11 years.

MTV Networks and BET Networks develop brands that appeal to a wide range of targeted niche audiences, which also represent demographics sought after by advertisers. In the United States, MTV Networks and BET Networks delivered the most multichannel viewers in the 12 to 34-year-old demographic during 2006, through July 31, 2006, according to Nielsen Media Research. MTV: Music Television has been the top advertising-supported 24-hour basic cable network among 12- to 24-year-olds for 37 consecutive quarters, and Nickelodeon accounted for approximately 53% of all viewing of advertising-supported children's television programming in the United States by children ages two to eleven during the 2005-2006 broadcast season from September 2005 through June 2006. Our broad distribution to specialized audiences and our focus on forging strong connections with our audiences make our networks an attractive vehicle for advertisers. Our strong in-house research teams focus on identifying emerging behaviors and trends among core audiences, which we believe is a key competitive advantage. These factors, combined with our integrated presence on a variety of digital and broadcast platforms, allow us to provide an efficient and reliable vehicle for advertisers to reach consumers.

A long-standing international presence with a global footprint. We have a significant and growing presence worldwide. Established advertising, distribution and programming relationships in these markets, together with our infrastructure, provide a strong platform for new channel launches and complementary acquisitions. We have created over 120 worldwide cable networks that are seen in 179 territories. Since January 2006, we have launched more than seven channels and branded program blocks, including MTV in Canada, MTV base Africa branded program blocks in Uganda, Nick Jr2 in the United Kingdom, Nick at Nite branded program blocks in Latin America, Nickelodeon in New Zealand and Nickelodeon branded program blocks in Malaysia and the Philippines. Our global footprint also allows us to incubate technical and programming expertise in emerging markets where certain new media products have been deployed more extensively than in the U.S. markets. For example, we have launched programming applications for advanced mobile services in Japan and Europe, which we believe better prepares us to offer these services as the U.S. market develops.

A strong connection with audiences, a proven ability to create global hits and a valuable entertainment library. Our focus on understanding our audiences through research enhances our ability to develop innovative and original programming. Our programming is broadly diversified, with popular shows and films that appeal to a variety of audiences, and with new shows and interactive programming continually being developed and debuted throughout the year. Our television programming includes popular shows and enduring characters, including The Real World, SpongeBob SquarePants, South Park, Dora the Explorer, The Daily Show with Jon Stewart, Laguna Beach, Blue's Clues and Rugrats. Our programming also includes events, such as the annual MTV Video Music Awards, Nickelodeon's Kids' Choice Awards, VH1 Save the Music, CMT Music Awards, MTV Movie Awards, CMT's Miss America Pageant, Spike TV Video Game Awards, Comedy Central Roast and the BET Awards. We have significant in-house creative capabilities and have helped launch the careers of some of the entertainment industry's leading entertainers, directors and producers. We believe that

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our strong creative track record, our willingness to experiment with new shows and concepts, the strength and breadth of our distribution infrastructure, our solid financial foundation and our well-known media brands help attract and retain creative talent. Our motion picture library includes rights to some of the best loved and most successful films, including Titanic, The Godfather trilogy, the Indiana Jones films, Forrest Gump and Braveheart. Following our sale of most of the DreamWorks live-action library, we retain distribution rights to these films for at least a five-year period, including Gladiator, American Beauty, War of the Worlds and Saving Private Ryan.

As a result of our creative output in television and in motion pictures, we have assembled a library with significant future revenue potential. Our library consists of over 1,000 motion picture titles, approximately 18,000 hours of television programming and varying rights for approximately 2,500 additional motion picture titles. Our library also contains titles that have not yet been fully exploited in the DVD or other digital media formats.

A secure distribution platform and a strong track record of obtaining new carriage. Our cable programming services are made available to consumers in the United States and internationally through affiliation agreements with distributors that generally are long-term, have staggered expiration dates and provide for built-in rate increases and protected distribution. Eight of our cable programming services are distributed in over 75 million homes in the United States, and four of our other services currently reach more than 35 million homes in the United States. The majority of our networks are available on broadly distributed programming tiers. We believe that our strong relationships with our affiliates, the quality and popularity of our networks and our ability to create programming that is appealing to viewers have enabled us to renew existing affiliation agreements, to obtain new distribution for existing networks and to launch new networks.

An established and growing multiplatform presence. We program and operate over 100 websites, including broadband sites, which collectively attracted over 30 million unique visitors in July of 2006, giving us the second most-visited entertainment website portfolio on the Internet during that period. We have a total of 28 broadband channels (eight in the U.S. and 20 internationally) in live deployment. Our complete line-up of broadband channels – including MTV Overdrive, mtvU's Uber, VH1's VSpot, Comedy Central's Motherload, TurboNick, CMT's Loaded, Revolution in Latin America and MTV BoomBox in Korea – is expected to stream more than 1 billion videos by the end of 2006. We continue to launch integrated broadband channels and content, online communities, wireless applications and video-on-demand offerings across our properties in many countries around the world. We are building wireless services for the majority of our core brands and are partnering with carriers such as Virgin Mobile USA, Verizon Wireless, Sprint, China Mobile, and DoCoMo in Japan to deliver ringtones, text updates and video programming. On August 9, 2006, MTV Networks agreed to acquire Atom Entertainment, Inc., a portfolio of several online destinations for casual games, short films and animation. Also, in the second quarter of 2006, MTV Networks acquired Xfire, a leading online gaming communication and community platform. In the fourth quarter of 2005, MTV Networks acquired IFILM and GameTrailers.com, each of which provides entertainment content via websites. We also acquired Neopets, the owner and operator of Neopets.com, a leading online destination and community for kids and young adults. MTV Networks has various rights in various territories to create and distribute content for mobile devices. For example, in June 2005, we entered into a global licensing agreement with Warner Music Group to create and distribute short form video content for mobile devices. In May 2006, we unveiled a beta version of MTV Networks' new digital music service, Urge™, which offers rich editorial, hand-crafted programming and innovative tools to help consumers connect with their favorite artists and discover new ones. Also, MTV Networks' vast array of popular music, comedy and kids programming from its MTV, MTV2, Comedy Central and Nickelodeon brands is now available for download via Apple's iTunes Music Store and AOL's new video service.



An attractive financial profile. In the six months ended June 30, 2006, we derived 37% of our revenues from advertising, 34% from feature film, 19% from affiliate fees, and 10% from ancillary revenues. In 2005, we derived 41% of our revenues from advertising, 30% from feature film, 19% from affiliate fees, and 10% from ancillary revenues. We have a large worldwide consumer products

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licensing business. Basic cable programming services receive revenue from both advertising and affiliate fees, which increases the predictability of these revenues. Further, many of our services, particularly our cable programming services, develop programming through in-house capabilities, resulting in lower overall production costs.

An experienced management team with a proven creative and financial track record. Our operations are led by a financially-disciplined management team that has the expertise and the vision to develop and successfully exploit its programming and other content. Our senior management has broad media experience and the senior management of our businesses consist of leaders in the media and entertainment industry, all of whom have established track records of success.

## Business Strategy

Our mission is to be the leading global, consumer-focused, branded entertainment company, with the most respected, most successful and best-in-class brands that live across television, motion pictures and digital media platforms. Our success is linked to our operating principles, which set us apart from other companies. First, we are focused on consumers: we believe that if we can connect with our key consumers, then everything else in our business will follow naturally. Second, we have a brand-centric philosophy; in a fragmented media market, we believe that strong brands are increasingly the most reliable navigation tools for the consumer. We continuously evolve and revitalize our brands to strengthen their audience connection and competitive position. Third, we foster a creative culture and seek creative excellence. Our success in developing original content, from MTV Networks to BET Networks to Paramount Pictures, is a result of an institutional commitment to creativity. Finally, we also bring a global perspective to everything we do. We believe that we can deliver superior returns to stockholders by capitalizing on these strengths and deepening our relationships with advertisers, distribution affiliates, creative talent and licensees.

More specifically, we plan to:

Enhance our position as a leading global entertainment content company, with prominent and respected brands in focused demographics. Our brand-centric, multiplatform strategy and global footprint give us access to the highest growth areas of the advertising sector. Not only do we have a portfolio of brands that consumers demand, but we also have long-term deals with distributors that include built-in annual rate increases. We intend to continue investing in programming and new and existing brands to serve and grow our audiences, and expand our distribution and advertising revenue streams. In particular, we expect to target new demographic and interest groups and continue the development of existing services in order to retain and expand our audiences and the value of our brands. These initiatives will also continue to benefit from our core consumer research and creative strengths.

Enlarge our established global footprint. Our global footprint continues to expand. We were the first media company to reach the 100 channel milestone when we launched our first channel in Africa early in 2005. We believe our established position as a multichannel network operator in many regions of the world provides us with significant growth opportunities by acquiring other networks, broadening our platforms, and growing our consumer products

business. We expect to use our knowledge and experience in local markets around the world and our worldwide scale to develop and acquire new programming services. We also expect to strengthen our international position by building our own organizations to distribute theatrical and television rights to motion pictures in important foreign markets and by strengthening distribution of home entertainment products internationally.

Expand our growing multiplatform business and monetize the growth trend in digital media. Our digital strategy mirrors our targeted demographic approach to cable and allows us to offer deeper and more engaging experiences around our areas of expertise and our target audiences. We believe media fragmentation plays to our strengths, and our intent is to take advantage of emerging technological and consumer trends by extending our brands and distributing our content into new forms of integrated digital distribution, such as broadband, wireless, online community,

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video-on-demand, high-definition programming and other businesses. We aim to achieve this through a combination of organic growth, investment in our existing and complementary businesses, strategic relationships, and focused acquisitions that fit with our current brands and core competencies. We believe our connection with our audiences, our marketing expertise and our ability to integrate new digital offerings and experiences on multiple platforms will support this expansion, which we expect to generate both increased revenue growth and stronger connections with our existing viewers. Our key television viewers are kids, teens and young adults, who are the early adopters and the heavy users and drivers of new media growth, and that is where we will continue to focus.

Successfully execute the turnaround of Paramount Pictures. We believe we have a significant opportunity to turn around Paramount Pictures and, with the acquisition of DreamWorks, have begun taking significant steps to do so. With a new management team in place at Paramount Pictures and key talent at DreamWorks, we intend to pursue projects more closely aligned with the tastes of target movie-going audiences and to take advantage of our significant marketing and creative capabilities. Our movies will benefit from the brand association demographics and marketing power of our over 120 worldwide cable networks. In addition, these networks provide access to up-and-coming talent as well as valuable consumer knowledge. Paramount Pictures intends to release films not only under the Paramount Pictures label and its specialty film arm (which is comprised of Paramount Vantage and Paramount Classics) but also under the DreamWorks label, and MTV, Nickelodeon and BET brands. We also plan to strengthen and upgrade our worldwide home entertainment operations, enhance our revenue opportunities by retaining a greater proportion of international rights for theatrically released films and begin the self-distribution of films theatrically in certain key international markets.

Build on our reputation as a great place to work. We have created and are committed to maintaining a diverse culture that attracts the best people, embraces original ideas, adapts quickly, promotes integrity, creativity and innovation, and values fun. We believe this diverse and creative culture will enable us to develop and to market equally diverse, creative and valuable television, motion picture and new media programming and will give us a significant strategic advantage, in the United States and around the world.

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### Summary of the Exchange Offer

On June 16, 2006, we issued \$750 million aggregate principal amount of unregistered floating rate senior notes due 2009. On April 12, 2006, we issued \$1.5 billion aggregate principal amount of unregistered 5.75% senior notes due 2011, \$1.5 billion aggregate principal amount of unregistered 6.25% senior notes due 2016 and \$1.75 billion aggregate principal amount of unregistered 6.875% senior debentures due 2036. On each of June 16, 2006 and April 12, 2006, we and the initial purchasers of the unregistered senior notes and debentures entered into registration rights agreements in connection with such debt offerings in which we agreed that you, as a holder of unregistered senior notes and debentures, would be entitled to exchange your unregistered senior notes and debentures for exchange senior notes and debentures registered under the Securities Act but otherwise having substantially identical terms to the respective unregistered senior notes and debentures. This exchange offer is intended to satisfy these rights. After the exchange offer is completed, you will no longer be entitled to any registration rights with respect to your senior notes and debentures. The exchange senior notes and debentures will be our obligations and will be entitled to the benefits of the base indenture and supplemental indentures relating to the unregistered senior notes and debentures. The form and terms of the exchange senior notes and debentures are identical in all material respects to the form and terms of the respective unregistered senior notes and debentures, except:

- the exchange senior notes and debentures will have been registered under the Securities Act, and therefore will contain no restrictive legends;
- the exchange senior notes and debentures will not have registration rights; and
- the exchange senior notes and debentures will not have rights to additional interest conditioned upon a registration default.

For additional information on the terms of the exchange offer, see “The Exchange Offer.”

### The Exchange Offer

We are offering to exchange \$1,000 principal amount of:

- floating rate senior notes due 2009 which have been registered under the Securities Act of 1933 for each \$1,000 principal amount of our outstanding unregistered 2009 senior notes that were issued on June 16, 2006. As of the date of this prospectus, \$750 million in aggregate principal amount of our unregistered 2009 senior notes are outstanding;
- 5.75% senior notes due 2011 which have been registered under the Securities Act of 1933 for each \$1,000 principal amount of our outstanding unregistered 2011 senior notes that were issued on April 12, 2006. As of the date of this prospectus, \$1.5 billion in aggregate principal amount of our unregistered 2011 senior notes are outstanding;
- 6.25% senior notes due 2016 which have been registered under the Securities Act of 1933 for each \$1,000 principal amount of our outstanding unregistered 2016 senior notes that were issued on April 12, 2006. As of the date of this prospectus, \$1.5 billion in aggregate principal amount of our unregistered 2016 senior notes are outstanding; and
- 6.875% senior debentures due 2036 which have been registered under the Securities Act of 1933 for each

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	<p>\$1,000 principal amount of our outstanding unregistered 2036 senior debentures that were issued on April 12, 2006. As of the date of this prospectus, \$1.75 billion in aggregate principal amount of our unregistered 2036 senior debentures are outstanding.</p>
Expiration of Exchange Offer	<p>The exchange offer will expire at 5:00 p.m., New York City time, on October 18, 2006, unless we decide to extend the expiration date.</p>
Conditions of the Exchange Offer	<p>We will not be required to accept for exchange any unregistered senior notes or debentures, and we may amend or terminate the exchange offer if any of the following conditions or events occurs:</p> <ul style="list-style-type: none"> <li>• the exchange offer, or the making of any exchange by a holder, violates applicable law or any applicable interpretation of the staff of the SEC;</li> <li>• any action or proceeding shall have been instituted or threatened with respect to the exchange offer which, in our judgment, would impair our ability to proceed with the exchange offer; and</li> <li>• any law, rule or regulation or applicable interpretation of the staff of the SEC has been issued or promulgated which, in our good faith determination, does not permit us to effect the exchange offer.</li> </ul> <p>We will give oral or written notice of any non-acceptance, amendment or termination to the registered holders of the unregistered senior notes and debentures as promptly as practicable. We reserve the right to waive any conditions of the exchange offer.</p>
Resale of Exchange Senior Notes and Debentures	<p>Based on interpretative letters of the SEC staff to third parties unrelated to us, we believe that you can resell and transfer the exchange senior notes and debentures you receive pursuant to this exchange offer, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:</p> <ul style="list-style-type: none"> <li>• any exchange senior notes and debentures to be received by you will be acquired in the ordinary course of your business;</li> <li>• you are not engaged in, do not intend to engage in and have no arrangement or understanding with any person to participate in the distribution of the unregistered senior notes or debentures or exchange senior notes or debentures;</li> <li>• you are not an “affiliate” (as defined in Rule 405 under</li> </ul>

the Securities Act) of Viacom or, if you are such

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an affiliate, you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable;

- if you are a broker-dealer, you have not entered into any arrangement or understanding with Viacom or any “affiliate” of Viacom (within the meaning of Rule 405 under the Securities Act) to distribute the exchange senior notes or debentures;
- if you are a broker-dealer, you will receive exchange senior notes and debentures for your own account in exchange for unregistered senior notes and debentures that were acquired as a result of market-making activities or other trading activities and that you will deliver a prospectus in connection with any resale of such exchange senior notes and debentures; and
- you are not acting on behalf of any person or entity that could not truthfully make these representations.

If you wish to accept the exchange offer, you must represent to us that these conditions have been met.

If our belief is inaccurate and you transfer any exchange senior notes or debentures without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration under the Securities Act, you may incur liability under the Securities Act. We do not assume or indemnify you against such liability, but we do not believe that any such liability should exist.

Accrued Interest on the Exchange Senior Notes and Debentures and Unregistered Senior Notes and Debentures

The exchange senior notes and debentures will accrue interest from the date interest was last paid on the relevant series of unregistered senior notes and debentures. If no interest was paid on your unregistered senior notes and debentures, your exchange senior notes and debentures will accrue interest from and including June 16, 2006, in the case of the exchange 2009 senior notes, or from and including April 12, 2006, in the case of the exchange 2011 senior notes, the exchange 2016 senior notes and the exchange 2036 senior debentures. We will pay interest on the exchange 2009 senior notes quarterly on March 16, June 16, September 16 and December 16 of each year. We will pay interest on the exchange 2011 senior notes, the exchange 2016 senior notes and the exchange 2036 senior debentures semi-annually on April 30 and October 30 of each year.

Holders of unregistered senior notes and debentures that are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest

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accrued from the date of the last interest payment date that was made in respect of the relevant series of unregistered senior notes and debentures (or, if no interest was paid, from and including June 16, 2006, in the case of the unregistered 2009 senior notes, or from and including April 12, 2006, in the case of the unregistered 2011 senior notes, the unregistered 2016 senior notes and the unregistered 2036 senior debentures) until the date of the issuance of the exchange senior notes and debentures. Consequently, holders of exchange senior notes and debentures will receive the same interest payments that they would have received had they not accepted the exchange offer.

Procedures for Tendering Unregistered Senior Notes and Debentures

If you wish to participate in the exchange offer, you must transmit a properly completed and signed letter of transmittal, and all other documents required by the letter of transmittal, to the exchange agent at the address set forth in the letter of transmittal. These materials must be received by the exchange agent before 5:00 p.m., New York City time, on October 18, 2006, the expiration date of the exchange offer. You must also provide:

- a confirmation of any book-entry transfer of unregistered senior notes and debentures tendered electronically into the exchange agent's account with DTC, Euroclear or Clearstream Luxembourg. You must comply with DTC's, Euroclear's or Clearstream Luxembourg's respective standard operating procedures for electronic tenders, by which you will agree to be bound in the letter of transmittal; or
- physical delivery of your unregistered senior notes and debentures to the exchange agent's address as set forth in the letter of transmittal.

The letter of transmittal must also contain the representations you must make to us as described under "The Exchange Offer – Resale of Exchange Senior Notes and Debentures."

Special Procedures for Beneficial Owners

If you are a beneficial owner of unregistered senior notes and debentures that are held through a broker, dealer, commercial bank, trust company or other nominee and you wish to tender such unregistered senior notes and debentures, you should contact the person promptly and

instruct the person to tender your unregistered senior notes and debentures on your behalf.

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Guaranteed Delivery Procedures for  
Unregistered Senior Notes and Debentures

If you cannot meet the expiration deadline, or you cannot deliver your unregistered senior notes and debentures, the letter of transmittal or any other required documentation, or comply with DTC's, Euroclear's or Clearstream Luxembourg's respective standard operating procedures for electronic tenders on time, you may tender your unregistered senior notes and debentures according to the guaranteed delivery procedures set forth under "The Exchange Offer — Guaranteed Delivery Procedures."

Withdrawal Rights

You may withdraw the tender of your unregistered senior notes and debentures at any time prior to 5:00 p.m., New York City time, on October 18, 2006, the expiration date.

Consequences of Failure to  
Exchange

If you are eligible to participate in this exchange offer and you do not tender your unregistered senior notes and debentures as described in this prospectus, you will not have any further registration rights. In that case, your unregistered senior notes and debentures will continue to be subject to restrictions on transfer. As a result of the restrictions on transfer and the availability of exchange senior notes and debentures, the unregistered senior notes and debentures are likely to be much less liquid than before the exchange offer. The unregistered senior notes and debentures will, after the exchange offer, bear interest at the same rate as the respective exchange senior notes and debentures.

Certain U.S. Federal Income Tax  
Consequences

The exchange of the unregistered senior notes and debentures for exchange senior notes and debentures pursuant to the exchange offer will not be a taxable exchange for U.S. federal income tax purposes.

Use of Proceeds

We will not receive any proceeds from the issuance of exchange senior notes and debentures pursuant to the exchange offer.

Accounting Treatment

We will record the exchange senior notes and debentures at the same carrying value of the unregistered senior notes and debentures of the corresponding series reflected in our accounting records on the date the exchange offer is completed. Accordingly, we will not recognize any gain or loss for accounting purposes upon the exchange of exchange senior notes and debentures for unregistered senior notes and debentures. We will amortize certain expenses incurred in connection with the issuance of the exchange senior notes and debentures over their respective

terms.

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Exchange Agent for Unregistered Senior Notes and Debentures

The Bank of New York, the trustee under the indenture for the unregistered senior notes and debentures, is serving as the exchange agent in connection with the exchange offer. The Bank of New York can be reached at 101 Barclay Street, 7 East, New York, New York 10286; its telephone number is (212) 815-3687 and its facsimile number is (212) 298-1915.

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Summary Description of the Senior Notes and Debentures

The following is a brief summary of some of the terms of the senior notes and debentures. For a more complete description of the terms of the senior notes and debentures, see “Description of the Senior Notes and Debentures” on page 111 of this prospectus.

Issuer	Viacom Inc.
Exchange Senior Notes and Debentures	<ul style="list-style-type: none"> <li>• \$750,000,000 aggregate principal amount of registered floating rate senior notes due 2009;</li> <li>• \$1,500,000,000 aggregate principal amount of registered 5.75% senior notes due 2011;</li> <li>• \$1,500,000,000 aggregate principal amount of registered 6.25% senior notes due 2016; and</li> <li>• \$1,750,000,000 aggregate principal amount of registered 6.875% senior debentures due 2036.</li> </ul>
Maturity	<p>The exchange senior notes due 2009 will mature on June 16, 2009.</p> <p>The exchange senior notes due 2011 will mature on April 30, 2011.</p> <p>The exchange senior notes due 2016 will mature on April 30, 2016.</p> <p>The exchange senior debentures due 2036 will mature on April 30, 2036.</p>
Interest	<p>The exchange senior notes due 2009 will bear interest at a rate per year equal to three-month LIBOR plus 0.35% to be reset quarterly. Interest on the exchange senior notes due 2009 will be payable quarterly in arrears on March 16, June 16, September 16 and December 16 of each year.</p>



The exchange senior notes due 2011 will bear interest at the rate of 5.75% per year; the exchange senior notes due 2016 will bear interest at the rate of 6.25% per year; and the exchange senior debentures due 2036 will bear interest at the rate of 6.875% per year. Interest on the exchange senior notes due 2011, the exchange senior notes due 2016 and the exchange senior debentures due 2036 will be payable semi-annually in arrears on April 30 and October 30 of each year.

Interest on the exchange senior notes and debentures will be paid beginning on the interest payment date immediately following the last interest payment date for which interest was paid on the relevant series of unregistered senior notes and debentures (or, if no interest was paid, beginning on the first interest payment date

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Ranking

following the issuance of such series of unregistered notes or debentures).

The exchange senior notes and debentures will be unsecured senior obligations of Viacom Inc. and will rank equally with all of Viacom Inc.'s existing and future unsecured senior obligations, including its credit facilities. As of June 30, 2006, Viacom Inc. had approximately \$7.32 billion of indebtedness outstanding under its credit facilities, the unregistered senior notes and debentures and its commercial paper program.

The exchange senior notes and debentures will be structurally subordinated to all obligations of our subsidiaries including claims with respect to trade payables. As of June 30, 2006, our direct and indirect subsidiaries had approximately \$337.5 million of indebtedness outstanding.

Sinking fund

None.

Optional redemption

We may not redeem the exchange senior notes due 2009 at our option prior to their maturity date.

We may redeem some or all of the exchange senior notes due 2011, the exchange senior notes due 2016 and the exchange senior debentures due 2036 at any time and from time to time at their principal amount, plus the applicable premium, if any, and accrued interest. See "Description of the Senior Notes and Debentures – Optional Redemption."

Certain covenants

We will issue the senior notes and debentures under an indenture that, among other things, limits our ability to:

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consolidate, merge or sell all or substantially all of our assets;

- create liens; and
- enter into sale and leaseback transactions.

All of these limitations are subject to a number of important qualifications and exceptions. See ‘‘Description of the Senior Notes and Debentures.’’

Governing law

The senior notes and debentures and the indenture under which they will be issued will be governed by New York law.

Risk factors

See ‘‘Risk Factors’’ beginning on page 18 for a discussion of the factors you should consider carefully before deciding to invest in the senior notes and debentures.

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Summary Selected Consolidated Financial Data

The following tables present our summary selected consolidated financial data. The summary selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes thereto included in this prospectus and the related ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ beginning on page 33. The consolidated income statement data for the years ended December 31, 2005, 2004 and 2003 and the consolidated balance sheet data at December 31, 2005, 2004 and 2003 are derived from our audited consolidated financial statements. The unaudited consolidated income statement data for the six months ended June 30, 2006 and 2005 and the unaudited consolidated balance sheet data at June 30, 2006 are derived from our accounting records for those periods and have been prepared on a basis consistent with our audited consolidated financial statements, except we adopted the provisions of FAS 123R effective January 1, 2006.

The summary selected consolidated financial data may not necessarily reflect our results of operations and financial position in the future or what results of operations and financial position would have been had we been a separate, stand-alone company during the periods presented. For additional information, see ‘‘Unaudited Pro Forma Condensed Consolidated Financial Information’’ and the notes thereto beginning on page 31.

Consolidated Income Statement Data  
(in millions, except per share amounts)

	Six Months Ended June 30,		Year Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Revenues	\$ 5,214.2	\$ 4,408.4	\$ 9,609.6	\$ 8,132.2	\$ 7,304.4
Operating income	\$ 1,286.7	\$ 1,210.4	\$ 2,366.4	\$ 2,282.8	\$ 2,001.8
Net earnings from continuing operations	\$ 733.2	\$ 724.6	\$ 1,303.9	\$ 1,392.9	\$ 1,147.4

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Net earnings from continuing operations per common share (basic and diluted)	\$ 1.00	\$ 0.96	\$ 1.73	\$ 1.85	\$ 1.53
Weighted average number of common shares outstanding:					
Basic common shares	729.1	751.6	751.6	751.6	751.6
Diluted common shares	731.1	751.6	751.6	751.6	751.6

Consolidated Balance Sheet Data  
(in millions)

	At June 30, 2006 (unaudited)	2005	At December 31, 2004	2003
Total assets	\$ 20,048.1	\$ 19,115.6	\$ 18,440.8	\$ 22,304.4
Financing obligations – non-current <sup>(1)</sup>	\$ 7,601.6	\$ 5,702.1	\$ 291.7	\$ 163.4
Total stockholders' equity/invested capital	\$ 6,893.9	\$ 7,787.9	\$ 13,465.2	\$ 15,815.7
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —

<sup>(1)</sup>Financing obligations – non-current includes long-term debt, long-term capital leases, commercial paper and notes payable to banks, to the extent these existed in the periods presented.

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Ratio of Earnings to Fixed Charges

	Six Months Ended June 30, 2006	2005	Year Ended December 31,			
			2004	2003	2002	2001
Ratio of earnings to fixed charges <sup>(1)</sup>	5.3x	34.8x	40.7x	38.7x	25.6x	18.8x

<sup>(1)</sup>For more information, see “Ratio of Earnings to Fixed Charges” on page 28.

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## Summary Unaudited Pro Forma Condensed Consolidated Financial Information

The summary unaudited pro forma condensed consolidated financial information is derived from, and should be read in conjunction with, the information provided in “Unaudited Pro Forma Condensed Consolidated Financial Information” and the notes thereto beginning on page 31. The summary unaudited pro forma condensed consolidated financial information is based upon our historical financial statements included in this prospectus. This pro forma financial information is presented as if the separation, the issuance of the unregistered senior notes and debentures and the use of the net proceeds therefrom to repay a portion of amounts previously borrowed had occurred as of the beginning of the period presented. Management believes the assumptions and allocations are reasonable. However, the pro forma results do not necessarily represent what the actual results would have been had Viacom been a stand alone public company, nor are they necessarily indicative of future results.

## Summary Unaudited Pro Forma Condensed Consolidated Income Statement Information

(in millions, except per share amounts)

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Revenues	\$ 5,214.2	\$ 9,609.6
Operating income	\$ 1,286.7	\$ 2,497.4
Net earnings from continuing operations	\$ 719.2	\$ 1,211.3
Net earnings from continuing operations per common share:		
Basic	\$ 0.99	\$ 1.61
Diluted	\$ 0.98	\$ 1.61
Weighted average number of common shares outstanding:		
Basic	729.1	751.6
Diluted	731.1	752.7

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**RISK FACTORS**

You should consider carefully all of the information set forth in this prospectus and, in particular, the risk factors described below. In addition, the risks described below and elsewhere in this prospectus are not the only ones we are facing. The risks described below are considered to be the most material. However, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our future results. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the events described below were to occur, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected. In any such case, we may not be able to pay interest or principal on the senior notes and debentures, and you could lose all or part of your investment.

