CBS CORP
Form 10-Q
November 03, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from ____________ to ____________

Commission File Number 001-09553

CBS CORPORATION
(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 No.)
51 W. 52nd Street, New York, New York (Address of principal executive offices)	10019 (Zip Code)

(212) 975-4321
Registrant's telephone number, including area code

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

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

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

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

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

Number of shares of common stock outstanding at October 30, 2015:
Class A Common Stock, par value $.001 per share— 37,826,904
Class B Common Stock, par value $.001 per share— 433,702,765

CBS CORPORATION
INDEX TO FORM 10-Q

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
CBS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$3,257	$3,367	$9,976	$10,125
Expenses:				
Operating	1,842	1,936	5,891	5,855
Selling, general and administrative	597	617	1,790	1,793
Restructuring charges (Note 12)	—	26	55	26
Impairment charge (Note 5)	—	52	—	52
Depreciation and amortization	65	68	199	210
Total expenses	2,504	2,699	7,935	7,936
Operating income	753	668	2,041	2,189
Interest expense	(102)	(89)	(289)	(276)
Interest income	6	4	18	10
Loss on early extinguishment of debt (Note 7)	—	(352)	—	(352)
Other items, net	(4)	(21)	(4)	(10)
Earnings from continuing operations before income taxes and equity in loss of investee companies	653	210	1,766	1,561
Provision for income taxes	(211)	(110)	(579)	(561)
Equity in loss of investee companies, net of tax	(16)	(28)	(35)	(48)
Net earnings from continuing operations	426	72	1,152	952
Net earnings from discontinued operations, net of tax (Note 3)	—	1,567	—	1,594
Net earnings	$426	$1,639	$1,152	$2,546
Basic net earnings per common share:				
Net earnings from continuing operations	$.89	$.14	$2.36	$1.69
Net earnings from discontinued operations	$—	$2.95	$—	$2.84
Net earnings	$.89	$3.08	$2.36	$4.53
Diluted net earnings per common share:				
Net earnings from continuing operations	$.88	$.13	$2.33	$1.66
Net earnings from discontinued operations	$—	$2.90	$—	$2.78
Net earnings	$.88	$3.03	$2.33	$4.44
Weighted average number of common shares outstanding:				
Basic	480	532	489	562
Diluted	484	541	495	574
Dividends per common share	$.15	$.15	$.45	$.39

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings	$426	$1,639	$1,152	$2,546
Other comprehensive income from continuing operations, net of tax:				
Cumulative translation adjustments	(5)	—	(7)	(7)
Amortization of net actuarial loss	9	6	27	20
Changes in fair value of cash flow hedges	—	—	1	—
Other comprehensive income from continuing operations, net of tax	4	6	21	13
Other comprehensive income from discontinued operations, net of tax	—	—	—	15
Reclassification from accumulated other comprehensive income (loss) from discontinued operations to net earnings	—	(30)	—	(30)
Total other comprehensive income (loss), net of tax	4	(24)	21	(2)
Total comprehensive income	$430	$1,615	$1,173	$2,544

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except per share amounts)

	At September 30, 2015	At December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$133	$428
Receivables, less allowances of $63 (2015) and $50 (2014)	3,397	3,459
Programming and other inventory (Note 4)	1,420	922
Deferred income tax assets, net	122	104
Prepaid income taxes	—	161
Prepaid expenses	160	129
Other current assets	323	386
Total current assets	5,555	5,589
Property and equipment	3,226	3,164
Less accumulated depreciation and amortization	1,852	1,731
Net property and equipment	1,374	1,433
Programming and other inventory (Note 4)	1,909	1,817
Goodwill	6,663	6,698
Intangible assets	5,997	6,008
Other assets	2,741	2,527
Total Assets	$24,239	$24,072
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$169	$302
Accrued compensation	258	333
Participants' share and royalties payable	926	999
Program rights	377	404
Deferred revenues	187	206
Income taxes payable	51	—
Commercial paper (Note 7)	303	616
Current portion of long-term debt (Note 7)	20	20
Accrued expenses and other current liabilities	1,141	1,153
Total current liabilities	3,432	4,033
Long-term debt (Note 7)	8,476	6,510
Pension and postretirement benefit obligations	1,491	1,564
Deferred income tax liabilities, net	1,594	1,530
Other liabilities	3,279	3,347
Liabilities of discontinued operations (Note 3)	88	118
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Class A Common stock, par value $.001 per share; 375 shares authorized; 38 (2015 and 2014) shares issued	—	—

Class B Common stock, par value $.001 per share; 5,000 shares authorized; 826 (2015) and 818 (2014) shares issued	1	1
Additional paid-in capital	44,076	44,041
Accumulated deficit	(20,779)	(21,931)
Accumulated other comprehensive loss (Note 9)	(714)	(735)
	22,584	21,376
Less treasury stock, at cost; 390 (2015) and 349 (2014) Class B shares	16,705	14,406
Total Stockholders' Equity	5,879	6,970
Total Liabilities and Stockholders' Equity	$24,239	$24,072

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Nine Months Ended September 30, 2015	2014
Operating Activities:		
Net earnings	$1,152	$2,546
Less: Net earnings from discontinued operations	—	1,594
Net earnings from continuing operations	1,152	952
Adjustments to reconcile net earnings from continuing operations to net cash flow provided by operating activities from continuing operations:		
Depreciation and amortization	199	210
Impairment charge	—	52
Stock-based compensation	128	117
Equity in loss of investee companies, net of tax and distributions	37	56
Change in assets and liabilities, net of investing and financing activities	(866)	(1,151)
Net cash flow provided by operating activities from continuing operations	650	236
Net cash flow (used for) provided by operating activities from discontinued operations	(27)	52
Net cash flow provided by operating activities	623	288
Investing Activities:		
Acquisitions, net of cash acquired	(7)	(27)
Capital expenditures	(104)	(112)
Investments in and advances to investee companies	(58)	(68)
Proceeds from dispositions	75	7
Other investing activities	(8)	3
Net cash flow used for investing activities from continuing operations	(102)	(197)
Net cash flow used for investing activities from discontinued operations	(4)	(271)
Net cash flow used for investing activities	(106)	(468)
Financing Activities:		
Repayments of short-term debt borrowings, net	(313)	(44)
Proceeds from issuance of notes, net	1,959	1,729
Repayments of notes and debentures	—	(1,152)
Payment of capital lease obligations	(13)	(13)
Dividends	(228)	(214)
Purchase of Company common stock	(2,345)	(2,830)
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(96)	(146)
Proceeds from exercise of stock options	137	237
Excess tax benefit from stock-based compensation	87	227
Net cash flow used for financing activities from continuing operations	(812)	(2,206)
Net cash flow provided by financing activities from discontinued operations	—	2,167
Net cash flow used for financing activities	(812)	(39)
Net decrease in cash and cash equivalents	(295)	(219)
Cash and cash equivalents at beginning of period (includes $29 (2014) of discontinued operations cash)	428	397
Cash and cash equivalents at end of period	$133	$178
Supplemental disclosure of cash flow information		
Cash paid for interest from continuing operations, including early redemption premiums	$303	$661
Cash paid for income taxes from continuing operations	$230	$227
Noncash proceeds from split-off of Outdoor Americas (Note 3)	$—	$2,721

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions, except per share amounts)

1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Description of Business-CBS Corporation (together with its consolidated subsidiaries unless the context otherwise requires, the “Company” or “CBS Corp.”) is comprised of the following segments: Entertainment (CBS Television, comprised of the CBS Television Network, CBS Television Studios and CBS Global Distribution Group; CBS Interactive and CBS Films), Cable Networks (Showtime Networks, CBS Sports Network and Smithsonian Networks), Publishing (Simon & Schuster) and Local Broadcasting (CBS Television Stations and CBS Radio).

