CBS CORP
Form 10-Q
May 02, 2008

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended March 31, 2008**

**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** | **04-2949533** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **51 W. 52nd Street, New York, New York** | **10019** |
| (Address of principal executive offices) | (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 ý 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | 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 ý

Number of shares of common stock outstanding at April 30, 2008:

| | |
|---|---|
| Class A Common Stock, par value $.001 per share | 58,571,923 |
| Class B Common Stock, par value $.001 per share | 622,446,395 |

**CBS CORPORATION**
**INDEX TO FORM 10-Q**


| | | Page |
|---|---|---|
| | **PART I - FINANCIAL INFORMATION** | |
| Item 1. | Financial Statements. | |
| | Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2008 and March 31, 2007 | 3 |
| | Consolidated Balance Sheets (Unaudited) at March 31, 2008 and December 31, 2007 | 4 |
| | Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2008 and March 31, 2007 | 5 |
| | Notes to Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. | Management's Discussion and Analysis of Results of Operations and Financial Condition. | 25 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 42 |
| Item 4. | Controls and Procedures. | 42 |
| | **PART II - OTHER INFORMATION** | |
| Item 1A. | Risk Factors. | 43 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 43 |
| Item 6. | Exhibits. | 44 |

**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 March 31, | |
|---|---|---|
| | **2008** | **2007** |
| Revenues | $ 3,654.1 | $ 3,657.8 |
| Expenses: | | |
| Operating | 2,386.3 | 2,395.8 |
| Selling, general and administrative | 580.9 | 625.5 |
| Restructuring charges | 44.9 | |
| Depreciation and amortization | 117.8 | 115.2 |
| Total expenses | 3,129.9 | 3,136.5 |
| Operating income | 524.2 | 521.3 |
| Interest expense | (138.7) | (139.8) |
| Interest income | 17.6 | 39.3 |
| Other items, net | (.2) | (1.5) |
| Earnings before income taxes, equity in loss of investee companies and minority interest | 402.9 | 419.3 |
| Provision for income taxes | (151.3) | (204.2) |
| Equity in loss of investee companies, net of tax | (7.2) | (1.9) |
| Minority interest, net of tax | (.1) | .3 |
| Net earnings | $ 244.3 | $ 213.5 |
| **Basic net earnings per common share** | $ .37 | $ .28 |
| **Diluted net earnings per common share** | $ ..36 | $ ..28 |
| **Weighted average number of common shares outstanding:** | | |
| Basic | 667.9 | 756.7 |
| Diluted | 673.8 | 765.1 |
| Dividends per common share | $ ..25 | $ ..22 |

See notes to consolidated financial statements.

**CBS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(Unaudited; in millions, except per share amounts)

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 2,258.9 | $ 1,346.9 |
| Receivables, less allowances of $138.2 (2008) and $141.3 (2007) | 2,923.0 | 2,678.0 |
| Programming and other inventory (Note 5) | 750.0 | 971.9 |
| Deferred income tax assets, net | 275.2 | 273.7 |
| Prepaid expenses and other current assets | 772.2 | 751.3 |
| Current assets of discontinued operations | 12.5 | 9.1 |
| Total current assets | 6,991.8 | 6,030.9 |
| Property and equipment: | | |
| Land | 336.3 | 334.6 |
| Buildings | 672.6 | 647.7 |
| Capital leases | 215.7 | 215.7 |
| Advertising structures | 1,838.4 | 1,808.9 |
| Equipment and other | 1,636.7 | 1,676.5 |
| | 4,699.7 | 4,683.4 |
| Less accumulated depreciation and amortization | 1,806.7 | 1,761.9 |
| Net property and equipment | 2,893.0 | 2,921.5 |
| Programming and other inventory (Note 5) | 1,267.9 | 1,548.5 |
| Goodwill (Note 4) | 18,480.6 | 18,452.0 |
| Intangible assets (Note 4) | 9,961.0 | 10,081.3 |
| Other assets | 1,342.7 | 1,297.4 |
| Assets of discontinued operations | 94.3 | 98.6 |
| Total Assets | $ 41,031.3 | $ 40,430.2 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 328.1 | $ 352.3 |
| Accrued compensation | 242.2 | 401.5 |
| Participants' share and royalties payable | 928.3 | 612.5 |
| Program rights | 1,002.6 | 1,009.7 |
| Deferred revenue | 506.5 | 378.8 |
| Income taxes payable | 83.4 | 39.6 |
| Current portion of long-term debt (Note 7) | 14.6 | 19.1 |
| Accrued expenses and other current liabilities | 1,611.6 | 1,574.0 |
| Current liabilities of discontinued operations | 19.6 | 17.1 |
| Total current liabilities | 4,736.9 | 4,404.6 |
| Long-term debt (Note 7) | 7,112.0 | 7,068.6 |
| Pension and postretirement benefit obligations | 1,708.7 | 1,695.9 |
| Deferred income tax liabilities, net | 2,011.9 | 1,947.2 |
| Other liabilities | 3,494.6 | 3,534.2 |
| Liabilities of discontinued operations | 298.5 | 305.8 |