## Risks Related to Our Company

### Our Success Is Dependent upon Audience Acceptance of Our Programs and Films Which Is Difficult to Predict

Entertainment content and feature film production and distribution are inherently risky businesses because the revenues derived from the production and distribution of a cable program or feature film, and the licensing of rights to the intellectual property associated with a program or film, depend primarily upon its acceptance by the public, which is difficult to predict. The commercial success of a cable program or feature film also depends upon the quality and acceptance of other competing programs and films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, many of which are also difficult to predict. Audience sizes for our cable networks are also factors that are weighed when deciding on the advertising rates and the renegotiation of affiliate rates that we receive. Poor ratings in targeted demographics can lead to a reduction in pricing and advertising spending. Further, the theatrical success of a feature film may impact revenues from other distribution channels, such as home entertainment and premium pay television, and sales of licensed consumer products. Consequently, low public acceptance of our cable programs and feature films will have an adverse effect on our results of operations.

### A Decline in Advertising Expenditures Could Cause Our Revenues and Operating Results to Decline Significantly in Any Given Period or in Specific Markets

We derive substantial revenues from the sale of advertising on our cable networks. We have recently experienced a decline in international (particularly European) advertising revenues. A decline in advertising expenditures generally or in specific markets, including domestic and international markets, could significantly adversely affect our revenues and operating results in any given period. A decline in the economic prospects of advertisers or the economy in general could alter current or prospective advertisers' spending priorities. Disasters, acts of terrorism, political uncertainty or hostilities could lead to a reduction in advertising expenditures as a result of economic uncertainty. In addition, advertising expenditures may also be affected by increasing competition for the leisure time of audiences. Advertising expenditures by companies in certain sectors of the economy, including the children's toys and entertainment sectors, represent a sizeable portion of our advertising revenues. Any political, economic, social or technological change may result in a reduction of these sectors' advertising expenditures. For example, at least one company has announced its intention to shift its advertising focus away from children under 12 years of age in response to concerns about child obesity and unhealthy eating. Any reduction in advertising expenditures could have an adverse effect on our revenues and results of operations.

### Our Businesses Operate in Highly Competitive Industries

Participants in the cable and motion picture industries depend primarily upon the sale of advertising, revenues generated by the distribution of feature films and affiliate fees to generate revenue. Competition for viewers, advertising and distribution is intense and comes from broadcast

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networks and specialty cable channels; movie studios and independent film producers and distributors; local, regional and national newspapers; online activities; video gaming; direct mail; and other communications and advertising media that operate in these markets. In particular, online search engines have seen significant advertising growth, a portion of which is derived from traditional cable network advertisers. In addition, there has been consolidation in the

media industry and our competitors include market participants with interests in multiple media businesses which are often vertically integrated. Our ability to compete successfully depends on a number of factors, including our ability to provide high quality and popular cable programs and motion pictures and our ability to achieve high distribution levels. In addition, cable providers and DTH satellite operators have developed new techniques that allow them to transmit more channels on their existing equipment to highly targeted audiences, reducing the cost of creating channels and potentially leading to the division of the television marketplace into more specialized niche audiences. More television options increase competition for viewers, and competitors targeting programming to narrowly defined audiences may gain an advantage over us for television advertising and subscription revenues. There can be no assurance that we will be able to compete successfully in the future against existing or potential competitors, or that competition will not have a material adverse effect on our business, financial condition or results of operations.

#### The Loss of Affiliation Agreements Could Cause Our Revenues to Decline in Any Given Period or in Specific Markets

We are dependent upon the maintenance of affiliation agreements with cable and DTH satellite operators for the distribution of our cable networks. Certain BET, BET J and MTV affiliation agreements have recently expired and are currently being negotiated. There can be no assurance that these affiliation agreements will be renewed in the future on terms acceptable to us. The loss of a significant number of these arrangements or the loss of carriage on the most widely penetrated programming tiers could reduce the distribution of our cable networks, which may adversely affect our advertising and affiliate fee revenues. In addition, further consolidation among cable and DTH satellite operators and increased vertical integration of such distributors into the cable or broadcast network business could adversely affect our ability to negotiate the launch of new networks or the ability to maintain existing distribution or obtain additional distribution for existing networks. In a more concentrated market, there can be no assurance that we will be able to obtain or maintain carriage of our programming services by distributors on commercially reasonable terms, or at all.

#### Box Office Receipts and DVD Sales Have Recently Been Declining, Which May Adversely Affect Our Prospects and Results of Operations

Several factors, including piracy, growing competition for consumer discretionary spending and low audience acceptance, may be contributing to a recent industry-wide decline in box office receipts and in declining or, in some cases, flattening DVD sales. According to Adams Media Research, domestic consumer spending on DVD and video increased by 5.4% in 2004 but decreased by 2.5% in 2005. Internationally, consumer spending on DVD and video increased by 14.9% in 2004 but decreased by 5.5% in 2005, according to Screen Digest. Our ability to sell our DVDs could also be affected by the influence of several large retailers, including, without limitation, Wal-Mart, whose decisions as to placement and removal of our DVDs could have a significant impact on our revenues from sales of DVDs. A continuing decline in attendance by moviegoers and in DVD sales could have a substantial adverse impact on our results of operations and growth prospects.

#### Our Revenues and Operating Results Are Subject to Cyclical and Seasonal Variations

Our revenues and operating results fluctuate due to the timing and availability of theatrical and home entertainment releases and of programming for syndication and cable exhibition and the timing of the beginning of the license periods for television exhibition of motion pictures. Our operating results also fluctuate due to the timing of the recognition of production costs and the possible later recognition of related revenues. In addition, the success of our individual titles may vary, causing our operating results to fluctuate.

Our business has experienced and is expected to continue to experience some seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's viewing and

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listening habits and attendance. Typically, our revenue from advertising increases in the fourth quarter and revenue from feature films increases in the summer. The effect of such seasonality makes it difficult to estimate future operating results based on the results of any specific quarter.

### We Must Respond to and Capitalize on Rapid Changes in Technology, Services and Standards in Order to Remain Competitive and Exploit New Opportunities

Technology in the video, telecommunications and data services used in the entertainment industry is changing rapidly. Advances in technologies or alternative methods of product delivery and storage or certain changes in consumer behavior driven by these or other technologies and methods of delivery and storage could have a negative effect on our business. Examples of such advances in technologies include video-on-demand, new video formats and downloading from the Internet. For example, devices that allow users to view cable programs or motion pictures from a remote location or on a time-delayed basis and technologies which enable users to fast-forward or skip advertisements may cause changes in consumer behavior that could affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. We may not have the right, and may not be able to secure the right, to distribute some of our licensed content across these, or any other, new platforms.

In addition, the ability to capitalize on a variety of distribution platforms for our programming and films, including new technologies, is one of our key business strategies. The ability to anticipate and exploit these new and future sources of revenue from technological developments will affect our ability to continue to grow and increase our revenue and expand our business.

### Increased Programming and Content Costs May Adversely Affect Our Profits

We produce programming and incur costs for all types of creative talent including actors, writers and producers, and for new show concepts. We also acquire programming, such as movies and television series, from television production companies and movie studios. An increase in the costs of programming may lead to decreased profitability.

An increase in licensing costs could also affect our profits. For example, we license music videos for exhibition on our cable channels and other programming or content services from record companies in exchange for cash and advertising time or for promotional consideration only. We have entered into global music video licensing agreements with certain major record companies and into global or regional license agreements with certain independent record companies. We also license various other music rights from record companies, music publishers, performing rights societies and others. There can be no assurance that we will be able to obtain license renewals or additional license agreements and, if so, on favorable terms. There can also be no assurance that we will be able to secure the rights to distribute the content of our licenses over new platforms on acceptable terms. If we fail to obtain such extensions, renewals or agreements on acceptable terms and consequently cannot obtain licensing rights for content needed in our operations, our revenue or costs may be adversely affected.

### Our Cable Networks Are Included with CBS Corporation's Programming under Certain of Our Affiliation Agreements, and New Affiliation Agreements May Be More Difficult to Negotiate

Former Viacom was party to affiliation agreements with cable and DTH satellite operators pursuant to which both our cable networks and CBS Corporation's television programming were carried by these distributors. After these agreements expire, our cable networks will no longer be included with CBS Corporation's programming. Certain BET,

BET J and MTV affiliation agreements have recently expired. There can be no assurance that we will be able to negotiate new affiliation agreements with these distributors on terms as favorable as was previously possible.

#### Changes in U.S. or Foreign Communications Laws or Other Regulations May Have an Adverse Effect on Our Business

The multichannel video programming and distribution industries in the United States are highly regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC. For example, federal legislation and FCC rules limit the amount and content of

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commercial material that may be shown on video programming channels during programming designed for children 12 years of age and younger. In November 2004, the FCC issued new rules that classify promotions on a channel for programs aired on that channel as commercial matter unless the programs being promoted are educational or informational as defined under FCC rules, and that limit the display during children's programming of the Internet addresses of websites that contain or link to commercial material or that use characters from the program on which the website address is displayed to sell products or services. If retained without modification, these rules could have an adverse impact on our children's programming channels, including Nickelodeon and Nick Jr., because they would force a reduction of promotional or advertising time during this programming and would limit our ability to promote our program-related websites that contain commercial material. Children's advocacy groups and industry parties, including our company, have agreed to a proposal to modify these rules. The FCC has postponed implementation of the rule changes while it considers the proposal. The proposed rule modifications would mitigate the adverse impacts of the FCC's rules on our company. However, there can be no assurance that the FCC will ultimately adopt these proposals.

In addition, the U.S. Congress and the FCC currently have under consideration, and may in the future adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations and ownership of our U.S. media properties. For example, some policymakers support the extension of indecency rules applicable to over-the-air broadcasters to cover cable and satellite operators. If such an extension took place and was not found to be unconstitutional, our content could be subject to additional regulation. Similarly, changes in regulations imposed by governments in other jurisdictions in which we, or entities in which we have an interest, operate could adversely affect our business, results of operations and ability to expand these operations beyond their current scope.

#### Requirements that Cable Operators Create Family Friendly Tiers or Offer Programming on an A La Carte Basis May Decrease the Distribution of Our Networks to Cable Television Subscribers and Materially Affect Our Results of Operations

Certain policymakers maintain that cable operators should be required to offer programming to subscribers on a network-by-network, or à la carte, basis or to provide "family friendly" program tiers. Certain distributors have recently launched "family-friendly" tiers to their customers that may or may not include some or all of our networks. In addition, the FCC recently issued a report finding consumers would benefit if cable operators were required to offer programming on an à la carte basis. The unbundling or tiering of program services could materially reduce distribution of certain of our channels, thereby leading to reduced viewership and increased marketing expenses, and could affect our ability to compete for or attract the same level of advertising dollars. Any decline in subscribers could



lead to a loss in our advertising sales and affiliate fees and a reduction in payments by cable and DTH satellite operators.

#### Piracy of Our Motion Pictures, Intellectual Property and Other Content, Including Digital and Internet Piracy, May Decrease Revenue Received from the Exploitation of Our Cable Television Programs and Films and Adversely Affect Our Business and Profitability

The success of our business depends in part on our ability to maintain the intellectual property rights to our products and services. Piracy of motion pictures, television programming, video content and DVDs as well as other intellectual property is prevalent in many parts of the world and is made easier by technological advances allowing conversion of motion pictures, television programming and other content into digital formats, which facilitates the creation, transmission and sharing of high quality unauthorized copies of motion pictures and other content. The proliferation of unauthorized copies and piracy of these products may have an adverse effect on our business and profitability because these products reduce the revenue that we potentially could receive from the legitimate sale and distribution of our content. In addition, if piracy were to increase, it would have an adverse effect on business and profitability.

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#### The Loss of Key Personnel, Including Talent, Could Disrupt the Management and Operations of Our Business and Adversely Affect Our Revenues

Our business depends upon the continued efforts, abilities and expertise of our senior management team and other key employees and entertainment personalities. We believe that the unique combination of skills and experience possessed by our key executives would be difficult to replace, and that the loss of our key executives could have a material adverse effect on us, including the impairment of our ability to execute our business strategy. Additionally, we employ or contract with several entertainment personalities with loyal audiences. These personalities are sometimes important to achieving current levels of viewership. There can be no assurance that these individuals will remain with us or will retain their current audiences. If we fail to retain these individuals or our entertainment personalities lose their current audiences, our revenues could be adversely affected.

#### We Could Be Adversely Affected by Strikes and Other Union Activity

We and our suppliers engage the services of writers, directors, actors and other talent, trade employees and others who are subject to collective bargaining agreements. If we or our suppliers are unable to renew expiring collective bargaining agreements, it is possible that the affected unions could take action in the form of strikes or work stoppages. Such actions, higher costs in connection with these agreements or a significant labor dispute could adversely affect our business by causing delays in the production, the release date or by reducing the profit margins of our cable programs or feature films.

#### Political and Economic Risks Associated with Our Businesses Could Harm Our Financial Condition

Our businesses operate and have customers worldwide. Inherent risks of doing business in international markets include, among other risks, changes in the economic environment, export restrictions, exchange controls, tariffs and other trade barriers and longer payment cycles. We may incur substantial expense as a result of the imposition of new restrictions or changes in the existing economic environment in the regions where we do business. Acts of terrorism or other hostilities, or other future financial, political, economic or other uncertainties, could lead to a reduction in

advertising and other revenue, which could materially adversely affect our business, financial condition or results of operations.

#### The Failure or Destruction of Satellites and Facilities that We Depend Upon to Distribute Our Programming Could Materially Adversely Affect Our Business and Results of Operations

We use satellite systems to transmit our cable networks to cable systems and other distributors worldwide. The distribution facilities include uplinks, communications satellites and downlinks. Transmissions may be disrupted as a result of local disasters that impair on-ground uplinks or downlinks, or as a result of an impairment of a satellite. Currently, there are a limited number of communications satellites available for the transmission of programming. If a disruption occurs, we may not be able to secure alternate distribution facilities in a timely manner. Failure to secure alternate distribution facilities in a timely manner could have a material adverse effect on our business and results of operations.

#### We Could Suffer Losses Due to Asset Impairment Charges for Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” which we refer to in this prospectus as “SFAS 142,” we will test goodwill and intangible assets for impairment during the fourth quarter of each year, and on an interim date should factors or indicators become apparent that would require an interim test. A downward revision in the fair value of a reporting unit or intangible assets could result in an impairment under SFAS 142 and a non-cash charge would be required. Any significant shortfall, now or in the future, in the expected popularity of the feature films or other content we produce, could lead to a downward revision in the fair value of such assets. Any such charge could have a material effect on our reported net earnings.

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#### Fluctuations in Foreign Exchange Rates Could Have an Adverse Effect on Our Results of Operations

Certain of our revenues are earned and expenses are incurred in foreign currencies. The value of these currencies fluctuates relative to the U.S. dollar. As a result, we are exposed to exchange rate fluctuations, which could have an adverse effect on our results of operations.

#### Our Liabilities Related to Lease Guarantees and Litigation Could Adversely Impact Our Financial Condition

We have both recognized and potential liabilities and costs related to discontinued operations and former businesses, including, among other things, potential liabilities to landlords if Blockbuster should default on certain store leases entered into prior to Blockbuster’s initial public offering in 1999, and pending and threatened litigation. We cannot assure you that our reserves are sufficient to cover these liabilities in their entirety or any one of these liabilities when it becomes due or at what point any of these liabilities may come due. Therefore, there can be no assurance that these liabilities will not have a material adverse effect on our financial condition.

#### If the Integration of DreamWorks into Our Business Does Not Yield Expected Benefits, or If Our Transition to a New Distribution Infrastructure in International Theatrical and Worldwide Television Markets Does Not Fully Succeed, Our Results of Operations Could Be Adversely Impacted

We acquired DreamWorks L.L.C. on January 31, 2006. If the integration of DreamWorks, including its motion pictures, employees and information systems, into our business is not fully successful or does not yield expected benefits to Paramount Pictures' business, our expected results of operations could be adversely impacted. We also are developing our television market sales capabilities, restructuring our international distribution operations and retaining a greater proportion of international rights to our film product. Any failure to fully succeed in developing our television market sales capabilities, restructuring our international distribution operations or capitalizing on the international rights we retain could adversely affect our results of operations.

NAI, Through Its Voting Control of Viacom, Is in a Position to Control Actions that Require Stockholder Approval and May Have Interests that Are Different than Yours

NAI, through its beneficial ownership of our Class A common stock, has voting control of Viacom. Mr. Sumner M. Redstone, the controlling stockholder, Chairman of the Board of Directors and Chief Executive Officer of NAI, serves as Executive Chairman of our Board of Directors and Founder, Ms. Shari Redstone, the President and a director of NAI, serves as non-executive Vice Chair of our Board of Directors, and Mr. Philippe P. Dauman, a director of NAI, serves as our President and Chief Executive Officer and as one of our directors. In addition, Mr. Abrams is a director of both NAI and Viacom. NAI is in a position to control the outcome of corporate actions that require stockholder approval, including the election of directors and transactions involving a change of control. The interests of NAI may not be the same as yours.

We Have a New Operating Structure and New Members of Management at Viacom Corporate and Paramount Pictures

On September 5, 2006, we announced the appointment of Mr. Dauman as President and Chief Executive Officer, replacing the then-current President and Chief Executive Officer, Mr. Freston, and the appointment of Mr. Dooley as Senior Executive Vice President and Chief Administrative Officer. In addition to this event, we are continuing to manage our separation from CBS Corporation, which involved the division of Former Viacom's businesses. In connection with the separation, many jointly-held assets and operating systems as well as personnel were allocated between the companies, in particular at Paramount Pictures and in Former Viacom's corporate offices, and new related party agreements were entered into to govern the ongoing business relationships between the companies following the separation. Due to these events, Viacom corporate and Paramount Pictures have senior management teams that include several executives who were hired relatively recently or who recently assumed all or a substantial part of their current responsibilities, including Mr. Dauman and Mr. Dooley.

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Risks Related to Our Separation from CBS Corporation

Our Historical and Pro Forma Financial Information May Not Be Indicative of Our Results as a Separate Company

The historical and pro forma financial information presented in this prospectus relating to periods prior to our separation from CBS Corporation may not necessarily reflect what our results of operations, financial condition and cash flows would have been had we been operating as a stand-alone entity during the periods presented or what our results of operations, financial condition and cash flows will be in the future. As a result, historical and pro forma financial information should not be relied upon as being indicative of our future results of operations, financial condition and cash flows.

Our Business and Other Businesses Which Are Controlled by Sumner Redstone, Including CBS Corporation, Are and Will Continue to Be Attributable to Each Other for Certain Regulatory Purposes

So long as we and CBS Corporation are under common control, each company's businesses, as well as the businesses of any other commonly controlled company, such as NAI, NAIRI and Midway Games, Inc., which is also controlled by Mr. Redstone, may be attributable to the other companies for purposes of U.S. and non-U.S. antitrust rules and regulations, certain rules and regulations of the FCC, and certain rules regarding political campaign contributions in the United States, among others. The businesses of each company may continue to be attributable to the other companies for FCC purposes even after the companies cease to be commonly controlled, if the companies share common officers, directors, or attributable stockholders. As a result, the businesses and conduct of any of these other companies may have the effect of limiting the activities or strategic business alternatives available to our company.

The Separation Agreement Between CBS Corporation and Us Prohibits Us from Engaging in Certain Types of Businesses

Under the terms of the Separation Agreement, we generally agreed that we will not own or acquire certain interests in specified types of media companies if such ownership would cause CBS Corporation to be in violation of U.S. federal laws limiting the ownership of broadcast licenses or if it would limit CBS Corporation's ability under these laws to acquire television or radio stations or television networks. Additionally, we may not make acquisitions, enter into agreements or accept or agree to any condition that purports to bind CBS Corporation or subjects CBS Corporation to restrictions it is not otherwise subject to by legal order without CBS Corporation's consent. We and CBS Corporation have agreed that prior to the earliest of (1) the fourth anniversary of the separation, (2) the date on which none of Mr. Redstone, NAI, NAIRI or any of their successors, assigns or transferees are deemed to have interests in both CBS Corporation and Viacom that are attributable under applicable U.S. federal laws and (3) the date on which the other company ceases to own the video programming vendors that it owns as of the separation, neither of them will own or acquire an interest in a cable television operator if such ownership would subject the other company to U.S. federal laws regulating contractual relationships between video programming vendors and video programming distributors that the other company is not then subject to. These restrictions could limit the strategic business alternatives available to us.

The Tax Matters Agreement and the Tax Rules Applicable to the Separation May Restrict Our Ability to Engage in Certain Corporate Transactions

In connection with the separation, we entered into a Tax Matters Agreement, effective upon the consummation of the separation. The Tax Matters Agreement provides, among other things, that, depending on the event, we may have to indemnify CBS Corporation for some or all of the taxes resulting from the merger and the distribution of our common stock in the merger if the merger and distribution do not qualify as a tax-free distribution under Sections 355 and 368 of the Code. In addition, the current U.S. federal income tax law creates a presumption that the distribution of our common stock in the merger would be taxable to CBS Corporation, but not to its stockholders, if we engage in, or enter into an agreement to engage in, a transaction that would result in a 50% or greater change, by vote or value, in our stock ownership during the four-year period that begins two years

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before the date of the separation, unless it is established that the transaction was not undertaken pursuant to a plan or series of transactions related to the separation. The Treasury Regulations currently in effect generally provide that

whether such distribution is part of a plan is determined based on all of the facts and circumstances, including, but not limited to, specific factors described in the Treasury Regulations. In addition, the Treasury Regulations provide several “safe harbors” for acquisition transactions that are not considered to be part of a plan. The indemnification obligations set forth in the Tax Matters Agreement and the above-described provisions of the tax law may prevent us from entering into transactions which might be advantageous to our stockholders, such as issuing equity securities to satisfy financing needs or acquiring businesses or assets with equity securities, and may make us less attractive to a potential acquiror and reduce the possibility that an acquiror will propose or seek to effect certain transactions with us.

#### We Rely on CBS Corporation’s Performance under Various Agreements among the Companies

In connection with the separation, we entered into various agreements, including the Separation Agreement, the Tax Matters Agreement and a Transition Services Agreement pursuant to which we will provide certain specified services to CBS Corporation following the separation, and certain related party arrangements pursuant to which we will provide services and products to CBS Corporation from and after the separation. The Separation Agreement sets forth the distribution of assets, liabilities, rights and obligations of Viacom and CBS Corporation following the separation, and includes indemnification obligations for such liabilities and obligations. In addition, pursuant to the Tax Matters Agreement, certain income tax liabilities and related responsibilities are allocated between, and indemnification obligations have been assumed by, each of us and CBS Corporation. Each company will rely on the other company to satisfy its performance and payment obligations under these agreements. Certain of the liabilities to be assumed or indemnified by us or CBS Corporation under these agreements are legal or contractual liabilities of the other company. If CBS Corporation were to breach or be unable to satisfy its material obligations under these agreements, including a failure to satisfy its indemnification obligations, we could suffer operational difficulties or significant losses.

#### Certain Members of Management, Directors and Stockholders May Face Actual or Potential Conflicts of Interest

The management and directors of Viacom and CBS Corporation own both our common stock and CBS Corporation common stock, and both Viacom and CBS Corporation are controlled by NAI. Mr. Redstone, the controlling stockholder, Chairman of the Board of Directors and Chief Executive Officer of NAI, serves as our Executive Chairman of our Board of Directors and Founder and Executive Chairman of the Board of Directors and Founder of CBS Corporation. Ms. Redstone, the President and a director of NAI, serves as non-executive Vice Chair of the Board of Directors of both Viacom and CBS Corporation. Mr. Dauman, a director of NAI, serves as our President and Chief Executive Officer and as one of our directors. Mr. Abrams is a director of NAI and serves as a director of Viacom. This ownership overlap and these common directors could create, or appear to create, potential conflicts of interest when Viacom’s and CBS Corporation’s management, directors and controlling stockholder face decisions that could have different implications for Viacom and CBS Corporation. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between Viacom and CBS Corporation regarding the terms of the agreements governing the separation and the relationship between Viacom and CBS Corporation thereafter. Potential conflicts of interest could also arise if we and CBS Corporation enter into any commercial arrangements with each other in the future. Each of Mr. Redstone and Ms. Redstone may also face conflicts of interest with regard to the allocation of his or her time between us and CBS Corporation.

Our certificate of incorporation and the CBS Corporation certificate of incorporation each contains provisions related to corporate opportunities that may be of interest to us and to CBS Corporation. Our certificate of incorporation provides that in the event that a director, officer or controlling stockholder of ours who is also a director, officer or controlling stockholder of CBS Corporation acquires knowledge of a potential corporate opportunity for both Viacom and CBS Corporation, such director, officer or controlling stockholder may present such opportunity to us or CBS Corporation or both, as such director, officer or controlling stockholder deems appropriate in his

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or her sole discretion, and that by doing so such person will have satisfied his or her fiduciary duties to us and our stockholders. In addition, our certificate of incorporation provides that we renounce any interest in any such opportunity presented to CBS Corporation. These provisions create the possibility that a corporate opportunity of one company may be used for the benefit of the other company.

Risks Related to the Exchange Senior Notes and Debentures

The Exchange Senior Notes and Debentures Will Be Structurally Subordinated to All Obligations of Our Subsidiaries

The exchange senior notes and debentures will not be guaranteed by our subsidiaries, and therefore they will be structurally subordinated to all existing and future indebtedness and other obligations of our subsidiaries, including claims with respect to trade payables. As of June 30, 2006, our direct and indirect subsidiaries had approximately \$337.5 million of indebtedness outstanding. The indenture for the exchange senior notes and debentures will not prohibit or limit any of our subsidiaries from incurring any indebtedness or other obligations. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to us.

An Active Trading Market for the Exchange Senior Notes and Debentures May Not Develop or Be Sustained

The exchange senior notes and debentures are new securities for which there currently is no market. We have not listed and do not intend to list the exchange senior notes and debentures on any U.S. national securities exchange or quotation system. We cannot assure you that any market for the exchange senior notes and debentures will develop or be sustained. If an active market is not developed or sustained, the market price and liquidity of the exchange senior notes and debentures may be adversely affected.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2006 on a historical basis. This table should also be read together with our unaudited consolidated historical financial statements and the notes thereto included in this prospectus. We will not receive any proceeds from this exchange offer.

	At June 30, 2006 (unaudited)
(in millions)	
Cash and cash equivalents	\$ 312.1

Debt:	
Notes payable to banks	560.0
Senior notes due 2009, LIBOR + 0.35%	750.0
Senior notes due 2011, 5.75%	1,491.3
Senior notes due 2016, 6.25%	1,493.6
Senior debentures due 2036, 6.875%	1,732.7
Commercial paper	1,295.9
Capital leases	337.5
Total debt	7,661.0
Stockholders' Equity:	
Class A Common Stock, par value \$0.001 per share, 375 shares authorized: 61.6 shares outstanding	0.1
Class B Common Stock, par value \$0.001 per share, 5,000 shares authorized: 690.6 shares outstanding	0.7
Additional paid-in capital	7,693.0
Treasury stock	(1,602.3)
Retained earnings	754.5
Accumulated other comprehensive income	47.9
Total Stockholders' Equity	6,893.9
Total Capitalization	\$ 14,554.9

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## RATIO OF EARNINGS TO FIXED CHARGES

Set forth below is information concerning our ratio of earnings to fixed charges. For purposes of determining the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes plus distributed income of equity investees and fixed charges. Fixed charges are defined as interest expense and one-third of gross rent expense relating to operating leases which is deemed to be representative of interest. For the six months ended June 30, 2006, fixed charges include interest expense on indebtedness outstanding during that period. For periods ending December 31, 2005 and prior, indebtedness, other than certain capital lease obligations, was not transferred to Viacom as it remained at CBS Corporation. Accordingly, debt service cost is not reflected in periods prior to the six months ended June 30, 2006.

	Six Months Ended June 30,		Year Ended December 31,			
	2006	2005	2004	2003	2002	2001
Ratio of Earnings to Fixed Charges <sup>(1)</sup>	5.3x	34.8x	40.7x	38.7x	25.6x	18.8x

(1) Interest expense increased for the first six months of 2006 principally due to higher average debt outstanding and higher interest rates. The higher debt outstanding resulted principally from funding the

special dividend payment made to CBS Corporation in connection with the separation from Former Viacom in December 2005, the purchase of DreamWorks on January 31, 2006, and the purchase of common stock under the Company's stock repurchase program which began in January 2006. Interest expense will increase substantially for the remainder of 2006 versus 2005 as this higher level of debt is expected to be outstanding for the entire year.

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### USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing the exchange senior notes and debentures contemplated by this prospectus, we will receive unregistered senior notes and debentures from you in like principal amount. The unregistered senior notes and debentures surrendered in exchange for the exchange senior notes and debentures will be retired and canceled and cannot be reissued. Accordingly, issuance of the exchange senior notes and debentures will not result in any change to our indebtedness.

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### SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present our selected consolidated financial data. The selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes thereto and the related "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 33. The consolidated income statement data for the years ended December 31, 2005, 2004, 2003 and 2002 and the consolidated balance sheet data at December 31, 2005, 2004 and 2003 are derived from our audited consolidated financial statements. The unaudited consolidated income statement data for the six months ended June 30, 2006 and 2005 and for the year ended December 31, 2001 and the unaudited consolidated balance sheet data at June 30, 2006 and December 31, 2002 and 2001 are derived from our accounting records for those periods and have been prepared on a basis consistent with our audited consolidated financial statements, except we adopted the provisions of FAS 123R effective January 1, 2006.