Discontinued Operations-On July 16, 2014, the Company completed the disposition of CBS Outdoor Americas Inc. (“Outdoor Americas”), which was previously a subsidiary of the Company and has been renamed OUTFRONT Media Inc. Outdoor Americas has been presented as a discontinued operation in the Company’s consolidated financial statements (See Note 3).

Basis of Presentation-The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission. These financial statements should be read in conjunction with the more detailed financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of normal and recurring adjustments, necessary for a fair statement of the financial position, results of operations and cash flows of the Company for the periods presented. Certain previously reported amounts have been reclassified to conform to the current presentation.

Use of Estimates-The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Net Earnings per Common Share-Basic net earnings per share (“EPS”) is based upon net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the effect of the assumed exercise of stock options and vesting of restricted stock units (“RSUs”) and market-based performance share units (“PSUs”) only in the periods in which such effect would have been dilutive. Excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive, were 7 million stock options and RSUs for the three months ended September 30, 2015 and 4 million stock options for the nine months ended September 30, 2015. For both the three and nine months ended September 30, 2014, excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive, were 2 million stock options.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Weighted average shares for basic EPS	480	532	489	562
Dilutive effect of shares issuable under stock-based compensation plans	4	9	6	12
Weighted average shares for diluted EPS	484	541	495	574

Other Liabilities-Other liabilities consist primarily of the noncurrent portion of residual liabilities of previously disposed businesses, participants' share and royalties payable, program rights obligations, deferred compensation and other employee benefit accruals.

Additional Paid-In Capital-For the nine months ended September 30, 2015 and 2014, the Company recorded dividends of $222 million and $218 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

Adoption of New Accounting Standards

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

During the first quarter of 2015, the Company adopted amended Financial Accounting Standards Board ("FASB") guidance which changes the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. Under this guidance, only a disposal of a component of an entity or a group of components of an entity that represents a strategic shift that has (or will have) a major effect on the company's operations and financial results should be reported in discontinued operations. The guidance also expands the definition of a discontinued operation to include a business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale and disposals of equity method investments that meet the definition of discontinued operations. The adoption of this guidance did not have an effect on the Company's consolidated financial statements.

Recent Pronouncements

Simplifying the Accounting for Measurement Period Adjustments

In September 2015, the FASB issued amended guidance which eliminates the requirement to retrospectively account for adjustments to provisional amounts recognized in a business combination when new information is obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Under the amended guidance the acquirer will be required to recognize such adjustments in the reporting period in which the adjustment amounts are identified. The acquirer will also be required to record the effect on earnings from any changes in depreciation, amortization, or other income effects resulting from the change to provisional amounts, as if the change occurred at the acquisition date. The amendments also require disclosure or separate presentation on the face of the income statement of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance, which is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, is not expected to have a material impact on the Company's consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Simplifying the Presentation of Debt Issuance Costs
In April 2015, the FASB issued amended guidance which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt, consistent with debt discounts. In August 2015, the FASB issued a clarification of the amended guidance indicating that issuance costs related to a line of credit may be presented as an asset. The recognition and measurement guidance for debt issuance costs are not affected by this amended guidance. This guidance, which is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, is not expected to have a material impact on the Company’s consolidated financial statements.

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items
In January 2015, the FASB issued amended guidance which eliminates the concept of extraordinary items. This guidance removes the requirement to assess whether an event or transaction is both unusual in nature and infrequent in occurrence and to separately present any such items on the statement of operations after income from continuing operations. Rather, such items will either be presented as a separate component of income from continuing operations or disclosed in the notes to the financial statements. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Additionally, the Company is permitted to amend prior periods presented in the financial statements once the guidance is adopted.

Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern
In August 2014, the FASB issued guidance which requires management to evaluate, for each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued. If management identifies conditions or events that raise substantial doubt, disclosures are required in the financial statements, including any plans that will alleviate the substantial doubt about the entity’s ability to continue as a going concern. This guidance, which is effective for the first annual period ending after December 15, 2016, is not expected to have an impact on the Company’s consolidated financial statements.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period
In June 2014, the FASB issued guidance on the accounting for stock-based compensation when the terms of an award provide that a performance target that affects vesting could be achieved after the requisite service period. Under this guidance, such performance target should not be reflected in estimating the grant-date fair value of the award. The Company should begin recognizing compensation cost in the period in which it becomes probable that the performance target will be achieved, for the cumulative amount of compensation cost attributable to the period(s) for which the requisite service has already been rendered. This guidance, which is effective for interim and annual periods beginning after December 15, 2015, is not expected to have a material impact on the Company’s consolidated financial statements.

Revenue from Contracts with Customers
In May 2014, the FASB issued guidance on the recognition of revenues which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company is currently evaluating the impact of this guidance, which is effective for interim and annual reporting periods beginning after

-9-

(Tabular dollars in millions, except per share amounts)

December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016.

2) STOCK-BASED COMPENSATION

The following table summarizes the Company's stock-based compensation expense for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
RSUs and PSUs	$32	$33	$105	$102
Stock options and equivalents	7	—	23	15
Stock-based compensation expense, before income taxes	39	33	128	117
Related tax benefit	(15)	(12)	(49)	(45)
Stock-based compensation expense, net of tax benefit	$24	$21	$79	$72

During the nine months ended September 30, 2015, the Company granted 3 million RSUs for CBS Corp. Class B Common Stock with a weighted average per unit grant-date fair value of $59.18. RSUs granted during the first nine months of 2015 generally vest over a one- to four-year service period. Compensation expense for RSUs is determined based upon the market price of the shares underlying the awards on the date of grant. For certain RSU awards the number of shares an employee earns ranges from 0% to 120% of the target award, based on the outcome of established performance goals. Compensation expense is recorded based on the probable outcome of the performance conditions. During the nine months ended September 30, 2015, the Company also granted 2 million stock options with a weighted average exercise price of $59.60. Stock options granted during the first nine months of 2015 vest over a four-year service period and expire eight years from the date of grant. Compensation expense for stock options is determined based on the grant date fair value of the award calculated using the Black-Scholes options-pricing model.