| | | | | |
|---|---|---|---|---|
| Commitments and contingencies (Note 11) | | | | |
| Minority interest | | 1.7 | | 1.5 |
| Stockholders' Equity: | | | | |
| Class A Common Stock, par value $.001 per share; 375.0 shares authorized; 58.6 (2008) and 59.5 (2007) shares issued | | .1 | | .1 |
| Class B Common Stock, par value $.001 per share; 5,000.0 shares authorized; 730.3 (2008) and 727.1 (2007) shares issued | | .7 | | .7 |
| Additional paid-in capital | | 43,957.9 | | 44,089.6 |
| Accumulated deficit | | (18,680.5) | | (18,924.8) |
| Accumulated other comprehensive income (Note 1) | | 82.2 | | 10.1 |
| | | 25,360.4 | | 25,175.7 |
| Less treasury stock, at cost; 120.3 (2008) and 114.7 (2007) Class B Shares | | 3,693.4 | | 3,703.3 |
| Total Stockholders' Equity | | 21,667.0 | | 21,472.4 |
| Total Liabilities and Stockholders' Equity | $ | 41,031.3 | $ | 40,430.2 |

See notes to consolidated financial statements.

**CBS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited; in millions)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| **Operating Activities:** | | |
| Net earnings | $ 244.3 | $ 213.5 |
| Adjustments to reconcile net earnings to net cash flow provided by operating activities: | | |
| Depreciation and amortization | 117.8 | 115.2 |
| Stock-based compensation | 33.1 | 21.0 |
| Equity in loss of investee companies, net of distributions | 7.2 | 5.7 |
| Minority interest, net of tax | .1 | (.3) |
| Change in assets and liabilities, net of effects of acquisitions | 624.3 | 492.9 |
| **Net cash flow provided by operating activities** | 1,026.8 | 848.0 |
| **Investing Activities:** | | |
| Acquisitions, net of cash acquired | (48.4) | (28.1) |
| Capital expenditures | (88.8) | (95.1) |
| Investments in and advances to investee companies | (1.1) | (31.1) |
| Purchases of marketable securities | (12.6) | |
| Proceeds from sales of marketable securities | 4.7 | |
| Proceeds from dispositions | 189.5 | 243.7 |
| Net receipts from Viacom Inc. related to the Separation | 6.7 | 188.5 |
| Other, net | (7.4) | |
| **Net cash flow provided by investing activities** | 42.6 | 277.9 |
| **Financing Activities:** | | |
| Borrowings from (repayments to) banks, net | (3.7) | 2.3 |
| Payment of capital lease obligations | (5.0) | (4.2) |
| Proceeds from issuance of notes | | 678.0 |
| Purchase of Company common stock | (11.9) | (1,422.1) |
| Dividends | (168.8) | (153.9) |
| Proceeds from exercise of stock options | 30.4 | 75.6 |
| Excess tax benefits from stock-based compensation | 1.6 | 2.4 |
| **Net cash flow used for financing activities** | (157.4) | (821.9) |
| Net increase in cash and cash equivalents | 912.0 | 304.0 |
| Cash and cash equivalents at beginning of period | 1,346.9 | 3,074.6 |
| **Cash and cash equivalents at end of period** | $ 2,258.9 | $ 3,378.6 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest | $ 171.6 | $ 167.3 |
| Cash paid for income taxes | $ 47.5 | $ 41.3 |