The selected consolidated financial data may not necessarily reflect our results of operations and financial position in the future or what results of operations and financial position would have been had we been a separate, stand-alone company during the periods presented. For additional information, see "Unaudited Pro Forma Condensed Consolidated Financial Information" and the notes thereto beginning on page 31.

Consolidated Income Statement Data  
(in millions, except per share amounts)



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	Six Months Ended		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited)						(unaudited)
Revenues	\$5,214.2	\$4,408.4	\$9,609.6	\$8,132.2	\$7,304.4	\$6,050.7	\$5,497.6
Operating income	\$1,286.7	\$1,210.4	\$2,366.4	\$2,282.8	\$2,001.8	\$1,737.6	\$1,092.1
Net earnings from continuing operations	\$ 733.2	\$ 724.6	\$1,303.9	\$1,392.9	\$1,147.4	\$ 993.9	\$ 438.5
Net earnings from continuing operations per common share (basic and diluted)	\$ 1.00	\$ 0.96	\$ 1.73	\$ 1.85	\$ 1.53	\$ 1.32	\$ 0.58
Weighted average number of common shares outstanding:							
Basic common shares	729.1	751.6	751.6	751.6	751.6	751.6	751.6
Diluted common shares	731.1	751.6	751.6	751.6	751.6	751.6	751.6

Consolidated Balance Sheet Data  
(in millions)

	At June 30,			At December 31,		
	2006	2005	2004	2003	2002	2001
	(unaudited)				(unaudited)	(unaudited)
Total assets	\$20,048.1	\$19,115.6	\$18,440.8	\$22,304.4	\$21,993.0	\$23,007.8
Financing obligations – non-current <sup>(1)</sup>	\$ 7,601.6	\$ 5,702.1	\$ 291.7	\$ 163.4	\$ 139.9	\$ 156.8
Total stockholders' equity/invested capital	\$ 6,893.9	\$ 7,787.9	\$13,465.2	\$15,815.7	\$15,248.6	\$16,275.6
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(1) Financing obligations – non-current includes long-term debt, long-term capital leases, commercial paper and notes payable to banks, to the extent these existed in the periods presented.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

This unaudited pro forma condensed consolidated financial information and the notes thereto should be read together with our consolidated financial statements and the notes thereto included in this prospectus and the related “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” beginning on page 33. This pro forma financial information is presented as if the separation, the issuance of the unregistered senior notes and debentures and the use of the net proceeds therefrom to repay a portion of the amounts previously borrowed, had occurred as of the beginning of the period presented. Management believes the assumptions and allocations are reasonable. However, the pro forma results do not necessarily represent what the actual results would have been had

Viacom been a stand alone public company; nor are they necessarily indicative of future results.

Unaudited Pro Forma Condensed Consolidated Income Statement Information

Year ended December 31, 2005

(In millions, except per share amounts)

	Historical	Pro Forma Adjustments	Pro Forma
Revenues	\$ 9,609.6	\$ —	\$ 9,609.6
Expenses:			
Operating	4,737.4	—	4,737.4
Selling, general and administrative <sup>(1)(2)</sup>	2,246.8	(151.9)	2,094.9
Depreciation and amortization <sup>(2)</sup>	259.0	20.9	279.9
Total expenses	7,243.2	(131.0)	7,112.2
Operating income	2,366.4	131.0	2,497.4
Interest expense <sup>(3)</sup>	(23.0)	(344.6)	(367.6)
Interest income	3.9	—	3.9
Other items, net	(29.0)	—	(29.0)
Earnings from continuing operations before income taxes, equity in earnings of affiliated companies and minority interest	2,318.3	(213.6)	2,104.7
Provision for income taxes <sup>(4)</sup>	(1,020.0)	121.0	(899.0)
Equity in earnings of affiliated companies, net of tax	9.4	—	9.4
Minority interest, net of tax	(3.8)	—	(3.8)
Net earnings from continuing operations	1,303.9	(92.6)	1,211.3
Net earnings from continuing operations per common share <sup>(5)</sup>			
Basic	\$ 1.73	—	\$ 1.61
Diluted	\$ 1.73	—	\$ 1.61
Weighted average number of common shares outstanding			
Basic	751.6	—	751.6
Diluted	751.6	1.1	752.7

(1)Pro forma adjustment eliminates the impact of separation-related costs of \$163.5 million.

(2)Pro forma adjustments of \$32.5 million (including \$11.6 million adjustment to selling, general and administrative and \$20.9 million adjustment to depreciation and amortization) necessary to increase Paramount Pictures and Corporate overhead expenses to reflect our cost base as a stand-alone public company.

(3)The pro forma adjustment to interest expense has been determined by adding (i) the annual interest charge of \$302.7 million for the 2011 senior notes, the 2016 senior notes and the 2036 senior debentures as if such senior notes and debentures were outstanding as of January 1, 2005 and (ii) the annual interest charge of \$41.9 million for \$716 million of the 2009 senior notes, based on an annual interest rate of 5.69%, being LIBOR plus 0.35%, which was utilized to repay the remaining \$716 million of the \$5.4 billion of debt incurred to pay the special dividend to Former Viacom under the terms of the Separation Agreement as if such 2009 senior notes were

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outstanding as of January 1, 2005. For each 1/8 percentage point change in the annual interest rate on the 2009 senior notes, the effect on net income is \$0.5 million.

(4) Pro forma adjustment to the provision for income taxes calculated using blended statutory rates in effect for 2005.

(5) Basic Earnings per Share (“EPS”) is computed by dividing net earnings by the number of shares of common stock issued and outstanding at the date of the separation as if such shares were outstanding for the full year. Diluted EPS is computed by dividing net earnings by the number of shares issued and outstanding at the date of separation adjusted to give effect to all potentially dilutive common shares weighted for the full year-ended December 31, 2005.

## Unaudited Pro Forma Condensed Consolidated Income Statement Information

Six Months ended June 30, 2006

(In millions, except per share amounts)

	Historical	Pro Forma Adjustments	Pro Forma
Revenues	\$ 5,214.2	\$ —	\$ 5,214.2
Expenses:			
Operating	2,745.2	—	2,745.2
Selling, general and administrative	1,018.0	—	1,018.0
Depreciation and amortization	164.3	—	164.3
Total expenses	3,927.5	—	3,927.5
Operating income	1,286.7	—	1,286.7
Interest expense, net <sup>(1)</sup>	(199.4)	(23.2)	(222.6)
Other items, net	2.2	—	2.2
Earnings from continuing operations before income taxes, equity in earnings of affiliated companies and minority interest	1,089.5	(23.2)	1,066.3
Provision for income taxes <sup>(2)</sup>	(359.9)	9.2	(350.7)
Equity in earnings of affiliated companies, net of tax	5.8	—	5.8
Minority interest, net of tax	(2.2)	—	(2.2)
Net earnings from continuing operations	733.2	(14.0)	719.2
Net earnings from continuing operations per common share:			
Basic	\$ 1.00	\$ —	\$ 0.99
Diluted	\$ 1.00	\$ —	\$ 0.98
Weighted average number of common shares outstanding:			
Basic	729.1	—	729.1
Diluted	731.1	—	731.1

(1) Pro forma adjustments to interest expense, net have been determined by adding (i) the interest charge of \$87.4 million for the 2011 senior notes, the 2016 senior notes and the 2036 senior debentures as if such senior notes and debentures were outstanding as of January 1, 2006 until April 11, 2006 plus (ii) the interest charge of \$19.8 million for the 2009 senior notes, based on an annual interest rate of 5.69%, being LIBOR plus 0.35%, as if such 2009 senior notes were outstanding as of January 1, 2006 until June 15, 2006 less (iii) the interest expense savings of \$84.0 million (calculated based on actual interest rates in effect for the six months ended June 30, 2006) resulting from utilizing the net proceeds from the issuance of the unregistered senior notes and debentures to repay a portion of the \$6.0 billion term facility due in 2007 as if such amounts were repaid as of January 1, 2006. For each 1/8 percentage point

change in the annual interest rate on the 2009 senior notes the effect on six months ended June 30, 2006 net income is \$0.2 million.

(2) Pro forma adjustments to the provision for income taxes calculated using the blended statutory tax rate of 39.6% for the six months ended June 30, 2006.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of results of operations and financial condition should be read in conjunction with the consolidated financial statements and related notes included in this prospectus. Descriptions of all documents included as exhibits to the registration statement that includes this prospectus are qualified in their entirety by reference to the full text of such documents so included. References in this section to "Viacom," "Company," "we," "us" and "our" refer to Viacom Inc. and its consolidated subsidiaries through which its various businesses are conducted, unless the context requires otherwise. Certain amounts have been reclassified to conform to the 2005 presentation.

#### Overview

#### The Separation

On December 31, 2005 we became a stand-alone public entity by separating from Former Viacom. Prior to the separation, we were a wholly-owned subsidiary of Former Viacom. The separation was effected through a merger of Former Viacom and one of its wholly-owned subsidiaries, pursuant to which Former Viacom continued as the surviving entity and was renamed CBS Corporation and we were renamed Viacom Inc. In connection with the merger and the separation, each share of Former Viacom Class A common stock was converted into the right to receive 0.5 of a share of Viacom Class A common stock and 0.5 of a share of CBS Corporation Class A common stock. Similarly, each share of Former Viacom Class B common stock was converted into the right to receive 0.5 of a share of Viacom Class B common stock and 0.5 of a share of CBS Corporation Class B common stock. Holders of Viacom Class A and Class B common stock received cash in lieu of fractional shares.

In accordance with the terms of the Separation Agreement between CBS Corporation and Viacom, on December 29, 2005, we paid a preliminary special dividend of \$5.4 billion to CBS Corporation, subject to certain adjustments. On March 14, 2006, CBS Corporation provided an initial statement that the dividend should be increased by a net amount of approximately \$460 million. On April 28, 2006, we served CBS Corporation with a notice of disagreement. Based on an assessment of the amount and underlying components of the proposed additional dividend payment we recorded a net amount of \$170.2 million at March 31, 2006 which was paid to CBS Corporation on May 5, 2006. Under the Separation Agreement, after an opportunity for the parties to negotiate resolution of differences, any disputed amounts are subject to arbitration. Any further adjustment to the special dividend will be reflected as an adjustment to additional paid-in capital.

The Separation Agreement further provided that the Company is responsible for the first \$195.0 million in costs directly related to the separation. Amounts incurred in excess of \$195.0 million will be funded equally between the Company and CBS Corporation. Included as a component in selling, general and administrative expenses in the Company's Consolidated Income Statement for the year ended December 31, 2005 is \$163.5 million of transaction costs reflected as period expenses. Such amounts principally included investment banking and other professional fees.

In connection with the separation, Viacom and CBS Corporation also entered into certain other agreements in order to govern certain of the ongoing relationships between Viacom and CBS Corporation after the separation. These agreements include a Transition Services Agreement and a Tax Matters Agreement. Related party arrangements are more fully described below and in the notes to the consolidated financial statements.

#### Basis of Presentation

The accompanying consolidated financial statements of the Company are presented on a carve-out basis for periods prior to and including December 31, 2005, and reflect the consolidated historical results of operations, financial position and cash flows of the Company, with operations in two segments: (i) Cable Networks and (ii) Entertainment.

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The assets and liabilities of Viacom have been accounted for at the historical book values carried by Former Viacom prior to the separation and were assigned to Viacom pursuant to the terms of the Separation Agreement. The indebtedness of Former Viacom, other than certain capital lease obligations, was not transferred to Viacom and remains as indebtedness of CBS Corporation. Prior to the separation, Former Viacom centrally managed the cash flows generated from the Company's various businesses. The Invested Capital balance included as a component of Stockholders' Equity in the Company's Consolidated Balance Sheet through the date of separation includes accumulated earnings of the Company as well as receivables/payables due to/from CBS Corporation resulting from cash transfers and intercompany activity. Interest was not charged or credited on amounts due to/from Viacom.

The Consolidated Income Statements include allocations of Former Viacom corporate expenses and Paramount Pictures corporate overhead including accounting, treasury, tax, legal, human resources, information systems and other services as well as depreciation and amortization on allocated costs, to reflect the utilization of such shared services and assets by the Company. Total corporate costs allocated to the Company, excluding separations costs, were approximately \$162.0 million, \$136.2 million, and \$112.6 million for the years ended December 31, 2005, 2004 and 2003, respectively, and were primarily included in Selling, General and Administrative expenses in the accompanying Consolidated Income Statements. Management believes the methodologies used to allocate charges for the services described above are reasonable.

The consolidated financial statements may not necessarily reflect Viacom's results of operations, financial position and cash flows in the future or what Viacom's results of operations, financial position and cash flows would have been had the Company been a separate, stand-alone company during the periods presented. As described above, none of the indebtedness of Former Viacom other than capital lease obligations was assumed by the Company and remains as indebtedness of CBS Corporation. Accordingly, debt service cost is not reflected in the Company's Consolidated Income Statements for the periods prior to the six months ended June 30, 2006.

Famous Players and Blockbuster Inc. have been reported as discontinued operations. Famous Players was sold on July 22, 2005 and Blockbuster was split-off from Former Viacom in 2004.

#### Segments

We are a leading worldwide multiplatform, pure play content company with operations in the following segments:

**Cable Networks:** The Cable Networks segment consists of the businesses of MTV Networks, including MTV: Music Television<sup>®</sup>, MTV2<sup>®</sup>, Nickelodeon<sup>®</sup>, Nick at Nite<sup>®</sup>, Noggin<sup>®</sup>, The N<sup>®</sup>, Nicktoons Network<sup>™</sup>, Turbo Nick<sup>™</sup>, VH1<sup>™</sup>, MTV Land<sup>®</sup>, Spike TV<sup>®</sup>, CMT<sup>®</sup>: Country Music Television<sup>™</sup>, Logo<sup>™</sup>, Comedy Central<sup>™</sup>, Comedy Central's MotherLoad<sup>™</sup>, MTV Desi<sup>™</sup>, MTV Chi<sup>™</sup>, MTV Espanol<sup>™</sup>, mtvU<sup>™</sup>, mtvU Uber<sup>™</sup>, MTV Hits<sup>™</sup>, MTV Jams<sup>™</sup>, TEMPO<sup>™</sup>, MTV Overdrive<sup>™</sup>, MHD<sup>™</sup>, Classic<sup>™</sup>, VHUno<sup>™</sup>, VH1 Soul<sup>™</sup>, VH1 Country<sup>™</sup>, VH1's Vspot<sup>™</sup>, Game One<sup>™</sup>, VIVA<sup>™</sup>, TMF<sup>™</sup>, The Box<sup>™</sup>, Paramount Neopets<sup>™</sup>, GameTrailers.com<sup>™</sup> and IPFLM and the businesses of BET Networks, which include BET<sup>®</sup> (Black Entertainment Television) and BET J<sup>™</sup>; and other program services, including online programming services such as websites, broadband channels and wireless applications.

**Entertainment:** The Entertainment segment includes Paramount Pictures<sup>®</sup>, which produces and distributes feature motion pictures, Famous Music<sup>®</sup>, which engages in the music publishing business, and interests in 19 movie theaters.

Our revenues from the Cable Networks segment accounted for 64% of our consolidated revenues for the six months ended June 30, 2006 and for 70% of our consolidated revenues for 2005. Our revenues from the Entertainment segment accounted for 37% of our consolidated revenues for the six months ended June 30, 2006 and for 31% of our consolidated revenues for 2005. Elimination of intercompany revenues accounted for (1)% of our consolidated revenues for the six months ended June 30, 2006 and for (1)% of our consolidated revenues for 2005.

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### Revenues

We have one of the largest collections of cable programming assets in the world. Our leading program services reach 179 territories through more than 120 worldwide cable networks presented in 28 different languages and reach over 480 million subscriber households worldwide. In the United States, our leading networks program approximately 1,720 hours per week and, according to Nielsen Media Research<sup>®</sup>, reached approximately 150 million television viewers each week in the period from February 2006 to June 2006. Many of our brands, such as MTV, Nickelodeon and VH1, are known worldwide. MTV is one of the most widely distributed television brands and is regularly cited, most recently in 2006, as The World's Most Valuable Media Brand by Interbrand Corp., an international brand consultancy. Nickelodeon, which as of June 2006 was available in approximately 300 million television households worldwide as a full channel or a branded program block, is the world's most widely distributed children's television brand and has been the top-rated cable network for children in the United States for the past 11 years.

Our Cable Networks segment revenues depend on the strength of our brands, which significantly affect our ability to attract and retain advertisers and affiliates. Our revenues depend in part on our success in developing brands that appeal to a wide range of targeted niche audiences and represent demographics sought after by advertisers and affiliates. In addition, the extent of our distribution to specialized audiences and our focus on forging strong connections with our audiences determine whether our networks are an attractive venue for advertisers and affiliates.

Revenues from the Cable Networks segment are generated principally from advertising sales and affiliate fees. The sale of advertising time is affected by the desirability of viewer demographics, viewer ratings and economic conditions in the marketplace that could alter advertisers' spending habits. Affiliate fees consist of subscription fees from cable television operators, DTH satellite operators and other distributors who carry our networks. Our agreements with our distributors generally are long-term, have staggered expiration dates and provide for built-in rate increases and protected distribution. Other Cable Networks revenues consist of revenues from home entertainment sales of our original cable programming, the licensing and merchandising of our cable and consumer products

worldwide and the syndication of cable programming. These revenues are driven primarily by the popularity of our programming airing on our cable networks.

Cable Network's revenue growth depends on the continued increases in advertising revenues and affiliate fees from our distributors through the continued production of compelling content. Growth also depends on our ability to successfully expand onto new distribution platforms such as wireless and the Internet as these platforms become increasingly attractive to advertisers. We believe media fragmentation plays to our strengths, and our intent is to take advantage of emerging technological and consumer trends by extending our brands and distributing our content into new forms of integrated digital distribution, such as broadband, wireless, online community, video-on-demand, high-definition programming and other businesses. We aim to achieve this through a combination of organic growth, investment in our existing and complementary businesses, strategic relationships, and focused acquisitions that fit with our current brands and core competencies.

Revenues from our Entertainment segment are primarily generated from feature film, which includes the exploitation of motion pictures in theatrical release, home entertainment, and other means, including network, pay television, syndication and basic cable revenues. Other Entertainment revenues principally relate to music publishing. The results of operations for the Entertainment segment substantially depend on the public response to our theatrical and DVD releases, our ability to obtain creative talent and story properties, and our films' distribution and marketing success. Therefore, the results of the Entertainment segment can be volatile.

Our strategies for growing Entertainment revenues include implementing a multi-label model capitalizing on MTVN, BET, and DreamWorks brands; owning and increasing our control over international distribution; significantly expanding our home entertainment capabilities; and broadening our portfolio of films with an increased focus on specialty films. Developing synergies across our brands permits us to leverage our core MTVN and BET audiences that open and drive movies. Using

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our creative and marketing advantages in our common research, talent connections and global marketing activities will also benefit Entertainment.

### Operating Expenses

Operating expenses represented approximately 70% and 68% of our total expenses for the six months ended June 30, 2006 and 2005, respectively, and represented approximately 65%, 67% and 69% our total expenses in 2005, 2004 and 2003, respectively. Operating expenses consist of the following:

**Production and program expenses.** In the Cable Networks segment, these expenses reflect amortization cost of all original and acquired programming exhibited on our cable networks. Production and program expenses are generally variable and depend primarily on the cost of on- and off-screen talent, whether or not scripted and whether animated or live. In the Entertainment segment, production and program expenses relate primarily to the amortization of feature film production costs, and development projects, production overhead and acquisition costs.

**Distribution expenses.** These expenses include advertising and other distribution costs incurred primarily with respect to Entertainment product in theatrical or home entertainment release.

Other operating expenses. These expenses primarily include the cost of home entertainment product as well as licensing and merchandising of Cable Networks product.

#### Selling, General and Administrative Expenses

Our selling, general and administrative expenses primarily include expenses incurred for selling and marketing, occupancy, insurance, administrative support activities and public company expenses and for the year ended December 31, 2005, includes separation-related costs of \$163.5 million.

#### Depreciation and Amortization

Our depreciation and amortization primarily relates to owned buildings, leasehold improvements, equipment and transponders, and intangible assets.

#### Acquisitions and Dispositions

On August 9, 2006, we agreed to acquire Atom Entertainment, Inc., a portfolio of four online destinations for casual games, short films and animation, for cash consideration of approximately \$200 million. The acquisition is subject to customary closing conditions and is expected to close in the third quarter. On June 1, 2006, we acquired an additional ten percent interest in Nick UK for \$8.9 million. Previously, Nick UK was a fifty-fifty joint venture with BSkyB. With the additional interest, we obtained control of Nick UK and began consolidating its operations as of June 1, 2006. On May 9, 2006, we completed the acquisition of Xfire, Inc, a leading gaming and social networking service, for initial cash consideration of approximately \$102 million. An additional \$8 million is expected to be paid out over four years based upon continued service of the employees. On January 31, 2006, we completed our acquisition of DreamWorks, a leading producer of live-action motion pictures, television programming and home entertainment products, for approximately \$1.53 billion, net of cash acquired. We also entered into exclusive seven-year agreements for worldwide distribution rights and fulfillment services to films produced by DreamWorks Animation SKG, Inc. Among the assets acquired with the purchase of DreamWorks was a live-action film library consisting of 59 films released through September 16, 2005. On May 5, 2006, we sold a fifty-one percent controlling interest in the entity that owns the library to Soros Strategic Partners LP and Dune Entertainment II LLC, an affiliate of Dune Capital Management LP, for net proceeds of \$675.3 million. We retained a minority interest in the entity that owns the library. In connection with the sale of the live-action film library, Soros entered into exclusive five-year agreements with Paramount Pictures and its international affiliates for distribution and fulfillment services of the live-action library by Paramount Pictures. In the event that Soros and Dune continue to control the entity that owns the film library after the fifth year, the distribution agreement with Paramount Pictures will automatically renew.

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On November 22, 2005, MTV Networks acquired substantially all the assets of GameTrailers LLC, including the internet site GameTrailers.com. GameTrailers.com is the largest online-focused provider and aggregator of broadband video content for video game enthusiasts. On October 12, 2005, MTV Networks acquired IFILM Corp., which owns IFILM.com, a website that allows users to upload and download short video clips, television show segments and movie trailers, for \$49.0 million. On August 2, 2005, Famous Music acquired The Extreme Music Library Limited and Director's Cuts Production Music Limited and their wholly-owned subsidiaries for approximately \$45.1 million. On June 20, 2005, MTV Networks acquired Neopets for approximately \$160.0 million. Neopets is the owner and operator of Neopets.com, a leading online destination and community for kids and young adults, whose members,



among other things, create and care for virtual pets.

During 2004, MTV Networks acquired 97.8% of VIVA, a youth entertainment media company based in Germany, for a total purchase price of \$393.6 million and acquired the remainder in 2005 for \$8.4 million. During 2003, MTV Networks acquired the remaining 50% interest in Comedy Central that it did not previously own for \$1.2 billion.

On July 22, 2005, Former Viacom sold Famous Players, its Canadian-based theater chain, for approximately \$400.0 million. In October 2004, Former Viacom completed the split-off of Blockbuster by exchanging the 72 million shares of Blockbuster Class A common stock and 72 million shares of Blockbuster Class B common stock that it owned for 27,961,165 shares of Former Viacom Class A and Class B common stock.

Consolidated Results of Operations – Six months ended June 30, 2006 vs. six months ended June 30, 2005 and year ended December 31, 2005 vs. year ended December 31, 2004 and year ended December 31, 2004 vs. year ended December 31, 2003

The accompanying consolidated financial statements are presented on a carve-out basis for periods prior to and including December 31, 2005 and reflect the consolidated historical results of operations, financial position and cash flows of the Company, with operations in two segments: (i) Cable Networks which includes MTV Networks and BET Networks and (ii) Entertainment which includes Paramount Pictures, Famous Music publishing operations and interests in 19 movie theaters.

The historical financial statements include allocations of Former Viacom corporate expenses and Paramount Pictures corporate overhead, including accounting, treasury, tax, legal, human resources, information systems and other transactions with Former Viacom. Former Viacom debt, other than capital lease obligations, has not been allocated and the related interest expense is not reflected in results of operations. Management believes the assumptions underlying the consolidated financial statements are reasonable. However, the consolidated financial statements included herein do not necessarily reflect what Viacom's results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been if Viacom had been a stand-alone company during the periods presented. Transactions between Viacom and Former Viacom and between Viacom and CBS Corporation have been identified as transactions between related parties.

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The following table sets forth our results of operations:

(in millions)	Six Months Ended June		Year Ended December 31,		
	30, 2006	2005	2005	2004	2003
Revenues	\$ 5,214.2	\$ 4,408.4	\$ 9,609.6	\$ 8,132.2	\$ 7,304.4
Expenses:					
Operating	2,745.2	2,167.0	4,737.4	3,908.0	3,672.6
Selling, general and administrative	1,018.0	908.9	2,246.8	1,689.8	1,432.1
Depreciation and amortization	164.3	122.1	259.0	251.6	197.9
Total expenses	3,927.5	3,198.0	7,243.2	5,849.4	5,302.6

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Operating income	1,286.7	1,210.4	2,366.4	2,282.8	2,001.8
Interest expense, net	(199.4)	(9.5)	(19.1)	(20.9)	(21.0)
Other items, net	2.2	(8.6)	(29.0)	(17.7)	(24.6)
Earnings from continuing operations before income taxes, equity in earnings (loss) of affiliated companies and minority interest	1,089.5	1,192.3	2,318.3	2,244.2	1,956.2
Provision for income taxes	(359.9)	(470.3)	(1,020.0)	(808.2)	(787.6)
Equity in earnings (loss) of affiliated companies, net of tax	5.8	4.8	9.4	(40.0)	(18.2)
Minority interest, net of tax	(2.2)	(2.2)	(3.8)	(3.1)	(3.0)
Net earnings from continuing operations	733.2	724.6	1,303.9	1,392.9	1,147.4
Discontinued operations, net of tax (a)	21.3	(20.4)	(47.0)	(1,099.2)	(802.8)
Net earnings before cumulative effect of accounting change	754.5	704.2	1,256.9	293.7	344.6
Cumulative effect of accounting change, net of taxes	—	—	—	—	(6.1)
Net earnings	\$ 754.5	\$ 704.2	\$ 1,256.9	\$ 293.7	\$ 338.5

(a) On July 22, 2005, Former Viacom sold Famous Players, its Canadian-based theater chain, to Cineplex Galaxy L.P., and as a result Famous Players is presented as a discontinued operation. In October 2004, the exchange offer for the split-off of Blockbuster was completed. Accordingly, Blockbuster is also presented as a discontinued operation. All prior period amounts have been reclassified to conform to this presentation. For the six months ended June 30, 2006, discontinued operations principally includes the release of reserves resulting from an audit settlement and the effect of adjusting recorded liabilities for lease obligations provided on behalf of Blockbuster and Famous Players to fair value.

Revenues

Revenues for the six months ended June 30, 2006 increased \$805.8 million, or 18%, to \$5.21 billion versus the same period last year. The acquisition of DreamWorks L.L.C., which was consummated on January 31, 2006, and the commencement of distribution activities for DreamWorks Animation SKG Inc. (“DreamWorks Animation”) and DreamWorks live-action films (collectively “DreamWorks”) contributed \$519.5 million, or 64%, of the reported growth for the same period. Cable Networks segment revenue increased 7%, or \$229.2 million, to \$3.32 billion compared to the same period for 2005, driven principally by increases in domestic advertising sales of 8%, or \$126.8 million, to \$1.77 billion and affiliate fee increases of 10%, or \$88.5 million, to \$990.7 million. Entertainment revenues were up \$585.1 million compared to the same period for 2005, principally attributable to DreamWorks.

Our revenues for 2005 of \$9.61 billion increased \$1.48 billion, or 18%, from \$8.13 billion for 2004, reflecting 18% growth in Cable Networks and 19% growth in Entertainment. Our revenues for 2004 of

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\$8.13 billion increased \$827.8 million, or 11%, from \$7.30 billion for 2003, driven by a 20% increase in Cable Networks, partially offset by a decline in Entertainment of 5%. For 2005, acquisitions, including IFILM, Extreme Music and Neopets, and VIVA, which was acquired in 2004, contributed incremental revenues of \$104.2 million, or 1%, to our revenue growth. In 2004, acquisitions, including VIVA and Comedy Central, which was acquired in 2003,

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contributed incremental revenues of \$306.1 million, or 4%, to our revenue growth.

The tables below present our revenues by component, net of intercompany eliminations, for each of the six-month periods ended June 30, 2006 and 2005 and for each of the years ended December 31, 2005, 2004 and 2003.