Total unrecognized compensation cost related to unvested RSUs at September 30, 2015 was $235 million, which is expected to be recognized over a weighted average period of 2.5 years. Total unrecognized compensation cost related to unvested stock option awards at September 30, 2015 was $59 million, which is expected to be recognized over a weighted average period of 2.6 years.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

3) DISCONTINUED OPERATIONS
During 2014, the Company completed the disposition of Outdoor Americas through a tax-free split-off. Outdoor Americas has been presented as a discontinued operation in the Company's consolidated financial statements. This transaction resulted in a gain of $1.56 billion for the three and nine months ended September 30, 2014.

The following table sets forth details of the net earnings from discontinued operations.

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Revenues from discontinued operations	$55	$677
Earnings from discontinued operations	$5	$59
Income tax benefit (provision)	5	(17)
Earnings from discontinued operations, net of tax	10	42
Gain on disposal, net of tax	1,557	1,557
Less: Net earnings from discontinued operations attributable to noncontrolling interest, net of tax	—	5
Net earnings from discontinued operations attributable to CBS Corp.	$1,567	$1,594

Noncurrent liabilities of discontinued operations of $88 million and $118 million at September 30, 2015 and December 31, 2014, respectively, primarily include tax reserves related to previously disposed businesses and the carrying value of a guarantee liability associated with the Company's disposition of its outdoor advertising business in Europe ("Outdoor Europe") (See Note 11).

4) PROGRAMMING AND OTHER INVENTORY

	At September 30, 2015	At December 31, 2014
Program rights	$1,929	$1,471
Television programming:		
Released (including acquired libraries)	969	983
In process and other	304	179
Theatrical programming:		
Released	18	23
In process and other	51	36
Publishing, primarily finished goods	58	47
Total programming and other inventory	3,329	2,739
Less current portion	1,420	922
Total noncurrent programming and other inventory	$1,909	$1,817

5) IMPAIRMENT CHARGE
During the third quarter of 2014, in connection with a radio station swap with Beasley Broadcast Group, Inc. the Company recorded a pretax noncash impairment charge of $52 million to reduce the carrying value of the allocated goodwill.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

6) RELATED PARTIES

National Amusements, Inc. National Amusements, Inc. (“NAI”) is the controlling stockholder of CBS Corp. and Viacom Inc. Mr. Sumner M. Redstone, the controlling stockholder, chairman of the board of directors and chief executive officer of NAI, is the Executive Chairman of the Board of Directors and founder of both CBS Corp. and Viacom Inc. In addition, Ms. Shari Redstone, Mr. Sumner M. Redstone’s daughter, is the president and a director of NAI and the vice chair of the Board of Directors of both CBS Corp. and Viacom Inc. Mr. David R. Andelman is a director of CBS Corp. and serves as a director of NAI. Mr. Frederic V. Salerno is a director of CBS Corp. and serves as a director of Viacom Inc. At September 30, 2015, NAI directly or indirectly owned approximately 79.6% of CBS Corp.’s voting Class A Common Stock, and owned approximately 8.3% of CBS Corp.’s Class A Common Stock and non-voting Class B Common Stock on a combined basis.

Viacom Inc. As part of its normal course of business, the Company licenses its television content, leases production facilities and sells advertising spots to various subsidiaries of Viacom Inc. Viacom Inc. also distributes certain of the Company’s television programs in the home entertainment market. The Company’s total revenues from these transactions were $44 million and $54 million for the three months ended September 30, 2015 and 2014, respectively, and $144 million and $150 million for the nine months ended September 30, 2015 and 2014, respectively.

The Company places advertisements with and leases production facilities from various subsidiaries of Viacom Inc. The total amounts for these transactions were $6 million for each of the three months ended September 30, 2015 and 2014, and $17 million and $14 million for the nine months ended September 30, 2015 and 2014, respectively.

The following table presents the amounts due from Viacom Inc. in the normal course of business as reflected on the Company’s Consolidated Balance Sheets. Amounts due to Viacom Inc. were minimal at September 30, 2015 and December 31, 2014.

	At September 30, 2015	At December 31, 2014
Receivables	$109	$107
Other assets (Receivables, noncurrent)	45	76
Total amounts due from Viacom Inc.	$154	$183

Other Related Parties. The Company has equity interests in two domestic television networks and several international joint ventures for television channels, from which the Company earns revenues primarily by selling its television programming. Total revenues earned from sales to these joint ventures were $20 million and $18 million for the three months ended September 30, 2015 and 2014, respectively, and $91 million and $81 million for the nine months ended September 30, 2015 and 2014, respectively.

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

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

7) BANK FINANCING AND DEBT
The following table sets forth the Company's debt.

	At September 30, 2015	At December 31, 2014
Commercial paper	$303	$616
Senior debt (1.95% - 7.875% due 2016 - 2045) [(a)]	8,409	6,433
Obligations under capital leases	87	97
Total debt	8,799	7,146
Less commercial paper	303	616
Less current portion of long-term debt	20	20
Total long-term debt, net of current portion	$8,476	$6,510

(a) At September 30, 2015 and December 31, 2014, the senior debt balances included (i) a net unamortized discount of $46 million and $21 million, respectively, and (ii) an increase in the carrying value of the debt relating to previously settled fair value hedges of $4 million and $14 million, respectively. At September 30, 2015, the senior debt balances also included an increase in the carrying value of the debt relating to outstanding fair value hedges of $12 million. Such amount was minimal at December 31, 2014. The face value of the Company's senior debt was $8.44 billion and $6.44 billion at September 30, 2015 and December 31, 2014, respectively.

During July 2015, the Company issued $800 million of 4.00% senior notes due 2026. During January 2015, the Company issued $600 million of 3.50% senior notes due 2025 and $600 million of 4.60% senior notes due 2045. The Company used the net proceeds from these issuances for general corporate purposes, including the repurchase of CBS Corp. Class B Common Stock and repayment of short-term borrowings, including commercial paper.

At September 30, 2015, the Company classified $200 million of debt maturing in January 2016 as long-term debt on the Consolidated Balance Sheet, reflecting its intent and ability to refinance this debt on a long-term basis.

Debt repurchases and early debt redemptions of $1.07 billion in 2014 resulted in a pre-tax loss on early extinguishment of debt of $352 million ($219 million, net of tax) for the three and nine months ended September 30, 2014.

Commercial Paper
The Company had outstanding commercial paper borrowings under its $2.5 billion commercial paper program of $303 million at September 30, 2015 and $616 million at December 31, 2014, each at a weighted average interest rate of 0.46% and with maturities of less than forty-five days.

Credit Facility
At September 30, 2015, the Company had a $2.5 billion revolving credit facility (the "Credit Facility") which expires in December 2019. The Credit Facility requires the Company to maintain a maximum Consolidated Leverage Ratio of 4.5x at the end of each quarter as further described in the Credit Facility. At September 30, 2015, the Company's Consolidated Leverage Ratio was approximately 2.7x.