See notes to consolidated financial statements.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Tabular dollars in millions, except per share amounts)**

## 1) 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: Television (CBS Television, comprised of the CBS Television Network, television stations, and its television production and syndication operations; Showtime Networks; and CBS College Sports Network), Radio (CBS Radio), Outdoor (CBS Outdoor) and Publishing (Simon & Schuster).

*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 ("SEC"). 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 fiscal year ended December 31, 2007.

In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only 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 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 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"), market-based performance share units ("PSUs") and restricted shares only in the periods in which such effect would have been dilutive. For the three months ended March 31, 2008 and 2007, respectively, stock options to purchase 37.1 million and 20.1 million shares of CBS Corp. Class B Common Stock were outstanding but excluded from the calculation 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.

| | Three Months Ended March 31, | |
|---|---|---|
| **(in millions)** | **2008** | **2007** |
| Weighted average shares for basic EPS | 667.9 | 756.7 |
| Dilutive effect of shares issuable under stock-based compensation plans | 5.9 | 8.4 |
| Weighted average shares for diluted EPS | 673.8 | 765.1 |

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

*Comprehensive Income (Loss)* Total comprehensive income for the Company includes net earnings and other comprehensive income (loss) items listed in the table below.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| Net earnings | $ 244.3 | $ 213.5 |
| Other comprehensive income (loss), net of tax: | | |
| Cumulative translation adjustments | 69.2 | 15.9 |
| Net actuarial losses and prior service costs | 4.3 | 5.3 |
| Net unrealized loss on securities | (1.4) | |
| Change in fair value of cash flow hedges | | .2 |
| Total comprehensive income | $ 316.4 | $ 234.9 |

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

*Additional Paid-In Capital* For the three months ended March 31, 2008 and 2007, the Company recorded dividends of $171.2 million and $162.6 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

*Adoption of New Accounting Standards* Effective January 1, 2008, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") for its financial assets and liabilities. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS 157 establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurement. The adoption of SFAS 157 on January 1, 2008 did not have a material effect on the Company's consolidated financial statements. See Note 13 for additional information.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159") effective as of the beginning of the first fiscal year that begins after November 15, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value with changes in fair value recognized in earnings for each reporting period. The adoption of SFAS 159 on January 1, 2008 did not have any effect on the Company's consolidated financial statements as the Company did not elect any eligible items for fair value measurement.

*Recent Pronouncements* In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133" ("SFAS 161") effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires an entity to provide enhanced disclosures about derivative instruments and hedging activities.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill. SFAS 141R also expands disclosure requirements for business combinations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ("SFAS 160") effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The adoption of SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

**2) STOCK-BASED COMPENSATION**

The following table summarizes the Company's stock-based compensation expense for the three months ended March 31, 2008 and 2007.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| RSUs, PSUs and restricted shares | $ 30.2 | $ 19.0 |
| Stock options and equivalents | 2.9 | 2.0 |
| Stock-based compensation expense, before income taxes | 33.1 | 21.0 |
| Tax benefit | (13.1) | (8.3) |
| Stock-based compensation expense, net of tax | $ 20.0 | $ 12.7 |

