CBS CORP
Form 10-Q
November 03, 2011

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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 September 30, 2011

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)	(I.R.S. 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 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 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 the 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 (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 October 31, 2011:

Class A Common Stock, par value $.001 per share 43,444,115

Class B Common Stock, par value $.001 per share 610,967,941

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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,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 3,365	$ 3,297	$ 10,461	$ 10,159
Expenses:				
Operating	1,810	1,916	6,116	6,557
Selling, general and administrative	718	624	2,059	1,913
Restructuring charges		7		66
Depreciation and amortization	134	139	412	424
Total expenses	2,662	2,686	8,587	8,960
Operating income	703	611	1,874	1,199
Interest expense	(110)	(127)	(330)	(399)
Interest income	2	1	5	4
Loss on early extinguishment of debt				(38)
Other items, net	(21)	24	(7)	(3)
Earnings before income taxes and equity in loss of investee companies	574	509	1,542	763
Provision for income taxes	(217)	(179)	(569)	(291)
Equity in loss of investee companies, net of tax	(19)	(13)	(38)	(31)
Net earnings	$ 338	$ 317	$ 935	$ 441
Basic net earnings per common share	$ ..51	$ ..47	$ 1.40	$ ..65
Diluted net earnings per common share	$ ..50	$ ..46	$ 1.36	$ ..64

Weighted average number of common shares outstanding:								
Basic		659		679		667		678
Diluted		675		694		685		693
Dividends per common share	$	..10	$	..05	$	..25	$	..15

See notes to consolidated financial statements.

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CBS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except per share amounts)

	At September 30, 2011	At December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 947	$ 480
Receivables, less allowances of $143 (2011) and $131 (2010)	3,114	3,248
Programming and other inventory (Note 4)	536	725
Deferred income tax assets, net	309	303
Prepaid income taxes	4	45
Prepaid expenses and other current assets	550	529
Current assets of discontinued operations	6	5
Total current assets	5,466	5,335
Property and equipment:		
Land	329	329
Buildings	713	709
Capital leases	199	197
Advertising structures	2,084	2,073
Equipment and other	1,785	1,797
	5,110	5,105
Less accumulated depreciation and amortization	2,585	2,411
Net property and equipment	2,525	2,694
Programming and other inventory (Note 4)	1,453	1,425
Goodwill	8,619	8,524
Intangible assets (Note 3)	6,551	6,624
Other assets	1,428	1,469
Assets of discontinued operations	72	72
Total Assets	$ 26,114	$ 26,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 374	$ 439
Accrued compensation	333	408
Participants' share and royalties payable	915	943
Program rights	639	601
Deferred revenue	297	292
Current portion of long-term debt (Note 6)	30	27
Accrued expenses and other current liabilities	1,357	1,299

Current liabilities of discontinued operations		19		17
Total current liabilities		3,964		4,026
Long-term debt (Note 6)		5,961		5,973
Pension and postretirement benefit obligations		1,765		1,986
Deferred income tax liabilities, net		980		715
Other liabilities		3,349		3,420
Liabilities of discontinued operations		197		202
Commitments and contingencies (Note 10)				
Stockholders' Equity:				
Class A Common Stock, par value $.001 per share; 375 shares authorized; 43 (2011) and 44 (2010) shares issued				
Class B Common Stock, par value $.001 per share; 5,000 shares authorized; 768 (2011) and 757 (2010) shares issued		1		1
Additional paid-in capital		43,419		43,443
Accumulated deficit		(28,713)		(29,648)
Accumulated other comprehensive loss (Note 1)		(273)		(286)
		14,434		13,510
Less treasury stock, at cost; 155 (2011) and 120 (2010) Class B Shares		4,536		3,689
Total Stockholders' Equity		9,898		9,821
Total Liabilities and Stockholders' Equity	$	26,114	$	26,143

See notes to consolidated financial statements.