The Consolidated Leverage Ratio is the ratio of the Company's indebtedness from continuing operations, adjusted to exclude certain capital lease obligations, at the end of a quarter, to the Company's Consolidated EBITDA for the trailing four consecutive quarters. Consolidated EBITDA is defined in the Credit Facility as operating income plus interest income and before depreciation, amortization and certain other noncash items.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

The Credit Facility is used for general corporate purposes. At September 30, 2015, the Company had no borrowings outstanding under the Credit Facility and the remaining availability under the Credit Facility, net of outstanding letters of credit, was $2.49 billion.

8) PENSION AND OTHER POSTRETIREMENT BENEFITS

The components of net periodic cost for the Company’s pension and postretirement benefit plans were as follows:

	Pension Benefits		Postretirement Benefits	
Three Months Ended September 30,	2015	2014	2015	2014
Components of net periodic cost:				
Service cost	$7	$8	$—	$—
Interest cost	52	60	6	6
Expected return on plan assets	(65)	(65)	—	—
Amortization of actuarial loss (gain) [(a)]	20	16	(6)	(6)
Net periodic cost	$14	$19	$—	$—

	Pension Benefits		Postretirement Benefits	
Nine Months Ended September 30,	2015	2014	2015	2014
Components of net periodic cost:				
Service cost	$23	$24	$—	$—
Interest cost	157	178	15	18
Expected return on plan assets	(196)	(197)	—	—
Amortization of actuarial loss (gain) [(a)]	60	48	(16)	(16)
Net periodic cost	$44	$53	$(1)	$2

(a) Reflects amounts reclassified from accumulated other comprehensive income (loss) to net earnings.

9) STOCKHOLDERS’ EQUITY

During the third quarter of 2015, the Company repurchased 10.6 million shares of its Class B Common Stock under its share repurchase program for $500 million. During the nine months ended September 30, 2015, the Company repurchased 41.0 million shares of its Class B Common Stock for $2.30 billion. At September 30, 2015, the Company had $2.50 billion of authorization remaining under its share repurchase program.

During the third quarter of 2015, the Company declared a quarterly cash dividend of $.15 on its Class A and Class B Common Stock, resulting in total dividends of $72 million, payable on October 1, 2015.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Accumulated Other Comprehensive Income (Loss)
The following tables summarize the changes in the components of accumulated other comprehensive income (loss).

	Cumulative Translation Adjustments	Net Actuarial Gain (Loss) and Prior Service Cost	Change in Fair Value of Cash Flow Hedges	Accumulated Other Comprehensive Loss
At December 31, 2014	$158	$(892)	$(1)	$(735)
Other comprehensive income (loss) before reclassifications	(7)	—	(1)	(8)
Reclassifications to net earnings	—	27 (a)	2 (b)	29
Net other comprehensive income (loss)	(7)	27	1	21
At September 30, 2015	$151	$(865)	$—	$(714)

	Continuing Operations			Discontinued Operations	
	Cumulative Translation Adjustments	Net Actuarial Gain (Loss) and Prior Service Cost	Unrealized Gain on Securities	Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Loss
At December 31, 2013	$166	$(729)	$3	$15	$(545)
Other comprehensive income (loss) before reclassifications	(7)	—	—	15	8
Reclassifications to net earnings	—	20 (a)	—	(30) (c)	(10)
Net other comprehensive income (loss)	(7)	20	—	(15)	(2)
At September 30, 2014	$159	$(709)	$3	$—	$(547)

(a) Reflects amortization of net actuarial losses, net of tax. See Note 8.
(b) Reflects loss recognized on designated foreign exchange contracts, net of tax. See Note 13.
(c) Reclassified in connection with the disposal of Outdoor Americas in 2014. See Note 3.

The net actuarial gain (loss) and prior service cost related to pension and other postretirement benefit plans included in other comprehensive income (loss) is net of a tax provision of $17 million and $12 million for the nine months ended September 30, 2015 and 2014, respectively.

10) INCOME TAXES

The provision for income taxes represents federal, state and local, and foreign income taxes on earnings from continuing operations before income taxes and equity in loss of investee companies.

The provision for income taxes was $211 million for the three months ended September 30, 2015 and $110 million for the three months ended September 30, 2014, reflecting an effective income tax rate of 32.3% and 52.4%, respectively. For the nine months ended September 30, 2015, the provision for income taxes was $579 million compared to $561 million for the nine months ended September 30, 2014, reflecting an effective income tax rate of 32.8% and 35.9%, respectively. The Company’s income tax provision for the three and nine months ended September 30, 2014 included a tax benefit of $133 million associated with the loss on early extinguishment of debt of $352 million; a tax provision of $22 million associated with the noncash impairment charge of $52 million to

-15-

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

reduce the carrying value of the allocated goodwill in connection with a radio station swap; and the establishment of a tax reserve of $19 million for the retroactive impact of an uncertain tax position in a foreign jurisdiction.

During the first quarter of 2015, the Company and the IRS settled the Company’s income tax audit for the years 2011 and 2012, which did not have a material effect on the Company’s consolidated financial statements. The IRS is expected to commence its examination of the years 2013 and 2014 during the first quarter of 2016. In addition, various tax years are currently under examination by state and local and foreign tax authorities. With respect to open tax years in all jurisdictions, the Company does not currently believe that it is reasonably possible that the reserve for uncertain tax positions will significantly change within the next twelve months; however, it is difficult to predict the final outcome or timing of resolution of any particular tax matter and accordingly, unforeseen events could cause the Company’s expectation to change in the future.

11) COMMITMENTS AND CONTINGENCIES

Guarantees

During 2013, the Company completed the sale of Outdoor Europe. The Company continues to be the guarantor of certain of Outdoor Europe’s obligations, including franchise payment obligations under certain transit franchise agreements. Generally, the Company would be required to perform under the guarantees in the event of non-performance by the buyer. These agreements have varying terms, with the majority of the obligations guaranteed under these agreements expiring by September 2016. At September 30, 2015, the total franchise payment obligations under these agreements, which will decrease on a monthly basis, are estimated to be approximately $111 million, and the carrying value of the guarantee liability, which is included in ‘‘Liabilities of discontinued operations’’ on the Consolidated Balance Sheets, was approximately $28 million.

The Company also has indemnification obligations with respect to letters of credit and surety bonds primarily used as security against non-performance in the normal course of business. At September 30, 2015, the outstanding letters of credit and surety bonds approximated $195 million and were not recorded on the Consolidated Balance Sheet.

In the course of its business, the Company both provides and receives indemnities which are intended to allocate certain risks associated with business transactions. Similarly, the Company may remain contingently liable for various obligations of a business that has been divested in the event that a third party does not live up to its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and reasonably estimable.

Legal Matters

General. On an ongoing basis, the Company vigorously defends itself in numerous lawsuits and proceedings and responds to various investigations and inquiries from federal, state, local and international authorities (collectively, ‘‘litigation’’). Litigation may be brought against the Company without merit, 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 the below-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. Under the Separation Agreement between the Company and Viacom Inc., the Company and Viacom Inc. have agreed to defend and indemnify the other in certain litigation in which the Company and/or Viacom Inc. is named.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Claims Related to Former Businesses: Asbestos. The Company is a defendant in lawsuits claiming various personal injuries related to asbestos and other materials, which allegedly occurred principally 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.