(in millions)	Six Months Ended June 30,		2006 vs. 2005	Year Ended December 31,		2005 vs. 2004	Year Ended December 31,		2004 vs. 2003
	2006	2005		2005	2004		2003	2003	
Revenues by Component									
Advertising sales	\$1,916.7	\$1,800.5	6%	\$3,963.4	\$3,349.6	18%	\$2,769.0		21%
Feature film	1,786.9	1,277.7	40%	2,873.4	2,394.5	20%	2,561.7		(7)%
Affiliate fees	990.7	902.2	10%	1,824.8	1,640.3	11%	1,448.4		13%
Ancillary	519.9	428.0	21%	948.0	747.8	27%	525.3		42%
Total Revenues by Component	\$5,214.2	\$4,408.4	18%	\$9,609.6	\$8,132.2	18%	\$7,304.4		11%

Percentage of Revenues by Type	Six Months Ended June 30,		Year Ended December 31,		
	2006	2005	2005	2004	2003
Advertising sales	37%	41%	41%	41%	38%
Feature film	34%	29%	30%	30%	35%
Affiliate fees	19%	20%	19%	20%	20%
Ancillary	10%	10%	10%	9%	7%
Total	100%	100%	100%	100%	100%

Operating Expenses

For the six months ended June 30, 2006, operating expenses of \$2.75 billion increased \$578.2 million, or 27%, from \$2.17 billion for the six months ended June 30, 2005. For 2005, operating expenses of \$4.74 billion increased \$829.4 million, or 21%, from \$3.91 billion in 2004. For 2004, operating expenses increased \$235.4 million, or 6%, from \$3.67 billion in 2003. The table below presents our operating expenses by type for each of the six month periods ended June 30, 2006 and 2005 and for each of the years ended December 31, 2005, 2004 and 2003:

(in millions)	Six Months Ended June 30,		2006 vs. 2005	Year Ended December 31,		2005 vs. 2004	Year Ended December 31,		2004 vs. 2003
	2006	2005		2005	2004		2003	2003	
Operating Expenses by Type									
Production and program	\$1,742.1	\$1,403.3	24%	\$3,168.9	\$2,426.0	31%	\$2,193.7		11%
Distribution	813.9	618.4	32%	1,179.0	1,172.2	1%	1,258.2		(7)%
Other	189.2	145.3	30%	389.5	309.8	26%	220.7		40%
Total Operating Expenses	\$2,745.2	\$2,167.0	27%	\$4,737.4	\$3,908.0	21%	\$3,672.6		6%

The major changes in operating expenses were as follows:

For the six months ended June 30, 2006, production and programming expenses increased \$338.8 million, or 24%, versus the same period last year, primarily attributable to increased film amortization and, to a lesser extent, increased amortization for programming airing on the Company's cable networks. Production and program expenses of \$3.17 billion in 2005 increased \$742.9 million, or 31%, from \$2.43 billion in 2004. Cable Networks expenses grew 19% in line with revenue growth. Entertainment expenses grew 49%, or \$421.9 million, driven primarily by two productions War of the Worlds and The Longest Yard. Also contributing to the growth in Entertainment expenses were write-offs of \$31.6 million related to management's decision to abandon certain development projects and increases of \$20 million in development costs associated with the transition to new leadership at Paramount. For 2004, production and program expenses increased \$232.3 million, or 11%, from

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\$2.19 billion in 2003 with an increase in Cable Networks of 23% in line with revenue growth, partially offset by a decrease in Entertainment of 4%, driven by a 19% reduction in development costs and a 3% decline in film amortization, participation and residual expense.

Distribution expenses increased \$195.5 million, or 32%, for the six months ended June 30, 2006. This increase reflects higher print and advertising costs in Entertainment as a result of the timing of spending for theatrical releases and the commencement of distribution activities for DreamWorks Animation and DreamWorks L.L.C. productions. The increase was partially offset by lower distribution expenses in Cable Networks related principally to the timing of DVD releases. Distribution expenses of \$1.18 billion in 2005 increased \$6.8 million, or 1%, from \$1.17 billion in 2004. Distribution expenses for 2004 decreased \$86.0 million, or 7%, from \$1.26 billion in 2003 principally reflecting lower distribution costs for home entertainment releases of feature films.

Other operating expenditures increased \$43.9 million, or 30%, for the six months ended June 30, 2006 versus the same period last year, driven principally by the growth in ancillary revenues and the related participations owed on ancillary revenues generated. Other operating expenses of \$389.5 million in 2005 increased \$79.7 million, or 26%, from \$309.8 million in 2004 due to higher costs associated with home entertainment sales and licensing, which grew by 29% in Cable Networks. Other operating expenses increased \$89.1 million, or 40%, to \$309.8 million in 2004 from 2003 principally due to 37% growth in Cable Networks reflecting higher costs associated with home entertainment sales and licensing and additional costs from Comedy Central, acquired in May 2003.

## Selling, General and Administrative Expenses

Selling, general and administrative expenditures were up \$108.9 million, or 12%, in the six months ended June 30, 2006 compared to the same period for 2005. The increases are driven by higher overhead at Entertainment resulting from the DreamWorks acquisition on January 31, 2006. Corporate expenses also increased 54% for the six months ended June 30, 2006 compared to the same period for 2005 driven principally by higher compensation-related expense, including stock based compensation. An incremental \$14.9 million in compensation expense was recognized for the six months ended June 30, 2006. Selling, general and administrative expenses of \$2.25 billion in 2005 increased \$557.0 million, or 33%, reflecting separation-related charges of \$163.5 million, \$70.5 million in operating segment severance charges and an increase of \$217.9 million, or 16%, in Cable Networks in line with 18% revenue growth. Selling, general and administrative expenses of \$1.69 billion in 2004 increased \$257.7 million, or 18%, primarily reflecting higher employee-related expenses, severance charges of \$28.1 million, as well as twelve months of expenses for Comedy Central, versus seven months in 2003.

## Depreciation and Amortization

Depreciation and amortization increased \$42.2 million for the six months ended June 30, 2006 as compared to the same period for 2005. The increase is principally attributable to the acquisition of DreamWorks. Incremental transponder amortization for the six months ended June 30, 2006 of \$4.3 million also contributed to the overall increases. For 2005, depreciation and amortization increased \$7.4 million, or 3%, from \$251.6 million principally driven by higher intangible asset amortization resulting from acquisitions. For 2004, depreciation and amortization increased \$53.7 million, or 27%, from \$197.9 million in 2003, primarily reflecting capital expenditures increases related to leasehold improvements, equipment and transponders.

## Interest Expense, net

For the six months ended June 30, 2006, interest expense, net increased \$189.9 million, as compared to the same period for 2005, principally due to higher average debt outstanding and higher interest rates in 2006. The higher debt outstanding results from funding the special dividend payment to CBS Corporation made in connection with the separation from Former Viacom in December 2005, the purchase of DreamWorks on January 31, 2006, and the purchase of common stock under the stock repurchase program which began in January 2006. Interest expense, net for 2006 includes costs related

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to our senior notes and debentures, credit facilities, capitalized lease obligations and amounts associated with our derivative financial instruments. For 2005, interest expense decreased by \$1.2 million from \$24.2 million and interest income increased by \$.6 million to \$3.9 million. For 2004, interest expense increased by \$1.0 million to \$24.2 million from \$23.2 million in 2003 and interest income increased by \$1.1 million to \$3.3 million versus \$2.2 million in 2003. Interest expense for 2005 was not materially impacted by the debt incurred by the Company in connection with the payment of the special dividend due to the short period of time the debt was outstanding in 2005. We may incur additional debt for a variety of reasons, including, but not limited to, acquisitions and stock repurchases. We expect interest expense, net for the full year 2006 to be significantly higher in 2006 as compared to 2005, which was prepared on a carve-out basis. See the Unaudited Pro Forma Condensed Consolidated Income Statement.

## Other Items, net

For the six months ended June 30, 2006, other items, net increased \$10.8 million as compared to the same period for 2005, which reflects the transactional foreign exchange gains that occurred in the second quarter, partially offset by the costs associated with the securitization of trade receivables. Other items, net reflected a net loss of \$29.0 million for 2005, \$17.7 million for 2004 and \$24.6 million for 2003, principally consisting of costs associated with securitizing trade receivables of \$15.9 million, \$7.7 million and \$5.7 million, respectively, and foreign exchange losses of \$14.3 million, \$9.3 million, and \$18.9 million, respectively.

## Provision for Income Taxes

The provision for income taxes relates to federal, state, local and foreign income taxes on earnings before income taxes. For the six months ended June 30, 2006, we recorded income tax expense of \$359.9 million on pretax income of \$1.09 billion resulting in an effective tax rate of 33.0%. Included in income tax expense is the release of \$70.7 million of discrete tax and related interest reserves as a result of audit settlements and a reduction in the full year

effective tax rate to 39.6% principally due to a reduction in state and international effective tax rates. Our annual effective tax rate was 44.0% in 2005 versus 36.0% in 2004 and 40.3% before the cumulative effect of accounting changes in 2003. Our higher effective rate for 2005 principally reflects the effect of non-deductible separation-related expenses of \$102.0 million which are included in the total separation costs of \$163.5 million. Included in the 2004 rate was the recognition of \$77.0 million in tax benefits from the resolution of certain income tax audits in 2004. Former Viacom managed its tax position for the benefit of its entire portfolio of businesses, and its tax strategies are not necessarily reflective of the tax strategies that the Company would have followed or will follow as a stand-alone company.

#### Equity in Earnings (Loss) of Affiliated Companies, Net of Tax

Equity in earnings of affiliated companies, net of tax reflected earnings of \$5.8 million for the six months ended June 30, 2006 and increased \$1.0 million as compared to the same period for 2005. The increase was driven principally by the performance of equity affiliates in Brazil and Australia, partially offset by declines at MTV Russia and MTV Italy. Equity in earnings (loss) of affiliated companies, net of tax reflected earnings of \$9.4 million for 2005 and losses of \$40.0 million for 2004 and \$18.2 million for 2003. For 2005, earnings primarily include positive results from MTV Networks international affiliates. For 2004, the loss principally reflected losses from the sale of international theater ventures, partially offset by positive results from other international ventures. For 2003, results principally reflected operating losses from international ventures, partially offset by the positive results of Comedy Central prior to acquisition in May 2003.

#### Minority Interest, Net of Tax

Minority interest, net of tax primarily represents ownership held by third parties of certain international pay television companies. Minority interest, net of tax was flat for the six months ended June 30, 2006 as compared to the same period for 2005.

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#### Discontinued Operations, Net

For the six months ended June 30, 2006, discontinued operations principally includes the release of reserves resulting from an audit settlement and the effect of adjusting recorded liabilities for lease obligations provided on behalf of Blockbuster and Famous Players to fair value. Net earnings (loss) from discontinued operations for prior periods reflects the operating results of Blockbuster and Famous Players through their respective dates of disposition. Discontinued operations reflected losses of \$47.0 million, \$1.1 billion and \$802.8 million for 2005, 2004 and 2003, respectively. Former Viacom recognized a net loss of \$47.0 million in 2005 in connection with the sale of Famous Players. The loss from discontinued operations in 2004 included a non-cash charge of \$1.5 billion (\$1.2 billion net of minority interest and tax) for the impairment of Blockbuster goodwill and other long-lived assets in accordance with SFAS 142 "Goodwill and Other Intangible Assets" and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets."

In 2003, we recorded a non-cash impairment charge related to Blockbuster of approximately \$1.3 billion (\$1.0 billion, net of minority interest and tax) in accordance with SFAS 142. In completing our analysis of the fair value of the video business, several events led to the conclusion that the business had incremental risks that were required to be included in our evaluation of goodwill. Additionally, Blockbuster's review of long-lived assets in conjunction with

SFAS 144 resulted in an impairment charge of approximately \$18.5 million to reduce the carrying value of certain fixed assets in four international markets.

#### Cumulative Effect of Accounting Change, Net of Tax

For 2003, the cumulative effect of accounting change, net of tax, of \$6.1 million, resulted from the adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations."

#### Net Earnings

For the six months ended June 30, 2006 and 2005, we reported consolidated net earnings of \$754.5 million and \$704.2 million, respectively. The \$50.3 million increase was primarily driven by an increase in operating income and reduction of income tax expense, partially offset by increased interest expense. For 2005, we reported consolidated net earnings of \$1.26 billion versus \$293.7 million in 2004 and \$338.5 million in 2003. The increase in net earnings in 2005 was largely attributable to the decline in net loss from discontinued operations and increased revenues of 18%, partially offset by higher operating expenses. The decrease in net earnings in 2004 was driven by the increase in net loss from discontinued operations partially offset by revenue growth primarily from advertising.

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Segment Results of Operations – For the Six Months Ended June 30, 2006 and 2005 and for the Years Ended December 31, 2005, 2004 and 2003

The tables below present our revenues, operating income, and depreciation and amortization by segment for each of the six month periods ended June 30, 2006 and 2005 and each of the years ended December 31, 2005, 2004 and 2003.

(in millions)	Six Months Ended June		Year Ended December 31,		
	30, 2006	2005	2005	2004	2003
Revenues:					
Cable Networks	\$ 3,322.8	\$ 3,093.6	\$ 6,757.8	\$ 5,745.5	\$ 4,775.3
Entertainment	1,948.2	1,363.1	2,995.3	2,513.7	2,655.8
Eliminations <sup>(a)</sup>	(56.8)	(48.3)	(143.5)	(127.0)	(126.7)
Total Revenues	\$ 5,214.2	\$ 4,408.4	\$ 9,609.6	\$ 8,132.2	\$ 7,304.4
Operating Income:					
Cable Networks	\$ 1,331.4	\$ 1,214.3	\$ 2,610.1	\$ 2,265.0	\$ 1,928.9
Entertainment	57.5	54.2	70.1	154.2	189.7
Segment Total	1,388.9	1,268.5	2,680.2	2,419.2	2,118.6
Corporate expenses	(102.2)	(65.8)	(308.5)	(128.1)	(103.8)
Eliminations <sup>(a)</sup>	—	7.7	(5.3)	(8.3)	(13.0)
Total Operating Income	\$ 1,286.7	\$ 1,210.4	\$ 2,366.4	\$ 2,282.8	\$ 2,001.8
Depreciation and Amortization:					
Cable Networks	\$ 121.8	\$ 107.4	\$ 230.8	\$ 223.2	\$ 171.4
Entertainment	36.4	11.1	23.0	19.0	16.8

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Corporate	6.1	3.6	5.2	9.4	9.7
Total Depreciation and Amortization	\$ 164.3	\$ 122.1	\$ 259.0	\$ 251.6	\$ 197.9

(a) Eliminations principally reflect intercompany transactions related to the sale of advertising time to Paramount Pictures and the license of feature films to Cable Networks.  
Cable Networks

Cable Networks contributed 64% of consolidated revenues for the six months ended June 30, 2006. Cable Networks contributed 70% of consolidated revenues for the year ended December 31, 2005, 71% for the year ended December 31, 2004 and 65% for the year ended December 31, 2003.

The table below presents Cable Networks' revenues by component for each of the six month periods ended June 30, 2006 and 2005 and each of the years ended December 31, 2005, 2004 and 2003.

(in millions)	Six Months Ended June 30,		Year Ended December 31,		Year Ended December 31,			
	2006	2005	2005	2004	2005	2004	2003	2004
Revenues by Component			vs.			vs.		vs.
Advertising sales	\$1,942.4	\$1,828.6	6%	\$4,035.3	\$3,410.2	18%	\$2,819.0	21%
Affiliate fees	990.7	902.2	10%	1,824.8	1,640.3	11%	1,448.4	13%
Ancillary	389.7	362.8	7%	897.7	695.0	29%	507.9	37%
Total Revenues by Component	\$3,322.8	\$3,093.6	7%	\$6,757.8	\$5,745.5	18%	\$4,775.3	20%

Six Months Ended June 30, 2006 vs. Six Months Ended June 30, 2005

For the six months ended June 30, 2006, revenues increased 7% to \$3.32 billion compared to the same period for 2005. Domestic revenue for the six months ended June 30, 2006 was up 9% compared with the six months ended June 30, 2005, including advertising revenues up 8%, affiliate fees up 10% and ancillary revenues up 12%, principally based upon higher syndication fees. International revenues were flat as increases in affiliate fees and ancillary revenues were offset by decreases in advertising.

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Domestic advertising revenues increased \$126.8 million, or 8%, offset by a decline in international advertising of \$13.0 million, or 7%. Advertising revenues were down internationally 7% attributable to lower advertising spend, principally in Germany, and the impact of foreign exchange, partially offset by increases across much of the rest of Europe and in emerging markets, principally in Asia and Latin America. Affiliate fees increased \$88.5 million, or 10%, including a 10% growth in international markets driven principally by France due to new channel launches. Domestic affiliate growth increased 10% as a result of both rate and subscriber increases. Ancillary revenues increased \$26.9 million, or 7%, led principally by a 12% growth in domestic ancillary revenues, or \$26.4 million, principally as a result of higher syndication fees resulting from the availability of South Park as well as other licensing



and merchandising revenues when compared to 2005.

For the six months ended June 30, 2006, operating income increased 10% as a result of \$229.2 million of increased revenue, principally advertising revenue, partially offset by a \$97.7 million increase in operating and selling, general and administrative costs as well as an increase in depreciation and amortization. Operating expenses increased \$72.6 million, mostly for domestic networks due primarily to increases in programming and production costs. Original programming increased due to the addition of several new shows including The Colbert Report, The Daily Show, Mind of Mencia and Showbiz Show. Acquired programming also increased mainly due to third-party acquisitions airing subsequent to the second quarter of 2005. The production and programming increases were partially offset by the non-renewal of WWE in 2006. Total selling, general and administrative expenses increased \$25.1 million, mostly due to increases in general and administrative costs. Selling and marketing costs increased \$2.1 million predominantly all within domestic operations. The increase was mainly driven by higher integrated marketing spending as well as advertising expense, including upfront expenses, primarily offset by savings in on-air promotions and consumer marketing campaigns. General and administrative costs account for the remainder of the increase primarily driven by increased facilities costs and stock-based compensation expense. Depreciation and amortization increased \$14.4 million due principally to increases in depreciation related to property, plant and equipment and increased depreciation also related to MTV Europe transponders and acquisition-related amortization.

#### 2005 vs. 2004

For 2005, Cable Networks revenues increased \$1.01 billion, or 18%, to \$6.76 billion principally driven by a \$625.1 million, or 18%, increase in advertising revenues, a \$184.5 million, or 11%, increase in affiliate revenues, and a \$202.7 million, or 29%, increase in ancillary revenues. Advertising sales, which represented 60% of total revenues in 2005 and 59% in 2004, reflected double-digit gains across all MTV Networks domestic channels and BET, as well as 26% growth in international markets. Affiliate fees, which represented 27% of Cable Networks revenues in 2005, were up 11%, reflecting subscriber and rate increases at MTV Networks from new and existing domestic networks and across international geographies as well as subscriber and rate increases at BET. Ancillary revenues, which represented approximately 13% of Cable Networks revenues in 2005, were up 29%, primarily reflecting higher home video revenues as well as higher syndicated fees for Comedy Central and for VIVA. Acquisitions, including VIVA, IFILM and Neopets, contributed \$99 million in incremental revenues in 2005.

For 2005, Cable Networks operating income increased \$345.1 million, or 15%, to \$2.61 billion, reflecting higher revenues, partially offset by 21% and 20% increases in operating expenses and SG&A, respectively. The increase in operating expenses reflected a \$64.1 million increase in original series programming costs at MTV Networks as well as higher amortization expenses associated with new acquired programming, such as CSI: Crime Scene Investigation for Spike, and higher music publishing and license fees. SG&A expenses increased principally due to higher domestic and international marketing expenses of \$92.4 million, increased rent and maintenance costs, as well as severance expense of \$47.9 million at MTV Networks. Total expenses for 2005 also included the full year impact of VIVA, which was acquired in 2004 and the inclusion of IFILM and Neopets.

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#### 2004 vs. 2003

For 2004, Cable Networks revenues increased \$970.2 million, or 20%, to \$5.75 billion, principally driven by a \$591.2 million, or 21%, increase in advertising sales and a \$191.9 million, or 13%, increase in affiliate fees and a 37%

increase in ancillary. Approximately 13% of Cable Networks revenues were generated from international regions, of which approximately 71% came from Europe. Total international revenue growth was 35%, led by Europe, and domestic revenues grew 19%.

Advertising sales, which represented 59% of total revenues in 2004 and 2003, grew as a result of an increase in the number of units sold and higher average rates. MTV Networks' advertising sales grew 22%, led by growth at Comedy Central, Nickelodeon and MTV, as well as the inclusion of VIVA. Advertising revenues at BET grew 11%. The growth in affiliate fees, which represented 29% and 30% of total revenues in 2004 and 2003, respectively, was principally driven by rate increases and subscriber growth at domestic channels. Ancillary revenues, increased \$187.1 million, or 37%, benefiting from increases in Nickelodeon merchandising and licensing and higher home entertainment revenues led by Chappelle's Show DVD sales and higher international syndication sales.

For 2004, Cable Networks operating income increased \$336.1 million, or 17%, to \$2.27 billion, reflecting higher revenues, partially offset by a 22% increase in total expenses. The increase in total expenses for the year included an increase in operating expenses of \$376.3 million, or 24%, which was driven by higher costs for original and acquired programming, particularly at MTV, VH1, Spike, TV Land and BET. Selling, general and administrative expenses for 2004 increased \$205.8 million, or 18%, primarily due to higher sales and marketing-related costs at MTV Networks and increased employee-related expenses. Total expenses also included the full year impact of Comedy Central and the inclusion of VIVA.

VIVA's results, included as part of MTV Networks, contributed \$63.0 million of revenues to Cable Networks for 2004 from the date of acquisition, and contributed 1% to the total revenue increase. Comedy Central, which was acquired in May 2003, contributed 5% to Cable Networks revenue growth for 2004.

#### Entertainment

Entertainment contributed 37% of consolidated revenues for the six months ended June 30, 2006. DreamWorks contributed \$519.5 million for the six months ended June 30, 2006. Entertainment contributed 31% of consolidated revenues for the years ended December 31, 2005 and 2004, and 36% for the year ended December 31, 2003. The table below presents Entertainment's revenues by component for each of the six month periods ended June 30, 2006 and 2005 and each of the years ended December 31, 2005, 2004 and 2003.

(in millions)	Six Months Ended June 30,		Year Ended December 31,			Year Ended December 31,		
	2006	2005	2006 vs. 2005	2005 vs. 2004	2004 vs. 2003	2005 vs. 2004	2004 vs. 2003	
Revenues by Component								
Feature film	\$1,815.7	\$1,291.4	41%	\$2,898.7	\$2,425.4	20%	\$2,576.7	(6)%
Ancillary	132.5	71.7	85%	96.6	88.3	9%	79.1	12%
Total Revenues by Component	\$1,948.2	\$1,363.1	43%	\$2,995.3	\$2,513.7	19%	\$2,655.8	(5)%

#### Six Months Ended June 30, 2006 vs. Six Months Ended June 30, 2005

Feature film includes revenues earned from theatrical, home entertainment and television exhibition. For the six months ended June 30, 2006, entertainment revenues increased 43%, or \$585 million, primarily due to increases in television license fees and theatrical revenues and, to a lesser extent, increases in home entertainment revenues and ancillary revenues. Home entertainment revenues increased 8%, or \$58.0 million, due to incremental DreamWorks revenue of \$157.4 million, substantially offset by lower revenues for Paramount titles. Domestically, Failure to

Launch and Yours, Mine & Ours in the current period compared unfavorably against Lemony Snicket's A Series of Unfortunate Events, The SpongeBob SquarePants Movie and Coach Carter for the comparable 2005 period. Internationally, home video sales of Collateral in the prior period were substantially higher

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than current period titles, including Four Brothers and Elizabethtown. Significant DreamWorks products for the period included Just Like Heaven and Dreamer. The \$258.1 million, or 89%, increase in television fees for the six months ended June 30, 2006 was principally attributable to DreamWorks. DreamWorks contributed an incremental \$202.7 million based upon the availability of such titles as Madagascar, War of the Worlds, and Shark Tale. In addition, Paramount titles contributed to higher pay television and network fees due to the mix and availability of titles. Theatrical revenues increased \$208.2 million based mostly on stronger international performance. DreamWorks contributed \$151.5 million from titles including Over the Hedge, She's the Man, Match Point and Munich. In addition, domestic theatrical releases including Mission: Impossible III and Failure to Launch performed comparably to Longest Yard and Coach Carter, however, international revenues for Mission: Impossible III exceeded those of the comparable War of the Worlds due mostly to the timing of each release as compared to quarter end. The increase in ancillary revenues of \$60.8 million for the six months ended June 30, 2006 was principally driven by studio rental income as well as increased music royalties earned by Famous Music.

Operating income for the six months ended June 30, 2006 increased \$3.3 million compared to the same period for 2005, reflecting increases in television revenues offset by the timing of distribution expenses and higher overhead costs, principally due to the integration of DreamWorks. Operating expenses increased \$506.6 million for the six months ended June 30, 2006, principally driven by increased film amortization due to increased revenues generated from both Paramount and DreamWorks product. Distribution costs increased principally as a result of print and advertising costs associated with the timing of theatrical releases and the larger slate of film product with the addition of DreamWorks L.L.C. and DreamWorks Animation distribution. Selling, general and administrative costs for the six months ended June 30, 2006 increased due to higher overhead resulting from the DreamWorks acquisition on January 31, 2006. The increase in depreciation and amortization for the six months ended June 30, 2006 is principally attributable to the amortization of distribution rights acquired as part of the DreamWorks L.L.C. acquisition.

2005 vs. 2004

For 2005, Entertainment revenues increased \$481.6 million, or 19%, to \$3.0 billion, driven by War of the Worlds, The Longest Yard, Coach Carter, Sahara and Four Brothers. Including home entertainment sales, those five films more than doubled the performance of comparable 2004 titles, including Mean Girls, The Manchurian Candidate, The Stepford Wives, Collateral and Twisted. 2005 also benefited from the carryover impact of the 2004 slate which contributed over \$100 million more to 2005 than the 2003 titles contributed to 2004; however, those gains were partially offset by lower sales from older titles and the carryover impact of the 2003 DVD release of The Adventures of Indiana Jones titles in 2004. Approximately 40% of Entertainment's revenues were partially generated from international regions in 2005, principally Europe and Canada.

For 2005, Entertainment operating income decreased \$84.1 million, or 55%, to \$70.1 million, primarily due to a \$31.6 million charge related to the abandonment of development projects started by prior management, severance costs of \$22.6 million incurred to adjust Paramount's overhead structure, and incremental development costs of approximately \$20 million.

## 2004 vs. 2003

For 2004, Entertainment revenues decreased \$142.1 million, or 5%, to \$2.51 billion, principally reflecting lower feature film revenues, partially offset by higher ancillary revenues from music publishing. Approximately 39% of Entertainment's revenues were generated from international regions in 2004, principally Europe and Canada.

For 2004, feature film revenues decreased \$151.3 million, or 6%, principally reflecting 11% lower worldwide home entertainment revenues as contributions from 2004 titles, including Mean Girls, School of Rock, The Manchurian Candidate, The Stepford Wives and Paycheck, did not match the success of the prior year's titles led by The Adventures of Indiana Jones—the Complete DVD Movie Collection, How To Lose A Guy In 10 Days and The Italian Job. Worldwide theatrical revenues

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decreased 3% with releases, including Mean Girls, Collateral, Lemony Snicket's A Series of Unfortunate Events, The SpongeBob SquarePants Movie and The Manchurian Candidate. Ancillary revenues, primarily from music publishing, increased \$9.2 million, or 12%, to \$88.3 million in 2004.

For 2004, Entertainment operating income decreased \$35.5 million, or 19%, to \$154.2 million primarily due to the revenue decreases noted above, partially offset by a \$106.6 million, or 4%, decrease in total expenses primarily from operating expenses. The decrease in operating expenses principally reflected lower film distribution costs, film amortization and participation and residual expenses. Selling, general and administrative expenses increased 13% due in part to a severance charge of \$10.4 million recorded in the second quarter of 2004 related to a management change.

License fees for television exhibition of completed motion pictures are recorded as revenue in the period that the products are available for such exhibition, which, among other reasons, may cause substantial fluctuation in operating results. Unrecognized revenues attributable to television licensing agreements were approximately \$1.1 billion as of December 31, 2005 and \$1.2 billion as of December 31, 2004 and 2003, including intercompany revenues of \$61.3 million, \$65.9 million and \$68.9 million, respectively.

## Cash Flows

Cash and cash equivalents decreased by \$49.0 million for the six months ended June 30, 2006 and \$211.1 million for the year ended December 31, 2005.

(in millions)	Six Months Ended June		Year Ended December 31,		
	30, 2006	2005	2005	2004	2003
Cash provided by operating activities	\$ 574.7	\$ 683.6	\$ 1,627.4	\$ 1,989.9	\$ 1,911.0
Cash used for investing activities	(314.8)	(239.4)	(165.1)	(288.6)	(1,594.6)
Cash used for financing activities	(315.7)	(472.5)	(1,251.2)	(1,844.4)	(220.3)

## Operating Activities

Cash provided by operating activities decreased by \$108.9 million as compared to the six months ended June 30, 2005. The decrease was principally driven by higher investments in film, substantially driven by DreamWorks and Cable Networks programming as well as higher cash interest payments, partially offset by lower cash tax payments.

Cash provided by operating activities of \$1.63 billion for the year ended December 31, 2005 decreased \$362.5 million versus 2004. The decrease was principally due to a decrease in cash flows attributable to discontinued operations of \$285.8 million, lower net earnings from continuing operations and higher cash taxes paid in 2005.

In 2004, cash provided by operating activities increased \$78.9 million to \$1.99 billion from \$1.91 billion for the same prior year period. The increase primarily reflected higher earnings from continuing operations in 2004 and higher receivable collections in 2004, partially offset by a decrease in cash flow provided by discontinued operations in 2004 and the timing of the split-off of Blockbuster which occurred in October 2004. In 2003, cash provided by operating activities increased \$310.2 million to \$1.9 billion, principally due to higher earnings from continuing operations in 2003 and higher cash flow provided by discontinued operations.

