

Viacom

**DISCUSSION QUESTIONS
And Financial Statements**

Barry M Frohlinger, Inc.

INSTRUCTIONS

1. Ignore income taxes unless the question asks you to consider them.

DISCUSSION QUESTIONS

- A. Read the company information included at the beginning of the annual report. Then, scan Viacom's financial statements. Notice the principle financial statements and their formats and the headings for the footnotes.

- B. Do the following calculations:

	2002	2001
Reported Operating Profit		
Adjusted Operating Profit ¹		
Adjusted EBIT ¹		
Adjusted EBITDA ¹		

- C. Write the journal entries for the following transactions:

- i. Equity in loss of affiliated companies
- ii. Minority interest
- iii. Cumulative effect of change in accounting principle

¹ Adjusted to exclude restructuring and merger-related charges

D. Do the following calculations:

	YE 2002	YE 2001
Market Value of Equity		
Book Value of Equity		
TOTAL DEBT [Short-term debt plus all long-term debt]		
Net Debt [Total Debt – Cash]		
AMV [Market Value of Equity plus Net Debt + Preferred Stock + Minority Interest]		

E. Do the following calculations:

	YE 2002	YE 2001
Market Value/Book Value of Equity		
Gross Debt/[Gross Debt + Equity] at book		
Net Debt/[Net Debt + Equity] at book		

F. Do the following calculations:

	2002	2001
AMV/Revenue		
AMV/EBIT		
AMV/EBITDA		
CFO – Cap X [Free Cash Flow]		
Gross Debt/EBITDA		

G. See the Statement of Equity and Comprehensive Income. Complete the following T-Accounts:

Class A Common Stock	Class B Common Stock	Additional Paid-In Capital
Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock

H. See the Statement of Equity and Comprehensive Income. Write Journal Entries for the following activities:

- **Unrealized loss on securities**
- **Reclassification adjustment for net realized losses**
- **Change in fair value of cash flow hedges**
- **Cumulative translation adjustments**
- **Minimum pension liability adjustment**

I. See the Footnotes. The Company adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") in June 2000. Write the journal entry that the firm recorded on January 1, 2000 to reflect this accounting change.

J. See the Footnotes. Read the disclosure of the *recent ponouncements* for:

- SFAS No. 143 "Accounting for Asset Retirement Obligations",
- SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
- SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections"
- SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities"
- SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of SFAS 123,
- FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45").

K. Viacom reports an increase in net earnings during fiscal 2002 [fiscal 2001 was a net loss]. In addition, Viacom disclosed a change in accounting SFAS No. 142. Complete the two proforma rows in the table below:

	2002	2001	2000
Reported Net Earnings	725.7	(223.5)	(816.1)
Proforma Net Earnings [assuming SFAS No. 142 had always been used]			
Proforma Net Earnings [assuming SFAS No. 142 had NOT been implemented]			

L. Viacom reports an increase in net earnings during fiscal 2002 [fiscal 2001 was a net loss]. Complete the EBITDA calculations in the table below:

	2002	2001	2000
Reported EBITDA			
Proforma EBITDA [assuming SFAS No. 142 had always been used]			

M. For Pensions, calculate amounts for the table below:

	YE 2002	YE 2001
Assets		
PBO		
Over/Underfunded Status		
Amounts Reported on the BS		

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 1-9553

VIACOM INC.

(Exact Name Of Registrant As Specified In Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation Or Organization)

04-2949533
(I.R.S. Employer
Identification Number)

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$0.01 par value	New York Stock Exchange
Class B Common Stock, \$0.01 par value	New York Stock Exchange
7.75% Senior Notes due 2005	American Stock Exchange
7.625% Senior Debentures due 2016	American Stock Exchange
7.25% Senior Notes due 2051	New York Stock Exchange

As of June 28, 2002, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of Viacom Inc. Class A Common Stock, \$0.01 par value ("Class A Common Stock"), held by non-affiliates was approximately \$1,932,768,054 (based upon the closing price of \$44.46 per share as reported by the New York Stock Exchange on that date) and the aggregate market value of the shares of the Viacom Inc. Class B Common Stock, \$0.01 par value ("Class B Common Stock"), held by non-affiliates was approximately \$67,175,168,187 (based upon the closing price of \$44.37 per share as reported by the New York Stock Exchange on that date).

As of March 14, 2003, 134,933,495 shares of Class A Common Stock and 1,621,605,094 shares of Class B Common Stock were outstanding.

Item 1. *Business.*

BACKGROUND

Viacom Inc. is a diversified worldwide entertainment company with operations, during 2002, in the following segments:

- **CABLE NETWORKS:** The Cable Networks segment operates MTV MUSIC TELEVISION®, SHOWTIME®, NICKELODEON®/NICK AT NITE®, VH1 MUSIC FIRST®, MTV2 MUSIC TELEVISION™, TV LAND®, TNN: THE NATIONAL NETWORK™, CMT®: COUNTRY MUSIC TELEVISION™, the BET CABLE NETWORK™ and BET JAZZ: THE JAZZ CHANNEL™, among other program services.
- **TELEVISION:** The Television segment consists of the CBS® and UPN® television networks, the Company's owned broadcast television stations and its television production and syndication business, including KING WORLD® PRODUCTIONS and PARAMOUNT TELEVISION™.
- **INFINITY:** The Infinity segment owns and operates 185 radio stations through INFINITY RADIO®, and owns and/or operates outdoor advertising properties through VIACOM OUTDOOR™. Beginning January 1, 2003, the Company operates INFINITY as two segments, RADIO and OUTDOOR. Future disclosure of segment results will conform to this new presentation.
- **ENTERTAINMENT:** The Entertainment segment includes PARAMOUNT PICTURES®, which produces and distributes theatrical motion pictures; the publishing and distribution of consumer books and multimedia products, under imprints such as SIMON & SCHUSTER®, POCKET BOOKS®, SCRIBNER® and THE FREE PRESS™; PARAMOUNT PARKS®, which owns and operates five theme parks and a themed attraction in the U.S. and Canada; and movie theater and music publishing operations.
- **VIDEO:** The Video segment consists of an approximately 80.4% equity interest in Blockbuster Inc., which operates and franchises BLOCKBUSTER® video stores worldwide.

Item 5. *Market for Viacom Inc.'s Common Equity and Related Stockholder Matters.*

Viacom Inc. voting Class A Common Stock and Viacom Inc. non-voting Class B Common Stock are listed and traded on the New York Stock Exchange ("NYSE") under the symbols "VIA" and "VIA.B", respectively.

The following table sets forth, for the calendar periods indicated, the per share range of high and low sales prices for Viacom Inc.'s Class A Common Stock and Class B Common Stock, as reported on the NYSE.

	Voting Class A Common Stock		Non-Voting Class B Common Stock	
	High	Low	High	Low
2001				
1st quarter	\$ 59.50	\$ 38.40	\$ 59.13	\$ 37.90
2nd quarter	59.69	40.00	59.50	39.00
3rd quarter	53.40	28.62	53.20	28.25
4th quarter	48.20	32.65	48.01	32.00
2002				
1st quarter	\$ 51.89	\$ 36.50	\$ 51.89	\$ 36.40
2nd quarter	51.36	38.99	51.30	38.80
3rd quarter	45.00	29.79	44.90	29.75
4th quarter	47.82	36.95	47.83	36.95

Viacom Inc. has not declared cash dividends on its common stock for the periods presented above and has no present intention of so doing. As of March 14, 2003, there were approximately 5,458 record holders of Viacom Inc. Class A Common Stock and 68,662 record holders of Viacom Inc. Class B Common Stock. Information regarding the Company's equity compensation plans is incorporated by reference into Item 12 in Part III of this Form 10-K.

Item 6. *Selected Financial Data.*

VIACOM INC. AND SUBSIDIARIES
(In millions, except per share amounts)

	Year Ended December 31,				
	2002(a)	2001(b)	2000(c)(d)	1999	1998(e)
Revenues	\$ 24,605.7	\$ 23,222.8	\$ 20,043.7	\$ 12,858.8	\$ 12,096.1
Operating income	\$ 4,596.7	\$ 1,460.2	\$ 1,320.9	\$ 1,247.3	\$ 751.6
Net earnings (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 2,206.6	\$ (223.5)	\$ (363.8)	\$ 334.0	\$ (118.2)
Net earnings (loss)	\$ 725.7	\$ (223.5)	\$ (816.1)	\$ 334.0	\$ (122.4)
Net earnings (loss) attributable to common stock	\$ 725.7	\$ (223.5)	\$ (816.1)	\$ 321.6	\$ (149.6)
Basic earnings (loss) per common share:					
Net earnings (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 1.26	\$ (.13)	\$ (.30)	\$.46	\$ (.21)
Net earnings (loss)	\$.41	\$ (.13)	\$ (.67)	\$.46	\$ (.21)
Diluted earnings (loss) per common share:					
Net earnings (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 1.24	\$ (.13)	\$ (.30)	\$.45	\$ (.21)
Net earnings (loss)	\$.41	\$ (.13)	\$ (.67)	\$.45	\$ (.21)
At Year End:					
Total assets	\$ 89,754.2	\$ 90,809.9	\$ 82,646.1	\$ 24,486.4	\$ 23,613.1
Long-term debt from continuing operations	\$ 10,404.2	\$ 11,122.7	\$ 12,697.7	\$ 5,992.0	\$ 4,190.6
Total stockholders' equity	\$ 62,487.8	\$ 62,716.8	\$ 47,966.9	\$ 11,132.0	\$ 12,049.6

Viacom Inc. has not declared cash dividends on its common stock for any of the periods presented above. All share and per share amounts reflect a two-for-one stock split in 1999.

(a) As a result of the adoption of SFAS 142 "Goodwill and Other Intangible Assets", the Company recorded an after-tax non-cash charge of \$1.5 billion, net of \$336 million of minority interest, as a cumulative effect of a change in accounting principle.

(b) Results include a pre-tax primarily non-cash Video charge of \$395 million (\$198 million, net of minority interest and tax) for the elimination of less-productive VHS tapes; a charge of approximately \$75 million at MTV Networks related to a restructuring plan to reduce headcount and close certain international offices and a charge of \$53 million at UPN in connection with the Company's integration of UPN with CBS Network operations.

(c) As a result of the adoption of Statement of Position 00-2, "Accounting by Producers or Distributors of Films," the Company recorded a non-cash after-tax charge of \$452 million as a cumulative effect of a change in accounting principle.

(d) On May 4, 2000, CBS Corporation merged with and into Viacom Inc., (the "Viacom/CBS Merger"), and effective from this date, its results of operations are included in the consolidated financial results of the Company.

(e) During the second quarter of 1998, Blockbuster recorded a pre-tax charge of approximately \$424 million (\$273 million, after-tax) representing an adjustment to the carrying value of rental tapes due to a change in the method of amortizing rental inventory.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Year Ended December 31,		
	2002	2001	2000
Revenues	\$ 24,605.7	\$ 23,222.8	\$ 20,043.7
Expenses:			
Operating	14,865.1	14,463.8	11,707.1
Selling, general and administrative	4,198.3	4,092.4	4,093.7
Restructuring and merger-related charges	—	119.4	698.5
Depreciation and amortization	945.6	3,087.0	2,223.5
Total expenses	20,009.0	21,762.6	18,722.8
Operating income	4,596.7	1,460.2	1,320.9
Interest expense	(848.3)	(969.2)	(822.3)
Interest income	15.8	30.6	53.2
Other items, net	(30.0)	254.7	8.8
Earnings before income taxes	3,734.2	776.3	560.6
Provision for income taxes	(1,448.9)	(919.9)	(729.8)
Equity in loss of affiliated companies, net of tax	(39.5)	(127.0)	(124.2)
Minority interest, net of tax	(39.2)	47.1	(70.4)
Net earnings (loss) before cumulative effect of change in accounting principle	2,206.6	(223.5)	(363.8)
Cumulative effect of change in accounting principle, net of minority interest and tax	(1,480.9)	—	(452.3)
Net earnings (loss)	\$ 725.7	\$ (223.5)	\$ (816.1)
Basic earnings (loss) per common share:			
Net earnings (loss) before cumulative effect of change in accounting principle	\$ 1.26	\$ (.13)	\$ (.30)
Cumulative effect of change in accounting principle	\$ (.84)	\$ —	\$ (.37)
Net earnings (loss)	\$.41	\$ (.13)	\$ (.67)
Diluted earnings (loss) per common share:			
Net earnings (loss) before cumulative effect of change in accounting principle	\$ 1.24	\$ (.13)	\$ (.30)
Cumulative effect of change in accounting principle	\$ (.83)	\$ —	\$ (.37)
Net earnings (loss)	\$.41	\$ (.13)	\$ (.67)
Weighted average number of common shares outstanding:			
Basic	1,752.8	1,731.6	1,225.3
Diluted	1,774.8	1,731.6	1,225.3

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	At December 31,	
	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 631.4	\$ 727.4
Receivables, less allowances of \$278.0 (2002) and \$274.9 (2001)	3,721.0	3,581.8
Inventory (Note 6)	1,332.7	918.7
Deferred tax asset, net (Note 11)	238.6	359.7
Prepaid expenses	413.1	413.7
Other current assets	830.0	754.4
Total current assets	7,166.8	6,755.7
Property and Equipment:		
Land	780.0	752.7
Buildings	955.3	1,030.5
Capital leases	674.0	778.1
Advertising structures	2,128.9	2,074.5
Equipment and other	5,313.4	4,729.1
	9,851.6	9,364.9
Less accumulated depreciation and amortization	3,738.9	3,029.7
Net property and equipment	6,112.7	6,335.2
Inventory (Note 6)	4,527.0	4,335.6
Goodwill (Note 2)	57,116.3	59,109.0
Intangibles (Note 2)	12,482.6	11,881.1
Other assets	2,348.8	2,393.3
Total Assets	\$ 89,754.2	\$ 90,809.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,176.2	\$ 945.0
Accrued expenses	1,883.9	1,739.2
Accrued compensation	653.4	708.5
Participants' share, residuals and royalties payable	966.8	1,309.4
Program rights	875.0	849.7
Deferred income	604.6	527.7
Income taxes payable	98.0	94.0
Other current liabilities	884.2	1,089.2
Current portion of long-term debt (Note 8)	199.0	299.0
Total current liabilities	7,341.1	7,561.7
Long-term debt (Note 8)	10,205.2	10,823.7
Pension and postretirement benefit obligation (Note 12)	2,279.2	1,643.7
Deferred income tax liabilities (Note 11)	798.8	1,131.2
Other liabilities	5,796.9	5,721.0
Commitments and contingencies (Note 13)		
Minority interest	845.2	1,211.8
Stockholders' Equity:		
Class A Common Stock, par value \$.01 per share; 750.0 shares authorized; 137.3 (2002) and 138.8 (2001) shares issued	1.4	1.4
Class B Common Stock, par value \$.01 per share; 10,000.0 shares authorized; 1,716.0 (2002) and 1,697.0 (2001) shares issued	17.1	17.0
Additional paid-in capital	65,597.8	64,980.6
Retained earnings	1,934.0	1,208.3
Accumulated other comprehensive loss (Note 1)	(580.5)	(152.7)
	66,969.8	66,054.6
Less treasury stock, at cost; 1.4 (2002 and 2001) Class A shares; and 105.3 (2002) and 77.9 (2001) Class B shares	4,482.0	3,337.8
Total stockholders' equity	62,487.8	62,716.8
Total Liabilities and Stockholders' Equity	\$ 89,754.2	\$ 90,809.9