Claims are frequently filed and/or settled in groups, which may make 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 September 30, 2015, the Company had pending approximately 37,190 asbestos claims, as compared with approximately 41,100 as of December 31, 2014 and 42,560 as of September 30, 2014. During the third quarter of 2015, the Company received approximately 950 new claims and closed or moved to an inactive docket approximately 1,760 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 claims, the quality of evidence supporting the claims and other factors. The Company's total costs for the years 2014 and 2013 for settlement and defense of asbestos claims after insurance recoveries and net of tax benefits were approximately $11 million and $29 million, respectively. The Company's costs for settlement and defense of asbestos claims may vary year to year and insurance proceeds are not always recovered in the same period as the insured portion of the expenses.

The Company believes that its reserves and insurance are adequate to cover its asbestos liabilities. This belief is based upon many factors and assumptions, including the number of outstanding claims, estimated average cost per claim, the breakdown of claims by disease type, historic claim filings, costs per claim of resolution and the filing of new claims. While the number of asbestos claims filed against the Company has trended down in the past five to ten years and has remained flat in recent years, it is difficult to predict future asbestos liabilities, as events and circumstances may occur including, among others, the number and types of claims and average cost to resolve such claims, which could affect the Company's estimate of its asbestos liabilities.

Other. The Company from time to time receives claims from federal and state environmental regulatory agencies and other entities asserting that it is or may be liable for environmental cleanup costs and related damages principally relating to historical and predecessor operations of the Company. In addition, the Company from time to time receives personal injury claims including toxic tort and product liability claims (other than asbestos) arising from historical operations of the Company and its predecessors.

12) RESTRUCTURING CHARGES

During the nine months ended September 30, 2015, in a continued effort to reduce its cost structure, the Company initiated restructuring plans across several of its businesses, primarily for the reorganization of certain business operations. As a result, the Company recorded restructuring charges of $55 million, reflecting $34 million of severance costs and $21 million of costs associated with exiting contractual obligations and other related costs. During the year ended December 31, 2014, the Company recorded restructuring charges of $26 million, reflecting $17 million of severance costs and $9 million of costs associated with exiting contractual obligations.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

As of September 30, 2015, the cumulative settlements for the 2015 and 2014 restructuring charges were $36 million, of which $26 million was for severance costs and $10 million was for costs associated with contractual obligations. The Company expects to substantially utilize its restructuring reserves by the end of 2016.

	Balance at December 31, 2014	2015 Charges	2015 Settlements	Balance at September 30, 2015
Entertainment	$6	$12	$(8)	$10
Local Broadcasting	10	43	(19)	34
Corporate	2	—	(1)	1
Total	$18	$55	$(28)	$45

	2014 Charges	2014 Settlements	Balance at December 31, 2014
Entertainment	$8	$(2)	$6
Publishing	1	(1)	—
Local Broadcasting	14	(4)	10
Corporate	3	(1)	2
Total	$26	$(8)	$18

13) FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company's carrying value of financial instruments approximates fair value, except for differences with respect to notes and debentures. At September 30, 2015 and December 31, 2014, the carrying value of the Company's senior debt was $8.41 billion and $6.43 billion, respectively, and the fair value, which is estimated based on quoted market prices for similar liabilities (Level 2) and includes accrued interest, was $8.81 billion and $7.15 billion, respectively.

The Company uses derivative financial instruments primarily to modify its exposure to market risks from fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivative instruments unless there is an underlying exposure and, therefore, the Company does not hold or enter into derivative financial instruments for speculative trading purposes.

Foreign Exchange Contracts

Foreign exchange forward contracts have principally been used to hedge projected cash flows, generally within the next twelve months, in currencies such as the British Pound, the Euro, the Canadian Dollar and the Australian Dollar. The Company designates forward contracts used to hedge projected future production costs as cash flow hedges. Gains or losses on the effective portion of designated cash flow hedges are initially recorded in other comprehensive income ("OCI") and reclassified to the statement of operations when the hedged item is recognized. Additionally, the Company enters into non-designated forward contracts to hedge non-U.S. dollar denominated cash flows.

At September 30, 2015 and December 31, 2014, the notional amount of all foreign exchange contracts was $321 million and $152 million, respectively.

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Interest Rate Swaps

All of the Company’s long-term debt has been issued under fixed interest rate agreements. At September 30, 2015 the Company had $600 million notional amount of fixed-to-floating rate swaps outstanding to hedge its $600 million of 2.30% senior notes due 2019. These interest rate swaps are designated as fair value hedges. The fair value of interest rate swaps is included within the carrying value of the debt attributable to the risk being hedged, and in other assets or other liabilities on the Consolidated Balance Sheet.

Gains (losses) recognized on derivative financial instruments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	Financial Statement Account
Foreign exchange contracts:					
Designated hedging instruments:					
Recognized in OCI	$—	$—	$(1)	$(1)	Change in fair value of cash flow hedges
Reclassified from accumulated OCI	$—	$(1)	$(2)	$(2)	Programming costs
Non-designated hedging instruments	$10	$5	$16	$3	Other items, net
Designated interest rate swaps	$2	$1	$7	$1	Interest expense

The fair value of the Company’s derivative instruments was not material to the Consolidated Balance Sheets for any of the periods presented.

The following tables set forth the Company’s assets and liabilities measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014. These assets and liabilities have been categorized according to the three-level fair value hierarchy established by the FASB, which prioritizes the inputs used in measuring fair value. Level 1 is based on publicly quoted prices for the asset or liability in active markets. Level 2 is based on inputs that are observable other than quoted market prices in active markets, such as quoted prices for the asset or liability in inactive markets or quoted prices for similar assets or liabilities. Level 3 is based on unobservable inputs reflecting the Company’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

At September 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Investments	$71	$—	$—	$71
Interest rate swaps	—	12	—	12
Foreign exchange contracts	—	12	—	12
Total Assets	$71	$24	$—	$95
Liabilities:				
Deferred compensation	$—	$294	$—	$294
Foreign exchange contracts	—	2	—	2
Total Liabilities	$—	$296	$—	$296

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

At December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Investments	$80	$—	$—	$80
Foreign exchange contracts	—	6	—	6
Total Assets	$80	$6	$—	$86
Liabilities:				
Deferred compensation	$—	$307	$—	$307
Foreign exchange contracts	—	2	—	2
Total Liabilities	$—	$309	$—	$309

The fair value of investments is determined based on publicly quoted market prices in active markets. The fair value of interest rate swaps and foreign currency hedges is determined based on the present value of future cash flows using observable inputs including interest rates, yield curves and foreign currency exchange rates. The fair value of deferred compensation is determined based on the fair value of the investments elected by employees.