During the first quarter of 2008, the Company granted 3.7 million RSUs with a weighted-average per unit grant date fair value of $23.97. RSU grants during the first quarter of 2008 generally vest over a three- to four-year service period. Certain RSU awards are also subject to satisfying performance conditions. During the first quarter of 2008, the Company also granted ..2 million PSUs with an aggregate grant date fair value of $7.3 million. The number of shares that will be issued upon vesting of PSUs can range from 0% to 300% of the target award, based on the ranking of the total shareholder return for CBS Corp. Class B Common Stock within the S&P 500 Index over a designated three-year measurement period, or in certain circumstances, based on a one-year measurement period or the achievement of established operating performance goals. During the first quarter of 2008, the Company also granted 2.3 million stock options with a weighted-average exercise price of $23.99. Stock option grants during 2008 generally vest over a three-to four-year service period.

Total unrecognized compensation cost related to non-vested RSUs, PSUs and restricted shares at March 31, 2008 was $237.0 million, which is expected to be expensed over a weighted-average period of 2.7 years. Total unrecognized compensation cost related to unvested stock option awards and stock option equivalents at March 31, 2008 was $48.6 million, which is expected to be expensed over a weighted-average period of 3.2 years.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

**3) DISPOSITIONS**

On January 10, 2008, the Company completed the sale of seven of its owned television stations in Austin, Salt Lake City, Providence and West Palm Beach to Cerberus Capital Management, L.P. for $185 million.

**4) GOODWILL AND INTANGIBLE ASSETS**

The changes in the book value of goodwill, by segment, for the three months ended March 31, 2008 were as follows:

| | At December 31, 2007 | Dispositions | Other [a] | At March 31, 2008 |
|---|---|---|---|---|
| Television | $ 8,947.7 | $ (35.2) | $ | $ 8,912.5 |
| Radio | 4,334.4 | | | 4,334.4 |
| Outdoor | 4,753.4 | | 63.9 | 4,817.3 |
| Publishing | 416.5 | | (.1) | 416.4 |
| Total | $ 18,452.0 | $ (35.2) | $ 63.8 | $ 18,480.6 |

(a) Primarily includes foreign currency translation adjustments.

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

| At March 31, 2008 | Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Intangible assets subject to amortization: | | | |
| Leasehold agreements | $ 858.9 | $ (441.2) | $ 417.7 |
| Franchise agreements | 516.6 | (223.7) | 292.9 |
| Other intangible assets | 272.4 | (149.1) | 123.3 |
| Total intangible assets subject to amortization | 1,647.9 | (814.0) | 833.9 |
| FCC licenses | 9,127.1 | | 9,127.1 |
| Total intangible assets | $ 10,775.0 | $ (814.0) | $ 9,961.0 |

| At December 31, 2007 | Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Intangible assets subject to amortization: | | | |
| Leasehold agreements | $ 854.9 | $ (426.1) | $ 428.8 |
| Franchise agreements | 516.8 | (216.0) | 300.8 |
| Other intangible assets | 278.4 | (151.2) | 127.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total intangible assets subject to amortization | | 1,650.1 | | (793.3) | | 856.8 |
| FCC licenses | | 9,224.5 | | | | 9,224.5 |
| Total intangible assets | $ | 10,874.6 | $ | (793.3) | $ | 10,081.3 |

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

Amortization expense was $25.6 million and $23.0 million for the three months ended March 31, 2008 and 2007, respectively. The Company expects its aggregate annual amortization expense for existing intangible assets subject to amortization for each of the years, 2008 through 2012, to be as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Amortization expense | $ 101.1 | $ 100.1 | $ 94.7 | $ 83.2 | $ 66.0 |

**5) PROGRAMMING AND OTHER INVENTORY**

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| Program rights | $ 1,548.3 | $ 1,987.4 |
| Television programming: | | |
| Released (including acquired libraries) | 368.4 | 405.8 |
| In process and other | 8.3 | 31.2 |
| Publishing, primarily finished goods | 91.7 | 95.0 |
| Other | 1.2 | 1.0 |
| Total programming and other inventory | 2,017.9 | 2,520.4 |
| Less current portion | 750.0 | 971.9 |
| Total noncurrent programming and other inventory | $ 1,267.9 | $ 1,548.5 |

**6) RELATED PARTIES**

*National Amusements, Inc.* National Amusements, Inc. ("NAI") is the controlling stockholder of CBS Corp. 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. At March 31, 2008, NAI beneficially owned CBS Corp. Class A Common Stock representing approximately 80% of the voting power of all classes of CBS Corp.'s Common Stock, and owned approximately 13% of CBS Corp.'s Class A Common Stock and Class B Common Stock on a combined basis.