See notes to consolidated financial statements

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year ended December 31,		
	2002	2001	2000
Operating Activities:			
Net earnings (loss)	\$ 725.7	\$ (223.5)	\$ (816.1)
Adjustments to reconcile net earnings (loss) to net cash flow from operating activities:			
Depreciation and amortization	945.6	3,087.0	2,223.5
Restructuring and merger-related charges	—	119.4	698.5
Inventory charges	—	392.1	—
Cumulative effect of change in accounting principle	1,480.9	—	753.9
(Gain) loss on transactions and other items, net	(34.8)	(282.0)	25.6
Equity in loss of affiliated companies, net of tax	39.5	127.0	124.2
Distributions from affiliated companies	39.7	55.6	48.3
Minority interest, net of tax	39.2	(47.1)	70.4
Amortization of deferred financing costs	10.2	12.7	17.9
Change in operating assets and liabilities:			
(Increase) decrease in receivables	(74.9)	391.3	(377.9)
(Increase) decrease in inventory and related program liabilities, net	(772.6)	63.7	(157.3)
(Increase) decrease in other current assets	(77.7)	65.9	(172.2)
Increase in unbilled receivables	(57.9)	(107.5)	(55.7)
Decrease in accounts payable and accrued expenses	(82.9)	(519.2)	(200.1)
Increase in income taxes payable and net deferred tax liabilities	826.6	439.4	166.9
Increase (decrease) in deferred income	164.4	(67.2)	(48.7)
Other, net	(46.6)	1.5	22.1
Net cash flow provided by operating activities	3,124.4	3,509.1	2,323.3
Investing Activities:			
Acquisitions, net of cash acquired	(926.0)	(886.1)	(2,380.0)
Capital expenditures	(537.1)	(515.4)	(659.0)
Investments in and advances to affiliated companies	(60.8)	(70.1)	(239.2)
Purchases of short-term investments	(2.0)	(14.2)	(89.9)
Proceeds from sale of investments	21.7	61.6	316.6
Proceeds from dispositions	50.5	233.7	190.6
Net cash flow used for investing activities	(1,453.7)	(1,190.5)	(2,860.9)
Financing Activities:			
(Repayments to) borrowings from banks, including commercial paper, net	(1,153.8)	(4,012.0)	1,413.4
Proceeds from issuance of notes and debentures	1,298.0	3,423.7	1,682.9
Repayment of notes and debentures	(1,009.4)	(917.1)	(331.9)
Purchase of Company common stock	(1,139.0)	(1,066.1)	(1,945.4)
Proceeds from exercise of stock options	357.6	184.6	187.0
Payment of capital lease obligations	(114.3)	(136.3)	(130.6)
Purchase of common stock by subsidiary	—	—	(84.1)
Other, net	(5.8)	(2.5)	—
Net cash flow (used for) provided by financing activities	(1,766.7)	(2,525.7)	791.3
Net (decrease) increase in cash and cash equivalents	(96.0)	(207.1)	253.7
Cash and cash equivalents at beginning of year	727.4	934.5	680.8
Cash and cash equivalents at end of year	\$ 631.4	\$ 727.4	\$ 934.5

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Amount	Shares	Amount	Shares	Amount
Class A Common Stock:						
Balance, beginning of year	138.8	\$ 1.4	138.9	\$ 1.4	139.7	\$ 1.4
Conversion of A shares into B shares	(1.5)	—	(.1)	—	(.8)	—
Balance, end of year	137.3	1.4	138.8	1.4	138.9	1.4
Class B Common Stock:						
Balance, beginning of year	1,697.0	17.0	1,454.7	14.5	606.6	6.1
Exercise of stock options	17.5	.1	10.6	.2	10.8	.1
Issuance of stock for CBS acquisition	—	—	—	—	836.5	8.3
Issuance of stock for Infinity acquisition	—	—	231.6	2.3	—	—
Conversion of A shares into B shares	1.5	—	.1	—	.8	—
Balance, end of year	1,716.0	17.1	1,697.0	17.0	1,454.7	14.5
Additional Paid-In Capital:						
Balance, beginning of year		64,980.6		50,729.9		10,338.5
Exercise of stock options, including tax benefit		526.1		322.4		349.7
MTVi acquisition		151.6		—		—
Loss on issuance of subsidiary stock		(60.6)		—		—
Payout of shares for deferred compensation		.1		—		—
Issuance of stock for Infinity acquisition		—		13,408.8		—
Issuance of stock for BET acquisition		—		521.9		—
Issuance of stock for CBS acquisition		—		—		39,641.7
Stock option acceleration attributable to CBS acquisition		—		—		400.0
Reduction of equity interest in internet investments		—		(2.4)		—
Balance, end of year		65,597.8		64,980.6		50,729.9
Retained Earnings:						
Balance, beginning of year		1,208.3		1,431.8		2,247.9
Net earnings (loss)		725.7		(223.5)		(816.1)
Balance, end of year		1,934.0		1,208.3		1,431.8
Accumulated Other Comprehensive Loss:						
Balance, beginning of year		(152.7)		(152.5)		(30.2)
Other comprehensive loss		(427.8)		(.2)		(122.3)
Balance, end of year		(580.5)		(152.7)		(152.5)
Treasury Stock, at cost:						
Balance, beginning of year	79.3	(3,337.8)	97.7	(4,058.2)	48.5	(1,431.7)
Common stock purchased	27.8	(1,164.1)	25.2	(1,082.8)	34.2	(1,945.4)
Issuance of stock for BET acquisition, net	—	—	(43.0)	1,777.8	—	—
Shares held in trusts	—	—	—	—	15.0	(681.1)
Payout of shares for deferred compensation	(.4)	19.9	(.6)	25.4	—	—
Balance, end of year	106.7	(4,482.0)	79.3	(3,337.8)	97.7	(4,058.2)
Total Stockholders' Equity		\$ 62,487.8		\$ 62,716.8		\$ 47,966.9
Comprehensive Income (Loss):						
Net earnings (loss)		\$ 725.7		\$ (223.5)		\$ (816.1)
Other Comprehensive Loss, net of tax:						
Unrealized loss on securities		(9.3)		(36.7)		(92.8)
Reclassification adjustment for net realized losses		1.3		69.2		45.3
Change in fair value of cash flow hedges		2.1		(3.0)		—
Cumulative translation adjustments		69.4		(29.3)		(71.4)
Minimum pension liability adjustment		(491.3)		(.4)		(3.4)
Total Other Comprehensive Loss, net of tax		(427.8)		(.2)		(122.3)
Total Comprehensive Income (Loss)		\$ 297.9		\$ (223.7)		\$ (938.4)

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in millions, except per share amounts)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of Viacom Inc. ("Viacom" or the "Company") and investments of more than 50% in subsidiaries and other entities. Investments in affiliated companies over which the Company has a significant influence or ownership of more than 20% but less than or equal to 50% are accounted for under the equity method. Investments of 20% or less are accounted for under the cost method. All significant intercompany transactions have been eliminated.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on hand and short-term (maturities of three months or less at the date of purchase) highly liquid investments.

Inventories—Inventories related to theatrical and television product (which includes direct production costs, production overhead and acquisition costs) are stated at the lower of amortized cost or net realizable value. Inventories are amortized, and estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues. Estimates for initial domestic syndication and basic cable revenues are not included in the estimated lifetime revenues of network series until such sales are probable. These estimates are periodically reviewed and adjustments if any, will result in changes to inventory amortization rates and estimated accruals for residuals and participations. As a result of the adoption of Statement of Position 00-2, "Accounting by Producers or Distributors of Films," the costs of feature and television films are classified as non-current assets.

The Company estimates that approximately 95% of unamortized costs of completed and released films (excluding amounts allocated under purchase accounting) at December 31, 2002 will be amortized within the next three years. Approximately \$731.0 million of released, and completed but not released film costs are expected to be amortized during the next twelve months. As of December 31, 2002, unamortized acquired film libraries of approximately \$463.6 million remain to be amortized on a straight-line basis over an average remaining life of eleven years.

The cost of non-base stock rental videocassettes is amortized on an accelerated basis over three months to an estimated \$2 salvage value. The cost of base stock videocassettes is amortized on an accelerated basis over three months and then on a straight-line basis over six months to an estimated \$2 residual value. The cost of non-base stock DVDs is amortized on an accelerated basis over six months to an estimated \$4 residual value. Video games and base-stock DVDs are amortized on an accelerated basis over a twelve month period to an estimated \$5 and \$4 salvage value, respectively.

Merchandise inventory consists primarily of pre-recorded videocassette retail inventory, DVDs, video games, licensed merchandise, DVD and game hardware, and confectionery items and is stated at the lower of cost or market. An allocation of costs incurred in Blockbuster's distribution center to prepare products for its stores is included in the cost of its merchandise inventory. Merchandise inventory costs are determined using the weighted average method, the use of which approximates the first-in, first-out basis. Accruals for shrinkage are based on the actual historical shrinkage results of Blockbuster's most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared with actual results as physical inventory counts are taken and reconciled to the general ledger.

Program Rights—The Company acquires rights to programming and produces programming to exhibit on its broadcast and cable networks, and broadcast television and radio stations. The costs incurred in acquiring and producing programs are capitalized and amortized over the license period or projected useful life of the programming. Program rights and the related liabilities are recorded at the gross amount of the liabilities when the license period has begun, the cost of the program is determinable, and the program is accepted and available for airing.

Property and Equipment—Property and equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives.

Depreciation expense, including capitalized lease amortization, was \$843.9 million (2002), \$872.8 million (2001) and \$799.7 million (2000). Amortization expense related to capital leases was \$81.5 million (2002), \$81.0 million (2001) and \$77.8 million (2000). Accumulated amortization of capital leases was \$354.7 million at December 31, 2002 and \$294.6 million at December 31, 2001.

Impairment of Long-Lived Assets—The Company assesses long-lived assets and identifiable intangibles for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to their net carrying value. The amount of impairment loss, if any, will generally be measured by the difference between the net book value of the assets and the estimated fair value of the related assets.

Investments in affiliated companies are tested for impairment on a quarterly basis by comparing their fair value to the respective carrying amounts each quarter. The Company determines the fair value of its public company investments by reference to their publicly traded stock price. With respect to private company investments, the Company makes its estimate of fair value by considering recent investee equity transactions, discounted cash flow analyses, estimates based on comparable public company operating multiples and in certain situations, balance sheet liquidation values. If the fair value of the investment has dropped below the carrying amount, management considers several factors when determining whether an other-than-temporary decline in market value has occurred including the length of the time and the extent to which the market value has been below cost, the financial condition and near-term prospects of the issuer, the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value, and other factors influencing the fair market value, such as general market conditions.

Intangible Assets— Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and other Intangible Assets" ("SFAS No. 142"). Accordingly, the Company's intangible assets considered to have finite or indefinite lives are allocated to various reporting units, which are generally consistent with or one level below the Company's reportable segments. Intangible assets with finite lives, which primarily consist of franchise and subscriber agreements, are generally amortized by the straight-line method over their estimated useful lives, which range from 5 to 40 years and are periodically reviewed for impairment. Intangible assets with indefinite lives, which consist primarily of FCC licenses, and goodwill, which reflects the cost of acquired businesses in excess of the fair value of tangible and intangible assets and liabilities acquired, are no longer amortized but are tested for impairment on an annual basis and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. If the carrying amount of goodwill or the intangible asset exceeds its fair value, an impairment loss is recognized. At December 31, 2002 and December 31, 2001, the Company had approximately \$12.5 billion and \$11.9 billion of intangible assets, respectively. Accumulated amortization of intangible assets with finite lives was \$281.5 million at December 31, 2002 and \$184.6 million at December 31, 2001.

Discontinued Operations— Businesses that have been previously disposed of by the Company are accounted for as discontinued operations in accordance with Accounting Principles Board ("APB") Opinion No. 30. Assets related to discontinued operations primarily include aircraft direct financing and leveraged leases that are generally expected to liquidate in accordance with contractual terms. Liabilities related to various disposed businesses include environmental, asbestos, litigation and product liability. The assets and liabilities of discontinued operations are presented net in "Other liabilities" on the consolidated balance sheets.

Revenue Recognition— Advertising revenues are recognized in the period during which advertising spots are aired. Subscriber fees for Cable Networks are recognized in the period the service is provided. Video segment revenues are recognized at the time of rental or sale. Publishing revenues are recognized when merchandise is shipped. Revenues from the sale of outdoor advertising space are recognized ratably over the contract terms.

Entertainment revenues from films in the domestic and foreign theatrical markets are recognized as films are exhibited; revenues from the sale of videocassettes, discs and DVDs are recognized upon availability for sale to the public. Revenues from video revenue sharing agreements are recognized as earned. Revenues from all television sources are recognized upon availability of the film for telecast except for pay-per-view which is recognized upon purchase by the consumer. Television sources from which the revenues are recognized upon availability of the film for telecast include domestic and foreign premium subscription program services, basic cable networks, broadcast networks and individual television stations. On average, the length of the initial revenue cycle for feature films approximates four to seven years.

Television series initially produced for the networks and first-run syndication are generally licensed to domestic and foreign markets concurrently. The more successful series are later syndicated in domestic markets and in certain foreign markets. The length of the revenue cycle for television series will vary depending on the number of seasons a series remains in active production. Revenues arising from television license agreements are recognized in the period that the films or television series are available for telecast and therefore may cause fluctuation in operating results.