14) REPORTABLE SEGMENTS

The following tables set forth the Company’s financial performance by reportable segment. The Company’s operating segments, which are the same as its reportable segments, have been determined in accordance with the Company’s internal management structure, which is organized based upon products and services.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Entertainment	$1,932	$1,911	$5,978	$6,049
Cable Networks	526	624	1,680	1,677
Publishing	203	199	547	563
Local Broadcasting	638	680	1,888	1,971
Corporate/Eliminations	(42)	(47)	(117)	(135)
Total Revenues	$3,257	$3,367	$9,976	$10,125

Revenues generated between segments primarily reflect advertising sales and television and feature film license fees. These transactions are recorded at market value as if the sales were to third parties and are eliminated in consolidation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Intercompany Revenues:				
Entertainment	$39	$45	$113	$130
Local Broadcasting	5	5	11	13
Total Intercompany Revenues	$44	$50	$124	$143

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

The Company presents operating income (loss) excluding restructuring charges and impairment charges, if any, ("Segment Operating Income") as the primary measure of profit and loss for its operating segments ("segment profit measure") in accordance with FASB guidance for segment reporting. The Company began presenting Segment Operating Income as its segment profit measure in the first quarter of 2015 in order to align with the primary method the Company's management began using in 2015 to evaluate segment performance and to make decisions regarding the allocation of resources to its segments. The Company believes the presentation of Segment Operating Income is relevant and useful for investors because it allows investors to view segment performance in a manner similar to the primary method used by the Company's management and enhances their ability to understand the Company's operating performance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Segment Operating Income (Loss):				
Entertainment	$339	$302	$947	$1,063
Cable Networks	246	266	717	733
Publishing	43	42	80	76
Local Broadcasting	174	192	533	586
Corporate	(49)	(56)	(181)	(191)
Total Segment Operating Income	753	746	2,096	2,267
Restructuring charges	—	(26)	(55)	(26)
Impairment charge	—	(52)	—	(52)
Operating income	753	668	2,041	2,189
Interest expense	(102)	(89)	(289)	(276)
Interest income	6	4	18	10
Loss on early extinguishment of debt	—	(352)	—	(352)
Other items, net	(4)	(21)	(4)	(10)
Earnings from continuing operations before income taxes and equity in loss of investee companies	653	210	1,766	1,561
Provision for income taxes	(211)	(110)	(579)	(561)
Equity in loss of investee companies, net of tax	(16)	(28)	(35)	(48)
Net earnings from continuing operations	426	72	1,152	952
Net earnings from discontinued operations, net of tax	—	1,567	—	1,594
Net earnings	$426	$1,639	$1,152	$2,546

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Depreciation and Amortization:				
Entertainment	$31	$33	$95	$105
Cable Networks	5	6	17	17
Publishing	1	1	4	4
Local Broadcasting	20	22	60	66
Corporate	8	6	23	18
Total Depreciation and Amortization	$65	$68	$199	$210

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock-based Compensation:				
Entertainment	$16	$16	$48	$45
Cable Networks	3	2	8	7
Publishing	1	1	3	3
Local Broadcasting	5	7	21	22
Corporate	14	7	48	40
Total Stock-based Compensation	$39	$33	$128	$117

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Capital Expenditures:				
Entertainment	$33	$21	$54	$58
Cable Networks	5	2	8	7
Publishing	2	—	4	1
Local Broadcasting	15	15	33	35
Corporate	3	5	5	11
Total Capital Expenditures	$58	$43	$104	$112

	At September 30, 2015	At December 31, 2014
Assets:		
Entertainment	$10,919	$10,469
Cable Networks	2,236	2,113
Publishing	969	990
Local Broadcasting	9,549	9,585
Corporate	536	876
Discontinued operations	30	39
Total Assets	$24,239	$24,072

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

15) CONDENSED CONSOLIDATING FINANCIAL STATEMENTS
CBS Operations Inc. is a wholly owned subsidiary of the Company. CBS Operations Inc. has fully and unconditionally guaranteed CBS Corp.'s senior debt securities. The following condensed consolidating financial statements present the results of operations, financial position and cash flows of CBS Corp., CBS Operations Inc., the direct and indirect Non-Guarantor Affiliates of CBS Corp. and CBS Operations Inc., and the eliminations necessary to arrive at the information for the Company on a consolidated basis.

	Statement of Operations For the Three Months Ended September 30, 2015				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$36	$2	$3,219	$—	$ 3,257
Expenses:					
Operating	17	1	1,824	—	1,842
Selling, general and administrative	3	49	545	—	597
Depreciation and amortization	1	5	59	—	65
Total expenses	21	55	2,428	—	2,504
Operating income (loss)	15	(53)	791	—	753
Interest (expense) income, net	(125)	(103)	132	—	(96)
Other items, net	(1)	6	(9)	—	(4)
Earnings (loss) before income taxes and equity in earnings (loss) of investee companies	(111)	(150)	914	—	653
Benefit (provision) for income taxes	36	48	(295)	—	(211)
Equity in earnings (loss) of investee companies, net of tax	501	338	(16)	(839)	(16)
Net earnings	$426	$236	$603	$ (839)	$ 426
Total comprehensive income	$430	$240	$590	$ (830)	$ 430

-23-

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

	Statement of Operations For the Nine Months Ended September 30, 2015				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$101	$8	$9,867	$—	$ 9,976
Expenses:					
Operating	47	4	5,840	—	5,891
Selling, general and administrative	27	165	1,598	—	1,790
Restructuring charges	—	—	55	—	55
Depreciation and amortization	4	15	180	—	199
Total expenses	78	184	7,673	—	7,935
Operating income (loss)	23	(176)	2,194	—	2,041
Interest (expense) income, net	(358)	(300)	387	—	(271)
Other items, net	(1)	6	(9)	—	(4)
Earnings (loss) before income taxes and equity in earnings (loss) of investee companies	(336)	(470)	2,572	—	1,766
Benefit (provision) for income taxes	109	152	(840)	—	(579)
Equity in earnings (loss) of investee companies, net of tax	1,379	802	(35)	(2,181)	(35)
Net earnings	$1,152	$484	$1,697	$(2,181)	$ 1,152
Total comprehensive income	$1,173	$487	$1,705	$(2,192)	$ 1,173

-24-

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

	Statement of Operations For the Three Months Ended September 30, 2014				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$40	$2	$3,325	$ —	$ 3,367
Expenses:					
Operating	18	1	1,917	—	1,936
Selling, general and administrative	11	51	555	—	617
Restructuring charges	—	3	23	—	26
Impairment charge	—	—	52	—	52
Depreciation and amortization	2	4	62	—	68
Total expenses	31	59	2,609	—	2,699
Operating income (loss)	9	(57)	716	—	668
Interest (expense) income, net	(109)	(97)	121	—	(85)
Loss on early extinguishment of debt	(351)	—	(1)	—	(352)
Other items, net	(1)	4	(24)	—	(21)
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies	(452)	(150)	812	—	210
Benefit (provision) for income taxes	167	52	(329)	—	(110)
Equity in earnings (loss) of investee companies, net of tax	1,924	314	(28)	(2,238)	(28)
Net earnings from continuing operations	1,639	216	455	(2,238)	72
Net earnings from discontinued operations, net of tax	—	—	1,567	—	1,567
Net earnings	$1,639	$216	$2,022	$ (2,238)	$ 1,639
Total comprehensive income	$1,615	$222	$1,987	$ (2,209)	$ 1,615