#### Investing Activities

Net cash utilized for investing activities in the six months ended June 30, 2006 increased \$75.4 million as compared to the comparable 2005 period due to the acquisition of DreamWorks and Xfire, partially offset by the sale of the live-action library in the second quarter.

Cash used for net investing activities of \$165.1 million for the year ended December 31, 2005 principally reflected acquisitions of \$356.1 million, consisting primarily of the acquisition of Neopets,

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IFILM and Extreme Music, and capital expenditures of \$193.0 million, partially offset by proceeds from dispositions of \$404.2 million, primarily from the sale of Famous Players. Capital expenditures of \$193.0 million increased \$52.5 million, or 37%, principally reflecting increased investment in information systems in part related to the separation from the Former Viacom and leasehold improvements. Capital expenditures for Cable Networks were \$142.5 million, \$86.9 million and \$81.7 million for 2005, 2004 and 2003, respectively. The 64% incremental spending in 2005 is largely attributable to investments in technology and information systems. Entertainment capital expenditures were \$46.7 million, \$29.2 million and \$27.6 million for 2005, 2004 and 2003, respectively. The 60% incremental spending in 2005 primarily relates to information systems and improvements to Paramount's studio assets.

In 2004, cash used for investing activities of \$288.6 million reflected acquisitions of \$363.7 million, primarily consisting of the acquisition of VIVA, capital expenditures of \$140.5 million and cash flow attributable to discontinued operations of \$433.3 million partially offset by the \$738.1 million special distribution paid by Blockbuster in the third quarter of 2004. Capital expenditures increased \$26.2 million, or 23%, to \$140.5 million in 2004. Net cash expenditures for investing activities of \$1.6 billion for the year ended December 31, 2003 principally reflected acquisitions of \$1.3 billion and capital expenditures of \$114.3 million. Acquisitions in 2003 included the acquisition of the remaining 50% interest in Comedy Central for \$1.2 billion. Investing activities also included additional investments in affiliated companies which totaled \$74.3 million in 2004 and \$23.2 million in 2003.

#### Financing Activities

For the period ended June 30, 2006, we utilized the \$5.47 billion of net proceeds from two private placements of debt securities to repay a significant portion of amounts previously outstanding under our credit facilities. For the six months ended June 30, 2006, we borrowed a net \$1.89 billion, the proceeds of which were primarily utilized for acquisitions, principally DreamWorks, and the purchase of treasury stock.

Cash used for financing activities for 2005 principally reflected the net contribution to Former Viacom. Since the businesses of Viacom were held directly or indirectly by Former Viacom, daily cash needs of Viacom were funded by Former Viacom and cash generated by the operations of Viacom was swept daily to Former Viacom for general corporate purposes, including acquisitions and stock repurchases.

In accordance with the terms of the Separation Agreement, on December 29, 2005 the Company paid a preliminary special dividend to the Former Viacom of \$5.4 billion. The dividend reduced the Company's Stockholders' Equity in the Company's Consolidated Balance Sheet as of December 31, 2005 and was funded by borrowings under the Company's term loan facility, which is more fully described in the Liquidity and Capital Resources section. Pursuant to the provisions of the Separation Agreement, the preliminary special dividend is subject to adjustments for, among other items, actual Former Viacom debt as of the date of the separation and actual CBS Corporation cash flow for the full year 2005, compared to estimates used to calculate the preliminary dividend paid on December 29, 2005. On March 14, 2006, we received from CBS Corporation an initial statement that the dividend should be increased by a net amount of approximately \$460 million. Based on an assessment of the amount and underlying components of the proposed additional dividend payment we recorded a net amount of \$170.2 million at March 31, 2006 which was paid to CBS Corporation on May 5, 2006. Under the Separation Agreement, after an opportunity for the parties to negotiate resolution of differences, any disputed amounts are subject to arbitration. Any further adjustment to the special dividend will be reflected as an adjustment to additional paid-in capital.

In 2004, cash flow used for financing activities of \$1.8 billion principally reflected the net contribution to Former Viacom of \$1.7 billion. In 2003, cash flow uses for financing activities of \$220.3 million primarily reflected \$361.9 million used by discontinued operations partially offset by \$189.1 million of funding from Former Viacom. The funding in 2003 was due to the \$1.2 billion acquisition of Comedy Central, partially offset by operating cash flow contributed to Former Viacom.

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### Stock Repurchase Program

The Company has a \$3.0 billion share repurchase program which was approved by the Former Viacom Board on December 8, 2005 and ratified by our Board on January 26, 2006. As of September 14, 2006, 44.4 million shares had been repurchased in the open market under the program for an aggregate purchase price of approximately \$1.73 billion, and an additional 5.8 million shares had been purchased under the NAIRI Agreement for an aggregate purchase price of \$224.7 million. See "Certain Relationships and Related Party Transactions" beginning on page 95.

### Liquidity and Capital Resources

#### Commercial Paper

At June 30, 2006, Viacom's commercial paper had a weighted average interest rate of 5.59% and average maturity of less than 30 days.

## Viacom Credit Agreement

As of June 30, 2006, our credit facilities were comprised of a \$3.25 billion revolving facility due December 2010, and a \$560 million term facility due in June 2007 (collectively, the “Credit Facilities”). The terms of the Credit Facilities are described in Note 10 to the audited consolidated financial statements. In the first six months of 2006, we issued \$5.5 billion in aggregate principal amount of senior notes and debentures and utilized the net proceeds to repay a portion of amounts borrowed under the term facility. See “— Private Placements of Senior Notes and Debentures” below.

The revolving facility was entered into on December 8, 2005, and became effective on December 31, 2005. The primary purpose of this facility is to fund short-term liquidity needs and to support commercial paper borrowings. The term facility was entered into on December 8, 2005 and became effective on December 29, 2005. As of June 30, 2006, we had outstanding borrowings of \$560 million under the term facility. The net proceeds of any offering of long-term debt securities by us must be used to prepay the term facility. To the extent the term facility has been repaid, the borrowing capacity under the facility is permanently extinguished.

In connection with the DreamWorks acquisition, we borrowed approximately \$1.1 billion in the aggregate under our revolving facility and under Tranche B of our term facility.

Borrowing rates under the Credit Facilities are determined at our option at the time of each borrowing and are based generally on the prime rate in the United States or the London Interbank Offer Rate plus a margin based on our senior unsecured credit rating. We also pay a facility fee based on the total amount of the commitments under the revolving facility and a portion of the term facility. At our option, we may borrow in certain foreign currencies up to specified limits under the revolving facility.

The Credit Facilities contain covenants, which, among other things, require that we maintain a minimum interest coverage ratio. At June 30, 2006, we were in compliance with all covenants under the Credit Facilities.

### Private Placements of Senior Notes and Debentures

On April 12, 2006, we announced the completion of a private placement of \$4.75 billion in aggregate principal amount of senior notes and debentures. The senior notes due 2011 totaling \$1.5 billion bear interest at 5.75% per annum. The senior notes due 2016, also totaling \$1.5 billion, bear interest at 6.25% per annum. The senior debentures due 2036 totaling \$1.75 billion bear interest at 6.875% per annum. We utilized the net proceeds to repay a portion of amounts borrowed under the term facility. We agreed to use our reasonable best efforts to publicly register such securities pursuant to a registration rights agreement.

On June 16, 2006, we announced the completion of a private placement of \$750,000,000 in aggregate principal amount of senior floating rate notes due 2009. The 2009 senior notes bear interest

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at a rate per year equal to three-month LIBOR plus 0.35%, to be reset quarterly. We utilized the net proceeds to repay a portion of amounts borrowed under the term facility. We agreed to use our reasonable best efforts to publicly register such securities pursuant to a registration rights agreement.

The senior notes and debentures are our unsecured senior obligations and rank equally with all of our existing and future unsecured senior obligations. The senior notes and debentures are structurally subordinated to all obligations of our subsidiaries, including claims with respect to trade payables. We may redeem some or all of the 2011 senior notes, the 2016 senior notes and the 2036 senior debentures at any time and from time to time at their principal amount, plus the applicable premium and accrued interest. Pursuant to the terms of the indentures under which the senior notes and debentures were issued, our ability to (i) consolidate, merge or sell all or substantially all of our assets, (ii) create liens and (iii) enter into sale and leaseback transactions, is limited, subject to a number of important qualifications and exceptions as set forth in the indentures.

Financing obligations consist of the following at June 30, 2006 and December 31, 2005:

(in millions)	June 30, 2006	December 31, 2005
Credit facilities	\$ 560.0	\$ 5,405.0
Senior notes due 2009, LIBOR + 0.35%	750.0	—
Senior notes due 2011, 5.75%	1,491.3	—
Senior notes due 2016, 6.25%	1,493.6	—
Senior debentures due 2036, 6.875%	1,732.7	—
Commercial Paper	1,295.9	—
Obligations under capital leases	337.5	352.9
Total debt	7,661.0	5,757.9
Less current portion	59.4	55.8
Total long-term debt from continuing operations, net of current portion	\$ 7,601.6	\$ 5,702.1

We believe that our operating cash flows, cash and cash equivalents, borrowing capacity under committed bank facilities and future access to capital markets will be sufficient to fund our operating needs, including commitments, contingencies, capital and investing commitments, and our financing requirements. The funding for our commitments to purchase programming rights, film operations, and talent contracts will come primarily from cash flow from operations.

We project anticipated cash requirements, which include capital expenditures, share purchases, acquisitions, and payments on our indebtedness, principally to be financed from cash flows generated from operating activities. Any future net cash funding requirements are expected to be financed with short-term borrowings and long-term debt.

The Company anticipates that future debt maturities will be funded with cash and cash equivalents, cash flows generated from operating activities and future access to capital markets. There can be no assurance that the Company will be able to access capital markets on terms and conditions that will be acceptable to it.

There are no provisions in any of the Company's material financing agreements that would cause an acceleration of the obligation in the event of a downgrade in the Company's debt ratings.



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As of December 31, 2005, our significant contractual obligations, including payments due by period, were as follows:

(in millions)	Payments Due by Period						2011 and thereafter
	Total	2006	2007	2008	2009	2010	
Programming and talent commitments <sup>(1)</sup>	\$ 1,064.3	\$ 318.0	\$ 180.8	\$ 167.9	\$ 88.9	\$ 68.8	\$ 239.9
Operating leases <sup>(2)</sup>	\$ 859.7	\$ 137.7	\$ 127.9	\$ 114.7	\$ 105.4	\$ 73.5	\$ 300.5
Purchase obligations <sup>(3)</sup>	\$ 95.1	\$ 82.3	\$ 9.1	\$ 1.7	\$ 1.3	\$ .7	\$ —
Capital lease obligations (including interest) <sup>(4)</sup>	\$ 444.9	\$ 76.8	\$ 75.2	68.2	\$ 64.7	\$ 47.1	\$ 112.9
Long-term debt <sup>(5)</sup>	\$ 5,405.0	\$ —	\$ 5,405.0	\$ —	\$ —	\$ —	\$ —
Other long-term liabilities <sup>(6)</sup>	\$ 989.0	\$ —	\$ 539.9	\$ 234.8	\$ 100.7	\$ 52.5	\$ 61.1

(1) Programming and talent commitments primarily include \$824.9 million relating to cable programming and feature film production and acquisitions and \$234.4 million for talent contracts.

(2) Includes long-term non-cancelable operating lease commitments for retail and office space and equipment, transponders, studio facilities and vehicles.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including open purchase orders.

(4) Includes capital leases for satellite transponders.

(5) On June 16, 2006, we completed a private placement of \$750 million in aggregate principal amount of floating rate senior notes. The senior notes are due on June 16, 2009 and bear interest at a rate per year equal to three-month LIBOR plus 0.35% to be reset quarterly. On April 12, 2006, we completed a private placement of \$4.75 billion in aggregate principal amount of fixed rate senior notes and debentures due 2011, 2016 and 2036 that each bear a fixed per annum interest rate. At June 30, 2006, the total unamortized discount related to the fixed rate senior notes and debentures was \$32.4 million. We utilized the net proceeds from both private placements to repay a portion of amounts previously borrowed under the term facility. As such, as of June 30, 2006, \$560 million remains outstanding under the term facility which is due in June 2007. In addition, at June 30, 2006, we had \$1,295.9 million of commercial paper outstanding, which is considered a non-current obligation as we have the intent and ability to refinance through the utilization of our \$3.25 billion revolving facility due December 2010.

(6) Long-term contractual obligations primarily consist of participations due to producers and residuals and cable program liabilities.

### Off-Balance Sheet Arrangements

Our off-balance sheet arrangements primarily consist of an accounts receivable securitization program and guarantees.

#### Accounts Receivable Securitization Program

As of June 30, 2006, we had a total of \$450.0 million outstanding under a revolving receivable securitization program. The program resulted in the sale of receivables on a non-recourse basis to unrelated third parties on a one-year renewable basis, thereby reducing accounts receivable and debt on our balance sheets. We enter into this arrangement because it provides a cost-efficient form of financing and an additional source of liquidity. The terms of the revolving securitization arrangement require that the receivable pools subject to the program meet certain performance ratios. We are in compliance with the required ratios under the receivable securitization program for all periods presented.

#### Guarantees

We follow the recognition provisions of Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which we refer to herein as "FIN 45," for guarantees, including indemnities, issued or modified after December 31, 2002. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of an obligation assumed by issuing a guarantee. FIN 45 also requires additional disclosures for certain guarantees. The adoption of FIN 45 did not have a significant impact on our financial position, results of operations or cash flows.

Under the terms of the DW Funding LLC sale agreement, more fully described in Note 3 (Business Combinations and Dispositions) to the unaudited interim consolidated financial statements,

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for the six months ended June 30, 2006, Soros Strategic Partners LP and Dune Entertainment II LLC, an affiliate of Dune Capital Management LP, can require us to purchase and we can require Soros and Dune to sell their respective interests via a call obligation at the then-current value of DW Funding commencing nine months prior to the fifth anniversary of the sale. To the extent the current fair value at the option closing date is insufficient to repay the related indebtedness of DW Funding, we would be required to repay certain lenders all accrued and unpaid interest and principal amounts outstanding. As of June 30, 2006, the maximum aggregate principal amount that would be payable under such provisions of the agreement is \$102.8 million. Therefore, as of June 30, 2006, our maximum exposure to loss as a result of our involvement with DW Funding is the \$102.8 million previously described as well as the \$7.35 million we paid for our equity investment.

In connection with the separation, we agreed to indemnify CBS Corporation with respect to obligations of Former Viacom as guarantor on certain Blockbuster store leases. Blockbuster's obligations under these store leases aggregated approximately \$329.6 million at June 30, 2006. Certain leases contain renewal options that can extend the primary lease term and remain covered by the guarantees. Blockbuster's indemnification obligations are secured by a \$150.0 million letter of credit. We had established a liability of \$53.2 million to reflect the fair value of our indemnification obligation as reflected in the accompanying Consolidated Balance Sheet at June 30, 2006. Blockbuster has agreed to indemnify Former Viacom with respect to any amount paid under these guarantees.

In the third quarter of 2005, Former Viacom sold Famous Players, an operator of movie theaters in Canada. CBS Corporation may incur liabilities associated with Famous Players theater leases. Famous Players obligations under these theater leases aggregated approximately \$1.07 billion at June 30, 2006. We agreed to indemnify CBS Corporation with respect to any liability under these theater leases. We had established a liability of approximately \$200.6 million to reflect the fair value of these indemnification obligations as reflected in the accompanying Consolidated Balance Sheet at June 30, 2006.

In the fourth quarter of 2004, Former Viacom sold substantially all of its 50% equity interest in UCI, which operates movie theaters in Europe, Latin America and Asia. In connection with the separation, we agreed to indemnify CBS Corporation with respect to the obligations of Former Viacom as guarantor on certain UCI theater leases. These guarantees totaled approximately \$152.4 million at December 31, 2005 and are secured by bank guarantees provided by the buyer. Former Viacom had guaranteed UCI's debt obligations under a revolving credit facility which was repaid during the fourth quarter of 2004, and contributed \$29.1 million toward the repayment of UCI's debt obligation under the terms of this guarantee.

We also own a 50% interest in WF Cinema Holdings, L.P. and a 35% interest in Grauman's Theaters LLC. Viacom has guaranteed certain of these theater leases. These guarantees totaled approximately \$10.0 million at December 31, 2005 and \$13.3 million at December 31, 2004. The lease guarantees would only be triggered upon non-payment by the respective primary obligors. These guarantees are not recorded on the balance sheet as of December 31, 2005 as they were provided by the Company prior to the adoption of FIN 45. We agreed to indemnify CBS Corporation with respect to any obligations of Viacom under these guarantees.

Additionally, we have indemnification obligations with respect to letters of credit and surety bonds primarily used as security against non-performance in the normal course of business. The outstanding letters of credit and surety bonds approximated \$29.8 million at December 31, 2005 and \$24.8 million at December 31, 2004 and are not recorded on the balance sheet as of December 31, 2005 and December 31, 2004.

#### Legal Matters

In July 2002, judgment was entered in favor of Former Viacom, Blockbuster, Paramount Home Entertainment and other major motion picture studios and their home video subsidiaries with respect to a complaint filed in the United States District Court for the Western District of Texas. The complaint included federal antitrust and California state law claims. In August 2003, the U.S. Court of Appeals for the Fifth Circuit affirmed the federal court judgment. The U.S. Supreme Court refused

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plaintiffs' petition for writ of certiorari in March 2004. In February 2003, a similar complaint that had been filed in a Los Angeles County Superior Court was also dismissed with prejudice. The plaintiffs appealed the California state court dismissal, as well as a prior denial of class certification. On November 22, 2005, the California Court of Appeal affirmed the trial court's dismissal of the antitrust and conspiracy claims. The court reversed the dismissal of California Unfair Practices Act and Unfair Competition Act claims and remanded those claims to the trial court, except with regard to transactions between Paramount and Blockbuster as to which the trial court dismissal was affirmed. Blockbuster remains a defendant in the case with respect to our transactions with studios other than Paramount. As the result of the split-off of Blockbuster from Former Viacom in 2004, any judgment in this matter adverse to Former Viacom, Blockbuster and/or Paramount Home Entertainment may be allocated 33.33% to Blockbuster and 66.67% to Former Viacom. Pursuant to the Separation Agreement, we have assumed and will indemnify CBS Corporation for Former Viacom's responsibility for losses in this matter.

On July 13, 2005, two identical shareholder derivative lawsuits were filed against Former Viacom. The suits, consolidated as *In re Viacom Shareholders Derivative Litigation*, relate to the compensation of Sumner Redstone, Tom Freston and Leslie Moonves, each of whom were executive officers of Former Viacom. Mr. Redstone is currently our Executive Chairman of the Board and Founder and Mr. Freston was, until September 5, 2006, our President and Chief Executive Officer. Mr. Moonves is the President and Chief Executive Officer of CBS Corporation. The plaintiffs claim that the compensation of these officers was excessive and unwarranted and not entirely fair to Former Viacom and its shareholders. Plaintiffs seek disgorgement of compensation paid to the named officers in 2004, unspecified damages from members of Former Viacom's Board of Directors for alleged breach of fiduciary duty, and other relief. In June 2006, the trial court denied Former Viacom's motion to dismiss the case on procedural and substantive grounds. Former Viacom and the other defendants have appealed this decision. On August 29, 2006, the Board of Directors of CBS Corporation appointed a special litigation committee that has been delegated the authority to evaluate the derivative claims raised in this case, to determine whether pursuit of the derivative claims

in the case is in the best interests of CBS Corporation and its stockholders, and to determine the actions, if any, CBS Corporation should take with respect to the derivative claims. Under the Separation Agreement, liabilities arising from and control of claims relating to the pre-separation compensation to officers of Former Viacom are shared equally by Viacom and CBS Corporation.

In late 2005 and early 2006, Former Viacom was named as a defendant in three lawsuits in the United States District Court for the Northern District of Texas and one lawsuit in the United States District Court for the Southern District of New York, each relating to the 2004 split-off of Blockbuster from Former Viacom. In August 2006, an additional lawsuit was filed in the Delaware Court of Chancery. The lawsuits name as defendants various combinations of NAI, Former Viacom, Blockbuster, and certain of their respective present and former officers and directors, including some individuals who are officers and directors of New Viacom. The Texas lawsuits are purported class actions which allege violations of the federal securities laws. The New York case is a purported class action which alleges that the defendants breached fiduciary obligations to the Blockbuster Investment Plan in violation of the Employee Retirement Income Security Act by continuing to offer to plan participants Blockbuster stock from and after November 2003 and by offering to plan participants the opportunity to exchange their shares of Former Viacom common stock for the shares of Blockbuster common stock that were owned by Former Viacom in connection with the 2004 split-off transaction. The Delaware case is a purported class action which alleges that the directors of Former Viacom at the time of the split-off breached certain fiduciary obligations to Viacom shareholders. Plaintiffs in each of the lawsuits allege that the defendants made untrue statements of material facts and concealed and failed to disclose material facts with respect to Blockbuster's business prospects. The lawsuits seek damages in unspecified amounts and other relief. In connection with the split-off, Blockbuster agreed to indemnify Former Viacom and our employees, officers and directors with respect to liabilities arising out of any material untrue statements and omissions in those portions of the 2004 Prospectus-Offer to Exchange relating to the split-off that were provided by Blockbuster. In July 2006, Former Viacom and Blockbuster moved to dismiss the New York case and the motion remains pending. In August 2006, the New York case was transferred to federal court in Texas on motion of

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Blockbuster and consent of the plaintiffs. The Texas cases have been consolidated and the plaintiffs filed an amended consolidated complaint. The defendants intend to file a motion to dismiss the amended complaint. Pursuant to the Separation Agreement we will indemnify CBS Corporation for any losses arising from these lawsuits.

We believe that the plaintiffs' positions in these litigations are without merit and intend to vigorously defend ourselves in the litigations. 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 above-described legal matters 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 cash flows.

## Recent Accounting Pronouncements

In July 2006, FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (“FIN 48”), was released. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48

are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not-recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings. FIN 48 will be effective for the Company beginning January 1, 2007. The Company is evaluating the impact of adopting of FIN 48.

In March 2006, Statement No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, (“FAS 156”) was released. FAS 156 amends Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, (“FAS 140”) to require that all separately recognized servicing assets and liabilities in accordance with FAS 140 be initially measured at fair value, if practicable. Furthermore, this standard permits, but does not require, fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. FAS 156 is also effective for the Company beginning January 1, 2007; however, the standard is not expected to have any impact on the Company's financial position, results of operation or cash flows.

In February 2006, Statement No. 155, Accounting for Certain Hybrid Financial Instruments, (“FAS 155”) was released. FAS 155 is an amendment of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and FAS 140. FAS 155 establishes, among other items, the accounting for certain derivative instruments embedded within other types of financial instruments; and, eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective for the Company beginning January 1, 2007, FAS 155 is not expected to have any impact on the Company's financial position, results of operations or cash flows.

In the first quarter of 2006, the Company adopted Statement No. 154, Accounting for Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3, (“FAS 154”) which changed the requirements for the accounting for and reporting of a voluntary change in accounting principle. The Company also adopted Statement No. 151, Inventory Costs – an amendment of ARB No. 43, Chapter 4” (“FAS 151”) which, among other changes, requires certain abnormal expenditures to be recognized as expenses in the current period versus capitalized as a component of inventory. The adoption of FAS 154 did not impact the results presented and the impact on any future periods will depend on the nature and significance of any future accounting changes subject to the provisions of the statement. The adoption of FAS 151 did not have any impact on the Company's financial position, results of operations or cash flows.

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### Market Risk

We are exposed to market risk related to foreign currency exchange rates and interest rates. We use or expect to use derivative financial instruments to modify exposure to risks from fluctuations in foreign currency exchange rates and interest rates. In accordance with our policy, we do not use derivative instruments unless there is an underlying exposure and therefore, we do not hold or enter into financial instruments for speculative trading purposes.

### Foreign Exchange Risk

We conduct business in various countries outside the United States, resulting in exposure to movements in foreign exchange rates when translating from the foreign local currency to the U.S. dollar. In order to hedge anticipated cash flows and foreign currency balances in such currencies as the Euro, the British Pound, the Japanese Yen, the Canadian Dollar and the Singapore Dollar, foreign currency forward and option contracts are used. Additionally, we designate forward contracts used to hedge future production costs as cash flow hedges, and designate certain forward contracts

as a hedge of the foreign currency exposure of a net investment in a foreign operation. The change in fair value of the non-designated contracts is included in current period earnings as part of "Other items, net." We manage the use of foreign exchange derivatives centrally. At December 31, 2005, the notional value of all foreign exchange contracts was \$109.1 million, of which \$33.6 million related to the hedging of future production costs. The remaining \$75.5 million represents hedges of underlying foreign currency balances and expected foreign currency net cash flows. At December 31, 2004, the notional value of all foreign exchange contracts was \$174.8 million, of which \$74.6 million related to the hedging of future production costs. The remaining \$100.2 million represents hedges of underlying foreign currency balances and expected foreign currency net cash flows. At December 31, 2003, the notional value of all foreign exchange contracts of \$79.5 million represented hedges of underlying foreign currency balances and expected foreign currency net cash flows.

#### Interest Rate Risk

Our interest expense is exposed to movements in short-term rates. Swap agreements may be used to modify this exposure. For the quarter ended March 31, 2006, we had entered into \$2.35 billion notional amount of variable to fixed interest rate swaps to hedge the variability of cash flows attributable to changes in the benchmark interest rate. In the second quarter of 2006, we terminated the swaps resulting in cash proceeds to us of approximately \$88.0 million. As of December 31, 2005 and December 31, 2004, there were no interest rate swaps outstanding. We have variable-rate debt that had an outstanding balance of \$5.4 billion as of December 31, 2005. Based on our variable-rate obligations outstanding at December 31, 2005, a 1% increase or decrease in the level of interest rates would, respectively, increase or decrease our annual interest expense and related cash payments by approximately \$54.0 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of variable-rate debt for all maturities and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period. Conversely, since almost all of our cash balance of approximately \$361.1 million, as of December 31, 2005, was invested in variable-rate interest earning assets, we would also earn more (less) interest income due to such an increase (decrease) in interest rates.

#### Credit Risk

We continually monitor our positions with, and credit quality of, the financial institutions which are counterparties to our financial instruments. We are exposed to credit loss in the event of nonperformance by the counterparties to the agreements. However, we do not anticipate nonperformance by the counterparties.

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#### BUSINESS

##### Separation from the Former Viacom Inc.

On December 31, 2005, we became a stand-alone public entity by separating from Former Viacom. Prior to the separation, we were a wholly-owned subsidiary of Former Viacom. The separation was effected through a merger of Former Viacom and one of its wholly-owned subsidiaries, pursuant to which Former Viacom continued as the surviving entity and was renamed CBS Corporation and we were renamed Viacom Inc. In connection with the merger and the separation, each share of Former Viacom Class A common stock was converted into the right to receive 0.5 of a share of Viacom Class A common stock and 0.5 of a share of CBS Corporation Class A common stock. Similarly, each share of Former Viacom Class B common stock was converted into the right to receive 0.5 of a share of Viacom

Class B common stock and 0.5 of a share of CBS Corporation Class B common stock. Holders of Viacom Class A and Class B common stock received cash in lieu of fractional shares.

In accordance with the terms of the Separation Agreement between CBS Corporation and Viacom, on December 29, 2005, we paid a preliminary special dividend of \$5.4 billion to CBS Corporation, subject to certain adjustments. On March 14, 2006, CBS Corporation provided an initial statement that the dividend should be increased by a net amount of approximately \$460 million. On April 28, 2006, we served CBS Corporation with a notice of disagreement. Based on an assessment of the amount and underlying components of the proposed additional dividend payment, we recorded a net amount of \$170.2 million at March 31, 2006, which was paid to CBS Corporation on May 5, 2006. Under the Separation Agreement, after an opportunity for the parties to negotiate resolution of differences, any disputed amounts are subject to arbitration. Any further adjustment to the special dividend will be reflected as an adjustment to additional paid-in capital.

## Overview

We are a leading worldwide multiplatform, pure play content company with operations in the following segments:

**Cable Networks:** The Cable Networks segment consists of the businesses of MTV Networks, including MTV: Music Television®, MTV2®, Nickelodeon®, Nick at Nite®, Noggin®, The N®, Nicktoons Network™, Turbo Nick™, VH1 Land®, Spike TV®, CMT®: Country Music Television™, Logo™, Comedy Central®, Comedy Central's MotherLoad™, MTV Desi™, MTV Chi™, MTV Espanol™, mtvU™, mtvU Uber™, MTV Hits™, MTV Jams™, TEMPO™, MTV Overdrive™, MHD™, Classic™, VHUno™, VH1 Soul™, VH1 Country™, VH1's Vspot™, Game One™, VIVA™, TMF™, The Box™, Paramount Neopets™, GameTrailers.com™ and IPLM and the businesses of BET Networks, which include BET® (Black Entertainment Television) and BET J™; and other program services, including online programming services such as websites, broadband channels and wireless applications.

**Entertainment:** The Entertainment segment includes Paramount Pictures®, which produces and distributes feature motion pictures, Famous Music®, which engages in the music publishing business, and interests in 19 movie theaters.