Advertising— The Company incurred advertising expenses of \$1.38 billion (2002), \$1.46 billion (2001) and \$1.41 billion (2000).

Sales Returns and Allowances— The Company records a provision for sales returns and allowances at the time of sale based upon historical trends which allow for a percentage of revenue recognized.

Interest— Costs associated with the refinancing or issuance of debt, as well as with debt discount, are expensed as interest over the term of this related debt. The Company may enter into interest rate exchange agreements; the amount to be paid or received under such agreements would be accrued as interest rates change and recognized over the life of the agreements as an adjustment to interest expense.

Foreign Currency Translation and Transactions— The Company's foreign subsidiaries' assets and liabilities are translated at exchange rates in effect at the balance sheet date, while results of operations are translated at average exchange rates for the respective periods. The resulting translation gains or losses, net of tax are included as a separate component of stockholders' equity in accumulated other comprehensive income. Foreign currency transaction gains and losses have been included in "Other items, net" in

the consolidated statements of operations.

Subsidiary Stock Transactions— Gains or losses arising from issuances by a subsidiary of its own stock are recorded within stockholders' equity.

Provision for Doubtful Accounts— The provision for doubtful accounts charged to expense was \$203.2 million (2002), \$112.3 million (2001) and \$124.1 million (2000).

Net Earnings (Loss) per Common Share— Basic earnings (loss) per share ("EPS") is based upon net earnings (loss) divided by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the effect of the assumed conversions of convertible securities and the exercise of stock options only in the periods in which such effect would have been dilutive. For the years ended December 31, 2001 and December 31, 2000, incremental shares of 27.9 million and 30.1 million, respectively, for the assumed exercise of stock options were excluded from the computation of diluted EPS because their inclusion would have been anti-dilutive.

The table below presents a reconciliation of weighted average shares used in the calculation of basic and diluted EPS.

	2002	2001	2000
Weighted average shares for basic EPS	1,752.8	1,731.6	1,225.3
Incremental shares for stock options	22.0	—	—
Weighted average shares for diluted EPS	1,774.8	1,731.6	1,225.3

Comprehensive Income (Loss)— As of December 31, 2002, the components of accumulated other comprehensive loss, are net of the following tax benefits: \$5.7 million for unrealized loss on securities, \$.6 million for change in fair value of cash flow hedges, \$46.5 million for cumulative translation adjustments and \$342.4 million for minimum pension liability adjustment.

	Unrealized Gain/(Loss) on Securities	Change in Fair Value of Cash Flow Hedges	Cumulative Translation Adjustments	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Loss
At December 31, 1999	\$ 14.7	\$ —	\$ (36.9)	\$ (8.0)	(30.2)
2000 Activity	(47.5)	—	(71.4)	(3.4)	(122.3)
At December 31, 2000	(32.8)	—	(108.3)	(11.4)	(152.5)
2001 Activity	32.5	(3.0)	(29.3)	(.4)	(.2)
At December 31, 2001	(.3)	(3.0)	(137.6)	(11.8)	(152.7)
2002 Activity	(8.0)	2.1	69.4	(491.3)	(427.8)
At December 31, 2002	\$ (8.3)	\$ (.9)	\$ (68.2)	\$ (503.1)	(580.5)

Change in Accounting— The Company adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") in June 2000. SOP 00-2 established new film accounting standards, including changes in revenue recognition and accounting for advertising, development and overhead costs. Under the new accounting standard, all exploitation costs such as advertising expenses, marketing costs and video duplication costs for theatrical and television product will be expensed as incurred, whereas under the old accounting standards, these costs were capitalized and amortized over the products' lifetime. As a result of this early adoption in the second quarter of 2000, the Company recorded a pre-tax non-cash charge of \$753.9 million (\$452.3 million after-tax or \$.37 per basic and diluted share). This charge was reflected as a cumulative effect of a change in accounting principle, effective January 1, 2000, in the consolidated statement of operations for the year ended December 31, 2000.

In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 139 "Rescission of FASB Statement No. 53 and amendments to FASB Statements No. 63, 89, and 121" ("SFAS 139") requiring that certain internally developed programming assets and programming purchased from related parties be classified as long-term in accordance with the provisions of SOP 00-2 as opposed to the previous practice of allocating these programming assets between current and long-term according to the expected amortization period.

Derivative Instruments and Hedging Activities— Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"). SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. SFAS 133 also established new accounting rules for hedging instruments which, depending on the nature of the hedge, require that changes in the fair value of the derivatives either be offset against the change in fair value of assets or liabilities through earnings, or be recognized in other comprehensive income until the hedged item is recognized in earnings. The impact of adoption was immaterial on the Company's consolidated results of operations and financial position.

Stock-based Compensation— The Company follows the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" and, accordingly, does not recognize compensation expense for the stock option grants because the Company typically does not issue options at exercise prices below market value at date of grant.

The following table reflects the effect on net earnings (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. These pro forma effects may not be representative of future amounts since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period and additional options may be granted in future years. See Note 10 for detailed assumptions.

	Year Ended December 31,		
	2002	2001	2000
Net earnings (loss)	\$ 725.7	\$ (223.5)	\$ (816.1)
Option expense, net of tax	(200.3)	(135.6)	(105.9)
Net earnings (loss) after option expense	\$ 525.4	\$ (359.1)	\$ (922.0)
Basic and Diluted earnings (loss) per share:			
Net earnings (loss) as reported	\$.41	\$ (.13)	\$ (.67)
Net earnings (loss) after option expense	\$.30	\$ (.21)	\$ (.75)

Recent Pronouncements— Effective January 1, 2003, the Company adopted SFAS No. 143 "Accounting for Asset Retirement Obligations" ("SFAS 143"), effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS 143 requires the capitalization of any retirement costs as part of the total cost of the related long-lived asset and the subsequent allocation of the total expense to future periods using a systematic and rational method. In accordance with its provisions, the Company will record a cumulative effect of change in accounting principle during the first quarter of 2003 in connection with the implementation of this standard. The adoption of this standard will not have a material effect on the Company's statements of operations, financial position or cash flows.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), effective for fiscal years beginning after December 15, 2001. SFAS 144 establishes an accounting model for long-lived assets to be disposed of by sale, including discontinued operations. The adoption of SFAS 144 did not have a material effect on the Company's financial statements.

Effective December 31, 2002, the Company adopted SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("SFAS 145"). SFAS 145 no longer requires gains and losses from the extinguishments of debt to be classified as an extraordinary item. Adoption of SFAS 145 resulted in the reclassification of \$3.9 million of extraordinary loss net of tax, recorded for the year ended December 31, 2001 to interest expense.

In June of 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 requires a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The adoption of SFAS 146 will not have a material effect on the Company's financial statements.

Effective December 31, 2002, the Company adopted SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), an amendment of SFAS 123. SFAS 148 provides alternative methods of transition to a voluntary adoption of the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

2) GOODWILL AND OTHER INTANGIBLE ASSETS

The initial adoption of SFAS 142, effective January 1, 2002, required the Company to perform a two-step fair value based impairment test of goodwill and intangible assets with indefinite lives. The first step of the test examines whether or not the book values of the Company's reporting units exceed their fair values. In the second step, the implied fair value of goodwill in accordance with the methodology prescribed by SFAS 142, is compared to its book value. As a result of such impairment tests completed in the first quarter of 2002, the Company determined that goodwill related to Blockbuster was impaired.

The estimated fair values of Blockbuster reporting units were computed principally based upon the present value of future cash flows as of the date of adoption. The implied fair value of Blockbuster's goodwill was then compared to its book value resulting in an impairment charge of \$1.8 billion in total or \$1.5 billion, net of minority interest and tax. This methodology differs from the Company's previous policy, as permitted under accounting standards existing at that time, of using Blockbuster's undiscounted cash flows to determine if goodwill was recoverable. In accordance with the transitional guidance provided by SFAS 142, as the impairment charge was related to the implementation of SFAS 142, the charge of \$1.5 billion has been recorded as a cumulative effect of a change in accounting principle, net of minority interest and tax, in the Company's consolidated statement of operations for the year ended December 31, 2002.

SFAS 142 requires the Company to test for goodwill impairment annually and also between annual tests if an event occurs or if circumstances change that would more likely than not reduce the fair value of a reporting unit below the unit's carrying amount. During December 2002, due to a decline in its stock price, Blockbuster performed an interim impairment test on its existing goodwill balance. This test resulted in an estimated fair value, under SFAS 142, in excess of book value. As a result, there was no additional impairment.

Intangible assets subject to amortization at December 31, 2002 primarily consist of franchise and subscriber agreements that are being amortized over 5 to 40 years. Amortization expense for the year ended December 31, 2002 was \$101.7 million. The Company expects its aggregate annual amortization expense for existing intangible assets subject to amortization to be approximately \$100 million for each of the next five succeeding years. Amortization expense may vary as acquisitions and dispositions occur in the future and as purchase price allocations are finalized.

The Company's intangible assets subject to amortization and the related accumulated amortization were as follows:

	At December 31, 2002		
	Gross	Accumulated Amortization	Net
Franchise agreements	\$ 452.3	\$ (64.8)	\$ 387.5
Subscriber agreements	372.5	(133.2)	239.3
Other intangible assets	243.6	(83.5)	160.1
Total	\$ 1,068.4	\$ (281.5)	\$ 786.9

	At December 31, 2001		
	Gross	Accumulated Amortization	Net
Franchise agreements	\$ 445.0	\$ (39.2)	\$ 405.8
Subscriber agreements	372.5	(82.8)	289.7
Other intangible assets	235.2	(62.6)	172.6
Total	\$ 1,052.7	\$ (184.6)	\$ 868.1

FCC licenses, valued at approximately \$11.7 billion and \$11.0 billion at December 31, 2002 and December 31, 2001, respectively, were recorded as intangible assets with indefinite lives and were not subject to amortization. The increase in FCC licenses from December 31, 2001 to December 31, 2002 resulted primarily from the KCAL-TV acquisition in May 2002.

The changes in the book value of goodwill, by segment, for the year ended December 31, 2002 are as follows:

	Cable Networks	Television	Infinity	Entertainment	Video	Total
Balance at January 1, 2002	\$ 7,239.6	\$ 13,371.0	\$ 30,869.0	\$ 2,020.8	\$ 5,608.6	\$ 59,109.0
Impairment charge	—	—	—	—	(1,817.0)	(1,817.0)
Acquisitions	168.6	34.4	0.2	1.9	93.4	298.5
Adjustments (a)	(78.1)	(223.3)	(131.4)	(50.4)	9.0	(474.2)
Balance at December 31, 2002	\$ 7,330.1	\$ 13,182.1	\$ 30,737.8	\$ 1,972.3	\$ 3,894.0	\$ 57,116.3

(a) Adjustments primarily relate to the Company's purchase price allocation for the acquisition of BET, foreign currency translation adjustments and the reversal of tax liabilities established in purchase accounting that will no longer be realized.

The following table provides a reconciliation of the reported net loss and loss per share amounts for the years ended December 31, 2001 and 2000, respectively, to adjusted net earnings and per share amounts that would have been reported had SFAS 142 been adopted on January 1, 2000.

	Year Ended December 31, 2001	Earnings Per Share	
		Basic	Diluted
Reported net loss	\$ (223.5)	\$ (.13)	\$ (.13)
Dilutive impact on reported net loss	—	—	—
Goodwill and intangible amortization, net of tax	1,972.5	1.14	1.12
Goodwill and intangible amortization included in loss of affiliated companies, net of tax	67.0	.04	.04
Minority interest portion of intangible amortization, net of tax	(30.9)	(.02)	(.02)
Adjusted net earnings	\$ 1,785.1	\$ 1.03	\$ 1.01

	Year Ended December 31, 2000	Earnings Per Share	
		Basic	Diluted
Reported net loss	\$ (816.1)	\$ (.67)	\$ (.67)
Dilutive impact on reported net loss	—	—	.02
Goodwill and intangible amortization, net of tax	1,263.1	1.03	1.00
Goodwill and intangible amortization included in loss of affiliated companies, net of tax	62.2	.05	.05
Minority interest portion of intangible amortization, net of tax	(31.6)	(.02)	(.02)
Adjusted net earnings	\$ 477.6	\$.39	\$.38

3) ACQUISITIONS

On May 15, 2002, the Company acquired the assets of KCAL-TV Los Angeles for approximately \$650 million. During 2002, the Company also acquired the remaining 50% interest in Noggin, the 24-hour digital network for kids that it did not already own for approximately \$100 million. Blockbuster acquired the 51% interest that it did not already own in a joint venture in Italy and also acquired a games retailer in the United Kingdom for approximately \$82.4 million in the aggregate in 2002.

In November 2001, the Company completed the television station swaps of WDCA-TV Washington D.C. and KTXH-TV Houston in exchange for KBHK-TV San Francisco. As a result of the swaps, the Company recognized a gain of approximately \$210.1 million in "Other items, net".

On February 21, 2001, the Company completed a merger with Infinity, acquiring all of the issued and outstanding shares of Infinity common stock that it did not already own, approximately 36%. Under the terms of the merger, which was tax-free for the stockholders of Infinity and Viacom, each issued and outstanding share of Infinity Class A common stock was converted into the right to receive 0.592 of a share of Viacom Class B Common Stock. The Infinity merger was accounted for at historical cost, with the exception of minority interest, which was accounted for under the purchase method of accounting. The total purchase price of approximately \$13.4 billion represented the issuance of approximately 231.6 million shares of Viacom Class B Common Stock and the fair value of Infinity stock options assumed by the Company. Infinity stockholders received a cash payment in lieu of any fractional shares. The goodwill attributable to this transaction was approximately \$7.7 billion.

On January 23, 2001, the Company completed its acquisition of BET for approximately \$3 billion, which principally represented the net issuance of approximately 43.0 million shares of Viacom Class B Common Stock and the assumption by the Company of approximately \$590 million in debt. The acquisition was accounted for under the purchase method of accounting. An allocation of the total cost to acquire BET was based on the fair value of the assets acquired and liabilities assumed at the time of the acquisition. The excess purchase price over the fair value of the tangible net assets acquired of approximately \$2.9 billion was allocated to intangibles. As of the acquisition date, BET's results are included as part of the Cable Networks segment.