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

	Statement of Operations For the Nine Months Ended September 30, 2014				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$108	$8	$10,009	$—	$ 10,125
Expenses:					
Operating	49	4	5,802	—	5,855
Selling, general and administrative	43	165	1,585	—	1,793
Restructuring charges	—	3	23	—	26
Impairment charge	—	—	52	—	52
Depreciation and amortization	5	11	194	—	210
Total expenses	97	183	7,656	—	7,936
Operating income (loss)	11	(175)	2,353	—	2,189
Interest (expense) income, net	(338)	(285)	357	—	(266)
Loss on early extinguishment of debt	(351)	—	(1)	—	(352)
Other items, net	—	2	(12)	—	(10)
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies	(678)	(458)	2,697	—	1,561
Benefit (provision) for income taxes	244	157	(962)	—	(561)
Equity in earnings (loss) of investee companies, net of tax	2,980	978	(48)	(3,958)	(48)
Net earnings from continuing operations	2,546	677	1,687	(3,958)	952
Net earnings (loss) from discontinued operations, net of tax	—	(1)	1,595	—	1,594
Net earnings	$2,546	$676	$3,282	$ (3,958)	$ 2,546
Total comprehensive income	$2,544	$678	$3,242	$ (3,920)	$ 2,544

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Balance Sheet
At September 30, 2015

	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Assets					
Cash and cash equivalents	$48	$1	$84	$—	$ 133
Receivables, net	22	2	3,373	—	3,397
Programming and other inventory	4	3	1,413	—	1,420
Prepaid expenses and other current assets	99	32	506	(32)	605
Total current assets	173	38	5,376	(32)	5,555
Property and equipment	44	165	3,017	—	3,226
Less accumulated depreciation and amortization	19	113	1,720	—	1,852
Net property and equipment	25	52	1,297	—	1,374
Programming and other inventory	7	10	1,892	—	1,909
Goodwill	98	62	6,503	—	6,663
Intangible assets	—	—	5,997	—	5,997
Investments in consolidated subsidiaries	42,533	12,488	—	(55,021)	—
Other assets	224	12	2,505	—	2,741
Intercompany	—	2,341	22,900	(25,241)	—
Total Assets	$43,060	$15,003	$46,470	$ (80,294)	$ 24,239
Liabilities and Stockholders' Equity					
Accounts payable	$9	$3	$157	$—	$ 169
Participants' share and royalties payable	—	—	926	—	926
Program rights	4	3	370	—	377
Commercial paper	303	—	—	—	303
Current portion of long-term debt	4	—	16	—	20
Accrued expenses and other current liabilities	372	214	1,083	(32)	1,637
Total current liabilities	692	220	2,552	(32)	3,432
Long-term debt	8,359	—	117	—	8,476
Other liabilities	2,889	247	3,316	—	6,452
Intercompany	25,241	—	—	(25,241)	—
Stockholders' Equity:					
Preferred stock	—	—	126	(126)	—
Common stock	1	123	590	(713)	1
Additional paid-in capital	44,076	—	60,894	(60,894)	44,076
Retained earnings (deficit)	(20,779)	14,744	(16,414)	1,670	(20,779)
Accumulated other comprehensive income (loss)	(714)	—	89	(89)	(714)
	22,584	14,867	45,285	(60,152)	22,584
Less treasury stock, at cost	16,705	331	4,800	(5,131)	16,705
Total Stockholders' Equity	5,879	14,536	40,485	(55,021)	5,879
Total Liabilities and Stockholders' Equity	$43,060	$15,003	$46,470	$ (80,294)	$ 24,239

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Balance Sheet
At December 31, 2014

	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Assets					
Cash and cash equivalents	$63	$1	$364	$—	$ 428
Receivables, net	29	2	3,428	—	3,459
Programming and other inventory	4	3	915	—	922
Prepaid expenses and other current assets	306	27	477	(30)	780
Total current assets	402	33	5,184	(30)	5,589
Property and equipment	41	162	2,961	—	3,164
Less accumulated depreciation and amortization	15	98	1,618	—	1,731
Net property and equipment	26	64	1,343	—	1,433
Programming and other inventory	7	8	1,802	—	1,817
Goodwill	98	62	6,538	—	6,698
Intangible assets	—	—	6,008	—	6,008
Investments in consolidated subsidiaries	41,144	11,685	—	(52,829)	—
Other assets	219	17	2,291	—	2,527
Intercompany	—	2,726	21,772	(24,498)	—
Total Assets	$41,896	$14,595	$44,938	$(77,357)	$ 24,072
Liabilities and Stockholders' Equity					
Accounts payable	$3	$24	$275	$—	$ 302
Participants' share and royalties payable	—	—	999	—	999
Program rights	5	3	396	—	404
Commercial paper	616	—	—	—	616
Current portion of long-term debt	4	—	16	—	20
Accrued expenses and other current liabilities	388	270	1,064	(30)	1,692
Total current liabilities	1,016	297	2,750	(30)	4,033
Long-term debt	6,383	—	127	—	6,510
Other liabilities	3,029	249	3,281	—	6,559
Intercompany	24,498	—	—	(24,498)	—
Stockholders' Equity:					
Preferred stock	—	—	126	(126)	—
Common stock	1	123	590	(713)	1
Additional paid-in capital	44,041	—	60,894	(60,894)	44,041
Retained earnings (deficit)	(21,931)	14,260	(18,111)	3,851	(21,931)
Accumulated other comprehensive income (loss)	(735)	(3)	81	(78)	(735)
	21,376	14,380	43,580	(57,960)	21,376
Less treasury stock, at cost	14,406	331	4,800	(5,131)	14,406
Total Stockholders' Equity	6,970	14,049	38,780	(52,829)	6,970
Total Liabilities and Stockholders' Equity	$41,896	$14,595	$44,938	$(77,357)	$ 24,072

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

	Statement of Cash Flows For the Nine Months Ended September 30, 2015				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Net cash flow (used for) provided by operating activities	$(557)	$(183)	$1,363	$—	$ 623
Investing Activities:					
Acquisitions, net of cash acquired	—	—	(7)	—	(7)
Capital expenditures	—	(5)	(99)	—	(104)
Investments in and advances to investee companies	—	—	(58)	—	(58)
Proceeds from dispositions	—	—	75	—	75
Other investing activities	(8)	—	—	—	(8)
Net cash flow used for investing activities from continuing operations	(8)	(5)	(89)	—	(102)
Net cash flow used for investing activities from discontinued operations	(4)	—	—	—	(4)
Net cash flow used for investing activities	(12)	(5)	(89)	—	(106)
Financing Activities:					
Repayments of short-term debt borrowings, net	(313)	—	—	—	(313)
Proceeds from issuance of notes, net	1,959	—	—	—	1,959
Payment of capital lease obligations	—	—	(13)	—	(13)
Dividends	(228)	—	—	—	(228)
Purchase of Company common stock	(2,345)	—	—	—	(2,345)
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(96)	—	—	—	(96)
Proceeds from exercise of stock options	137	—	—	—	137
Excess tax benefit from stock-based compensation	87	—	—	—	87
Increase (decrease) in intercompany payables	1,353	188	(1,541)	—	—
Net cash flow provided by (used for) financing activities	554	188	(1,554)	—	(812)
Net decrease in cash and cash equivalents	(15)	—	(280)	—	(295)
Cash and cash equivalents at beginning of period	63	1	364	—	428
Cash and cash equivalents at end of period	$48	$1	$84	$—	$ 133