Our revenues from the Cable Networks segment accounted for 64% of our consolidated revenues for the six months ended June 30, 2006 and for 70% of our consolidated revenues for 2005. Our revenues from the Entertainment segment accounted for 37% of our consolidated revenues for the six months ended June 30, 2006 and for 31% of our consolidated revenues for 2005. Elimination of intercompany revenues accounted for (1)% of our consolidated revenues for the six months ended June 30, 2006 and for (1)% of our consolidated revenues for 2005. Revenues from the Cable Networks segment are generated primarily from advertising sales, affiliate fees, home entertainment sales and licensing and merchandising of branded products. Revenues from the Entertainment segment are generated primarily from the licensing and sale of feature film rights in various media and territories.

**Recent acquisitions and dispositions.** On August 9, 2006, we agreed to acquire Atom Entertainment, Inc., a portfolio of four online destinations for casual games, short films and

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animation, for cash consideration of approximately \$200 million. The acquisition is subject to customary closing conditions and is expected to close in the third quarter. On June 1, 2006, we acquired an additional ten percent interest in Nick UK for \$8.9 million. Previously, Nick UK was a fifty-fifty joint venture with BSkyB. With the additional

interest, we obtained control of Nick UK and began consolidating its operations as of June 1, 2006. On May 9, 2006, we completed the acquisition of Xfire, Inc, a leading gaming and social networking service, for initial cash consideration of approximately \$102 million. An additional \$8 million is expected to be paid out over four years based upon continued service of the employees. On January 31, 2006, we completed our acquisition of DreamWorks, a leading producer of live-action motion pictures, television programming and home entertainment products, for approximately \$1.53 billion, net of cash acquired. We also entered into exclusive seven-year agreements for worldwide distribution rights and fulfillment services to films produced by DreamWorks Animation SKG, Inc. Among the assets acquired with the purchase of DreamWorks was a live-action film library consisting of 59 films released through September 16, 2005. On May 5, 2006, we sold a fifty-one percent controlling interest in the entity that owns the library to Soros Strategic Partners LP and Dune Entertainment II LLC, an affiliate of Dune Capital Management LP, for net proceeds of \$675.3 million. We retained a minority interest in the entity that owns the library. In connection with the sale of the live-action film library, Soros entered into exclusive five-year agreements with Paramount Pictures and its international affiliates for distribution and fulfillment services of the live-action library by Paramount Pictures. In the event that Soros and Dune continue to control the entity that owns the film library after the fifth year, the distribution agreement with Paramount Pictures will automatically renew.

For additional information about significant acquisitions and dispositions, see Note 3 to the unaudited interim consolidated financial statements for the six months ended June 30, 2006.

We compete with many different entities and media in various markets worldwide. Our primary competitors in the cable and entertainment businesses include Time Warner Inc., News Corporation, The Walt Disney Company, NBC Universal Inc., The E.W. Scripps Company and Discovery Holding Company.

We were organized as a Delaware corporation in 2005 and our principal offices are located at 1515 Broadway, New York, New York 10036. Our telephone number is (212) 258-6000 and our website address is [www.viacom.com](http://www.viacom.com).

#### Recent Developments

On September 5, 2006, we announced that our Board of Directors elected Philippe P. Dauman as our President and Chief Executive Officer, effective September 5, 2006. Mr. Dauman succeeds Thomas E. Freston, who resigned his positions with Viacom, including as a member of the Board. As a result of his separation from employment, Mr. Freston's payments are currently expected to be generally consistent with the terms of his employment agreement, including, without limitation, the expense and payment of approximately \$60 million in cash and the recognition of approximately \$10 million in previously unrecognized compensation expense related to vesting of previously granted stock based compensation. Our Board of Directors also elected Thomas E. Dooley as Viacom's Senior Executive Vice President and Chief Administrative Officer. Messrs. Dauman and Dooley are currently members of our Board of Directors and will continue as directors.

#### Competitive Strengths

We believe we possess a number of strengths that enable us to compete successfully:

One of the largest collections of cable programming assets in the world, with leading global brands that are attractive advertiser vehicles. We have one of the largest collections of cable programming assets in the world. Our leading program services reach 179 territories through more than 120 worldwide cable networks presented in 28 different languages and reach over 480 million subscriber households worldwide. In the United States, our leading networks program approximately 1,720 hours per week and, according to Nielsen Media Research®, reached approximately 150 million



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television viewers each week in the period from February 2006 to June 2006. Many of our brands, such as MTV, Nickelodeon and VH1, are known worldwide. MTV is one of the most widely distributed television brands and is regularly cited, most recently in 2006, as The World's Most Valuable Media Brand by Interbrand Corp., an international brand consultancy. Nickelodeon, which as of June 2006 was available in approximately 300 million television households worldwide as a full channel or a branded program block, is the world's most widely distributed children's television brand and has been the top-rated cable network for children in the United States for the past 11 years.

MTV Networks and BET Networks develop brands that appeal to a wide range of targeted niche audiences, which also represent demographics sought after by advertisers. In the United States, MTV Networks and BET Networks delivered the most multichannel viewers in the 12 to 34-year-old demographic during 2006, through July 31, 2006, according to Nielsen Media Research. MTV: Music Television has been the top advertising-supported 24-hour basic cable network among 12- to 24-year-olds for 37 consecutive quarters, and Nickelodeon accounted for approximately 53% of all viewing of advertising-supported children's television programming in the United States by children ages two to eleven during the 2005-2006 broadcast season from September 2005 through June 2006. Our broad distribution to specialized audiences and our focus on forging strong connections with our audiences make our networks an attractive vehicle for advertisers. Our strong in-house research teams focus on identifying emerging behaviors and trends among core audiences, which we believe is a key competitive advantage. These factors, combined with our integrated presence on a variety of digital and broadcast platforms, allow us to provide an efficient and reliable vehicle for advertisers to reach consumers.

A long-standing international presence with a global footprint. We have a significant and growing presence worldwide. Established advertising, distribution and programming relationships in these markets, together with our infrastructure, provide a strong platform for new channel launches and complementary acquisitions. We have created over 120 worldwide cable networks that are seen in 179 territories. Since January 2006, we have launched more than seven channels and branded program blocks, including MTV in Canada, MTV base Africa branded program blocks in Uganda, Nick Jr2 in the United Kingdom, Nick at Nite branded program blocks in Latin America, Nickelodeon in New Zealand and Nickelodeon branded program blocks in Malaysia and the Philippines. Our global footprint also allows us to incubate technical and programming expertise in emerging markets where certain new media products have been deployed more extensively than in the U.S. markets. For example, we have launched programming applications for advanced mobile services in Japan and Europe, which we believe better prepares us to offer these services as the U.S. market develops.

A strong connection with audiences, a proven ability to create global hits and a valuable entertainment library. Our focus on understanding our audiences through research enhances our ability to develop innovative and original programming. Our programming is broadly diversified, with popular shows and films that appeal to a variety of audiences, and with new shows and interactive programming continually being developed and debuted throughout the year. Our television programming includes popular shows and enduring characters, including The Real World, SpongeBob SquarePants, South Park, Dora the Explorer, The Daily Show with Jon Stewart, Laguna Beach, Blue's Clues and Rugrats. Our programming also includes events, such as the annual MTV Video Music Awards, Nickelodeon's Kids' Choice Awards, VH1 Save the Music, CMT Music Awards, MTV Movie Awards, CMT's Miss America Pageant, Spike TV Video Game Awards, Comedy Central Roast and the BET Awards. We have significant in-house creative capabilities and have helped launch the careers of some of the entertainment industry's leading entertainers, directors and producers. We believe that our strong creative track record, our willingness to experiment with new shows and concepts, the strength and breadth of our distribution infrastructure, our solid financial foundation and our well-known media brands help attract and retain creative talent. Our motion picture

library includes rights to some of the best loved and most successful films, including Titanic, The Godfather trilogy, the Indiana Jones films, Forrest Gump and Braveheart. Following our sale of most of the DreamWorks live-action library, we retain distribution rights to these films for at least a five-year period, including Gladiator, American Beauty, War of the Worlds and Saving Private Ryan.

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As a result of our creative output in television and in motion pictures, we have assembled a library with significant future revenue potential. Our library consists of over 1,000 motion picture titles, approximately 18,000 hours of television programming and varying rights for approximately 2,500 additional motion picture titles. Our library also contains titles that have not yet been fully exploited in the DVD or other digital media formats.

A secure distribution platform and a strong track record of obtaining new carriage. Our cable programming services are made available to consumers in the United States and internationally through affiliation agreements with distributors that generally are long-term, have staggered expiration dates and provide for built-in rate increases and protected distribution. Eight of our cable programming services are distributed in over 75 million homes in the United States, and four of our other services currently reach more than 35 million homes in the United States. The majority of our networks are available on broadly distributed programming tiers. We believe that our strong relationships with our affiliates, the quality and popularity of our networks and our ability to create programming that is appealing to viewers have enabled us to renew existing affiliation agreements, to obtain new distribution for existing networks and to launch new networks.

An established and growing multiplatform presence. We program and operate over 100 websites, including broadband sites, which collectively attracted over 30 million unique visitors in July of 2006, giving us the second most-visited entertainment website portfolio on the Internet during that period. We have a total of 28 broadband channels (eight in the U.S. and 20 internationally) in live deployment. Our complete line-up of broadband channels – including MTV Overdrive, mtvU's Uber, VH1's VSpot, Comedy Central's Motherload, TurboNick, CMT's Loaded, Revolution in Latin America and MTV BoomBox in Korea – is expected to stream more than 1 billion videos by the end of 2006. We continue to launch integrated broadband channels and content, online communities, wireless applications and video-on-demand offerings across our properties in many countries around the world. We are building wireless services for the majority of our core brands and are partnering with carriers such as Virgin Mobile USA, Verizon Wireless, Sprint, China Mobile, and DoCoMo in Japan to deliver ringtones, text updates and video programming. On August 9, 2006, MTV Networks agreed to acquire Atom Entertainment, Inc., a portfolio of several online destinations for casual games, short films and animation. Also, in the second quarter of 2006, MTV Networks acquired Xfire, a leading online gaming communication and community platform. In the fourth quarter of 2005, MTV Networks acquired IFILM and GameTrailers.com, each of which provides entertainment content via websites. We also acquired Neopets, the owner and operator of Neopets.com, a leading online destination and community for kids and young adults. MTV Networks has various rights in various territories to create and distribute content for mobile devices. For example, in June 2005, we entered into a global licensing agreement with Warner Music Group to create and distribute short form video content for mobile devices. In May 2006, we unveiled a beta version of MTV Networks' new digital music service, Urge™, which offers rich editorial, hand-crafted programming and innovative tools to help consumers connect with their favorite artists and discover new ones. Also, MTV Networks' vast array of popular music, comedy and kids programming from its MTV, MTV2, Comedy Central and Nickelodeon brands is now available for download via Apple's iTunes Music Store and AOL's new video service.

An attractive financial profile. In the six months ended June 30, 2006, we derived 37% of our revenues from advertising, 34% from feature film, 19% from affiliate fees, and 10% from ancillary revenues. In 2005, we derived 41% of our revenues from advertising, 30% from feature film, 19% from affiliate fees, and 10% from ancillary revenues. We have a large worldwide consumer products licensing business. Basic cable programming services receive revenue from both advertising and affiliate fees, which increases the predictability of these revenues. Further, many of our services, particularly our cable programming services, develop programming through in-house capabilities, resulting in lower overall production costs.

An experienced management team with a proven creative and financial track record. Our operations are led by a financially-disciplined management team that has the expertise and the vision to develop and successfully exploit its programming and other content. Our senior management has broad media experience and the senior management of our businesses consist of leaders in the media and entertainment industry, all of whom have established track records of success.

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### Business Strategy

Our mission is to be the leading global, consumer-focused, branded entertainment company, with the most respected, most successful and best-in-class brands that live across television, motion pictures and digital media platforms. Our success is linked to our operating principles, which set us apart from other companies. First, we are focused on consumers: we believe that if we can connect with our key consumers, then everything else in our business will follow naturally. Second, we have a brand-centric philosophy; in a fragmented media market, we believe that strong brands are increasingly the most reliable navigation tools for the consumer. We continuously evolve and revitalize our brands to strengthen their audience connection and competitive position. Third, we foster a creative culture and seek creative excellence. Our success in developing original content, from MTV Networks to BET Networks to Paramount Pictures, is a result of an institutional commitment to creativity. Finally, we also bring a global perspective to everything we do. We believe that we can deliver superior returns to stockholders by capitalizing on these strengths and deepening our relationships with advertisers, distribution affiliates, creative talent and licensees.

More specifically, we plan to:

Enhance our position as a leading global entertainment content company, with prominent and respected brands in focused demographics. Our brand-centric, multiplatform strategy and global footprint give us access to the highest growth areas of the advertising sector. Not only do we have a portfolio of brands that consumers demand, but we also have long-term deals with distributors that include built-in annual rate increases. We intend to continue investing in programming and new and existing brands to serve and grow our audiences, and expand our distribution and advertising revenue streams. In particular, we expect to target new demographic and interest groups and continue the development of existing services in order to retain and expand our audiences and the value of our brands. These initiatives will also continue to benefit from our core consumer research and creative strengths.

Enlarge our established global footprint. Our global footprint continues to expand. We were the first media company to reach the 100 channel milestone when we launched our first channel in Africa early in 2005. We believe our established position as a multichannel network operator in many regions of the world provides us with significant growth opportunities by acquiring other networks, broadening our platforms, and growing our consumer products business. We expect to use our knowledge and experience in local markets around the world and our worldwide scale

to develop and acquire new programming services. We also expect to strengthen our international position by building our own organizations to distribute theatrical and television rights to motion pictures in important foreign markets and by strengthening distribution of home entertainment products internationally.

Expand our growing multiplatform business and monetize the growth trend in digital media. Our digital strategy mirrors our targeted demographic approach to cable and allows us to offer deeper and more engaging experiences around our areas of expertise and our target audiences. We believe media fragmentation plays to our strengths, and our intent is to take advantage of emerging technological and consumer trends by extending our brands and distributing our content into new forms of integrated digital distribution, such as broadband, wireless, online community, video-on-demand, high-definition programming and other businesses. We aim to achieve this through a combination of organic growth, investment in our existing and complementary businesses, strategic relationships, and focused acquisitions that fit with our current brands and core competencies. We believe our connection with our audiences, our marketing expertise and our ability to integrate new digital offerings and experiences on multiple platforms will support this expansion, which we expect to generate both increased revenue growth and stronger connections with our existing viewers. Our key television viewers are kids, teens and young adults, who are the early adopters and the heavy users and drivers of new media growth, and that is where we will continue to focus.

Successfully execute the turnaround of Paramount Pictures. We believe we have a significant opportunity to turn around Paramount Pictures and, with the acquisition of DreamWorks, have begun taking significant steps to do so. With a new management team in place at Paramount Pictures and key talent at DreamWorks, we intend to pursue projects more closely aligned with the tastes of target

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movie-going audiences and to take advantage of our significant marketing and creative capabilities. Our movies will benefit from the brand association demographics and marketing power of our over 120 worldwide cable networks. In addition, these networks provide access to up-and-coming talent as well as valuable consumer knowledge. Paramount Pictures intends to release films not only under the Paramount Pictures label and its specialty film arm (which is comprised of Paramount Vantage and Paramount Classics) but also under the DreamWorks label, and MTV, Nickelodeon and BET brands. We also plan to strengthen and upgrade our worldwide home entertainment operations, enhance our revenue opportunities by retaining a greater proportion of international rights for theatrically released films and begin the self-distribution of films theatrically in certain key international markets.

Build on our reputation as a great place to work. We have created and are committed to maintaining a diverse culture that attracts the best people, embraces original ideas, adapts quickly, promotes integrity, creativity and innovation, and values fun. We believe this diverse and creative culture will enable us to develop and to market equally diverse, creative and valuable television, motion picture and new media programming and will give us a significant strategic advantage, in the United States and around the world.

## Business Segments

Our reportable business segments are Cable Networks and Entertainment. Financial and other information by segment is included in the Notes to the consolidated financial statements.

Cable Networks (64% of our combined revenues for the six months ended June 30, 2006 and 70% of our combined revenues for 2005)

We own and operate advertiser-supported basic cable television program services in the United States and internationally.

Our cable networks generate revenues principally from two sources: the sale of advertising time on our networks and the receipt of affiliate fees from cable television operators, direct-to-home or “DTH” satellite operators and other distributors. For the six months ended June 30, 2006, revenues from advertising sales and affiliate fees were 58% and 30%, respectively, of total revenues for the Cable Networks segment. In 2005, revenues from advertising sales and affiliate fees were 60% and 27%, respectively, of total revenues for the Cable Networks segment. Our cable networks also derive revenues from home entertainment sales of our cable programming, the licensing of our cable networks in international markets and the licensing of our brands for consumer products. The sale of advertising time is affected by the desirability of viewer demographics, viewer ratings and market conditions for advertising time. Affiliate fees and licensing revenues are related to the popularity of cable programming. Adverse changes to any of these factors could have an adverse effect on revenues. See “— Cable Networks Competition” beginning on page 68. To sell advertising, we maintain both domestic and international sales forces, which call on both clients and their associated advertising agencies. To meet a broad range of client needs, we maintain specific sales forces around key brands, such as MTV and Nickelodeon. We also have the ability to package across brands and platforms where client needs dictate this approach or when such a strategy is beneficial to it, for example during the “upfront” selling season, during which advertisers purchase advertising inventory prior to the start of the broadcast television season. Our revenue from advertising is subject to seasonal and market-based variations and typically increases in the fourth quarter.

Cable and DTH satellite distribution are currently the predominant means of distributing our program services in the United States. Internationally, distribution technology varies region by region. We have historically negotiated affiliation agreements generally with long terms and staggered expiration dates with cable television operators and DTH satellite operators. These agreements generally cover a number of networks which may be provided by the cable operator or DTH satellite operator to consumers in various channel positions and programming “tiers,” and may also include additional platforms such as video-on-demand. These agreements are generally renewed. Consolidation among cable and DTH satellite operators over the past several years has meant that approximately 90% of the cable and DTH households in the United States are now controlled by eight distributors and approximately 43% of households are controlled by the top two distributors.

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International markets are also experiencing consolidation. Industry consolidation can make it more difficult for us to negotiate favorable arrangements with our distributors.

We produce original programming using internal production employees, freelance employees and external production companies. We also acquire programming such as movies and television series from television production companies and movie studios. Production costs are generally variable and depend primarily on the cost of on and off-screen talent, whether or not scripted, and whether animated or live.

We are an industry leader in developing programming for our networks that target specific audiences. Cable and DTH satellite operators seek to carry programming that appeals to consumers they wish to attract to their businesses. We believe that our track record and skill in researching and understanding our consumers and developing niche, innovative cable networks, together with our relationships with distributors, provides us with an advantage in obtaining distribution for new services. For example, in June 2005 we launched Logo, a gay and lesbian themed network. In November 2005, we launched TEMPO, a new network dedicated to Caribbean music and culture. On

January 16, 2006, MTV Networks launched MHD, a high-definition television channel featuring multiple genres of music drawn from the MTV, VH1 and CMT family of brands. In September 2006, we expect to launch MTV Tr3s, a channel for today's 12-34 year-old bicultural U.S. Latinos.

For 2005, according to information from the Nielsen Media Research report covering the period between December 27, 2004 and December 25, 2005, our basic cable networks had the following percentage shares in total television viewing: approximately 21% (for viewers ages 2-24), 17% (for viewers ages 2-34), 16% (for viewers ages 12-34) and 10% (for viewers ages 18-49).

#### MTV Networks

In the United States, MTV Networks' owned and operated program services, including MTV, MTV2, Nickelodeon, Nick at Nite, Noggin, The N, Nicktoons Network, Turbo Nick, VH1, TV Land, Spike TV, CMT: Country Music Television ("CMT"), Comedy Central, Comedy Central's MotherLoad, MTV Desi, MTV Chi, MTV Español, mtvU, mtvU Uber, MTV Hits, MTV Jams, MTV Overdrive, VH1 Classic, VHUno, VH1 Soul, VH1 Country, VH1's Vspot, Logo, Neopets, IFILM and GameTrailers.com, among others. Subscriber numbers for MTV Networks are typically based on Nielsen Media Research reports.

MTV's programming consists primarily of youth-oriented programs, including music videos, music-based programming, music and general lifestyle information, reality-based programming, comedy and dramatic series, animated programs, news specials, interviews and documentaries. Recent programming highlights include the annual MTV Video Music Awards, The Real World, My Super Sweet 16 and Laguna Beach. At July 31, 2006, MTV reached approximately 89 million domestic subscriber households. MTV2, a spin-off of MTV, features music videos from a broad range of musical genres and related programming. At July 31, 2006, MTV2 reached approximately 61 million domestic subscriber households. On June 27, 2006, we launched MTV K to super-serve Korean Americans living in the U.S. It is the third channel under the MTV World™ umbrella. MTV Desi, for bi-cultural Americans with roots in the Indian sub-continent, was launched on July 12, 2005, and MTV Chi for Chinese Americans, was launched on December 6, 2005. MTV World™ consists of a package of domestic program services, each including programming that is originally produced and programming derived from MTV Networks' international program services, and is designed to appeal to an ethnic-targeted American youth audience. mtvU offers students on U.S. college campuses a blend of music, news, sports and college-specific programming.

MTV Networks licenses music videos from record companies for exhibition on MTV, MTV2, VH1, CMT and other MTV Networks programming services, in exchange for cash and advertising time or for promotional consideration. MTV Networks has entered into global music video licensing agreements with certain major record companies and into global or regional licensing agreements with certain independent record companies. MTV Networks also licenses various other music rights from record companies, music publishers, performing rights societies and others. MTV Networks expects to continue or initiate additional global or regional license agreements with these and other parties.

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VH1 presents music programming, including music videos, long-form programming, live music events, reality-based programming, documentaries and other pop culture and lifestyle programming. Recent programming highlights include I Love the 80s and Celebrity Fit Club. At July 31, 2006, VH1 reached approximately 90 million domestic subscriber households. CMT primarily presents country music-related original programming, live concerts and events, as well as country music videos. Recent programming highlights include the 2006 Miss America Pageant and Trick

My Truck. At July 31, 2006, CMT reached approximately 82 million domestic subscriber households.

Nickelodeon's programming consists primarily of originally produced programs appealing to audiences ages two to eleven, which includes Nick Jr., a program block designed for two to five year olds, and popular shows such as Dora the Explorer, Zoey 101, The Fairly Odd Parents and SpongeBob SquarePants. Nick at Nite is telecast in the evening and nighttime hours, appeals primarily to audiences ages 18 to 49 and offers mostly situation comedies from various eras and original programming. At July 31, 2006, each of Nickelodeon and Nick at Nite reached approximately 90 million domestic subscriber households. Nickelodeon, the world's leading multimedia entertainment brand dedicated exclusively to kids, reaches a total of 205 million households via 34 channels, plus a further 193 million households via 22 branded program blocks, and can be seen in 22 languages across 171 territories throughout Africa, Asia, Europe, Latin America, and the United States. The brand's exposure is increased through 33 websites, three broadband channels and six mobile television channels, and its international program sales business ensures that Nickelodeon programming airs on third-party broadcasters in major territories around the world. Noggin is a commercial-free educational channel designed for pre-schoolers, offering twelve hours of educational classics such as Sesame Street and Blue's Clues along with new original series like Oobi and Jack's Big Music Show. The N, an ad-supported programming block targeted to the teen audience, is telecast during the evening and nighttime hours on Noggin and features licensed teen classics such as Sabrina the Teenage Witch and Moesha and original programming such as DeGrassi: The Next Generation and South of Nowhere. Nicktoons Network, the 24-hour animation network owned by Nickelodeon, features a wide variety of programming that have defined kids' and animation lovers' television for more than 10 years. Targeting kids 6 to 14 years old, Nicktoons Network features programming that is 75% exclusive to the channel, including Martin Mystery, My Dad the Rock Star, Corneil & Bernie, Kaput & Zosky and Yakkity Yak, as well as classic Nicktoons hits like Ren & Stimpy, Invader Zim, Ahhh! Real Monsters, SpongeBob SquarePants and The Fairly OddParents. In addition, Nicktoons Network is home to award-winning short-form programming that helped redefine kids' television. At July 31, 2006, Nicktoons Network reached approximately 39 million domestic subscriber households.

Comedy Central features comedy programming, including The Daily Show with Jon Stewart, The Colbert Report, South Park and Reno 911. At July 31, 2006, Comedy Central reached approximately 89 million domestic subscriber households. TV Land consists of a broad range of well-known television programs, including comedies, dramas, westerns, variety and other formats from the 1950s through today. At July 31, 2006, TV Land reached approximately 87 million domestic subscriber households. Spike TV is an entertainment network for men which features hit original series, such as The Ultimate Fighter, acquired series, such as CSI: Crime Scene Investigation, and movies such as Die Another Day. At July 31, 2006, Spike TV reached approximately 90 million domestic subscriber households. In June 2005, we launched Logo, a gay and lesbian themed network, which, based on reporting by distributors, reached approximately 24 million subscribers as of July 31, 2006.

MTV Films and Nickelodeon Movies produce and acquire the rights to feature films, the majority of which were released by Paramount Pictures. In many cases, Paramount Pictures incurs the production and marketing costs of films it releases that are produced by MTV Films or Nickelodeon Movies.

International Operations. Globally, MTV Networks owns and operates, participates in as a joint venturer, and licenses third parties to operate, over 120 MTV Networks program services, including MTV, VH1, Nickelodeon, TV Land, Paramount Comedy, The Box, CMT, Game One, VIVA and TMF, among others. These program services reach audiences in Canada, Asia, Europe, Australia, Latin America, the Caribbean and Africa. Most of the MTV Networks international program services are regionally customized for the particular viewers through the inclusion of local music, programming

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and on-air personalities, and use of the local language. MTV Networks is Europe's most widely distributed cable and satellite network, comprising more than 68 individual music, kids and comedy channels. As of March 2006, the leading MTV Networks program services reached approximately 160.8 million households and 197.5 million households in Europe and Asia-Pacific, respectively, and approximately 126.8 million households in the rest of the world (including the United States) through a combination of DTH satellite operators, cable and terrestrial distribution.

We actively pursue the development or acquisition of program services in international markets. During 2005 and the first half of 2006, MTV Networks launched VH1 in Brazil, Poland and Russia; launched Nickelodeon in France, Germany and New Zealand; launched MTV base™, a pan-African music television channel; launched MTV in Norway, Finland, Denmark, Sweden, Canada and the Adriatic regions; launched digital channels MTVIdol and MTVpulse in France, MTVflux in Italy and Nick Jr2 in the United Kingdom; and launched TEMPO, a Caribbean lifestyle television channel.

BET Networks

BET Networks' owned and operated cable program services include BET and BET J (formerly BET Jazz), and its digital services BET Gospel® and BET Hip Hop®. BET targets the African-American viewing audience by providing a broad mix of music, entertainment, sports, religious, news and public affairs programming, consisting of both original and acquired programs, including The BET Awards Show, 106 & Park: BET Top Ten Live and The BET Comedy Awards. BET J, a U.S. network devoted primarily to jazz, R&B and neo-soul music, includes programming that consists of a mixture of in-studio performances, festivals, concerts, celebrity interviews and documentaries such as Journey with Jazz at Lincoln Center.

As of July 31, 2006, according to Nielsen Media Research, BET reached approximately 82 million domestic subscriber households. BET J derives its revenue principally from subscription fees generated by the license of its network to cable television operators, DTH satellite operators and other distributors. On March 1, 2006, DIRECTV launched BET J as part of its service. This, when added to an additional launch by Charter Communications in late 2005, gives BET J a distribution platform that reaches approximately 21.5 million homes, based on reports from our affiliates.

BET Gospel features gospel music programming, gospel artist performances and interviews, religious ministries, family programming and programming fare designed to provide spiritual fulfillment. BET Event Productions® produces special musical events and festivals featuring various music genres. Its services include event management, venue selection, talent recruitment and sound, light and stage production, including supporting the production needs of BET J.