On May 4, 2000, CBS was merged with and into the Company (the "Viacom/CBS Merger"). The total purchase price of approximately \$39.8 billion included approximately \$37.7 billion for the issuance of 825.5 million shares of Viacom Class B Common

Stock and 11,004 shares of Viacom Series C convertible preferred stock, which were subsequently converted into 11.0 million shares of Viacom Class B Common Stock, and approximately \$1.9 billion for the fair value of CBS stock options assumed by the Company and transaction costs. In addition, Viacom assumed approximately \$3.7 billion of CBS' debt.

4) RESTRUCTURING, MERGER-RELATED AND BLOCKBUSTER CHARGES

In the fourth quarter of 2001, MTV Networks announced a restructuring plan to reduce headcount in its domestic and foreign offices and close certain offices in Latin America, Europe and Asia. Having met the conditions required by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" ("EITF 94-3"), the Company recorded a restructuring charge of \$66.6 million in selling, general and administrative expenses and \$8.8 million in depreciation and amortization in the fourth quarter of 2001. Included in the restructuring charge was severance of \$58.3 million for the termination of 449 domestic staff employees, 26 information systems employees and 151 employees in Latin America, Europe and Asia across various levels and departments including sales and marketing, production, development, finance, online and creative services. The reserve also included lease termination and other occupancy costs of \$8.3 million for vacated office space in New York. During 2002, an incremental \$8.3 million was accrued as additional lease termination costs based on a revision to the initial estimate. As of December 31, 2002, all employees under the plan were terminated and the Company had paid and charged \$47.1 million against the severance liability of which \$11.4 million was paid and charged during 2001. As of December 31, 2002, \$9.5 million was paid and charged against the lease termination liability; no payments were made against this liability in 2001. Severance and lease payments will continue into 2003 since certain employees will be paid out over the terms of their employment contracts and lease payments will continue to be paid in accordance with the terms of the lease.

In the fourth quarter of 2001, in connection with the Company's plan to integrate UPN with CBS Network operations and, having met the conditions required by EITF 94-3, the Company recorded a restructuring charge of \$52.8 million in selling, general and administrative expenses and \$.6 million in depreciation and amortization. The restructuring charge included programming write-offs of \$29.6 million and approximately \$15.0 million of employee-related costs, including severance, for the termination of 38 employees across various levels and departments including corporate, finance and administration, sales and marketing and affiliate relations. The reserve also included lease termination and other costs of \$8.2 million for vacated space at three of UPN's offices. The integration of UPN with CBS Network operations began in January 2002 and was completed by the end of the year. During 2002, a \$5.4 million revision to initial estimates resulted in a reduction in lease termination and other costs and an increase in programming write-offs. Additionally, as of December 31, 2002, \$3.0 million of severance liabilities was reversed due to a change in estimate. As of December 31, 2002, the Company had paid and charged approximately \$11.3 million against the severance liability associated with the termination of the employees and \$1.2 million against the lease termination and other costs. There were no payments charged against the reserve in 2001. Severance payments will continue into 2003 since certain employees will be paid out over the terms of their employment contracts.

In the second quarter of 2000, the Company recorded a non-recurring merger-related charge of \$698.5 million (\$504.5 million after-tax or \$.41 per share), associated with the integration of Viacom and CBS and the acquisition of UPN. This amount included a non-cash charge of \$415.5 million principally attributable to compensation for stock options and \$283.0 million of cash payments and accrued liabilities for severance, transaction fees and integration costs. During 2002, a \$9.0 million revision to initial estimates resulted in a reduction of liabilities for transaction fees and an increase to severance and integration liabilities. For the year ended December 31, 2002, the Company paid and charged approximately \$14.7 million for severance liabilities, \$15.6 million for integration costs and the remaining liabilities for transaction fees of \$14.1 million were released. For the year ended December 31, 2001, the Company paid and charged \$17.0 million for severance liabilities, \$0.4 million for transaction fees and \$63.0 million for integration costs. For the year ended December 31, 2000, the Company paid and charged \$92.1 million for severance liabilities, \$26.5 million for transaction fees and \$6.0 million for integration costs. As of December 31, 2002, the Company had approximately \$33.6 million remaining for severance and integration costs and the Company expects to substantially use these reserves by the end of 2003.

	Viacom/CBS Merger Related Charge	MTVN Restructuring Charge	UPN Restructuring Charge	Total
Initial charge	\$ 698.5	\$ 66.6	\$ 52.8	\$ 817.9
Cash payments	(235.3)	(56.6)	(12.5)	(304.4)
Non-cash charges	(415.5)	—	(35.0)	(450.5)
Revision to initial estimate	(14.1)	8.3	(3.0)	(8.8)
Balance at December 31, 2002	\$ 33.6	\$ 18.3	\$ 2.3	\$ 54.2

Blockbuster Charge

During the third quarter of 2001, Blockbuster began implementation of a strategic re-merchandising plan to allow for an expansion of store space for DVD and other strategic product offerings, which it completed by December 31, 2001. In connection with its plan, Blockbuster disposed of approximately 30% of its rental VHS library in its stores, certain VHS merchandise inventory primarily located in its distribution center and certain games from its rental library in its stores. The net book value of the eliminated inventory, net of proceeds, resulted in a primarily non-cash charge of approximately \$195.9 million to operating expenses in the

Company's consolidated statement of operations. Blockbuster also recorded a charge of approximately \$26.9 million in selling, general and administrative expenses, primarily related to employee, labor and supply and disposal costs to execute the plan. Additionally, \$2.6 million was charged to depreciation expense for the write-off of fixed assets and \$1.9 million was charged below operating income to equity in loss of affiliated companies for the adoption of a similar re-merchandising plan at one of Blockbuster's joint venture operations. The plan was completed by the end of 2001 through the destruction or sale of the identified items.

Also, during the third quarter of 2001, Blockbuster recorded approximately \$27.6 million in selling, general and administrative expenses related to two lawsuits.

The amounts described above, and including the \$141.7 million recorded as the change in accounting estimates for rental inventory, represented the 2001 pre-tax charge of approximately \$396.6 million.

5) CHANGE IN ACCOUNTING ESTIMATES FOR RENTAL INVENTORY

Effective July 1, 2001, Blockbuster changed its accounting estimates related to rental inventory, including residual values and useful lives. The residual value of VHS rental inventories was reduced from \$4 per unit to \$2 per unit and the residual value of game rental inventories was reduced from \$10 per unit to \$5 per unit. In addition, Blockbuster reduced its estimate of the useful life of its base stock VHS rental inventories from 36 months to 9 months. These changes in estimate reflected the impact of changes in the rental business, such as an increase in DVD rental revenues, a decrease in VHS rental revenues and trends affecting games, which led to a reduction in the average selling value of Blockbuster's previously rented VHS and game products and a reduction in the average life of VHS rental products. As a result of these changes in estimate, the Company's operating expenses were \$141.7 million higher and net loss was higher by \$73.9 million, or an increase in loss per share of \$.04, than it would have been under the previous method for the year ended December 31, 2001.

6) INVENTORY

At December 31,	2002	2001
Theatrical and television inventory:		
Theatrical:		
Released (including acquired film libraries)	\$ 517.2	\$ 510.3
Completed, not released	98.7	.9
In process and other	509.8	398.7
Television:		
Released (including acquired film libraries)	883.1	998.3
In process and other	90.2	158.4
Program rights	2,658.2	2,416.4
	4,757.2	4,483.0
Less current portion	718.8	552.5
	4,038.4	3,930.5
Merchandise inventory	505.7	261.4
Rental inventory	430.6	331.3
Publishing, primarily finished goods	71.9	71.2
Other	94.3	107.4
	1,102.5	771.3
Less current portion	613.9	366.2
	488.6	405.1
Total Current Inventory	\$ 1,332.7	\$ 918.7
Total Non-Current Inventory	\$ 4,527.0	\$ 4,335.6

At December 31, 2002, theatrical inventory completed, but not released increased by \$97.8 million from the prior year principally due to the scheduled timing of the release of completed feature films. Merchandise inventory increased \$244.3 million to \$505.7 million at December 31, 2002 in order to support Blockbuster's initiatives to focus on the retail movie and game business.

7) INVESTMENTS IN AFFILIATED COMPANIES

The Company accounts for its investments in affiliated companies over which the Company has significant influence or ownership of more than 20% but less than or equal to 50%, under the equity method. Such investments principally include but are not limited to the Company's interest in Comedy Central (50% owned), United Cinemas International (50% owned), Nickelodeon U.K. (50% owned), WF Cinema Holding L.P. (50% owned), Grauman's Theatres LLC (50% owned), Quetzal (34% owned), MarketWatch.com, Inc. (33% owned) and Sportsline.com, Inc. (30% owned). Additionally, the Company owns a 15% interest in Westwood One, Inc. ("Westwood One"), which is treated as an equity investment. Certain employees of Infinity serve as officers of Westwood One resulting in significant influence over its operations.

For equity investments, a difference typically exists between the initial investment and the proportionate share in the underlying net assets of the investee. The unamortized difference was \$43.9 million and \$74.9 million at December 31, 2002 and 2001, respectively. Prior to 2002, the amortization expense was reflected in "Equity in loss of affiliated companies, net of tax." Effective January 1, 2002, the Company adopted SFAS 142 and as a result, goodwill and intangible assets with indefinite lives are no longer amortized to earnings but are instead tested for impairment at least on an annual basis.

At December 31, 2002, the Company's equity investments included three publicly traded companies: MarketWatch.com, Inc., Sportsline.com, Inc. and Westwood One. Based upon quoted market prices at December 31, 2002, the aggregate market value of these investments was approximately \$636.7 million which exceeded the total carrying value on the consolidated balance sheet.

At the date of acquisition, for cost and equity investments in Internet-based companies, the Company typically records the investment at an amount equal to the cash consideration paid plus the fair value of the advertising and promotion time to be provided. The associated obligation to provide future advertising and promotion time is non-cash and is recorded as deferred revenue at an amount equal to the fair value of the advertising and promotion time to be provided. The related 2002 and 2001 deferred revenue balance of \$26.8 million and \$152.1 million, respectively is presented as "Deferred income" and "Other liabilities" in the consolidated balance sheets. Deferred revenue is relieved and barter revenue is recognized as the related advertising and promotion time is delivered. Barter revenue of \$54.6 million and \$87.2 million has been recognized for 2002 and 2001, respectively. During 2002 and 2001, several Internet companies completed Chapter 11 bankruptcy proceedings or signed restructuring agreements and, as a result, the Company was released from its advertising commitments, and the related deferred revenue was reversed against the investment account, with the excess of \$29.8 million and \$250.0 million recorded in "Other items, net" for the years ended December 31, 2002 and 2001, respectively, in the consolidated statements of operations.

At December 31, 2002 and 2001, respectively, the Company had \$43.5 million and \$65.6 million of cost investments that are included as a component of "Other assets". The 2002 mark-to-market adjustments in fair value for the publicly traded cost investments were (\$8.0) million, net of tax and were recorded as a decrease to other comprehensive income. The Company determined that some of its cost investments experienced other than temporary declines in market value as of December 31, 2002 and 2001. Accordingly, the Company recorded a non-cash impairment loss on these investments for approximately \$4.5 million in 2002 and \$125.0 million in 2001, in "Other items, net."

Related Parties

National Amusements, Inc. ("NAI") is a closely held corporation that beneficially owns the Company's Class A Common Stock, representing approximately 69% of the voting power of all classes of the Company's Common Stock, and approximately 11% of the Company's Class A Common Stock and Class B Common Stock on a combined basis at December 31, 2002. Owners of the Company's Class A Common Stock are entitled to one vote per share. The Company's Class B Common Stock does not have voting rights. NAI is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Sumner M. Redstone, the controlling shareholder of NAI, is the Chairman of the Board of Directors and Chief Executive Officer of the Company.

NAI licenses films in the ordinary course of business for its motion picture theaters from all major studios including Paramount Pictures, a division of the Company. During the years ended December 31, 2002 and 2001, NAI made payments to Paramount Pictures in the aggregate amounts of approximately \$12.3 million and \$18.2 million, respectively.

The Company owns a minority equity interest in Westwood One. Most of Infinity's radio stations are affiliated with Westwood One, and Westwood One distributes nationally certain of the Company's radio programming. In connection with these arrangements, the Company receives affiliation fees as well as programming cost reimbursements and in certain instances, shares in revenue from the sale by Westwood One of Infinity's programming. In addition, certain employees of Infinity serve as officers of Westwood One for which the Company receives a management fee. Revenues from these arrangements were approximately \$110.4 million, \$94.8 million and \$77.6 million in 2002, 2001 and 2000, respectively.

The Company, through the normal course of business, is involved in transactions with affiliated companies that have not been material in any of the periods presented.

VIACOM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Tabular dollars in millions, except per share amounts)

8) BANK FINANCING AND DEBT

Long-term debt consists of the following (a):

At December 31,	2002	2001
Notes payable to banks	\$ 423.7	\$ 645.0
Commercial paper	174.6	1,104.3
7.50% Senior Notes due 2002 (b)	—	250.0
7.625% Senior Notes due 2002	—	143.0
8.375% Notes due 2002	—	321.8
6.75% Senior Notes due 2003	334.7	350.0
6.875% Notes due 2003	279.7	274.9
7.15% Senior Notes due 2005	499.4	499.2
7.75% Senior Notes due 2005	983.8	967.8
6.40% Senior Notes due 2006	803.3	804.3
5.625% Senior Notes due 2007	764.6	—
7.70% Senior Notes due 2010	1,672.9	1,675.9
6.625% Senior Notes due 2011	994.0	993.3
8.625% Debentures due 2012	248.5	266.3
5.625% Senior Notes due 2012	599.1	—
8.875% Notes due 2014	101.9	101.9
7.625% Senior Debentures due 2016	199.1	199.0
8.25% Senior Debentures due 2022 (b)	—	237.3
8.875% Senior Debentures due 2022	—	31.1
7.50% Senior Debentures due 2023 (b)	149.6	149.6
7.875% Debentures due 2023	230.0	250.7
7.125% Senior Notes due 2023 (c)	52.2	52.2
7.875% Senior Debentures due 2030	1,282.9	1,284.2
7.25% Senior Notes due 2051	335.0	335.0
8.875% Senior Subordinated Notes due 2007	—	2.7
10.50% Senior Subordinated Notes due 2009 (d)	56.1	48.1
11.375% Subordinated Exchange Debentures due 2009	—	19.8
Other notes	28.6	16.2
Obligations under capital leases	392.2	452.0
Total Debt	10,605.9	11,475.6
Less current portion	199.0	299.0
Less discontinued operations debt (e)	201.7	352.9
Total Long-Term Debt	\$ 10,205.2	\$ 10,823.7

- (a) Unless otherwise noted, the senior and senior subordinated issuances are issuances of Viacom Inc. and are guaranteed by Viacom International Inc. ("Viacom International").
- (b) Issues of Viacom International guaranteed by Viacom Inc.
- (c) Issue of CBS Broadcasting Inc., a wholly owned subsidiary of Viacom Inc., which is not guaranteed.
- (d) Issue of Go Outdoor Systems Holdings S.A, a wholly owned subsidiary of Viacom Inc., which is not guaranteed.
- (e) Included in "Other Liabilities" on the consolidated balance sheets.