CBS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular dollars in millions, except per share amounts)

Statement of Cash Flows
For the Nine Months Ended September 30, 2014

	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Net cash flow (used for) provided by operating activities	$(843)	$(199)	$1,330	$—	$ 288
Investing Activities:					
Acquisitions, net of cash acquired	—	—	(27)	—	(27)
Capital expenditures	—	(11)	(101)	—	(112)
Investments in and advances to investee companies	—	—	(68)	—	(68)
Proceeds from dispositions	—	—	7	—	7
Other investing activities	—	2	1	—	3
Net cash flow used for investing activities from continuing operations	—	(9)	(188)	—	(197)
Net cash flow used for investing activities from discontinued operations	—	—	(271)	—	(271)
Net cash flow used for investing activities	—	(9)	(459)	—	(468)
Financing Activities:					
Repayments of short-term debt borrowings, net	(44)	—	—	—	(44)
Proceeds from issuance of notes, net	1,729	—	—	—	1,729
Repayment of notes and debentures	(1,146)	—	(6)	—	(1,152)
Payment of capital lease obligations	—	—	(13)	—	(13)
Dividends	(214)	—	—	—	(214)
Purchase of Company common stock	(2,830)	—	—	—	(2,830)
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(146)	—	—	—	(146)
Proceeds from exercise of stock options	237	—	—	—	237
Excess tax benefit from stock-based compensation	227	—	—	—	227
Increase (decrease) in intercompany payables	2,970	208	(3,178)	—	—
Net cash flow provided by (used for) financing activities from continuing operations	783	208	(3,197)	—	(2,206)
Net cash flow provided by financing activities from discontinued operations	—	—	2,167	—	2,167
Net cash flow provided by (used for) financing activities	783	208	(1,030)	—	(39)
Net decrease in cash and cash equivalents	(60)	—	(159)	—	(219)
Cash and cash equivalents at beginning of period (includes $29 of discontinued operations cash)	80	1	316	—	397
Cash and cash equivalents at end of period	$20	$1	$157	$—	$ 178

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.
(Tabular dollars in millions, except per share amounts)

Management's discussion and analysis of the results of operations and financial condition of CBS Corporation (the "Company" or "CBS Corp.") should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report filed on Form 10-K fiscal year ended December 31, 2014.

Overview

The Company operates businesses which span the media and entertainment industries, including the CBS Television Network, cable networks, content production and distribution, television and radio stations, Internet-based businesses, and consumer publishing. The Company's principal strategy is to create and acquire premium content that is widely accepted by audiences and generate both advertising and non-advertising revenues from its distribution on multiple media platforms and to various geographic locations. The Company is increasing its investment in both Company-owned and acquired premium content to enhance its opportunities for revenue growth, which include exhibiting the Company's content on digital and other platforms through licensing and subscription services; expanding the distribution of its content internationally; and securing compensation from multichannel video programming distributors ("MVPDs") and television stations affiliated with the CBS Television Network. The Company also seeks to grow its advertising revenues by monetizing all content viewership as industry measurements evolve to reflect viewers' changing habits. The Company's continued ability to capitalize on these and other emerging opportunities will provide it with incremental advertising and non-advertising revenues and serves to diversify the Company's business model.

For the three months ended September 30, 2015, the Company reported diluted earnings per share from continuing operations ("EPS") of $.88, up $.75 from the same prior-year period. On an adjusted basis EPS was up 19%, driven by growth in operating income and lower weighted average shares outstanding compared with the same prior-year period. See page 32 for a reconciliation of reported EPS to adjusted EPS.

Revenues of $3.26 billion for the three months ended September 30, 2015, decreased 3% compared with $3.37 billion for the same prior-year period driven by 8% lower content licensing and distribution revenues, primarily from the timing of television licensing sales, and decreases in lower-margin revenues, including the nonrenewal of a sports programming contract and lower revenues from pay-per-view boxing events. Total revenues benefited from growth in network advertising, which increased 1% despite fewer sporting events broadcast on the CBS Television Network, as well as 50% growth in CBS Television Network affiliation fees ("station affiliation fees") and retransmission revenues.

For the nine months ended September 30, 2015, revenues of $9.98 billion decreased 1%, compared with $10.13 billion for the same prior-year period. Advertising revenues declined 4% driven by fewer sporting events broadcast on the CBS Television Network, the benefit in 2014 from midterm elections, and lower radio advertising sales. Content licensing and distribution revenues decreased 7% reflecting lower domestic television licensing revenues, partially offset by higher international licensing revenues. Affiliate and subscription fee revenues grew 16%, a result of growth in station affiliation fees, retransmission revenues, and cable affiliate fees, as well as higher revenues from pay-per-view boxing events.

Operating income of $753 million for the third quarter of 2015 increased 13% from $668 million for the same prior-year period, primarily reflecting two discrete items from the third quarter of 2014 — restructuring charges of $26 million and a noncash impairment charge of $52 million, in connection with a radio station swap. These two items represent 12 percentage points of the operating income increase. The remaining increase reflects growth in high margin affiliate and subscription fee revenues, partially offset by lower profits from television licensing and political advertising revenues. Operating income of $2.04 billion for the nine months ended September 30, 2015 decreased 7% from $2.19 billion for the same prior-year period, primarily reflecting the lower revenues and an increased investment in programming and digital distribution initiatives.

Management's Discussion and Analysis of
Results of Operations and Financial Condition (Continued)
(Tabular dollars in millions, except per share amounts)

Diluted EPS from continuing operations was $.88 for the third quarter of 2015 compared with $.13 for the same prior-year period and for the nine months ended September 30, 2015 was $2.33 compared with $1.66 for the same prior-year period. The EPS comparison for the three and nine months ended September 30, 2015 benefited from lower weighted average shares outstanding mainly as a result of the Company's ongoing share repurchase program and the split-off of CBS Outdoor Americas Inc. ("Outdoor Americas"), which occurred during the third quarter of 2014. Comparability of results also benefited from several discrete items that were not part of the normal course of operations. The following tables present adjusted net earnings from continuing operations and adjusted diluted EPS from continuing operations, which exclude the impact of the discrete items. The adjusted results are non-GAAP financial measures, which are reconciled below to the most directly comparable financial measures in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company believes that presenting its financial results adjusted for the impact of these discrete items is relevant and useful for investors because it allows investors to view its performance in a manner similar to the method used by the Company's management and provides a clearer perspective on the current underlying performance of the Company.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings from continuing operations	$			