*Viacom Inc.* CBS Corp., through its normal course of business, is involved in transactions with companies owned by or affiliated with Viacom Inc. CBS Corp., through its Television segment, licenses its television products to Viacom Inc., primarily MTV Networks and BET. In addition, CBS Corp. recognizes advertising revenues for media spending placed by various subsidiaries of Viacom Inc., primarily Paramount Pictures. Paramount Pictures also distributes certain of the Company's television products in the home entertainment market. CBS Corp.'s total revenues from these transactions were $46.1 million and $23.0 million for the three months ended March 31, 2008 and 2007, respectively.

CBS Corp., through Showtime Networks, pays license fees to Viacom Inc., primarily Paramount Pictures, for motion picture programming. These license fees are initially recorded as programming inventory and amortized over the shorter of the life of the license agreement or projected useful life of the programming. In addition, CBS Corp. places advertisements with various subsidiaries of Viacom Inc. The total amounts from these transactions were $3.8 million and $47.0 million for the three months ended March 31, 2008 and 2007, respectively.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

The following table presents the amounts due from or due to Viacom Inc. in the normal course of business as reflected on CBS Corp.'s Consolidated Balance Sheets.

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **Amounts due from Viacom Inc.** | | |
| Receivables | $ 102.4 | $ 114.8 |
| Other assets (Receivables, noncurrent) | 182.6 | 207.3 |
| **Total amounts due from Viacom Inc.** | $ 285.0 | $ 322.1 |
| **Amounts due to Viacom Inc.** | | |
| Accounts payable | $ 7.1 | $ 4.7 |
| Program rights | 91.0 | 74.3 |
| Other liabilities (Program rights, noncurrent) | 25.4 | 24.3 |
| **Total amounts due to Viacom Inc.** | $ 123.5 | $ 103.3 |

*Other Related Parties* The Company owns approximately 16% of Westwood One, Inc. ("Westwood One"). The termination, modification and/or extension of agreements entered into by Westwood One and CBS Radio on October 2, 2007 became effective at a closing on March 3, 2008. The new agreements include an amended and restated Technical Services Agreement, News Programming Agreement, Trademark License Agreement and affiliation agreements. Pursuant to the affiliation agreements, certain of the Company's radio stations air programs and/or commercials supplied by Westwood One and, in return, the stations receive affiliation fees and certain programming cost reimbursements. As of March 3, 2008, the previous Representation Agreement and Management Agreement between the parties were terminated resulting in the termination of the Company's management role with Westwood One, the relinquishment of any representation on the Westwood One board of directors and termination of the Company's outstanding warrants to acquire shares of Westwood One common stock, which were out-of-the-money. CBS Television also has arrangements to provide news and sports programming to Westwood One. The Company's revenues from Westwood One were $27.2 million and $18.3 million for the three months ended March 31, 2008 and 2007, respectively.

Prior to March 3, 2008, the Company accounted for its investment in Westwood One under the equity method of accounting. As a result of the new agreements, the Company's investment in Westwood One, totaling $33.6 million at March 31, 2008, is being accounted for as an investment pursuant to the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", with any unrealized gains or losses recorded within other comprehensive income (loss). During the three months ended March 31, 2008, unrealized losses of $.8 million were recorded in other comprehensive loss relating to the Company's investment in Westwood One.