The Company's total debt presented above includes, for the period ending December 31, 2002 and December 31, 2001, respectively, (i) an aggregate unamortized premium of \$49.5 million and \$49.4 million and (ii) the change in the carrying value of the debt relating to fair value swaps of \$86.2 million and \$2.8 million.

For the years ended December 31, 2002 and 2001, the following debt issuances, maturities and redemptions occurred:

Debt Issuances

August 28, 2002, \$600.0 million 5.625% senior notes due 2012
April 25, 2002, \$700.0 million 5.625% senior notes due 2007
June 29, 2001, \$335.0 million 7.25% senior notes due 2051
May 17, 2001, \$400.0 million 6.40% senior notes due 2006
May 17, 2001, \$1.0 billion 6.625% senior notes due 2011
January 17, 2001, \$400.0 million 6.40% senior notes due 2006
January 17, 2001, \$500.0 million 7.70% senior notes due 2010
January 17, 2001, \$750.0 million 7.875% senior debentures due 2030

Interest on all of the above notes is paid semi-annually except for the 7.25% senior notes which is paid quarterly.

Debt Maturities

June 15, 2002, 8.375% notes, \$321.8 million
January 15, 2002, 7.50% senior notes, \$250.0 million
January 1, 2002, 7.625% senior notes, \$143.0 million
September 15, 2001, 10.25% senior subordinated notes, \$35.3 million
June 1, 2001, 8.875% notes, \$230.0 million

Debt Redemptions

August 1, 2002, \$239.5 million 8.25% senior debentures due 2022 at 103.5% of principal
June 15, 2002, \$2.6 million 8.875% senior subordinated notes due 2007 at 104.4% of principal
June 1, 2002, \$31.1 million 8.875% senior debentures due 2022 at 104.1% of principal
January 15, 2002, \$18.7 million 11.375% subordinated exchange debentures due 2009 at 105.7% of principal
February 1, 2001, \$60.3 million 9.00% senior subordinated notes due 2006 at 104.5% of principal
October 15, 2001, \$151.5 million 9.375% senior subordinated notes due 2006 at 104.7% of principal

For the years ended December 31, 2002 and 2001, the Company repurchased approximately \$55.0 million and \$427.7 million of its debt, respectively.

The Company's scheduled maturities of long-term debt at face value, excluding commercial paper and capital leases, outstanding at December 31, 2002 are as follows:

	Year of Maturity					
	2003	2004	2005	2006	2007	2008 & thereafter
Long-term debt	\$ 874.8	\$ 176.6	\$ 1,473.2	\$ 801.4	\$ 700.1	5,874.3

Viacom Credit Agreement

At December 31, 2002, the Company's credit facilities, excluding Blockbuster's credit facility, totaled \$4.75 billion comprised of \$1.45 billion and \$1.5 billion 5-year revolving credit facilities and a \$1.8 billion 364-day revolving credit facility. The \$1.45 billion and \$1.5 billion facilities are scheduled to expire in 2005 and 2006, respectively. On February 28, 2003, the Company entered into a \$1.7 billion 364-day credit facility to replace the \$1.8 billion facility which was to expire in March 2003. The terms and conditions of the \$1.7 billion facility are substantially similar to the \$1.8 billion facility. As of February 28, 2003, the Company's credit facilities total \$4.65 billion. The Company, at its option, may also borrow in certain foreign currencies up to specified limits under the \$1.5 billion facility. Borrowing rates under the facilities are determined at the Company's 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 ("LIBOR") plus a margin based on the Company's senior unsecured debt rating. The Company pays a facility fee based on the total amount of the commitments. As of December 31, 2002, the Company had unused revolving credit facilities, excluding Blockbuster's credit facility, of \$4.51 billion in the aggregate.

The facilities contain certain covenants, which, among other things, require that the Company maintain a minimum interest coverage ratio. At December 31, 2002, the Company was in compliance with the financial covenants.

The primary purpose of the credit facilities is to support commercial paper borrowings. At December 31, 2002, the Company had commercial paper borrowings of \$174.6 million under its \$4.75 billion commercial paper program. The Company's credit facilities

supporting the commercial paper borrowings totaled \$4.65 billion at February 28, 2003. Borrowings under the program have maturities of less than a year.

At December 31, 2002, the Company had classified approximately \$1.05 billion of commercial paper and other debt scheduled to mature within the next twelve months as long-term debt, reflecting its intent and ability, through the existence of unused revolving credit facilities, to refinance this debt on a long-term basis.

Blockbuster Credit Agreement

As of December 31, 2002, Blockbuster's credit agreement (the "Blockbuster Credit Agreement") was comprised of a \$600.0 million long-term revolver due July 1, 2004 and a \$410.0 million term loan due in quarterly installments ending July 1, 2004. Blockbuster had \$600.0 million of available borrowing capacity under the long-term revolver at December 31, 2002. Blockbuster has the ability with this available borrowing capacity to extend the maturities of the current portion of the term loan. Interest rates under the Blockbuster Credit Agreement are based on the prime rate in the United States or LIBOR (plus a margin, or "LIBOR spread," based on leverage ratios, which is currently 1.25%) at Blockbuster's option at the time of borrowing. The weighted-average interest rate at December 31, 2002 for borrowings under the Blockbuster Credit Agreement was 3.1%. A variable commitment fee based on the total leverage ratio is charged on the unused amount of the revolver (0.25% at December 31, 2002).

The Blockbuster Credit Agreement contains certain restrictive covenants, which, among other things, relate to the payment of dividends, purchase of Blockbuster's common stock or other distributions and also require compliance with certain financial covenants with respect to a maximum leverage ratio and a minimum fixed charge coverage ratio. At December 31, 2002, Blockbuster was in compliance with all covenants under the Blockbuster Credit Agreement.

Accounts Receivable Securitization Programs

As of December 31, 2002, and December 31, 2001, the Company had an aggregate of \$981.9 million and \$950.0 million, respectively, outstanding under revolving receivable securitization programs. The programs result 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 the Company's consolidated balance sheets. The Company enters into these arrangements because they provide a cost-efficient form of financing and an additional source of liquidity. Proceeds from the programs were used to reduce outstanding borrowings. The Company is required to maintain certain ratios in connection with the programs. As of December 31, 2002, the Company was in compliance with the required ratios under the receivable securitization programs.

9) FINANCIAL INSTRUMENTS

The Company's carrying value of financial instruments approximates fair value, except for differences with respect to the notes and debentures and certain differences related to other financial instruments that are not significant. At December 31, 2002, the carrying value of the senior debt and senior subordinated debt was \$9.6 billion and the fair value, which is estimated based on quoted market prices, was \$11.1 billion.

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign exchange rates and interest rates. The Company does not hold or enter into financial instruments for speculative trading purposes. The foreign exchange hedging instruments used are spot, forward and option contracts. The foreign exchange contracts have principally been used to hedge the British Pound, the Australian Dollar, the Japanese Yen, the Canadian Dollar, the Singapore Dollar and the Euro. The Company designates forward contracts used to hedge future production costs as cash flow hedges. Additionally, the Company enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances. The changes in fair value of the non-designated contracts are included in current period earnings as part of "Other items, net."

The Company's interest expense is exposed to movements in short-term rates. Swap agreements are used to modify this exposure. This includes both fixed to variable rate swaps, which are designated as fair value hedges and variable to fixed rate swaps, which are designated as cash flow hedges. As of December 31, 2002, if both parties were to agree, the swaps could have been terminated by a net payment from the counterparties of approximately \$75.1 million.

On January 23, 2001, the Company, in connection with the acquisition of BET, assumed \$425 million of cash flow swap agreements which effectively convert variable rate debt to a fixed rate. As of December 31, 2002, the notional amount outstanding was approximately \$175 million. The notional amount of swaps amortizes by approximately \$156 million in September of 2003 and matures in September 2004. Interest is received based upon three-month LIBOR and is paid at approximately 5.07%. The amount of the ineffectiveness of these cash flow hedges, that was reflected in earnings, was immaterial.

The effective portion of the change in value of cash flow hedges are reported in other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. The ineffective portion included in earnings was not material. The change in value of the fair value hedges and the hedged instruments is reported in earnings for the periods presented.

During December 2001, the Company entered into \$750 million notional amount swap agreements, which converted fixed rate debt obligations into variable rate debt obligations. Of the \$750 million notional amount, \$225 million matures on January 15, 2003, \$275 million matures on September 1, 2003 and \$250 million matures on June 1, 2005, and the Company receives interest at approximately 3.2%, 3.8% and 4.5%, respectively, and pays three-month LIBOR. These fair value hedges were fully effective. During November 2002, the 3.2% and 3.8% swap agreements entered in December 2001 were terminated by the Company resulting in the Company receiving approximately \$8.7 million in cash which is being amortized into earnings over the remaining life of the respective debt.

On April 24, 2002 the Company entered into additional \$700 million notional swap agreements, which converted fixed rate debt obligations into variable rate debt obligations. The swaps mature on May 1, 2007, and the Company receives interest at approximately 5.11% on \$400 million and 5.35% on \$300 million, while paying three-month LIBOR.

At December 31, 2002, the notional amount of the foreign exchange derivative contracts was \$266.0 million. Of this balance, \$48.5 million represents cash flow hedges used to reduce foreign exchange exposure for future production costs. The remaining \$217.5 million represents hedges of underlying foreign currency balances, expected foreign currency net cash flows and investment hedges.

The Company continually monitors its positions with, and credit quality of, the financial institutions, which are counterparties to its financial instruments. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not anticipate nonperformance by the counterparties.

The Company's receivables do not represent significant concentrations of credit risk at December 31, 2002, due to the wide variety of customers, markets and geographic areas to which the Company's products and services are sold.

10) STOCKHOLDERS' EQUITY

During 2002, the Company purchased 27.8 million shares of its Class B Common Stock for approximately \$1.2 billion under its share purchase programs. During 2001, the Company purchased 24.2 million shares of its Class B Common Stock for approximately \$1.0 billion under its share purchase programs. During 2000, the Company purchased 10,000 shares of its Class A Common Stock and 34.2 million shares of its Class B Common Stock for approximately \$1.95 billion in the aggregate.

Long-Term Incentive Plans— The Company has Long-Term Incentive Plans (the "Plans") under which options are issued: the Viacom Long-Term Management Incentive Plans (the "Viacom Plans"), the Blockbuster Long-Term Management Incentive Plan (the "Blockbuster Plan"), the Infinity Long-Term Management Incentive Plan (the "Infinity Plan") and the CBS Long-Term Incentive Plan (the "CBS Plan"). Effective February 21, 2001, as a result of the Company's acquisition of the minority interest of Infinity, Viacom assumed the Infinity Plan and all options outstanding as of this date were converted into Viacom options. Effective May 4, 2000, as a result of the Viacom/CBS Merger, Viacom assumed the CBS Plan and all options outstanding as of this date were converted into Viacom options. Warrants to purchase 135,420 shares of Viacom Class B Common Stock were also assumed with the Viacom/CBS Merger. The warrants have no expiration date and an exercise price of zero. Options under the Infinity Plan and CBS Plan generally vest over a three-year period and expire ten years from the date of grant. These converted options still maintain their original terms and conditions.

Viacom Plans— The purpose of the Viacom Plans is to benefit and advance the interests of the Company by rewarding certain key employees for their contributions to the financial success of the Company and thereby motivating them to continue to make such contributions in the future. The Viacom Plans provide for fixed grants of equity-based interests pursuant to awards of phantom shares, stock options, stock appreciation rights, restricted shares or other equity-based interests, and for subsequent payments of cash with respect to phantom shares or stock appreciation rights based, subject to certain limits, on their appreciation in value over stated periods of time. The stock options generally vest over a three-to five-year period from the date of grant and expire 10 years after the date of grant. The Company has reserved a total of 6,996 shares of Viacom Inc. Class A Common Stock and 138,513,686 shares of Viacom Inc. Class B Common Stock for future exercise of stock options and warrants outstanding as of December 31, 2002.

The stock options available for future grant under the Viacom Plans are as follows:

December 31, 2000	107,266,077
December 31, 2001	85,653,665
December 31, 2002	67,879,728

The weighted-average fair value of each option as of the grant date was \$20.04, \$23.71 and \$27.39 in 2002, 2001 and 2000, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2002	2001	2000
Expected dividend yield(a)	—	—	—
Expected stock price volatility	37.03%	33.74%	32.10%
Risk-free interest rate	5.00%	5.04%	6.56%
Expected life of options (years)	6.7	6.7	6.8

(a) The Company has not declared any cash dividends on its common stock for any of the periods presented and has no present intention of so doing.