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The following table highlights many of MTV Networks' and BET's channels in various regions:



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NORTH AMERICA (United States and Canada)

MTV	VH1	NICKELODEON	BET	OTHER
MTV	VH1	Nickelodeon	BET	CMT
MTV2	VH1 Classic	Nick at Nite	BET Gospel	Comedy Central
MTV Desi	VH1 Country	Nick GAS	BET J	Logo
MTV Español	VH Uno	Nicktoons Network		Spike TV
MTV Hits	VH1 Soul	Noggin		TV Land
MTV Jams		The N		
MTV Puerto Rico				
mtvU				
MTV Chi				
TEMPO				
MHD				

EUROPE/MIDDLE EAST/AFRICA

MTV		NICKELODEON	THE MUSIC	VIVA
Adria	Norway	Cyprus	FACTORY	Viva (Germany)
base (Africa)	Polska	España	TMF Flanders	Viva+
base (UK/Ireland)	Idol (France)	European	Belgium	Hungary
Brand New (Italy)	Pulse (France)	Germany	Netherlands	Polska
Classic (Poland)	Portugal	Israel	NL (Netherlands)	Switzerland
Dance (UK/Ireland)	Romania	Italia	Party (Netherlands)	
Denmark	Russia	Netherlands	Pure (Netherlands)	
España	Sweden	Nick Jr (Netherlands)	UK	GAME ONE
European	UK/Ireland	Nick Jr (UK)		France
Finland		Nick Replay (UK)	PARAMOUNT	Israel
France	VH1	Nick Toons TV (UK)	COMEDY	
Germany	Classic (UK)	Nordic	Italia	THE BOX
Hits (Italy)	European	Portugal	Spain	Netherlands
Flux (Italy)	UK	France	UK (1)	
Hits (UK/Ireland)	VH2(UK)	UK	UK (2)	
Italia	Russia		UK (+1)	
MTV2	Poland			
(UK/Ireland)				
Netherlands				

ASIA/PACIFIC

MTV		VH1	NICKELODEON	
Australia	Korea	Australia	Asia	
China	Mandarin	India	Australia	
India	Philippines	Indonesia	India	
Indonesia	Southeast Asia	Thailand	Japan	
Japan	Thailand		Korea	
			Nick Jr (Australia)	
			Philippines	

LATIN AMERICA (Including Mexico)

MTV	VH1	NICKELODEON	
Brasil	Latin America	Brasil	
MTV (North)	Brasil	Nickelodeon (North)	
MTV (South)		Nickelodeon (South)	

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## Websites and Digital Services

We operate Internet sites, including numerous music websites, around the world that target the current audiences of our various television program services, as well as other online audiences. These websites provide entertainment and information, serve as an additional outlet for advertising sales and serve as a promotional platform for programming and program services. For the month of July 2006, our websites collectively attracted over 30 million unique visitors (inclusive of Neopets.com and BET.com) according to comScore Media Metrix (a division of comScore Networks Inc.), a leading online audience research measurement service, giving us the second most-visited entertainment website portfolio on the Internet during that period. These Internet sites derive revenue from a combination of advertising and sponsorships, subscription services and e-commerce, with 56% growth in Internet advertising for 2005 when compared to the prior year. MTV Networks currently obtains much of its website content from record labels, music publishers and artists.

We are rapidly extending our brands to new platforms of distribution. Leading broadband entertainment offerings based on our brands are a key focus of MTV Networks, providing original, on-demand and personalized video programming with content archives and cutting-edge functionality. For example, we provide broadband-based interactive video experiences, with products such as MTV Overdrive, mtvU Uber, Turbo Nick, VH1's Vspot and Comedy Central's MotherLoad. In the wireless area, we also provide a mix of digital applications, ringtones and video programming to partners such as Virgin Mobile USA, Verizon Wireless and Sprint in the United States and China Mobile and DoCoMo internationally. MTV Networks has various rights in various territories to create and distribute content for mobile devices. In June 2005, we entered into a global licensing agreement with Warner Music Group to create and distribute short form video content for mobile devices. We have entered into worldwide and/or U.S.-only agreements with all four of the major recorded music groups for the online distribution of their music videos on a free-to-the-viewer, on-demand basis. We have an arrangement with Apple to make certain MTV, MTV2, Nickelodeon, Spike TV, TVLand, Logo and Comedy Central programs available for purchase on Apple's iTunes Music Store. More than one million episodes of MTV Networks' programming were downloaded in the first month of their availability on iTunes. Overall, we have sold in excess of 3.5 million units (or shows) via iTunes, across all of our groups, from music to kids and entertainment to comedy.

BET's wholly owned subsidiary, BET Interactive, LLC, through its website, BET.com, offers users content and interactive features for news, entertainment, community and other areas tailored to the unique interests and issues of African-Americans. BET.com also provides program schedules for BET and BET J, the latest music news, artist information, music offerings and interactive entertainment for BET's programs. For the twelve-month period January 1, 2005 to December 31, 2005, BET.com attracted over 1.7 million U.S. monthly unique visitors, according to comScore Media Metrix.

Our experience in international local markets also allows the introduction of new products for which markets are not yet developed in the United States. For example, in June 2005, we launched FLUX, a subscription-based service delivering entertainment and music via mobile phones and online networks to consumers in Japan. We also have 19 mobile television channels in Europe, including five in the United Kingdom. In addition, we have 28 broadband services around the world.

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The following table highlights certain of our websites, broadband channels and other wireless services:

WEBSITESMTV

mtv.com	mtv.ro	mtvbase.co.uk	mtv2pop.de
mtv.co.uk	mtv2.com	mtvchinese.com	mtveuropemusicawards.com
mtv.it	mtv2europa.com	mtv.com.au	mtvema.com
mtv.de	mtv.com.br	mtvclassic.pl	isleofmtv.com
mtv.ru	mtvla.com	mobilemtv.com	mtvadvancewarning.com
mtv.nl	mtvjapan.com	broadbandmtv.com	mtvthetrip.com
mtv.fr	mtvasia.com	mtvasiaaid.com	mtvatthemovies.com
mtv.es	mtv.co.kr	mtvdesi.com	mtvenus.com
mtv.pl	mtvkorea.co.kr	mtveurope.com	mtv-media.com
mtve.com	mtvchina.com	mtvadria.com	exquisitemtv.com
mtv.tv	mtv-china.com	mtvbaseafrica.com	mtv2.co.uk
mtv.pt	mtvindia.com	mtvasiaawards.com	mtvrevolution.com
	mtvthailand.com		mtvbarriò19.com
	mtvchi.com		mtvcanada.com
			mtv.ca

NICKELODEON

nick.com	noggin.com	binweevils.com	<u>VH1</u>
nickjr.com	nickelodeon.nl	nickjrgrownupgames.com	vh1.com
nickelodeon.com.au	nickelodeon.be	nickphonetones.com	vh1.co.uk
nickjr.com.au	nickelodeon.se	nicksplat.com	vh1e.com
nickjr.co.uk	nickelodeon.dk	nickjr.kids.us	vh1la.com
nick.co.uk	the-n.com	nicktoonsnetwork.com	vh1.de
nick.kids.us	nickarcade.com	nickmobile.com.au	bestweekever.tv
hahanick.com	nickjapan.com	nickelodeon.es	<u>THE MUSIC FACTORY</u>
nicktv.it	nickelodeon.de	nick.co.kr	tmf.be
mundonick.com	nickelodeon.pt		tmf.nl
			themobilefactory.be

VIVA

vivamediaag.com
vivaplus.tv
viva.tv
vivatv.hu
vivapolska.tv
vivatv.ch

PARAMOUNT

paramount.com
paramountcomedy.com

VIACOM

viacom.com
viacombrandsolutions.de

TV LAND

tvland.com
tvlandcanada.com

BET

bet.com
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CMT

cmtcanada.com
cmt.com

SPIKE TV

spiketv.com
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MTVU

mtvU.com
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URGE

urge.com
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THE MUSIC FACTORY

tmf.be
tmf.nl
themobilefactory.be

COMEDY CENTRAL

comedycentral.com
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LOGO

logoonline.com
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OTHER

staying-alive.org
evergirl.com
southparkstudios.com

paramountclassics.com	<u>THE BOX</u>		knowhivaids.org
homevideo.paramount.com	thebox.nl	<u>IFILM</u>	flux.com
paramountbrasil.com.br		IFILM.COM	neopets.com
paramount.de	<u>GAME ONE</u>		gottempo.com
paramount.jp	gameone.net		gocitykids.com
paramount.nl			
paramountcomedy.it	<u>GAMETRAILERS.COM</u>		
comedyisparamount.com	GameTrailers.com		

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BROADBAND CHANNELS

MTV Overdrive	VH1's Vspot	Comedy Central's MotherLoad	Turbo Nick
mtvU Uber	CMT Loaded		

WIRELESS SERVICES

*MTV	Spike Mobile	TMF Mobile	Comedy Central Mobile
MTV Mobile	Nickelodeon Mobile	The Box Mobile	Flux
VH1 Mobile	Game One Mobile	Paramount Comedy Mobile	LOGO Mobile
CMT Mobile			

MOBILE CONTENT DISTRIBUTION RELATIONSHIPS

DoCoMo	Verizon Wireless	TIM	Optus	KPN
J-Phone	Sprint	Telefonica	China Mobile	H3G
KDDI	Vodafone	Telia	O2	Sonera
Singtel	Orange	Telenor	E-Plus	Optimus
Virgin Mobile USA	T-Mobile	Swisscom	Bouyges	Cingular

Consumer Products Licensing

We own a large worldwide consumer products licensing business, licensing popular characters such as those featured in Blue's Clues, Dora the Explorer, SpongeBob SquarePants and South Park and such famous motion pictures as The Godfather trilogy and Forrest Gump. We license our brands and characters for and in connection with merchandise, videogames, and publishing worldwide. We generally are paid a royalty based upon a percentage of the licensee's wholesale revenues, with an advance against future expected royalties. We believe that licensing is lower risk and more profitable than manufacturing, distributing or selling these products at retail. Licensing revenue may vary from period to period depending on the popularity of the intellectual property available for license in a particular period and the popularity of licensed products among consumers.

## Cable Networks Competition

MTV Networks. MTV Networks competes for advertising revenue with other basic cable and broadcast television networks, radio, online and print media. For basic cable television networks such as the MTV Networks services, advertising revenues derived by each program service depend on the number of households subscribing to the service through local cable operators, DTH satellite operators and other distributors, in addition to household and demographic viewership as determined by research companies such as Nielsen Media Research and various advertiser integrated marketing programs. MTV Networks' strategy is generally to differentiate its services to provide advertising buyers with an efficient way to reach viewers in particular demographic categories.

MTV Networks' services compete with other producers of television programming for actors and actresses, writers, producers and other creative talent and for new show ideas for its original programming. MTV Networks' services also compete with other cable services and broadcast television for the acquisition of popular programming. For example, television comedies and dramas that have previously aired on broadcast networks or other cable networks represent elements of the programming strategy for TV Land, Nick at Nite, and Spike. In order to acquire these programs, MTV Networks competes with other cable networks, including TBS, TNT, and USA Network.

MTV Networks' services compete for carriage by cable television operators, DTH satellite operators and other distributors with other program services, as well as other uses of bandwidth, such as retransmission of free over-the-air broadcast networks, telephony and data transmission. A principal focus of competition is for distribution of MTV Networks' services that are not already distributed within a particular cable or DTH system. For such program services, distributors make decisions on the use of bandwidth based on various considerations, including amounts paid by

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programmers for launches, affiliate and license fees payable by distributors and appeal to the distributors' subscribers. In addition, Nickelodeon competes internationally with other television program services and blocks targeted at children for distribution over-the-air or by cable, DTH and other systems, and for distribution license fees and advertising revenue.

Certain major record companies that supply music content to various MTV Networks program services also operate music-based program services, including Viewsic, which is owned by Sony Music Japan. The Universal Music Group launched a music channel in 2005 that is carried on the EchoStar DTH platform. These music-based program services, as well as general entertainment and other program services, compete with MTV Networks' program services for distribution by cable, DTH and other systems, and for distribution license fees and advertising revenues.

BET: Black Entertainment Television. In addition to facing many of the same competitive issues that MTV Networks faces with respect to creative talent, acquiring popular programming and carriage by cable television operators, DTH satellite operators and other distributors, as well as other uses of bandwidth, BET generally faces competition for advertising revenue from other African-American targeted media, including other cable networks that target BET's African-American audience. Such competitors include TV One, African-American-oriented radio stations, magazines such as Ebony, Black Enterprise, Jet and Essence, and African-American-oriented broadcast television as well as with other media, generally.

Entertainment (37% of our combined revenues for the six months ended June 30, 2006 and 31% of our consolidated revenues in 2005)

The Entertainment segment includes Paramount Pictures, which produces and distributes feature motion pictures, Famous Music, which engages in the music publishing business, and interests in 19 movie theaters.

#### Features

Paramount Pictures produces, finances and distributes feature motion pictures. Each picture is a separate and distinct product with its financial success dependent upon many factors, among which cost and public response are of fundamental importance. In general, motion pictures produced or acquired for distribution by Paramount Pictures are exhibited in U.S. and foreign theaters followed by their release on DVDs and videocassettes, pay-per-view television, pay television, network television and basic cable and syndicated television exploitation. In 2005, Paramount Pictures theatrically released 12 motion pictures, including Coach Carter and The Longest Yard, which were produced in association with MTV Films, and War of the Worlds, a co-production with DreamWorks, Four Brothers, Sahara and Yours, Mine and Ours. In 2004, Paramount's 16 motion pictures included Lemony Snicket's A Series Of Unfortunate Events, Collateral, Mean Girls and The SpongeBob SquarePants Movie, some of which were produced in association with Nickelodeon Movies and MTV Films. Generally, Paramount Pictures incurs the production and marketing costs of films produced by MTV Films or Nickelodeon Movies and released by Paramount Pictures. Paramount Classics, a division of Paramount Pictures, established to handle the distribution of specialized film product, released five films in 2005, including Hustle and Flow.

On January 31, 2006, we completed our acquisition of DreamWorks, a leading producer of live-action motion pictures, television programming and home entertainment products, for approximately \$1.53 billion, net of cash acquired. We also entered into exclusive seven-year agreements for worldwide distribution rights and fulfillment services to films produced by DreamWorks Animation SKG, Inc. Among the assets acquired with the purchase of DreamWorks was a live-action film library consisting of 59 films released through September 16, 2005. On May 5, 2006, we sold a fifty-one percent controlling interest in the entity that owns the library to Soros Strategic Partners LP and Dune Entertainment II LLC, an affiliate of Dune Capital Management LP, for net proceeds of \$675.3 million. We retained a minority interest in the entity that owns the library. In connection with the sale of the live-action film library, Soros entered into exclusive five-year agreements with Paramount Pictures and its international affiliates for distribution and fulfillment services of the live-action library by Paramount Pictures. In the event that Soros and Dune continue

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to control the entity that owns the film library after the fifth year, the distribution agreement with Paramount Pictures will automatically renew.

Paramount Pictures and DreamWorks expect to, in the aggregate, release 14 to 16 films in 2006, including such released motion pictures as Mission: Impossible III, Nacho Libre and World Trade Center and such upcoming releases as Jackass 2, Last Kiss, Flags of Our Fathers, Flushed Away, Charlotte's Web and Dreamgirls. Release plans for films may change due to a variety of factors. Our revenue from feature films is subject to seasonal variations and typically increases in the summer.

Paramount Pictures has generally distributed its motion pictures for theatrical release outside the United States and Canada through United International Pictures (“UIP”), a company that we and an affiliate of Universal Studios, Inc. own. Pursuant to an agreement, UIP will continue to distribute each studio’s films through 2006. Commencing in January 2007, Paramount Pictures will begin self-distribution in 15 key countries outside North America. Paramount Pictures and Universal Studios, Inc. will each have the option to continue a transitional distribution arrangement in these territories for up to two years. The UIP joint venture will continue to operate in certain other territories outside North America through December 2011.

Paramount Pictures distributes its motion pictures on DVDs and videocassettes in the United States and Canada through Paramount Home Entertainment™ and in the rest of the world generally through Paramount Home Entertainment International. Paramount Pictures’ feature films initially theatrically released in the United States on or after January 1, 1998 have been exhibited exclusively in U.S. premium subscription television on Showtime Networks program services for certain windows. This arrangement will continue for films theatrically released through December 2007. Paramount Pictures also licenses its motion pictures for premium subscription television outside the United States through other pay services, for worldwide free and basic cable television release, and for residential and hotel/motel pay-per-view, airlines, schools and universities. License fees for exhibition on broadcast and/or cable television are generally collected in installments. License fees for television exhibition (including international and U.S. premium television and basic cable television) are recorded as revenue in the period that licensed films are available for such exhibition, which, among other reasons, may cause substantial fluctuation in Paramount Pictures’ operating results. Paramount Pictures’ library consists of more than 1,000 motion picture titles and varying rights for additional motion picture titles.

#### Music Publishing

The publishing companies of Famous Music LLC own, control and/or administer all or a portion of the copyrights to tens of thousands of musical works such as songs, scores and cues, ranging from standards popular for many decades, such as Mona Lisa, Silver Bells and Moon River to contemporary hits by artists such as Eminem and Shakira. These rights are principally obtained in connection with motion pictures, television programs and other properties produced by our divisions, as well as from direct agreements between Famous Music and songwriters or their companies. Famous Music derives revenue from licensing the musical works it owns or controls either through direct licenses or licenses issued by major representatives and sublicensees such as the Harry Fox Agency, BMI, ASCAP, SESAC or foreign subpublishers. The musical works can then be used for mechanical reproduction and digital copies such as CDs, Internet downloads and ringtones, synchronization in television programs, theatrical motion pictures, karaoke devices and videogames, printed works, and public performances. In addition, Extreme Music and Director’s Cuts, which are wholly-owned subsidiaries of Famous Music, are engaged in the production music library business. Those companies acquire music and recordings from composers, producers and production companies that cover a wide variety of musical genres and styles, but which do not involve popular songs. They then issue licenses for use of the music and recordings in films, commercials, television shows, promotional announcements and various other media at rates lower than what would be charged for popular musical works. These companies own the music copyrights and master recordings to thousands of musical works.

#### Theatrical Exhibition

On July 22, 2005, Former Viacom sold Famous Players, its Canadian-based theater chain, for approximately \$400 million. In the fourth quarter of 2004, entities affiliated with Former Viacom and

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Vivendi Universal sold their respective 50% equity interests in United Cinema International Multiplex B.V. (“UCI”). Following the sale, our affiliates and affiliates of Vivendi Universal continued to each own a 50% interest in entities which operated approximately 10 theaters in Brazil. Following an auction, this business was sold to National Amusements, Inc. (“NAI”) in a transaction that closed in October 2005 and was approved by the unanimous vote of our disinterested directors. We currently have ownership interests in two entities which operate 113 screens in 18 theaters under the name Mann Theatres, which are located in California. We also own Films Paramount, which operates one movie theater in Paris, France.

## Entertainment Competition

**Theatrical Motion Pictures.** We compete with other major studios such as Disney, Fox, Sony Pictures, Universal and Warner Bros. and independent film producers in the production and distribution of motion pictures, DVDs and videocassettes. Paramount Pictures’ competitive position primarily depends on the quality of the product produced, their distribution and marketing success and public response. We also compete to obtain creative talent and story properties which are essential to our success.

**Music Publishing.** Famous Music competes principally with the music publishing companies owned by other major entertainment companies, such as EMI Music Publishing, The Universal Music Group, Sony Music Publishing, BMG Music Publishing and Warner Chappell Music. Famous Music’s competitive position primarily depends on its ability to license the works it owns or controls, its ability to continue to acquire important musical works desired by licensees and its ability to maximize its collection of royalty income generated by its works worldwide. Its subsidiaries, Extreme Music and Director’s Cuts, compete with other major production music libraries such as Killer Tracks, KPM Music and Associated Production Music. Their competitive position primarily depends on their ability to acquire, promote and license music and master recordings desired by licensees.

## Regulation

Our businesses are either subject to or affected by regulations of U.S. federal, state and local governmental authorities. The rules, regulations, policies and procedures affecting these businesses are constantly subject to change. The descriptions which follow are summaries and should be read in conjunction with the texts of the statutes, rules and regulations described herein. The descriptions do not purport to describe all present and proposed statutes, rules and regulations affecting our businesses.

## Intellectual Property

Laws affecting intellectual property are of significant importance to us. See “— Intellectual Property” beginning on page 73.

**Copyright Law and Content.** In the United States, under current law, the copyright term for authored works is the life of the author plus 70 years. For works-made-for-hire, the copyright term is the shorter of 95 years from first publication or 120 years from creation.

**Peer-to-Peer Piracy.** Unauthorized distribution of copyrighted material over the Internet such as through so-called peer-to-peer services is a threat to copyright owners’ ability to protect and exploit their property. We are engaged in enforcement and other activities to protect our intellectual property and are an active participant in various industry-wide litigations, education and public relations programs and legislative activity on a worldwide basis. On June 27, 2005, the U.S. Supreme Court reached a unanimous decision in *MGM v. Grokster*, holding that Grokster could be held liable for copyright infringement by providing peer-to-peer services that facilitated worldwide



dissemination of millions of infringing copies of motion pictures and music on the Internet. The U.S. Supreme Court overruled the U.S. Court of Appeals for the Ninth Circuit's grant of defendants' motion for summary judgment, and suggested that the lower court should consider granting summary judgment for plaintiffs. The U.S. Supreme Court ruled that one who distributes a device with the object of

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promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. This ruling will be a significant tool in our enforcement efforts. The Grokster suit itself has been settled with respect to most of the defendants and the Grokster service has been shut down.

### Cable Networks

**Online Music Royalties.** MTV Networks, on behalf of its websites, and BET Interactive, on behalf of BET.com, currently obtain website content from record labels, music publishers and artists. MTV Networks and BET Interactive also obtain certain rights to some of their website content, such as performance rights of song composers and non-interactive rights to digital transmission of recordings, pursuant to statutory compulsory licenses established by the Digital Millennium Copyright Act, as amended. The royalties payable for such licenses are established periodically by Copyright Arbitration Royalty Panels.

**A la Carte Programming.** Some policymakers maintain that cable operators should be required to offer programming to subscribers on a network-by-network, or a la carte, basis or provide "family-friendly" program tiers. For example, on February 9, 2006, the FCC's Media Bureau issued a report finding that "a la carte" programming would benefit consumers. Certain distributors have recently launched "family-friendly" tiers to their customers that may or may not include some or all of our networks. The unbundling or tiering of program services could reduce distribution of certain channels, thereby leading to reduced viewership and increased marketing expenses, and could affect a cable network's ability to compete for or attract the same level of advertising dollars.

**Children's Programming.** Federal legislation and FCC rules limit the amount and content of commercial matter that may be shown on cable channels during programming designed for children 12 years of age and younger. In November 2004, the FCC issued new rules that classify promotions on a channel for programs aired on that channel as commercial matter unless the programs being promoted are educational and informational as defined under FCC rules, and that limit the display during children's programming of the Internet addresses of websites that contain or link to commercial material or that use characters from the program on which the website address is displayed to sell products or services. If not modified by the agency on reconsideration, the rules could have an adverse impact on our children's programming channels, including Nickelodeon, because they would force a reduction of promotional or advertising time during this programming and would limit our ability to promote our program-related websites that contain commercial material. The FCC has stayed implementation of these rules while it considers a joint proposal for revisions to the November 2004 rules by children's advocacy groups and industry parties, including us. Under the proposal, we would not be required to count program promotions during our children's programming toward the hourly commercial limits unless they promote programming appearing on the same channel that is not age-appropriate for children, or programming appearing on another channel that is not children's educational and informational programming. In addition, under the proposal we would retain greater latitude to display website addresses during children's programming. Pending the agency's reconsideration process, the industry parties, including us, have agreed to abide by the rules recommended in the joint proposal. The industry parties, again including us, have also agreed to

voluntarily dismiss litigation challenging the new rules, which is now being held in abeyance by the court pending the agency's reconsideration process, if the agency adopts the joint proposal.

In October 2004, Former Viacom entered into a consent decree with the FCC, which also binds us and our affiliates, to dismiss with prejudice alleged violations of the commercial limits during children's programming on Nickelodeon. Under the consent decree, Nickelodeon made a voluntary contribution to the U.S. Treasury in the amount of \$1 million and reduced commercial matter aired on Nickelodeon by an amount equal to the excess commercial matter Nickelodeon allegedly aired during the period of inquiry. The consent decree also obligates Nickelodeon to provide training with respect to the children's television rules and to implement other measures to reduce the risk of exceeding the commercial limits. The consent decree will expire in October 2006.

Indecency. Some policymakers support the extension of indecency rules applicable to over-the-air broadcasters to cover cable and satellite programming. If such an extension took place

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and was not found to be unconstitutional, our content could be subject to additional regulation and may not be able to attract the audiences which make our programming attractive to advertisers.

**Program Access.** Under the Communications Act, vertically integrated cable programmers are generally prohibited from offering different prices, terms or conditions to competing multichannel video programming distributors unless the differential is justified by certain permissible factors set forth in the FCC's regulations. The FCC's "program access" rules also limit the ability of a vertically integrated cable programmer to enter into exclusive distribution arrangements with cable operators. A cable programmer is considered to be vertically integrated if it owns or is owned by a cable operator in whole or in part under the FCC's program access attribution rules. Cable operators for this purpose may include telephone companies that provide video programming directly to subscribers. Our wholly owned program services are not currently subject to the program access rules. Our flexibility to negotiate the most favorable terms available for our content and our ability to offer cable operators exclusive programming could be adversely affected if we were to become subject to the program access rules.

Under the terms of our Separation Agreement with CBS Corporation, we and CBS Corporation generally agreed that prior to the earliest of (1) the fourth anniversary of the separation, (2) the date on which none of Mr. Redstone, NAI, NAIRI, Inc. or any of their successors, assigns or transferees are deemed to have interests in both CBS Corporation and Viacom that are attributable under applicable U.S. federal laws and (3) the date on which the other company ceases to own the video programming vendors that it owns as of the separation, neither of them will own or acquire an interest in a cable television operator if such ownership would subject the other company to U.S. federal laws regulating contractual relationships between video programming vendors and video programming distributors that the other company is not then subject to.

## Intellectual Property

We create, own and distribute intellectual property worldwide. It is our practice to protect our theatrical and television product, characters, publications and other original and acquired works, ancillary goods and services. The following logos, trade names, trademarks and related trademark families are among those strongly identified with the product lines they represent and are significant assets of ours: Viacom®, BET, Comedy Central, CMT, MTV, mtvU, Nickelodeon, Nick Jr.®, Nick at Nite, Noggin, The N, Spike TV, TV Land, VH1, Paramount, Paramount Pictures,

Famous Music, Logo, TMF, VIVA, GameTrailers.com, IFILM, Neopets and other Internet websites. As a result, domestic and foreign laws and enforcement efforts protecting intellectual property rights are important to us, and we actively enforce our intellectual property rights against infringements.

#### Properties

Our world headquarters is located at 1515 Broadway, New York, New York, where we rent approximately 1.4 million square feet for executive offices and certain of our operating divisions. The lease for the majority of the space runs to 2010, with four renewal options for five years each thereafter. We also occupy the following major facilities for certain of our operating divisions: (a) approximately 310,000 square feet of leased office space at 1633 Broadway, New York, New York, through 2010, and (b) approximately 225,000 square feet of office space at three facilities on 26<sup>th</sup> Street in Santa Monica, California, under leases which expire between 2011 and 2016.

Paramount Pictures owns the Paramount Pictures studio at 5555 Melrose Avenue, Los Angeles, California, located on approximately 62 acres. BET's headquarters at BET Plaza in Washington, DC contains approximately 228,000 square feet of office and studio space, the majority of which is leased through 2013 and the balance of which is owned.

We also own and lease office, studio and warehouse space, broadcast, antenna and satellite transmission facilities throughout the United States and several other countries around the world for our businesses. We consider our properties adequate for our present needs.

#### Employees and Labor Matters

At July 31, 2006, we employed approximately 9,700 full-time salaried employees.

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##### Legal Proceedings

In July 2002, judgment was entered in favor of Former Viacom, Blockbuster, Paramount Home Entertainment and other major motion picture studios and their home video subsidiaries with respect to a complaint filed in the United States District Court for the Western District of Texas. The complaint included federal antitrust and California state law claims. In August 2003, the U.S. Court of Appeals for the Fifth Circuit affirmed the federal court judgment. The U.S. Supreme Court refused plaintiffs' petition for writ of certiorari in March 2004. In February 2003, a similar complaint that had been filed in a Los Angeles County Superior Court was also dismissed with prejudice. The plaintiffs appealed the California state court dismissal, as well as a prior denial of class certification. On November 22, 2005, the California Court of Appeal affirmed the trial court's dismissal of the antitrust and conspiracy claims. The court reversed the dismissal of California Unfair Practices Act and Unfair Competition Act claims and remanded those claims to the trial court, except with regard to transactions between Paramount and Blockbuster as to which the trial court dismissal was affirmed. Blockbuster remains a defendant in the case with respect to its transactions with studios other than Paramount. As the result of the split-off of Blockbuster from Former Viacom in 2004, any judgment in this matter adverse to Former Viacom, Blockbuster and/or Paramount Home Entertainment may be allocated 33.33% to Blockbuster and 66.67% to Former Viacom. Pursuant to the Separation Agreement, we have assumed and will indemnify CBS Corporation for Former Viacom's responsibility for losses in this matter.

On July 13, 2005, two identical shareholder derivative lawsuits were filed against Former Viacom. The suits, consolidated as *In re Viacom Shareholders Derivative Litigation*, relate to the compensation of Sumner Redstone, Tom Freston and Leslie Moonves, each of whom were executive officers of Former Viacom. Mr. Redstone is currently our Executive Chairman of the Board and Founder and Mr. Freston was, until September 5, 2006, our President and Chief Executive Officer. Mr. Moonves is the President and Chief Executive Officer of CBS Corporation. The plaintiffs claim that the 2004 compensation of these officers was excessive and unwarranted and not entirely fair to Former Viacom and its shareholders. Plaintiffs seek disgorgement of compensation paid to the named officers in 2004, unspecified damages from members of Former Viacom's Board of Directors for alleged breach of fiduciary duty, and other relief. In June 2006, the trial court denied Former Viacom's motion to dismiss the case on procedural and substantive grounds. Former Viacom and the other defendants have appealed this decision. On August 29, 2006, the Board of Directors of CBS Corporation appointed a special litigation committee that has been delegated the authority to evaluate the derivative claims raised in this case, to determine whether pursuit of the derivative claims in the case is in the best interests of CBS Corporation and its stockholders, and to determine the actions, if any, CBS Corporation should take with respect to the derivative claims. Under the Separation Agreement, liabilities arising from and control of claims relating to officers of Former Viacom are shared equally by Viacom and CBS Corporation.