The Company owns 50% of The CW, which is accounted for by the Company as an equity investment. CBS Corp., through the Television segment, licenses its television products to The CW resulting in total revenues of $13.7 million and $32.9 million for the three months ended March 31, 2008 and 2007, 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 long-term debt.

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| Notes payable to banks | $ 2.3 | $ 5.3 |
| Senior debt (4.625% 8.875% due 2010 2056)[a] | 7,063.4 | 7,015.7 |
| Other notes | | .8 |
| Obligations under capital leases | 103.9 | 108.9 |
| Total debt | 7,169.6 | 7,130.7 |
| Less discontinued operations debt [b] | 43.0 | 43.0 |
| Total debt from continuing operations | 7,126.6 | 7,087.7 |
| Less current portion | 14.6 | 19.1 |
| Total long-term debt from continuing operations, net of current portion | $ 7,112.0 | $ 7,068.6 |

(a) As of March 31, 2008 and December 31, 2007, the senior debt balances included (i) a net unamortized premium of $25.5 million and $26.2 million, respectively, and (ii) a change in the carrying value of the debt relating to fair value hedges of $43.4 million and $(5.0) million, respectively.

(b) Included in "Liabilities of discontinued operations" on the Consolidated Balance Sheets.

The senior debt of CBS Corp. is fully and unconditionally guaranteed by its wholly owned subsidiary, CBS Operations Inc. Senior debt in the amount of $52.2 million of the Company's wholly owned subsidiary, CBS Broadcasting Inc., is not guaranteed.

***Credit Facility***

As of March 31, 2008, the Company had a $3.0 billion revolving credit facility due December 2010 (the "Credit Facility"), primarily to support commercial paper borrowings. At March 31, 2008, the Company had no commercial paper borrowings and was in compliance with all covenants under the Credit Facility, including the requirement that the Company maintain a minimum coverage ratio. As of March 31, 2008, the remaining availability under this Credit Facility, net of outstanding letters of credit, was $2.81 billion.

***Accounts Receivable Securitization Program***

As of March 31, 2008, the Company had $550.0 million outstanding under its revolving accounts receivable securitization program. The program results in the sale of receivables on a non-recourse basis to unrelated third parties on a one-year renewable basis, thereby reducing accounts receivable on the Company's Consolidated Balance Sheet. The Company entered into this arrangement because it provides an additional source of liquidity. Proceeds from this program were used to reduce outstanding borrowings. The terms of the revolving securitization arrangement require that the receivable pools subject to the program meet certain performance ratios. As of March 31, 2008, the Company was in compliance with the required ratios under the receivable securitization program.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

During the three months ended March 31, 2008 and 2007, proceeds from collections of securitized accounts receivables of $681.1 million and $670.1 million, respectively, were reinvested in the revolving receivable securitization program. The net loss associated with securitizing the program's accounts receivables was $4.2 million and $7.7 million for the three months ended March 31, 2008 and 2007, respectively.

**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 March 31,** | **2008** | **2007** | **2008** | **2007** |
| Components of net periodic cost: | | | | |
| Service cost | $ 8.4 | $ 8.7 | $ .3 | $ .4 |
| Interest cost | 74.9 | 74.4 | 13.6 | 14.9 |
| Expected return on plan assets | (69.5) | (69.5) | | (.1) |
| Amortization of actuarial loss (gain) | 8.2 | 8.5 | (1.1) | |
| Amortization of prior service cost | .1 | .1 | (.1) | |
| Net periodic cost | $ 22.1 | $ 22.2 | $ 12.7 | $ 15.2 |

**9) STOCKHOLDERS' EQUITY**

On February 21, 2008, the Company announced a quarterly cash dividend of $.25 per share on its Class A and Class B Common Stock payable on April 1, 2008. The total dividend was $171.2 million of which $167.0 million was paid on April 1, 2008 and $4.2 million was accrued to be paid upon vesting of RSUs and restricted shares. During the first quarter of 2008, the Company paid $168.8 million for the dividend declared on November 1, 2007 and for dividend payments on RSUs that vested during the first quarter of 2008. Dividend declarations during 2008 and 2007 were recorded as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

In January 2008, the Company received 6.0 million shares of CBS Corp. Class B Common Stock upon settlement of a 2007 accelerated share repurchase transaction.