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CBS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Activities:		
Net earnings	$ 935	$ 441
Adjustments to reconcile net earnings to net cash flow provided by operating activities:		
Depreciation and amortization	412	424
Stock-based compensation	110	107
Loss on early extinguishment of debt		38
Equity in loss of investee companies, net of tax and distributions	40	31
Change in assets and liabilities, net of effects of acquisitions	183	533
Net cash flow provided by operating activities	1,680	1,574
Investing Activities:		
Acquisitions, net of cash acquired	(73)	(9)
Capital expenditures	(152)	(163)
Investments in and advances to investee companies	(45)	(45)
Proceeds from dispositions	13	17
Other investing activities	8	
Net cash flow used for investing activities	(249)	(200)
Financing Activities:		
Proceeds from issuance of notes	4	500
Repayment of notes and debentures	(2)	(979)
Payment of capital lease obligations	(14)	(12)
Dividends	(140)	(108)
Purchase of Company common stock	(850)	
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(81)	(37)
Proceeds from exercise of stock options	58	4
Excess tax benefit from stock-based compensation	66	13
Decrease to accounts receivable securitization program (Note 6)		(400)
Other financing activities	(5)	
Net cash flow used for financing activities	(964)	(1,019)
Net increase in cash and cash equivalents	467	355
Cash and cash equivalents at beginning of period	480	717
Cash and cash equivalents at end of period	$ 947	$ 1,072
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 313	$ 375
Cash paid for income taxes	$ 171	$ 47

See notes to consolidated financial statements.

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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, CBS Studios International and CBS Television Distribution; CBS Films and CBS Interactive), Cable Networks (Showtime Networks, CBS Sports Network and Smithsonian Networks), Publishing (Simon & Schuster), Local Broadcasting (CBS Television Stations and CBS Radio) and Outdoor (CBS Outdoor, comprised of Outdoor Americas and Outdoor Europe).

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 fiscal year ended December 31, 2010.

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 ("U.S.") 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 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. For both the three and nine months ended September 30, 2011, stock options to purchase 22 million shares of Class B Common Stock were outstanding but excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive. For both the three and nine months ended September 30, 2010, stock options to purchase 32 million shares of Class B Common Stock were outstanding but excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive.

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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)	**2011**	**2010**	**2011**	**2010**
Weighted average shares for basic EPS	659	679	667	678
Dilutive effect of shares issuable under stock-based compensation plans	16	15	18	15
Weighted average shares for diluted EPS	675	694	685	693

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net earnings	$ 338	$ 317	$ 935	$ 441
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustments	(26)	20	(7)	
Net actuarial loss and prior service costs	7	8	22	94
Net unrealized loss on securities	(2)		(2)	
Total comprehensive income	$ 317	$ 345	$ 948	$ 535

Collaborative Arrangements Collaborative arrangements primarily consist of joint efforts with third parties to produce and distribute programming such as television series and live sporting events, including the 14-year agreement between the Company and Turner Broadcasting System, Inc. to telecast the *NCAA Division I Men's Basketball Championship* ("NCAA Tournament"), which began in 2011. In connection with this agreement for the NCAA Tournament, advertisements aired on CBS Television Network are recorded as revenues and the Company's share of the program rights fees and other operating costs are recorded as operating expenses.

For episodic television programming, co-production costs are initially capitalized as programming inventory and amortized over the television series' estimated economic life. In such arrangements where the Company has distribution rights, all proceeds generated from such distribution are recorded as revenues and any participation profits due to third party collaborators are recorded as operating expenses. In co-production arrangements where third party collaborators have distribution rights, the Company's net participating profits are recorded as revenues.

Amounts attributable to transactions arising from collaborative arrangements between participants were not material to the Company's consolidated financial statements for all periods presented.