In late 2005 and early 2006, Former Viacom was named as a defendant in three lawsuits in the United States District Court for the Northern District of Texas and one lawsuit in the United States District Court for the Southern District of New York, each relating to the 2004 split-off of Blockbuster from Former Viacom. In August 2006, an additional lawsuit was filed in the Delaware Court of Chancery. The lawsuits name as defendants various combinations of NAI, Former Viacom, Blockbuster and certain of their respective present and former officers and directors, including some individuals who are officers and directors of New Viacom. The Texas lawsuits are purported class actions which allege violations of the federal securities laws. The New York case is a purported class action which alleges that the defendants breached fiduciary obligations to the Blockbuster Investment Plan in violation of the Employee Retirement Income Security Act by continuing to offer to plan participants Blockbuster stock from and after November 2003 and by offering to plan participants the opportunity to exchange their shares of Former Viacom common stock for the shares of Blockbuster common stock that were owned by Former Viacom in connection with the 2004 split-off transaction. The Delaware case is a purported class action which alleges that the directors of Former Viacom at the time of the split-off breached certain fiduciary obligations to Viacom shareholders. Plaintiffs in each of the lawsuits allege that the defendants made untrue statements of material facts and concealed

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and failed to disclose material facts with respect to Blockbuster's business prospects. The lawsuits seek damages in unspecified amounts and other relief. In connection with the split-off, Blockbuster agreed to indemnify Former Viacom and our employees, officers and directors with respect to liabilities arising out of any material untrue statements and omissions in those portions of the 2004 Prospectus-Offer to Exchange relating to the split-off that were provided by Blockbuster. In July 2006, Former Viacom and Blockbuster moved to dismiss the New York case and the motion remains pending. In August 2006, the New York case was transferred to federal court in Texas on motion of Blockbuster and consent of the plaintiffs. The Texas cases have been consolidated, and the plaintiffs filed an amended consolidated complaint. The defendants intend to file a motion to dismiss the amended complaint. Pursuant to the Separation Agreement, we will indemnify CBS Corporation for any losses arising from these lawsuits.

We believe that the plaintiffs' positions in these litigations are without merit and intend to vigorously defend ourselves in the litigations. 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 above-described legal

matters 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 cash flows.

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MANAGEMENT

Executive Officers

The following table sets forth the name, age and position of each person who serves as an executive officer of our company.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sumner M. Redstone	83	Executive Chairman of the Board and Founder
Philippe P. Dauman	52	President and Chief Executive Officer and Director
Thomas E. Dooley	49	Senior Executive Vice President and Chief Administrative Officer and Director
Robert M. Bakish	42	Executive Vice President, Operations and Viacom Enterprises
Michael J. Dolan	59	Executive Vice President and Chief Financial Officer
Carl D. Folta	49	Executive Vice President, Office of the Chairman
Michael D. Fricklas	46	Executive Vice President, General Counsel and Secretary
JoAnne Adams Griffith	62	Executive Vice President, Human Resources
DeDe Lea	41	Executive Vice President, Government Relations
Carole Robinson	45	Executive Vice President, Corporate Relations
Jacques Tortoroli	48	Senior Vice President, Controller and Chief Accounting Officer

Information about each person who serves as an executive officer of our company is set forth below.

Sumner M. Redstone	Mr. Redstone is our Founder and has served as the Executive Chairman of our Board of Directors since January 1, 2006. He also serves as Executive Chairman of the Board of CBS Corporation. He was Chief Executive Officer of Former Viacom from 1996 to 2005 and Chairman of the Board of Former Viacom since 1986. He has also been Chairman of the Board of National Amusements, Inc., Former Viacom and CBS Corporation's controlling stockholder, since 1986, and Chief Executive Officer of National Amusements since 1967. He served as president of National Amusements from 1967 through 1999. Mr. Redstone served as the first Chairman of the Board of the National Association of Theatre Owners and is currently a member of its
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Executive Committee. Mr. Redstone has been a frequent lecturer at universities, including Harvard Law School and Brandeis University. Mr. Redstone graduated from Harvard University in 1944 and received an LL.B. from Harvard University School of Law in 1947. Upon graduation, Mr. Redstone served as law secretary with the U.S. Court of Appeals and then as a special assistant to the U.S. Attorney General. Mr. Redstone served in the Military Intelligence Division during World War II. While a student at Harvard, he was selected to join a special intelligence group whose mission was to break Japan's high-level military and diplomatic

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	<p>codes. Mr. Redstone received, among other honors, two commendations from the Military Intelligence Division in recognition of his service, contribution and devotion to duty. Mr. Redstone is also a recipient of the Army Commendation Award.</p>
Philippe P. Dauman	<p>Mr. Dauman has served as our President and Chief Executive Officer since September 5, 2006 and serves on our Board of Directors. Previously, he served as a director of Former Viacom since 1987. He has been Co-Chairman and Chief Executive Officer of DND Capital Partners, L.L.C., a private equity firm, since May 2000. Prior to co-founding DND Capital Partners, Mr. Dauman served as Former Viacom's Deputy Chairman from 1996 until May 2000 and Executive Vice President from 1994 until May 2000 as well as a member of its Executive Committee. From 1993 to 1998, Mr. Dauman served as General Counsel and Secretary of Former Viacom. Mr. Dauman is also a director of National Amusements, Inc.</p>
Thomas E. Dooley	<p>Mr. Dooley has served as our Senior Executive Vice President and Chief Administrative Officer since September 5, 2006 and serves on our Board of Directors. He has served as Co-Chairman and Chief Executive Officer of DND Capital Partners, a private equity firm, since May 2000. Prior to co-founding DND Capital Partners, Mr. Dooley held various corporate and divisional positions at Former Viacom, which he joined in 1980, including Deputy Chairman, member of its Executive Committee, and Executive Vice President, Finance, Corporate Development and Communications. He is also a director of LaBranche &amp; Co. Inc.</p>
Robert M. Bakish	<p>Mr. Bakish has served as our Executive Vice President of Operations and Viacom Enterprises since January 1, 2006.</p>

Prior to that, he served as Executive Vice President of Operations for Former Viacom since July 2005.

Previously, Mr. Bakish was Executive Vice President and Chief Operating Officer of Advertising Sales of MTV Networks from 2001 to 2005; Executive Vice President of Business Development of MTV Networks from 1999 to 2001; and Senior Vice President, Planning, Development and Technology of Former Viacom from 1997 to 1999.

Michael J. Dolan

Mr. Dolan has served as Executive Vice President and Chief Financial Officer of Viacom since January 1, 2006. Prior to that, he was Executive Vice President and Chief Financial Officer of Former Viacom since May 2005.

Before joining Viacom, Mr. Dolan served as a senior advisor to Kohlberg Kravis Roberts & Co., a private equity firm, since late 2004. Previously, Mr. Dolan served as Chairman and Chief Executive Officer of Young & Rubicam, Inc. from 2000 until his retirement in 2003, as its President and Chief Executive Officer during 2000, and as

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its Vice Chairman and Chief Financial Officer from 1996 to 2000. Mr. Dolan also serves as non-executive Chairman of America's Choice and serves on the Board of Directors of Mattel, Inc.

Carl D. Folta

Mr. Folta assumed the role of Executive Vice President, Office of the Chairman, on January 1, 2006. Previously, he was Executive Vice President, Corporate Relations of Former Viacom since November 2004. Prior to that, he served as Senior Vice President of Corporate Relations of Former Viacom from November 1994 to November 2004 and as Vice President of Corporate Relations of Former Viacom from April 1994 to November 1994. Mr. Folta held various communications positions at Paramount Communications Inc. from 1984 until joining Former Viacom in April 1994.

Michael D. Fricklas

Mr. Fricklas has served as our Executive Vice President, General Counsel and Secretary since January 1, 2006. Prior to that, he was Executive Vice President, General Counsel and Secretary of Former Viacom since May 2000. From October 1998 to May 2000, he served as Senior Vice President, General Counsel and Secretary of Former Viacom. From July 1993, he served as Vice President and Deputy General Counsel of Former Viacom and assumed the title of Senior Vice President in July 1994.

JoAnne Adams Griffith

Ms. Griffith assumed the role of Executive Vice President, Human Resources on January 1, 2006. Previously, she was Executive Vice President of Human Resources for Former Viacom since September 2005. She has also served as Executive Vice President of Human Resources for MTV Networks since 1998 and Vice President of Human Resources of Former Viacom from 1996 to September 2005. Before that, Ms. Griffith served as Vice President of Human Resources for Paramount Pictures from 1986 to 1996.

DeDe Lea

Ms. Lea serves as our Executive Vice President, Government Relations. Ms. Lea served as Senior Vice President, Government Relations of Former Viacom from September 2005 through the separation date. Prior to that, she served as Vice President of Government Affairs at Belo Corp. from 2004 to 2005 and as Vice President of Government Affairs of Former Viacom from 1997 to 2004.

Carole Robinson

Ms. Robinson assumed the role of Executive Vice President, Corporate Relations on January 1, 2006. Previously, she served as Executive Vice President, Corporate Communications, for MTV Networks since 1999. Prior to that, Ms. Robinson served as Senior Vice President, Communications, of MTV Networks from 1994 to 1998. She joined MTV Networks in 1984 and has held a succession of positions within the corporate communications area since then.

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Jacques Tortoroli

Mr. Tortoroli assumed the role of Senior Vice President, Controller and Chief Accounting Officer on January 1, 2006. He previously served as Executive Vice President and Chief Financial Officer of Infinity Broadcasting from 2002 to 2005. From 2002 to 2004, Mr. Tortoroli was also Chief Financial Officer of Westwood One, in which Infinity has an investment. Prior to that, Mr. Tortoroli was Chief Financial Officer of Scient, Inc. from 2001 to 2002, and held several financial roles at Young & Rubicam, Inc. from 1998 to 2001, including Chief Financial Officer, Senior Vice President of Finance and Controller, and Chief Financial Officer of Y&R Advertising. Previously, Mr. Tortoroli spent 12 years with PepsiCo, Inc., including financial roles in PepsiCo, Inc. and Pepsi-Cola.

Board of Directors



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Our board of directors consists of 11 members, a majority of whom are independent under the NYSE and other applicable standards. Each director holds office, in accordance with our certificate of incorporation and bylaws, until the next annual meeting of stockholders and until his or her successor is duly elected and qualified.

The following table sets forth the name, age and position of each person who serves as a director of our company.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sumner M. Redstone <sup>(1)</sup>	83	Executive Chairman and Founder
Shari Redstone <sup>(1)</sup>	52	Non-Executive Vice Chair of the Board
George S. Abrams	74	Director
Philippe P. Dauman	52	President and Chief Executive Officer and Director
Thomas E. Dooley	49	Senior Executive Vice President and Chief Administrative Officer and Director
Ellen V. Futter	56	Director
Alan C. Greenberg	79	Director
Robert K. Kraft	65	Director
Charles E. Phillips, Jr.	47	Director
Frederic V. Salerno	63	Director
William Schwartz	73	Director

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(1)Mr. Redstone and Ms. Redstone serve as Executive Chairman and Founder, and Non-Executive Vice Chair, respectively, of our board of directors. Ms. Redstone is Mr. Redstone's daughter. None of the other directors are related to any other director by blood, marriage or adoption.

Information about each person who serves as a director of our company, but who is not also an executive officer noted above, is set forth below. Information about Messrs. Redstone, Dauman and Dooley is set forth above in the section entitled "Executive Officers."

George S. Abrams

Mr. Abrams was elected to our Board as of January 1, 2006. Previously, he served as a director of Former Viacom since 1987. He is an attorney associated with the law firm of Winer and Abrams in Boston since

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1969. Prior to that, Mr. Abrams served for three years as General Counsel and Staff Director of the United States Senate Judiciary Committee for Refugees. Mr. Abrams is a member of the Boards of Trustees and Visiting Committees of a number of art museums, arts-related organizational and educational institutions, including the Museum of Fine Arts in Boston, the Harvard University Art Museums and the European Fine Arts Foundation. Mr. Abrams is also a director of National Amusements, Inc. and Sonesta International Hotels Corporation.

Ellen V. Futter

Ms. Futter was elected to our Board as of January 1, 2006. She is President of the American Museum of Natural History, a position she has held since November 1993. Previously, she served for 13 years as the President of Barnard College. She currently serves on the boards of American International Group, Inc., Consolidated Edison, Inc. and JPMorgan Chase & Co.

Alan C. Greenberg

Mr. Greenberg was elected to our Board as of January 1, 2006. Previously, he served as a director of Former Viacom since 2003. He is Chairman of the Executive Committee of The Bear Stearns Companies Inc., a position he has held since June 2001. Mr. Greenberg also served as Chairman of the Board of Bear Stearns from 1985 to 2001, and as its Chief Executive Officer from 1978 to 1993. Mr. Greenberg is also a director of Bear Stearns.

Robert K. Kraft

Mr. Kraft was elected to our Board as of January 1, 2006. He is Chairman and Chief Executive Officer of The Kraft Group, which has interests in forest products distribution, paper and packaging manufacturing, real estate, private equity investing, and sports and entertainment, including The New England Patriots. Mr. Kraft is on the executive committee of the Dana-Farber Cancer Institute. He also serves on the board of directors of numerous institutions, including the Federal Reserve Bank of Boston, and is a trustee emeritus of his alma mater at Columbia University.

Charles E. Phillips, Jr.

Mr. Phillips was elected to our Board as of January 1, 2006. He previously served as a director of Former Viacom since 2004. He has been President of Oracle Corporation since May 2003. Mr. Phillips has also served as a member of the Board of Directors and Executive Management Committee for Oracle Corporation since January 2004. Prior to joining Oracle, Mr. Phillips was a Managing Director with Morgan Stanley from 1994 to 2003. Mr. Phillips is also a director of Oracle Corporation and Morgan Stanley.

Shari Redstone

Ms. Redstone is Non-Executive Vice Chair of our Board of Directors, a position to which she was elected as of January 1, 2006. She also serves as Non-Executive Vice Chair of the Board of CBS Corporation. Ms. Redstone

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served on the Board of Former Viacom since 1994, becoming Vice Chairman in June 2005. She has been President of National Amusements, Inc., since January 2000, and prior to that, served as Executive Vice President

of National Amusements since 1994. Ms. Redstone practiced law from 1978 to 1993, with her practice including corporate law, estate planning and criminal law. Ms. Redstone is a member of the Board of Directors and Executive Committee for the National Association of Theatre Owners, Co-Chairman and Co-Chief Executive Officer of MovieTickets.com, Inc., Chairman and Chief Executive Officer of CineBridge Ventures, Inc. and Chairman and Chief Executive Officer of Rising Star Media. Ms. Redstone is a member of the board of several charitable organizations, including the Board of Trustees at the Dana Farber Cancer Institute, the Board of Directors at Combined Jewish Philanthropies, the Board of Directors of the John F. Kennedy Library Foundation and the Board of Directors of the National Center on Addiction and Substance Abuse (CASA) at Columbia University. Ms. Redstone is also a director of National Amusements and Vice Chairwoman of Midway Games Inc. Ms. Redstone is the daughter of Sumner Redstone.

Frederic V. Salerno

Mr. Salerno was elected to our Board as of January 1, 2006. Previously, he served as a director of Former Viacom since 1994. He is a retired Vice Chairman and Chief Financial Officer of Verizon Communications Inc., a position he held from June 2000 to October 2002. Prior to that, Mr. Salerno served as Vice Chairman and Chief Financial Officer of Bell Atlantic (Verizon's predecessor) from August 1997. Prior to the merger of Bell Atlantic and NYNEX Corporation, Mr. Salerno served as Vice Chairman, Finance and Business Development, of NYNEX from 1994 to 1997. Mr. Salerno was Vice Chairman of the Board of NYNEX and President of the NYNEX Worldwide Services Group from 1991 to 1994. Mr. Salerno is also a director of Akamai Technologies, Inc., The Bear Stearns Companies Inc., Consolidated Edison, Inc., IntercontinentalExchange, Inc. and Popular Inc.

William Schwartz

Mr. Schwartz was elected to our Board as of January 1, 2006. Previously, he served as a director of Former Viacom since 1987. He is counsel to the law firm of Cadwalader, Wickersham & Taft, a position he has held since 1988. Mr. Schwartz served as Vice President for Academic Affairs (the chief academic officer) of Yeshiva University from 1993 to July 1998, and has been University Professor of Law at Yeshiva University and the Cardozo School of Law since 1991. Mr. Schwartz was Dean of the Boston University School of Law from 1980 to 1988, and a professor of law at Boston University from 1955 to 1991.

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Mr. Schwartz is an honorary member of the National College of Probate Judges. Mr. Schwartz formerly served as chairman of UST Corp., and was chairman of the Boston Mayor's Special Commission on Police Procedures and a member of the Legal Advisory Board of the New York Stock Exchange.

Director Compensation

Directors who are not employees of Viacom or any of our subsidiaries (the "Outside Directors") are entitled to receive compensation for their service on the Board and are eligible to participate in certain director plans, as described below. Messrs. Abrams, Greenberg, Kraft, Phillips, Salerno and Schwartz and Ms. Futter and Ms. Redstone are Outside Directors. Messrs. Dauman and Dooley ceased being Outside Directors on September 5, 2006.

Cash Compensation

Cash compensation for our Outside Directors is as follows:

- an annual Board retainer of \$60,000, payable in equal installments quarterly in advance, plus a per meeting attendance fee of \$2,000;
- the chairs of the Audit and Compensation Committees each receive an annual retainer of \$20,000, payable in equal installments quarterly in advance, and the members of those committees receive a per meeting attendance fee of \$2,000;
- the chair of the Governance and Nominating Committee receives an annual retainer of \$15,000, payable in equal installments quarterly in advance, and the members of that committee receive a per meeting attendance fee of \$1,500; and
- the Vice Chair of the Board is entitled to an additional annual retainer of \$140,000, payable in equal installments quarterly in advance, and an additional per meeting attendance fee of \$2,000 to reflect the Vice Chair's level of responsibility, which, commencing January 1, 2007, will be paid by the Company to a charity designated by the Vice Chair.

Outside Directors may elect to defer their cash compensation under the Viacom Inc. Deferred Compensation Plan for Outside Directors.

In addition, in 2005, Messrs. Dauman and Salerno and Ms. Redstone were each paid \$30,000 by Former Viacom in connection with their service on the Former Viacom Special Separation Committee formed to oversee matters relating to the separation.

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Equity Compensation

Stock Options. Under the Viacom Inc. 2006 Stock Option Plan for Outside Directors, which became effective upon the separation, Outside Directors automatically receive the following:

- for directors who did not serve on the Former Viacom board immediately prior to the separation, an initial grant of options to purchase 7,928 shares of Class B common stock on the date the director first joins the Board or becomes an Outside Director, which options vest one year from the date of grant; and
- an annual grant of options to purchase 3,171 shares of Class B common stock on January 31 of each year, which options vest in three equal annual installments, on the first, second and third anniversaries of the date of the grant.

The exercise price of the stock option grants is the closing price of our Class B common stock on the NYSE on the date of grant. The number of stock options granted to our Outside Directors as set forth above reflects an adjustment in connection with the separation to maintain the same value as Former Viacom's grants pre-separation. Former Viacom had an initial grant of 10,000 stock options and an annual grant of 4,000 stock options.

Restricted Share Units. Under the Viacom Inc. 2006 RSU Plan for Outside Directors, which became effective upon the separation, Outside Directors receive an annual grant of restricted share units ("RSUs") on January 31 of each year equal to \$55,000 in value based on the closing price of Class B common stock on the NYSE on the date of grant, which RSUs vest one year from the date of grant. RSUs are payable to Outside Directors in shares of Class B common stock upon vesting unless the Outside Director elects to defer settlement of the RSUs to a future date. Outside Directors are entitled to receive dividend equivalents on the RSUs in the event we pay a regular cash dividend on our Class B common stock.

Recent Transactions in Equity Securities. The holdings of our directors of Former Viacom Class A and Class B common stock, stock options, RSUs and phantom units were converted in the separation in accordance with the terms of the Merger Agreement by which the separation was effected. In addition, on January 3, 2006, Messrs. Dooley and Kraft and Ms. Futter, our Outside Directors at the time who did not serve on the Former Viacom board immediately prior to the separation, received the initial grant of options to purchase shares of Class B common stock described above. On January 31, 2006, all Outside Directors at the time received the annual grant of options to purchase shares of Class B common stock and RSUs as described above. For more information on the equity holdings of our directors as of July 31, 2006, see "Security Ownership of Certain Beneficial Owners and Management."

#### Deferred Compensation Plan

Under the Viacom Inc. Deferred Compensation Plan for Outside Directors (the "Director Deferred Compensation Plan"), which became effective upon the separation, Outside Directors may elect to defer their Board and Committee retainers and meeting fees for the upcoming calendar year. Deferred amounts will be credited during a calendar quarter to an interest-bearing income account or a stock unit account in accordance with the director's prior election. Amounts credited to an income account will bear interest at the prime rate in effect at the beginning of each calendar quarter. Amounts credited to a stock unit account will be deemed invested in phantom units for an as equal as possible number of shares of Class A common stock and Class B common stock, calculated based on the closing market prices on the first day of the next calendar quarter.

Upon a director's retirement from the Board, the amounts deferred under the Director Deferred Compensation Plan are paid in cash in a lump sum or in three or five annual installments, based on the director's prior election, with the lump sum or initial annual installment becoming payable on the later of six months after the director leaves the Board or on January 15 of the following year. The value of a stock unit account is determined by reference to the average of the closing market prices of Class A common stock and Class B common stock on the NYSE on each trading date during the

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four-week period ending five business days prior to the payment date. Amounts paid in installments accrue interest until the final installment is paid.

For more information on the phantom units held by our directors as of July 31, 2006, including those that converted from Former Viacom phantom units in the separation, see footnote 1 to “Security Ownership of Certain Beneficial Owners and Management.”

## Director Attendance at Certain Viacom Events

Because we believe it is in our best interest for directors to participate in certain events and meet with management, customers, talent and others important to our business, the Board has established a policy on director attendance at events. Under the policy, directors are allocated tickets without charge to attend specific events that have been designated as having a business purpose. In addition, travel expenses to such events are reimbursed by us in accordance with our normal travel policies. The cost of tickets and travel to any events other than the designated events will be at the director’s expense. The Governance and Nominating Committee is responsible for monitoring the implementation of this policy.

## Executive Compensation

## Summary Executive Compensation Table

The following table sets forth information on the total compensation in 2005 for our then President and Chief Executive Officer and four most highly compensated executive officers (the “named executive officers”). These persons became our executive officers effective at the time of the separation. All 2005 annual and other compensation was paid, credited or deferred, as appropriate, by Former Viacom, except for bonus amounts which were paid by us in 2006 following the separation. Liabilities with respect to deferred amounts were transferred to us in connection with the separation, except that liability for amounts owed to Mr. Redstone was split equally between us and CBS Corporation. Equity compensation awards in 2005 were made by Former Viacom and were converted to Viacom equity awards in the separation pursuant to the terms of the Merger Agreement. The share amounts presented below reflect this conversion.

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Name and Principal Position	Year	Annual Compensation <sup>(1)</sup>			Long-Term Compensation Awards			Total Compensation ***
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) <sup>(2)</sup>	Restricted Share Awards (\$) <sup>(3)</sup>	Securities Underlying Stock Options (#) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	
Sumner M.	2005	\$5,806,651	\$ 7,125,000	\$115,092	\$4,298,700	—	\$ 5,940	\$17,351,383

Redstone Executive Chairman and Founder(6) Thomas E. Freston* President and Chief Executive Officer	2005	5,306,651	13,000,000	84,585	4,298,700	—	8,740	22,698,670
Michael D. Fricklas Executive Vice President, General Counsel and Secretary	2005	1,157,132	2,723,200	10,893	899,998	105,640	25,100	6,164,536
Michael J. Dolan** Executive Vice President and Chief Financial Officer	2005	1,016,266	2,733,848	2,472	899,986	115,376	3,960	5,969,067
Robert M. Bakish Executive Vice President, Operations and Viacom Enterprises	2005	931,731	2,242,500	14,200	899,998	105,640	24,816	5,461,458

\*Mr. Freston resigned from his position as President and Chief Executive Officer of Viacom effective September 5, 2006.

\*\*Mr. Dolan commenced employment as Executive Vice President and Chief Financial Officer of Former Viacom on May 2, 2005.

\*\*\*Total compensation for each executive represents the aggregate of the columns presented in the table except for stock options, which are valued at grant date present value as set forth in the table "Option Grants in Fiscal 2005."

(1) Annual Compensation for 2005 includes in salary or bonus, as appropriate, the following amounts of compensation deferred by the executive:

	Deferral Under Employment Agreement	401(k) Plan	Excess 401(k) Plan	Bonus Deferral Plan
Executive Sumner M. Redstone	\$ 2,300,000	—	—	—
Thomas E. Freston*	2,300,000	\$ 14,000	—	—
Michael D. Fricklas	150,481	14,000	\$ 45,666	—
Michael J. Dolan	168,269	—	—	—
Robert M. Bakish	—	14,000	135,423	\$ 190,125

\*Mr. Freston resigned from his position as President and Chief Executive Officer of Viacom effective September 5, 2006.

Amounts deferred under the 401(k) plan are invested at the executive's election in the investment options offered by the 401(k) plan. The executives are eligible to receive a matching contribution from Viacom to the 401(k) plan in the same manner as other employees. The amount of the matching contribution in 2005 for each executive is discussed below in footnote 5. Amounts deferred under the excess 401(k) plan, bonus deferral plan and pursuant to the executive's employment agreement are credited to a book-entry account in the participant's name and deemed invested in the same investment options the executive selects for the 401(k) plan. Such accounts are credited with earnings, gains or losses in the same manner as the 401(k) plan. The executives are eligible to receive a matching contribution from Viacom to the excess 401(k) plan in the same manner as other participants in the excess 401(k) plan. The amount of the matching contribution in 2005 for each executive is discussed below in footnote 5.

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(2) Perquisites. Other Annual Compensation for 2005 includes the following perquisites received by the named executive officers:

Executive	Personal Use of Viacom Aircraft <sup>(a)</sup>	Car Allowance <sup>(b)</sup>	Car Insurance	Personal Use of Car Service <sup>(c)</sup>
Sumner M. Redstone	\$ 107,543	\$ 6,549	\$ 1,000	—
Thomas E. Freston*	69,993	6,549	1,000	\$ 7,043
Michael D. Fricklas	2,704	6,549	1,000	640
Michael J. Dolan	—	2,234	—	238
Robert M. Bakish	—	13,200	1,000	—

\*Mr. Freston resigned from his position as President and Chief Executive Officer of Viacom effective September 5, 2006.

(a) The incremental cost of use of our aircraft is calculated by dividing the total variable costs (such as fuel, aircraft maintenance, landing and navigation fees and flight crew expenses) by the total flight hours for such year and multiplying such amount by the individual's total number of flight hours for non-business use for the year.

(b) This perquisite was terminated for Messrs. Redstone, Freston, Fricklas and Dolan in July 2005 and for Mr. Bakish in April 2006.

(c) Personal use of car service reflects commuting expenses in excess of company policy.

(3) Value presented as of date of grant. As of January 3, 2006, the first day of trading of our Class B common stock following the separation, the value of the restricted share unit grants made in 2005 for each of the executives based on the opening price on the New York Stock Exchange of \$41.12 was \$2,310,532 for Mr. Redstone, \$3,748,992 for Mr. Freston, \$784,899 for Mr. Fricklas, \$857,352 for Mr. Dolan and \$784,899 for Mr. Bakish. Half of Mr. Redstone's Former Viacom restricted share units converted into restricted share units of CBS Corporation.

(4)



The number of Former Viacom stock options granted in 2005 before the conversion in the separation was as follows: 133,249 for Mr. Fricklas, 145,530 for Mr. Dolan and 133,249 for Mr. Bakish.

- (5) We maintain a program of life and disability insurance which is generally available to all salaried employees on the same basis. In addition, during 2005, Former Viacom provided certain life insurance benefits at specified levels for the named executive officers. All Other Compensation includes (a) premiums paid for life insurance coverage for 2005 of \$5,940 for each of Messrs. Redstone and Freston, \$2,600 for Mr. Fricklas, \$3,960 for Mr. Dolan and \$2,316 for Mr. Bakish; (b) matching contributions under our 401(k) plan for 2005 of \$2,800 for each of Messrs. Freston, Fricklas and Bakish; and (c) credits for matching contributions under our excess 401(k) plan for 2005 of \$19,700 for each of Messrs. Fricklas and Bakish.
- (6) Amounts represent the full amount paid to Mr. Redstone by Former Viacom and are duplicative of amounts reported by CBS Corporation, except for the 2005 bonus amount which is our portion of Mr. Redstone's 2005 bonus compensation that was paid in 2006. An equal amount of bonus compensation was paid to him by CBS Corporation.

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Option Grants in Fiscal 2005

The following table sets forth certain information with respect to option grants to purchase shares of Viacom Class B common stock awarded during 2005 to our named executive officers and reflects the conversion of the grants in the separation. The table includes a column designated "Grant Date Present Value." The calculation in that column is based on Former Viacom's Black-Scholes option pricing model adapted for use in valuing stock options at the time of grant.

Name	Individual Grants				
	Number of Shares of Class B Common Stock Underlying Options <sup>(1)</sup>	% of Total Options Granted to Employees in Fiscal 2005	Exercise Price (\$/Share)	Expiration Date	Grant Date Present Value <sup>(2)</sup>
Sumner M. Redstone					