**10) PROVISION FOR INCOME TAXES**

The provision for income taxes represents federal, state and local, and foreign income taxes on earnings before income taxes, equity in loss of investee companies and minority interest. The provision for income taxes was $151.3 million and $204.2 million for the three months ended March 31, 2008 and 2007, respectively. The Company's effective income tax rate was 37.6% for the first quarter of 2008 versus 48.7% for the same prior-year period. The provision for income taxes for the first quarter of 2007 included a tax provision of $43.5 million related to radio station divestitures.

The Company is currently under examination by the Internal Revenue Service ("IRS") for the years 2004 and 2005. The examination is anticipated to be completed in the next twelve months. The ultimate outcome of the IRS examination, as well as an estimate of any related change to the reserve for uncertain tax positions, can not be determined currently.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

**11) COMMITMENTS AND CONTINGENCIES**

***Off-Balance Sheet Arrangements***

Prior to the Separation of Former Viacom into CBS Corp. and Viacom Inc., Former Viacom had entered into guarantees with respect to obligations related to Blockbuster Inc. ("Blockbuster"), including certain Blockbuster store leases; Famous Players theater leases; certain UCI theater leases; and certain theater leases related to W.F. Cinema Holdings L.P. and Grauman's Theatres LLC. In connection with the Separation, Viacom Inc. has agreed to indemnify the Company with respect to these guarantees. In addition, the Company and Viacom Inc. have agreed to indemnify each other with respect to certain other matters pursuant to the Separation Agreement between the parties.

The Company 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 March 31, 2008, the outstanding letters of credit and surety bonds approximated $406.1 million and are 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 under generally accepted accounting principles.

**Legal Matters**

*Indecency Regulation.* In March 2006, the FCC released certain decisions relating to indecency complaints against certain of the Company's owned television stations and affiliated stations. The FCC ordered the Company to pay a forfeiture of $550,000 in the proceeding relating to the broadcast of a Super Bowl half-time show by the Company's television stations. In May 2006, the FCC denied the Company's petition for reconsideration. In July 2006, the Company filed a Petition for Review of the forfeiture with the U.S. Court of Appeals for the Third Circuit and paid the $550,000 forfeiture in order to facilitate the Company's ability to bring the appeal. Oral argument was heard in September 2007. The Company is awaiting the court's decision.

In March 2006, the FCC also notified the Company and certain affiliates of the CBS Television Network of apparent liability for forfeitures relating to a broadcast of the program *Without a Trace*. The FCC proposed to assess a forfeiture of $32,500 against each of these stations, totaling $260,000 for the Company's owned stations. The Company is contesting the FCC decision and the proposed forfeitures.

In June 2007, the U.S. Court of Appeals for the Second Circuit vacated the FCC's November 2006 finding that the broadcast of fleeting and isolated expletives on another broadcast network was indecent and remanded the case to the FCC. On March 17, 2008, the U.S. Supreme Court granted the FCC's petition to review the U.S. Court of Appeals for the Second Circuit's decision.

Additionally, the Company, from time to time, has received and may receive in the future letters of inquiry from the FCC prompted by complaints alleging that certain programming on the Company's broadcasting stations included indecent material.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

*Claims Related to Former Businesses: Asbestos, Environmental and Other.* 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, or by asbestos containing grades of decorative micarta, a laminate used in commercial ships.