The following table summarizes the Company's stock activity under the Plans:

	Options Outstanding	Weighted-Average Exercise Price
Balance at December 31, 1999	53,978,520	\$ 26.16
Granted	11,147,875	57.12
CBS stock options assumed	64,258,809	24.76
Exercised	(10,765,816)	17.42
Canceled	(1,440,083)	39.63
Balance at December 31, 2000	117,179,305	28.98
Granted	22,208,178	52.57
BET stock options assumed	3,169,784	14.24
Infinity stock options assumed	7,988,794	48.39
Exercised	(10,587,348)	17.28
Canceled	(2,475,342)	44.16
Balance at December 31, 2001	137,483,371	34.20
Granted	22,452,148	42.24
Exercised	(17,561,361)	17.91
Canceled	(3,988,896)	49.63
Balance at December 31, 2002	138,385,262	37.13

The following table summarizes information concerning outstanding and exercisable stock options under the Plans at December 31, 2002:

Range of Exercise Price	Options	Outstanding		Exercisable	
		Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
\$ 2 to 9.99	3,241,573	1.79	\$ 5.41	3,241,573	\$ 5.41
10 to 19.99	23,619,836	3.62	16.05	23,619,836	16.05
20 to 29.99	15,159,862	3.74	23.33	15,141,936	23.33
30 to 39.99	33,482,181	6.95	35.26	15,899,712	32.12
40 to 49.99	25,322,680	7.39	43.81	10,379,070	43.22
50 to 59.99	36,490,495	7.72	55.48	15,043,151	55.81
60 to 69.99	548,420	7.44	66.89	202,110	66.34
70 to 71.00	520,215	7.58	70.02	202,861	70.02
Total	138,385,262			83,730,249	

Stock options exercisable at year end:

December 31, 2000	72,278,110
December 31, 2001	79,619,715
December 31, 2002	83,730,249

11) INCOME TAXES

U.S. and foreign earnings before income taxes are as follows:

Year ended December 31,	2002	2001	2000
United States	\$ 3,372.7	\$ 590.8	\$ 165.3
Foreign	361.5	185.5	395.3
Total	\$ 3,734.2	\$ 776.3	\$ 560.6

Components of the provision for income taxes on earnings before income taxes are as follows:

Year ended December 31,	2002	2001	2000
Current:			
Federal	\$ 520.9	\$ 479.1	\$ 553.1
State and local	238.9	180.2	209.8
Foreign	34.4	77.5	47.1
	794.2	736.8	810.0
Deferred	654.7	183.1	(80.2)
Provision for income taxes	\$ 1,448.9	\$ 919.9	\$ 729.8

The equity losses of affiliated companies are shown net of tax on the Company's consolidated statements of operations. The tax (provision) benefit relating to losses from equity investments in 2002, 2001 and 2000 are (\$14.2) million, \$21.2 million and \$20.5 million, respectively, which represented an effective tax rate of (56.0)%, 14.3% and 14.2%, respectively.

For 2002, there is no tax benefit attributable to the cumulative effect of change in accounting principle, net of minority interest, of \$1.5 billion. For 2000, the cumulative effect of change in accounting principle of \$452.3 million is represented net of a tax benefit of \$301.6 million.

In 2002 and 2001, respectively, \$210.3 million and \$141.8 million of income tax benefit was recorded as a component of stockholders' equity and minority interest as a result of exercised stock options.

A reconciliation of the statutory U.S. federal tax rate to the Company's effective tax rate on earnings before income taxes is summarized as follows:

Year ended December 31,	2002	2001	2000
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Amortization of intangibles	—	92.1	81.1
State and local taxes, net of federal tax benefit	5.7	7.3	7.3
Realization of additional stock basis	—	(11.6)	—
Nontaxable gain on like-kind exchange	—	(10.4)	—
Effect of foreign operations	(4.4)	(1.3)	(17.7)
Merger-related costs and non-deductible expenses	—	—	19.5
Other, net	2.5	7.4	5.0
Effective tax rate on earnings before income taxes	38.8%	118.5%	130.2%

The following is a summary of the components of the deferred tax accounts:

Year ended December 31,	2002	2001
Deferred tax assets:		
Provision for expense and losses	\$ 1,157.3	\$ 1,380.6
Postretirement and other employee benefits	947.6	584.8
Tax credit and loss carryforwards	301.2	485.2
Total deferred tax assets	2,406.1	2,450.6
Valuation allowance	(76.7)	(136.0)
Net deferred tax assets	2,329.4	2,314.6
Deferred tax liabilities:		
Property, equipment and intangible assets	(2,160.5)	(2,506.8)
Lease portfolio	(289.5)	(384.0)
Other	(729.1)	(384.0)
Total deferred tax liabilities	(3,179.1)	(3,274.8)
Deferred income taxes, net liability	\$ (849.7)	\$ (960.2)

At December 31, 2002 and 2001, the Company had a net current deferred tax asset of \$238.6 million and \$359.7 million, and non-current deferred income tax liabilities of \$1.1 billion and \$1.5 billion, respectively. The Company included in "Other liabilities," in 2002 and 2001, respectively, non-current deferred income tax liabilities of \$289.5 million and \$384.0 million, for its retained liabilities of discontinued business.

The 2002 and 2001 deferred tax assets were reduced by a valuation allowance of \$76.7 million and \$136.0 million, respectively, principally relating to tax benefits of net operating losses which are not expected to be realized.

12) PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company and certain of its subsidiaries have non-contributory pension plans covering specific groups of employees. The benefits for certain plans are based primarily on an employee's years of service and average pay near retirement. Benefits under other plans are based primarily on an employee's pay for each year that the employee participates in the plan. Participating employees are vested in the plans after five years of service. The Company's policy for all pension plans is to fund amounts in accordance with the Employee Retirement Income Security Act of 1974, the Internal Revenue code of 1986 and the applicable rules and regulations. Plan assets consist principally of common stocks, marketable bonds and U.S. government securities. The Company's Class B Common Stock represents approximately 5.1% and 8.3% of the plan assets' fair value at December 31, 2002 and 2001, respectively.

In addition, the Company sponsors health and welfare plans that provide certain postretirement health care and life insurance benefits to retired employees and their covered dependents. Retiring employees are eligible for these benefits if they meet certain age and service requirements at the time of their retirement. Most of the plans are contributory and contain cost-sharing features such as deductibles and coinsurance which are adjusted annually. Some of the plans are partially funded; however, the Company funds most of these benefits as claims are paid.

The following table sets forth the change in benefit obligation for the Company's benefit plans:

At December 31,	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 5,099.7	\$ 4,984.3	\$ 1,190.1	\$ 1,120.2
Service cost	50.2	49.7	2.4	2.4
Interest cost	347.5	364.6	82.2	82.7
Actuarial loss	579.0	254.2	121.4	78.3
Benefits paid	(506.7)	(549.3)	(106.4)	(96.2)
Business combinations	—	3.6	—	—
Participants' contributions	—	—	2.5	2.7
Amendments	4.2	2.5	(.3)	—
Cumulative translation adjustments	3.1	(9.9)	—	—
Benefit obligation, end of year	\$ 5,577.0	\$ 5,099.7	\$ 1,291.9	\$ 1,190.1

The following table sets forth the change in plan assets for the Company's benefit plans:

At December 31,	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 4,566.0	\$ 4,891.2	\$ 44.0	\$ 46.4
Actual return on plan assets	143.0	190.3	2.2	5.5
Employer contributions	43.9	42.1	90.3	85.6
Benefits paid	(506.7)	(549.3)	(106.4)	(96.2)
Business combinations	—	4.3	—	—
Participants' contributions	—	—	2.5	2.7
Cumulative translation adjustments	2.7	(12.6)	—	—
Fair value of plan assets, end of year	\$ 4,248.9	\$ 4,566.0	\$ 32.6	\$ 44.0

For those pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligations and

accumulated benefit obligations were \$5.54 billion and \$5.39 billion, respectively, for 2002 and \$1.31 billion and \$1.21 billion, respectively, for 2001. The fair value of such plan assets was \$4.20 billion for 2002 and \$716.6 million for 2001.

The accrued pension and postretirement costs recognized in the Company's consolidated balance sheet are computed as follows:

At December 31,	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Funded Status	\$ (1,328.1)	\$ (533.7)	\$ (1,259.3)	\$ (1,146.1)
Unrecognized transition obligation	.8	.1	—	—
Unrecognized prior service cost (benefit)	10.1	11.2	(8.6)	(9.4)
Unrecognized actuarial loss	988.2	264.3	182.7	60.3
Accrued pension liability, net	\$ (329.0)	\$ (258.1)	\$ (1,085.2)	\$ (1,095.2)
Amounts recognized in the Consolidated Balance Sheets:				
Accrued pension liability	\$ (1,194.0)	\$ (548.5)	\$ (1,085.2)	\$ (1,095.2)
Prepaid benefits cost	—	266.4	—	—
Intangibles	19.5	4.1	—	—
Accumulated other comprehensive pre-tax loss	845.5	19.9	—	—
Net liability recognized	\$ (329.0)	\$ (258.1)	\$ (1,085.2)	\$ (1,095.2)

Net periodic cost for the Company's pension and postretirement benefit plans consists of the following:

At December 31,	Pension Benefits			Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
Components of net periodic cost:						
Service cost	\$ 50.2	\$ 49.7	\$ 38.5	\$ 2.4	\$ 2.4	\$ 2.1
Interest cost	347.6	364.6	278.9	82.2	82.7	59.3
Expected return on plan assets	(354.7)	(388.6)	(301.8)	(2.5)	(3.7)	(2.2)
Amortization of transition obligation	(.7)	(1.1)	(1.1)	—	—	—
Amortization of prior service cost	1.1	1.9	1.9	(1.2)	(1.1)	(.6)
Recognized actuarial (gain) loss	5.6	(.1)	(17.0)	(.6)	(.1)	(1.2)
Special termination benefits	—	—	1.7	—	—	—
Net periodic cost	\$ 49.1	\$ 26.4	\$ 1.1	\$ 80.3	\$ 80.2	\$ 57.4

The following weighted average assumptions were used in accounting for the pension plans:

	2002	2001	2000
Discount rate	6.47%	7.21%	7.71%
Expected return on plan assets	7.3%	8.3%	8.3%
Rate of increase in future compensation	4.0%	4.5%	5.0%

The following weighted average assumptions were used in accounting for postretirement benefits:

	2002	2001	2000
Discount rate	6.5%	7.25%	7.75%
Projected health care cost trend rate for participants of age 65 and below	8.5%	7.5%	8.0%
Projected health care cost trend rate for participants above age 65	10.0%	9.0%	9.0%
Ultimate trend rate	5.0%	5.3%	5.8%
Year ultimate trend rate is achieved for participants of age 65 and below	2010	2006	2006
Year ultimate trend rate is achieved for participants above age 65	2013	2009	2008

Assumed health care cost trend rates could have a significant effect on the amounts reported for the postretirement health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 3.2	\$ (3.0)
Effect on the accumulated postretirement benefit obligation	\$ 50.2	\$ (46.2)

The Company contributes to multi-employer plans that provide pension and health and welfare benefits to certain employees under collective bargaining agreements. The contributions to these plans were \$44.8 million (2002) and \$41.0 million (2001).

In addition, the Company has defined contribution plans for the benefit of substantially all employees meeting certain eligibility requirements. Employer contributions to such plans were \$42.3 million, \$50.4 million and \$35.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

13) COMMITMENTS AND CONTINGENCIES

The Company has long-term noncancelable operating lease commitments for retail and office space and equipment, transponders, studio facilities and vehicles. The Company has also entered into capital leases for satellite transponders and buildings.

Viacom's outdoor advertising business has franchise rights entitling it to display advertising on media such as buses, trains, bus shelters, terminals, billboards, and phone kiosks. Under most of these franchise agreements, the franchiser is entitled to receive the greater of a percentage of the relevant advertising revenues, net of advertising agency fees, or a specified guaranteed minimum annual payment.

At December 31, 2002, minimum rental payments under noncancelable leases and minimum franchise payments are as follows:

	Leases		Guaranteed Minimum Franchise Payments
	Capital	Operating	
2003	\$ 118.1	\$ 930.9	\$ 378.2
2004	90.5	791.5	342.1
2005	75.2	662.4	303.6
2006	62.1	637.8	212.4
2007	52.0	422.9	81.3
2008 and thereafter	102.9	1,725.3	156.5
Total minimum payments	500.8	\$ 5,170.8	\$ 1,474.1
Less amounts representing interest	108.6		
Present value of net minimum payments	\$ 392.2		

Future minimum capital lease payments have not been reduced by future minimum sublease rentals of \$1.6 million. Future minimum operating lease payments have been reduced by future minimum sublease income of \$113.6 million. Rent expense amounted to \$951.6 million (2002), \$997.4 million (2001) and \$838.2 million (2000).

Programming and talent commitments of the Company, estimated to aggregate approximately \$13.5 billion, are not reflected in the balance sheet as of December 31, 2002. These commitments include approximately \$9.3 billion for the acquisition of sports programming rights, approximately \$3.1 billion relating to television, radio and feature film production and acquisitions and approximately \$1.1 billion for talent contracts. A majority of such fees are payable over several years, as part of the normal course of business.

Guarantees

The Company owns a 50% equity interest in United Cinemas International ("UCI"), which operates movie theaters in Europe, Latin America and Asia. As of December 31, 2002, the Company guaranteed approximately \$250.6 million of UCI's debt obligations under a revolving credit facility which expires in December 2004, and \$155.5 million of UCI's theater leases. The Company also owns a 50% interest in WF Cinema Holdings, L.P. and Grauman's Theatres, LLC and guarantees certain theater leases for approximately \$14.7 million. The debt and 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, 2002.

Additionally, the Company has 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 \$405.2 million at December 31, 2002 and are not recorded on the balance sheet.

The Company is also subject to certain off-balance sheet lease guarantees related to the divestitures of certain businesses. In October 1998, Blockbuster Music stores were sold to Warehouse Entertainment Inc. ("Warehouse"). Some of the leases transferred in connection with this sale had previously been guaranteed either by the Company or its affiliates. The remaining initial terms of these leases expire on various dates through 2007. However, certain leases contain renewal options that can extend the primary lease term

and remain subject to the guarantee. Blockbuster had previously agreed to indemnify the Company with respect to any amount paid under these guarantees. On January 21, 2003, Wherehouse filed a petition for protection under Chapter 11 of U.S. bankruptcy law. Based on information regarding lease and guaranty expirations provided to Blockbuster by Wherehouse in connection with its bankruptcy, Blockbuster's current estimate of the contingent liability is approximately \$36.0 million. Blockbuster recorded a reserve of \$18.7 million during the fourth quarter of 2002 which represented its estimate of the undiscounted lease guaranty obligation associated with the stores that Wherehouse has indicated it will vacate. The Company has accounted for these reserves in discontinued operations.

Legal Matters

Asbestos and Environmental. The Company is a defendant in lawsuits claiming various personal injuries related to asbestos and other materials, which allegedly occurred as a result of exposure caused by various products manufactured by Westinghouse, a predecessor, generally prior to the early 1970s. Westinghouse was neither a producer nor a manufacturer of asbestos. The Company is typically named as one of a large number of defendants in both state and federal cases. In the majority of asbestos lawsuits, the plaintiffs have not identified which of the Company's products is the basis of a claim. Claims against the Company in which a product has been identified principally relate to exposures allegedly caused by asbestos-containing insulating material in turbines sold for power-generation, industrial and marine use, or by asbestos-containing grades of decorative micarta, a laminate used in commercial ships.