Claims are frequently filed and/or settled in large 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 March 31, 2008, the Company had pending approximately 72,870 asbestos claims, as compared with approximately 72,120 as of December 31, 2007 and approximately 72,510 as of March 31, 2007. Of the claims pending as of March 31, 2008, approximately 40,950 were pending in state courts, 28,310 in federal courts and, additionally, approximately 3,610 were third party claims pending in state courts. During the first quarter of 2008, the Company received approximately 1,600 new claims and closed or moved to an inactive docket approximately 850 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. The Company's total costs for the years 2007 and 2006 for settlement and defense of asbestos claims after insurance recoveries and net of tax benefits were approximately $17.5 million and $5.7 million, respectively. The Company's costs for settlement and defense of asbestos claims may vary year to year as 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.

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.

*General.* On an ongoing basis, the Company defends itself in numerous lawsuits and proceedings and responds to various investigations and inquiries from federal, state and local authorities (collectively, "litigation"). 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 the above-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)**

**12) RESTRUCTURING CHARGES**

During the first quarter of 2008, the Company recorded restructuring charges of $44.9 million associated with reducing headcount in the Television and Radio segments. The restructuring charges consisted of severance costs of $34.9 million recorded in the Television segment and $10.0 million recorded in the Radio segment. As of March 31, 2008, the Company had paid $1.0 million of the Television charge and $4.4 million of the Radio charge, leaving $39.5 million of the restructuring liabilites remaining. The Company expects to substantially use these liabilities by the end of 2009.

**13) FAIR VALUE MEASUREMENTS**

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis at March 31, 2008. These assets and liabilities have been categorized according to the three-level fair value hierarchy established by SFAS 157, which prioritizes the inputs used in measuring fair value.

| | Level 1 [(a)] | Level 2 [(b)] | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments | $ 195.7 | $ | $ | $ 195.7 |
| Interest rate swaps | | 43.4 | | 43.4 |
| **Total Assets** | $ 195.7 | $ 43.4 | $ | $ 239.1 |
| **Liabilities:** | | | | |
| Deferred compensation | $ | $ 117.4 | $ | $ 117.4 |
| Foreign currency hedges | | 2.1 | | 2.1 |
| **Total Liabilities** | $ | $ 119.5 | $ | $ 119.5 |

(a) Level 1 valuation is based on quoted prices for the asset in active markets.

(b) Level 2 valuation is based on inputs that are observable other than quoted market prices in level 1, such as quoted prices for the asset or liability in inactive markets or quoted prices for similar assets or liabilities.

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.

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

## 14) REPORTABLE SEGMENTS

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

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **Revenues:** | | |
| Television | $ 2,597.6 | $ 2,573.0 |
| Radio | 363.5 | 397.5 |
| Outdoor | 496.9 | 462.3 |
| Publishing | 201.6 | 229.3 |
| Eliminations | (5.5) | (4.3) |
| **Total Revenues** | $ 3,654.1 | $ 3,657.8 |

The Company presents segment operating income before depreciation and amortization ("Segment OIBDA") as the primary measure of profit and loss for its operating segments in accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The Company believes the presentation of Segment OIBDA 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 March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **Segment OIBDA:** | | |
| Television | $ 449.5 | $ 399.0 |
| Radio | 122.3 | 164.4 |
| Outdoor | 101.5 | 100.2 |
| Publishing | 17.1 | 23.8 |
| Corporate | (26.0) | (26.8) |
| Residual costs | (22.4) | (24.1) |
| Depreciation and amortization | (117.8) | (115.2) |
| **Total Operating Income** | 524.2 | 521.3 |
| Interest expense | (138.7) | (139.8) |
| Interest income | 17.6 | 39.3 |
| Other items, net | (.2) | (1.5) |
| Earnings before income taxes, equity in loss of investee companies and minority interest | 402.9 | 419.3 |
| Provision for income taxes | (151.3) | (204.2) |
| Equity in loss of investee companies, net of tax | (7.2) | (1.9) |

| | | | | |
|---|---|---|---|---|
| Minority interest, net of tax | | (.1) | | .3 |
| **Net Earnings** | $ | 244.3 | $ | 213.5 |

**CBS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**(Tabular dollars in millions, except per share amounts)**

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