Claims typically are both filed and settled in large groups, which makes the amount and timing of settlements, and the number of pending claims, subject to significant fluctuation from period to period. The Company does not report as pending those claims on inactive, stayed, deferred or similar dockets which some jurisdictions have established for claimants who allege minimal or no impairment. As of December 31, 2002, the Company had pending approximately 103,800 asbestos claims, as compared to approximately 106,000 as of December 31, 2001 and approximately 100,000 as of December 31, 2000. The 2001 and 2000 numbers of claims included approximately 7,100 claims and 1,900 claims, respectively, on an inactive docket in Baltimore which would not be counted as pending under the Company's current methodology. In addition, the pending claim count was reduced by approximately 24,000 claims as a result of the Supreme Court of New York's order dated December 2002 establishing a deferred docket of claimants alleging minimal or no impairment. Of the claims pending as of December 31, 2002, approximately 73,900 were pending in state courts, 27,100 in federal court and approximately 2,800 were third party claims. During 2002, the Company received approximately 49,400 new claims and closed approximately 18,500 claims. The Company reports claims as closed when it becomes aware that a dismissal order has been entered by a court or when the Company has reached agreement with the claimants on the material terms of a settlement.

Settlement costs depend on the seriousness of the injuries that form the basis of the claim, the quality of evidence supporting the claims and other factors. To date, the Company has not been liable for any third party claims. The Company's total costs in 2002 and 2001 for settlement and defense of asbestos claims after insurance recoveries and net of tax benefits were approximately \$28 million and \$21 million, respectively. A portion of such costs relates to claims settled in prior years. The Company believes that its reserves and insurance are adequate to cover its asbestos liabilities and that these asbestos liabilities are not likely to have a material adverse effect on its results of operations, financial position or cash flows.

Blockbuster Securities Action. During February and March 2003, three putative class action complaints were filed against Blockbuster in the United States District Court for the Northern District of Texas claiming violations of the Securities Exchange Act of 1934 and seeking a class determination for purchasers of Blockbuster stock for the approximately eight-month period between April and December 2002. Certain members of Blockbuster's senior management are also named as defendants. A shareholder derivative action arising from the same operative facts was filed in February 2003 in the same court; and another shareholder derivative action was filed in March 2003 in the 160th Judicial District Court for Dallas County, Texas claiming breach of fiduciary duties for an approximately three-week period from late April through mid-May 2002. These actions named certain Blockbuster directors, some of whom are directors and/or executive officers of the Company, and certain members of Blockbuster's senior management, as individual defendants, and Blockbuster as a nominal defendant. Responses have not yet been filed to any of these lawsuits. The Company believes the plaintiffs' positions in these lawsuits are without merit and intends to vigorously defend these matters.

Other. The Company has amounts owed by an international licensee under a series of long-term licensing arrangements covering feature film and television product. The licensee is disputing its obligation to accept and to pay for a portion of this product under certain of these arrangements. The Company has brought suit to enforce its rights under those arrangements and strongly believes in the merits of its position. The licensee is attempting to reorganize under German insolvency law. As a result, the Company may be unable to recover some or all of amounts being sought in the litigation, as well as the undisputed sums owing under these arrangements. The Company however, believes that the resolution of such matters will not have a material adverse effect on the Company's consolidated results of operations.

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

14) REPORTABLE SEGMENTS

The following tables set forth the Company's financial performance by reportable operating segment. The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based upon products and services. Effective January 1, 2002, the Company operates its consumer publishing business, which was previously reported as the Publishing segment, under the Entertainment segment. Prior period information for the Company has been reclassified to conform to the new presentation. The Company operated five reportable segments during 2002:

- Cable Networks* —Basic cable and premium subscription television program services.
- Television* —Television networks and stations; and production and distribution of television programming.
- Infinity* —Radio stations and outdoor advertising properties.
- Entertainment* —Production and distribution of motion pictures; consumer publishing, as well as the operation of theme parks, movie theaters and music publishing.
- Video* —Home videocassette, DVD and video game rental and retail operations.

Effective January 1, 2003, the Company began operating its radio and outdoor advertising business within Infinity separately and, as such, will commence reporting these operations as separate segments effective January 1, 2003.

The accounting policies of the segments are the same as those described in Note 1—Summary of Significant Accounting Policies. Intercompany revenues are recorded at fair market value as if the sales were to third parties and are eliminated in consolidation. Intercompany revenue eliminations were principally associated with the Entertainment, Television and Cable segments and were \$357.4 million, \$181.2 million and \$60.0 million, respectively for 2002. Intercompany profit eliminations are principally comprised of television programming sales to cable networks and the sale of feature films to cable and broadcast networks and the Video segment. The 2001 intercompany revenue eliminations were principally associated with the Entertainment, Television and Cable Segments and were \$406.7 million, \$296.4 million and \$77.1 million, respectively. The 2000 intersegment revenues were primarily from the Entertainment Segment of \$371.5 million.

Year ended December 31,	2002	2001	2000
Revenues:			
Cable Networks	\$ 4,726.7	\$ 4,297.6	\$ 3,951.0
Television	7,490.0	7,247.7	5,426.4
Infinity	3,754.6	3,670.2	2,764.7
Entertainment	3,646.9	3,597.8	3,351.7
Video	5,565.9	5,156.7	4,960.1
Intercompany eliminations	(578.4)	(747.2)	(410.2)
Total Revenues	\$ 24,605.7	\$ 23,222.8	\$ 20,043.7
Operating Income:			
Cable Networks	\$ 1,772.2	\$ 1,234.9	\$ 1,073.5
Television	1,202.4	402.1	351.0
Infinity	1,225.6	291.8	589.4
Entertainment	333.5	199.0	259.3
Video	355.8	(219.6)	75.7
Segment Operating Income:	4,889.5	1,908.2	2,348.9
Corporate expenses	(159.0)	(169.1)	(847.3)
Eliminations	(66.0)	(191.7)	(103.2)
Residual costs(a)	(67.8)	(87.2)	(77.5)
Total Operating Income	\$ 4,596.7	\$ 1,460.2	\$ 1,320.9

(a) Primarily includes pension and postretirement benefit costs for benefit plans retained by the Company for previously divested businesses.

At December 31,	2002	2001	2000
Total Assets:			
Cable Networks	\$ 11,548.7	\$ 11,318.3	\$ 8,077.7
Television	25,709.6	25,202.5	25,417.9
Infinity	39,587.2	39,833.0	33,689.7
Entertainment	5,948.8	5,865.2	5,808.0
Video	6,206.1	7,642.8	8,385.1
Segment Assets	89,000.4	89,861.8	81,378.4
Corporate	1,938.6	2,164.1	2,089.8
Eliminations	(1,184.8)	(1,216.0)	(822.1)
Total Assets	\$ 89,754.2	\$ 90,809.9	\$ 82,646.1

15) OTHER ITEMS, NET

For the year ended December 31, 2002, "Other items, net" reflected a net loss of \$30.0 million which principally consisted of foreign exchange losses of \$51.9 million, losses of \$19.7 million associated with securitizing trade receivables and an aggregate loss of approximately \$13.8 million resulting from the write-down of several investments to their market value. These losses were partially offset by the recovery of advertising commitments of \$29.8 million, a gain of \$18.8 million on the sale of a telephone kiosk advertising business and a net gain of \$5.5 million from the sale of investments.

For the year ended December 31, 2001, "Other items, net" of \$254.7 million principally reflected a gain from television station swaps of \$210.1 million and the recovery of certain advertising commitments of \$250.0 million offset by impairment losses of approximately \$125.0 million related to the Company's investments. The one-time pre-tax gains were also partially offset by foreign exchange losses of \$8.2 million and losses of \$22.8 million associated with securitizing trade receivables. Additionally, 2001 reflects an impairment loss of \$46.6 million related to the purchase of two television stations. The recovery of advertising commitments in 2002 and 2001 reflected the restructuring of agreements with several internet companies. As a result, the Company was released from related advertising commitments and reversed related deferred revenues.

For the year ended December 31, 2000, "Other items, net" of \$8.8 million principally reflected foreign exchange gains of \$31.7 million and net gains of approximately \$44.3 million on the sale of assets which were principally offset by the write-down of approximately \$66.9 million of several internet cost investments to their market value.

16) SUPPLEMENTAL CASH FLOW INFORMATION

Year Ended or At December 31,	2002	2001	2000
Cash paid for interest, net of amounts capitalized	\$ 727.6	\$ 825.8	\$ 651.4
Cash paid for income taxes	\$ 630.1	\$ 430.3	\$ 61.2
Supplemental schedule of non-cash investing and financing activities:			
Equipment acquired under capitalized leases	\$ 42.9	\$ 55.0	\$ 72.9
Fair value of assets acquired	\$ 1,009.3	\$ 11,355.9	\$ 61,910.3
Fair value of liabilities assumed	(91.4)	(329.4)	(14,849.3)
Minority interest	159.7	5,749.4	(5,712.1)
Cash paid, net of cash acquired	(926.0)	(886.1)	(2,380.0)
Impact on stockholders' equity	\$ 151.6	\$ 15,889.8	\$ 38,968.9

17) QUARTERLY FINANCIAL DATA (unaudited quarterly data):

2002	First Quarter(a)	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	\$ 5,672.2	\$ 5,849.5	\$ 6,306.5	\$ 6,777.5	24,605.7
Operating income	\$ 865.5	\$ 1,177.8	\$ 1,288.2	\$ 1,265.2	4,596.7
Net earnings before cumulative effect of change in accounting principle	\$ 367.4	\$ 546.5	\$ 640.3	\$ 652.4	2,206.6
Net earnings (loss)	\$ (1,113.5)	\$ 546.5	\$ 640.3	\$ 652.4	725.7
Basic earnings (loss) per common share:					
Earnings before cumulative effect of change in accounting principle	\$.21	\$.31	\$.37	\$.37	1.26
Net earnings (loss)	\$ (.64)	\$.31	\$.37	\$.37	.41
Diluted earnings per common share:					
Earnings before cumulative effect of change in accounting principle	\$.21	\$.31	\$.36	\$.37	1.24
Net earnings (loss)	\$ (.63)	\$.31	\$.36	\$.37	.41
Weighted average number of common shares outstanding:					
Basic	1,753.5	1,756.1	1,752.8	1,749.0	1,752.8
Diluted	1,778.7	1,781.7	1,770.3	1,768.5	1,774.8

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	\$ 5,752.2	\$ 5,716.9	\$ 5,713.8	\$ 6,039.9	23,222.8
Operating income(b)(c)(d)	\$ 403.7	\$ 585.8	\$ 193.7	\$ 277.0	1,460.2
Net earnings (loss) before cumulative effect of change in accounting principle	\$ (7.3)	\$ 16.7	\$ (190.4)	\$ (42.5)	(223.5)
Net earnings (loss)	\$ (7.3)	\$ 16.7	\$ (190.4)	\$ (42.5)	(223.5)
Basic and diluted earnings (loss) per common share:					
Earnings (loss) before cumulative effect of change in accounting principle	\$ —	\$.01	\$ (.11)	\$ (.02)	(.13)
Net earnings (loss)	\$ —	\$.01	\$ (.11)	\$ (.02)	(.13)
Weighted average number of common shares outstanding:					
Basic	1,628.4	1,768.6	1,768.0	1,759.7	1,731.6
Diluted	1,628.4	1,800.2	1,768.0	1,759.7	1,731.6

(a) As described in Note 2 to the Company's consolidated financial statements, the Company recorded an after-tax non-cash goodwill impairment charge of \$1.5 billion, net of \$336 million of minority interest, as a cumulative effect of a change in accounting principle.

(b) As described in Note 4 to the Company's consolidated financial statements, the Company recognized charges of \$355.3 million and \$39.4 million in the third and fourth quarters of 2001 related to the execution of a strategic remerchandising plan to allow for an expansion of store space for DVD and other strategic product offerings at Blockbuster.

(c) As described in Note 4 to the Company's consolidated financial statements, the Company recognized a fourth quarter charge of \$75.4 million principally related to a restructuring plan at MTVN to reduce headcount and close certain international offices.

(d) As described in Note 4 to the Company's consolidated financial statements, the Company recognized a fourth quarter charge of \$53.4 million related to the Company's plan to integrate UPN with CBS Network operations.

18) CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Viacom International is a wholly owned subsidiary of the Company. Viacom Inc. has fully and unconditionally guaranteed Viacom International debt securities (See Note 8). The following condensed consolidating financial statements present the results of operations, financial position and cash flows of Viacom Inc., Viacom International, the direct and indirect Non-Guarantor Affiliates of Viacom Inc. and Viacom International, and the eliminations necessary to arrive at the information for the Company on a consolidated basis.

	Statement of Operations for the Year Ended December 31, 2002					Viacom Inc. Consolidated
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations		
Revenues	\$ 344.2	\$ 2,776.2	\$ 21,652.8	\$ (167.5)		24,605.7
Expenses:						
Operating	131.2	847.5	14,005.1	(118.7)		14,865.1
Selling, general and administrative	126.3	775.7	3,304.5	(8.2)		4,198.3
Depreciation and amortization	10.8	92.2	842.6	—		945.6
Total expenses	268.3	1,715.4	18,152.2	(126.9)		20,009.0
Operating income	75.9	1,060.8	3,500.6	(40.6)		4,596.7
Interest expense, net	(661.3)	(12.3)	(158.9)	—		(832.5)
Other items, net	(29.3)	(3.8)	3.6	(0.5)		(30.0)
Earnings (loss) before income taxes	(614.7)	1,044.7	3,345.3	(41.1)		3,734.2
Benefit (provision) for income taxes	240.3	(416.8)	(1,272.4)	—		(1,448.9)
Equity in earnings (loss) of affiliated companies, net of tax	1,100.1	(871.4)	(65.2)	(203.0)		(39.5)
Minority interest, net of tax	—	—	(39.2)	—		(39.2)
Net earnings (loss), before cumulative effect	725.7	(243.5)	1,968.5	(244.1)		2,206.6
Cumulative effect of change in accounting principle, net of minority interest and tax	—	—	(1,480.9)	—		(1,480.9)
Net earnings (loss)	\$ 725.7	\$ (243.5)	\$ 487.6	\$ (244.1)		725.7

	Statement of Operations for the Year Ended December 31, 2001					Viacom Inc. Consolidated
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations		
Revenues	\$ 321.8	\$ 2,502.5	\$ 20,725.2	\$ (326.7)		23,222.8
Expenses:						
Operating	137.0	788.0	13,718.2	(179.4)		14,463.8
Selling, general and administrative	137.5	706.3	3,248.6	—		4,092.4
Restructuring charges	—	66.6	52.8	—		119.4
Depreciation and amortization	17.1	190.1	2,879.8	—		3,087.0
Total expenses	291.6	1,751.0	19,899.4	(179.4)		21,762.6
Operating income	30.2	751.5	825.8	(147.3)		1,460.2
Interest expense, net	(702.3)	(21.0)	(215.3)	—		(938.6)
Other items, net	(20.4)	(5.6)	280.7	—		254.7
Earnings (loss) before income taxes	(692.5)	724.9	891.2	(147.3)		776.3
Benefit (provision) for income taxes	277.0	(319.1)	(877.8)	—		(919.9)
Equity in earnings (loss) of affiliated companies, net of tax	192.0	3.6	(134.7)	(187.9)		(127.0)
Minority interest, net of tax	—	10.6	36.5	—		47.1
Net earnings (loss)	\$ (223.5)	\$ 420.0	\$ (84.8)	\$ (335.2)		(223.5)

Statement of Operations for the Year Ended December 31, 2000

	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Revenues	\$ 271.7	\$ 2,520.2	\$ 17,264.4	\$ (12.6)	\$ 20,043.7
Expenses:					
Operating	107.4	813.5	10,766.2	20.0	11,707.1
Selling, general and administrative	122.5	892.6	3,078.6	—	4,093.7
Merger-related charges	—	650.0	48.5	—	698.5
Depreciation and amortization	14.6	149.6	2,059.3	—	2,223.5
Total expenses	244.5	2,505.7	15,952.6	20.0	18,722.8
Operating income	27.2	14.5	1,311.8	(32.6)	1,320.9
Interest income (expense), net	(598.9)	67.4	(237.6)	—	(769.1)
Other items, net	(19.4)	26.7	1.5	—	8.8
Earnings (loss) before income taxes	(591.1)	108.6	1,075.7	(32.6)	560.6
Benefit (provision) for income taxes	236.5	(154.6)	(811.7)	—	(729.8)
Equity in loss of affiliated companies, net of tax	(461.5)	(463.0)	(158.2)	958.5	(124.2)
Minority interest, net of tax	—	20.1	(90.5)	—	(70.4)
Net earnings (loss) before cumulative effect of change in accounting principle	(816.1)	(488.9)	15.3	925.9	(363.8)
Cumulative effect of change in accounting principle net of minority interest and tax	—	—	(452.3)	—	(452.3)
Net loss	\$ (816.1)	\$ (488.9)	\$ (437.0)	\$ 925.9	\$ (816.1)

Balance Sheet at December 31, 2002

	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Assets					
Cash and cash equivalents	\$ 236.9	\$ 71.2	\$ 323.3	\$ —	\$ 631.4
Receivables, net	80.7	502.4	3,309.4	(171.5)	3,721.0
Inventory	8.1	68.5	1,289.0	(32.9)	1,332.7
Other current assets	140.2	394.3	947.2	—	1,481.7
Total current assets	465.9	1,036.4	5,868.9	(204.4)	7,166.8
Property and equipment	95.5	1,078.6	8,677.5	—	9,851.6
Less accumulated depreciation and amortization	20.5	438.3	3,280.1	—	3,738.9
Net property and equipment	75.0	640.3	5,397.4	—	6,112.7
Inventory	16.0	834.3	3,836.6	(159.9)	4,527.0
Goodwill	116.4	153.4	56,846.5	—	57,116.3
Intangibles	141.6	2.9	12,338.1	—	12,482.6
Investments in consolidated subsidiaries	65,570.4	14,501.2	—	(80,071.6)	—
Other assets	499.9	869.1	1,330.3	(350.5)	2,348.8
Total Assets	\$ 66,885.2	\$ 18,037.6	\$ 85,617.8	\$ (80,786.4)	\$ 89,754.2
Liabilities and Stockholders' Equity					
Accounts payable	\$ 6.6	\$ 54.4	\$ 1,128.1	\$ (12.9)	\$ 1,176.2
Accrued expenses and other	125.2	1,557.0	3,406.7	(89.8)	4,999.1
Participants' share, residuals and royalties payable	—	20.3	1,017.3	(70.8)	966.8
Current portion of long-term debt	—	13.9	185.1	—	199.0
Total current liabilities	131.8	1,645.6	5,737.2	(173.5)	7,341.1
Long-term debt	9,354.0	210.9	697.2	(56.9)	10,205.2
Other liabilities	(9,269.1)	4,213.3	10,324.7	3,606.0	8,874.9
Minority interest	—	—	845.2	—	845.2
Stockholders' Equity:					
Preferred Stock	—	106.1	21.4	(127.5)	—
Common Stock	18.5	185.7	755.9	(941.6)	18.5
Additional paid-in capital	65,597.8	6,559.9	67,426.5	(73,986.4)	65,597.8
Retained earnings (deficit)	6,025.2	5,109.4	(94.1)	(9,106.5)	1,934.0
Accumulated other comprehensive income (loss)	(491.0)	6.7	(96.2)	—	(580.5)
Total stockholders' equity	71,150.5	11,967.8	68,013.5	(84,162.0)	66,969.8
Less treasury stock, at cost	4,482.0	—	—	—	4,482.0
Total stockholders' equity	66,668.5	11,967.8	68,013.5	(84,162.0)	62,487.8
Total Liabilities and Stockholders' Equity	\$ 66,885.2	\$ 18,037.6	\$ 85,617.8	\$ (80,786.4)	\$ 89,754.2

Balance Sheet at December 31, 2001

	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Assets					
Cash and cash equivalents	\$ 367.7	\$ 2.7	\$ 357.0	\$ —	\$ 727.4
Receivables, net	79.3	474.2	3,341.5	(313.2)	3,581.8
Inventory	9.9	79.7	863.8	(34.7)	918.7
Other current assets	80.5	357.5	1,089.8	—	1,527.8
Total current assets	537.4	914.1	5,652.1	(347.9)	6,755.7
Property and equipment	116.5	1,030.4	8,218.0	—	9,364.9
Less accumulated depreciation and amortization	42.1	368.0	2,619.6	—	3,029.7
Net property and equipment	74.4	662.4	5,598.4	—	6,335.2
Inventory	10.2	806.1	3,645.2	(125.9)	4,335.6
Goodwill	116.4	52.9	58,939.7	—	59,109.0
Intangibles	141.6	1.5	11,738.0	—	11,881.1
Investments in consolidated subsidiaries	65,837.7	14,734.4	—	(80,572.1)	—
Other assets	117.5	1,018.6	1,605.4	(348.2)	2,393.3
Total Assets	\$ 66,835.2	\$ 18,190.0	\$ 87,178.8	\$ (81,394.1)	\$ 90,809.9
Liabilities and Stockholders' Equity					
Accounts payable	\$ —	\$ 58.4	\$ 969.1	\$ (82.5)	\$ 945.0
Accrued expenses and other	(12.7)	1,622.5	3,614.0	(215.5)	5,008.3
Participants' share, residuals and royalties payable	—	12.8	1,322.1	(25.5)	1,309.4
Current portion of long-term debt	—	13.0	286.0	—	299.0
Total current liabilities	(12.7)	1,706.7	6,191.2	(323.5)	7,561.7
Long-term debt	9,332.1	717.2	823.4	(49.0)	10,823.7
Other liabilities	(9,449.0)	3,412.3	10,921.5	3,611.1	8,495.9
Minority interest	—	149.1	1,062.7	—	1,211.8
Stockholders' Equity:					
Preferred Stock	—	106.1	20.4	(126.5)	—
Common Stock	18.4	188.5	734.3	(922.8)	18.4
Additional paid-in capital	64,980.6	6,536.8	68,182.0	(74,718.8)	64,980.6
Retained earnings (deficit)	5,299.5	5,352.8	(581.6)	(8,862.4)	1,208.3
Accumulated other comprehensive income (loss)	4.1	20.5	(175.1)	(2.2)	(152.7)
Total stockholders' equity	70,302.6	12,204.7	68,180.0	(84,632.7)	66,054.6
Less treasury stock, at cost	3,337.8	—	—	—	3,337.8
Total stockholders' equity	66,964.8	12,204.7	68,180.0	(84,632.7)	62,716.8
Total Liabilities and Stockholders' Equity	\$ 66,835.2	\$ 18,190.0	\$ 87,178.8	\$ (81,394.1)	\$ 90,809.9

Statement of Cash Flows for the Year Ended December 31, 2002

	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used for) operating activities	\$ (432.2)	\$ 713.3	\$ 2,843.3	\$ —	\$ 3,124.4
Investing activities:					
Acquisitions, net of cash acquired	—	(162.8)	(763.2)	—	(926.0)
Capital expenditures	—	(87.3)	(449.8)	—	(537.1)
Investments in and advances to affiliated companies	—	(44.2)	(16.6)	—	(60.8)
Purchases of short-term investments	—	(2.0)	—	—	(2.0)
Proceeds from sale of investments	—	6.4	15.3	—	21.7
Proceeds from dispositions	—	—	50.5	—	50.5
Net cash flow used for investing activities	—	(289.9)	(1,163.8)	—	(1,453.7)
Financing activities:					
Repayments to banks, including commercial paper, net	(959.7)	—	(194.1)	—	(1,153.8)
Increase (decrease) in intercompany payables	1,275.6	145.6	(1,421.2)	—	—
Proceeds from issuance of notes and debentures	1,298.0	—	—	—	1,298.0
Repayment of notes and debentures	(488.6)	(489.4)	(31.4)	—	(1,009.4)
Purchase of Company common stock	(1,139.0)	—	—	—	(1,139.0)
Proceeds from exercise of stock options	315.1	—	42.5	—	357.6
Payment on capital lease obligations	—	(11.1)	(103.2)	—	(114.3)
Other, net	—	—	(5.8)	—	(5.8)
Net cash flow provided by (used for) financing activities	301.4	(354.9)	(1,713.2)	—	(1,766.7)
Net increase (decrease) in cash and cash equivalents	(130.8)	68.5	(33.7)	—	(96.0)
Cash and cash equivalents at beginning of year	367.7	2.7	357.0	—	727.4
Cash and cash equivalents at end of year	\$ 236.9	\$ 71.2	\$ 323.3	\$ —	\$ 631.4

Statement of Cash Flows for the Year Ended December 31, 2001

	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used for) operating activities	\$ (261.7)	\$ 680.9	\$ 3,089.9	\$ —	\$ 3,509.1
Investing activities:					
Acquisitions, net of cash acquired	(1.4)	(35.6)	(849.1)	—	(886.1)
Capital expenditures	—	(120.6)	(394.8)	—	(515.4)
Investments in and advances to affiliated companies	—	(47.8)	(22.3)	—	(70.1)
Purchases of short-term investments	—	(14.2)	—	—	(14.2)
Proceeds from sale of investments	—	3.0	58.6	—	61.6
Proceeds from dispositions	—	—	233.7	—	233.7
Net cash flow used for investing activities	(1.4)	(215.2)	(973.9)	—	(1,190.5)
Financing activities:					
Repayments to banks, including commercial paper, net	(1,093.3)	(100.0)	(2,818.7)	—	(4,012.0)
Increase (decrease) in intercompany payables	(778.0)	(642.2)	1,420.2	—	—
Proceeds from issuance of notes and debentures	3,417.9	—	5.8	—	3,423.7
Purchase of Company common stock	(1,066.1)	—	—	—	(1,066.1)
Repayment of notes and debentures	(225.0)	(35.3)	(656.8)	—	(917.1)
Proceeds from exercise of stock options	182.5	—	2.1	—	184.6
Payment on capital lease obligations	—	(12.0)	(124.3)	—	(136.3)
Other, net	—	—	(2.5)	—	(2.5)
Net cash flow provided by (used for) financing activities	438.0	(789.5)	(2,174.2)	—	(2,525.7)
Net increase (decrease) in cash and cash equivalents	174.9	(323.8)	(58.2)	—	(207.1)
Cash and cash equivalents at beginning of year	192.8	326.5	415.2	—	934.5
Cash and cash equivalents at end of year	\$ 367.7	\$ 2.7	\$ 357.0	\$ —	\$ 727.4

VIACOM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Tabular dollars in millions, except per share amounts)

	Statement of Cash Flows for the Year Ended December 31, 2000				
	Viacom Inc.	Viacom International	Non- Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used for) operating activities	\$ (654.1)	\$ 830.5	\$ 2,146.9	\$ —	2,323.3
Investing activities:					
Acquisitions, net of cash acquired	—	—	(2,380.0)	—	(2,380.0)
Capital expenditures	(1.5)	(126.3)	(531.2)	—	(659.0)
Investments in and advances to affiliated companies	(7.3)	(57.9)	(174.0)	—	(239.2)
Purchases of short-term investments	—	(89.9)	—	—	(89.9)
Proceeds from sale of investments	—	82.1	234.5	—	316.6
Proceeds from dispositions	—	—	190.6	—	190.6
Net cash flow used for investing activities	(8.8)	(192.0)	(2,660.1)	—	(2,860.9)
Financing activities:					
Borrowing from (repayments to) banks, including commercial paper, net	469.7	(96.2)	1,039.9	—	1,413.4
Increase (decrease) in intercompany payables	456.3	(530.3)	74.0	—	—
Proceeds from issuance of notes and debentures	1,606.5	—	76.4	—	1,682.9
Repayment of notes and debentures	—	(160.6)	(171.3)	—	(331.9)
Purchase of Company common stock	(1,945.4)	—	—	—	(1,945.4)
Proceeds from exercise of stock options	187.0	—	—	—	187.0
Payment on capital lease obligations	—	(10.9)	(119.7)	—	(130.6)
Purchase of common stock by subsidiary	—	—	(84.1)	—	(84.1)
Net cash flow provided by (used for) financing activities	774.1	(798.0)	815.2	—	791.3
Net increase (decrease) in cash and cash equivalents	111.2	(159.5)	302.0	—	253.7
Cash and cash equivalents at beginning of year	81.6	486.0	113.2	—	680.8
Cash and cash equivalents at end of year	\$ 192.8	\$ 326.5	\$ 415.2	\$ —	934.5