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 nine months ended September 30, 2011 and 2010, the Company recorded dividends of $170 million and $104 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

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CBS CORPORATION AND SUBSIDIARIES

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

Adoption of New Accounting Standards

Revenue Arrangements with Multiple Deliverables

On January 1, 2011, the Company adopted the Financial Accounting Standards Board's ("FASB") revised guidance on revenue arrangements with multiple deliverables. This guidance revises the criteria for separating and allocating consideration for each deliverable in a multiple-deliverable arrangement and establishes a hierarchy for determining the selling price of each deliverable. Under the guidance, revenues are allocated based on the relative selling price of each deliverable. The selling price used for each deliverable will be based on the Company-specific objective evidence if available, third party evidence if Company-specific evidence is not available, or estimated selling price for the stand-alone sale of the deliverable if neither Company-specific objective evidence nor third party evidence is available. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Recent Pronouncements

Disclosures about an Employer's Participation in a Multiemployer Plan

In September 2011, the FASB issued amended guidance requiring separate disclosures about an employer's participation in multiemployer pension plans and multiemployer other postretirement benefit plans as well as enhanced disclosures about multiemployer pension plans, effective for the Company for the year ending December 31, 2011. The adoption of this guidance will not have a material effect on the Company's consolidated financial statements.

Goodwill Impairment Testing

In September 2011, the FASB issued amended guidance on goodwill impairment testing, effective for interim and annual impairment tests performed for periods beginning after December 15, 2011, with early adoption permitted. Under this guidance, the Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If based on this assessment the Company determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company intends to early adopt this guidance for its annual impairment test performed in the fourth quarter of 2011.

Comprehensive Income

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income, effective for the Company beginning in the first quarter of 2012, with early adoption permitted. Under this guidance, the total comprehensive income, the components of net income and the components of other comprehensive income must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this guidance will not have a material effect on the Company's consolidated financial statements.

Fair Value Measurement

In May 2011, the FASB issued guidance to improve the comparability of fair value measurements presented in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS"), effective for the Company beginning in the first quarter of 2012. This guidance clarifies the FASB's intent about the application of existing fair value measurement requirements and changes certain principles and requirements for measuring fair value and for disclosing information about fair value measurements.

CBS CORPORATION AND SUBSIDIARIES

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

The adoption of this guidance will not 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 and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
RSUs and PSUs	$ 25	$ 28	$ 77	$ 84
Stock options and equivalents	10	9	33	23
Stock-based compensation expense, before income taxes	35	37	110	107
Related tax benefit	(14)	(14)	(44)	(42)
Stock-based compensation expense, net of tax benefit	$ 21	$ 23	$ 66	$ 65

During the nine months ended September 30, 2011, the Company granted 6 million RSUs with a weighted average per unit grant date fair value of $22.24. RSU grants during 2011 generally vest over a one-to-four-year service period. Certain RSU awards are also subject to satisfying performance conditions. The number of shares that will be issued upon vesting of RSU awards with performance conditions can range from 0% to 120% of the target award, based on the achievement of established operating performance goals. During the nine months ended September 30, 2011, the Company also granted 6 million stock options with a weighted average exercise price of $23.18. Stock option grants during 2011 generally vest over a four-year service period and expire eight years from the date of grant.

Total unrecognized compensation cost related to non-vested RSUs at September 30, 2011 was $181 million, which is expected to be expensed over a weighted average period of 2.4 years. Total unrecognized compensation cost related to unvested stock option awards at September 30, 2011 was $78 million, which is expected to be expensed over a weighted average period of 2.7 years.

3) INTANGIBLE ASSETS

The Company's intangible assets were as follows:

At September 30, 2011	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:			
Leasehold agreements	$ 883	$ (584)	$ 299
Franchise agreements	487	(286)	201
Other intangible assets	387	(243)	144

Total intangible assets subject to amortization	1,757	(1,113)	644
FCC licenses	5,738		5,738
Trade names	169		169
Total intangible assets	$ 7,664	$ (1,113)	$ 6,551

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CBS CORPORATION AND SUBSIDIARIES

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

At December 31, 2010	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:			
Leasehold agreements	$ 895	$ (562)	$ 333
Franchise agreements	491	(272)	219
Other intangible assets	375	(210)	165
Total intangible assets subject to amortization	1,761	(1,044)	717
FCC licenses	5,738		5,738
Trade names	169		169
Total intangible assets	$ 7,668	$ (1,044)	$ 6,624

Amortization expense was $31 million and $32 million for the three months ended September 30, 2011 and 2010, respectively, and $94 million and $98 million for the nine months ended September 30, 2011 and 2010, respectively. The Company expects its aggregate annual amortization expense for existing intangible assets subject to amortization for each of the years, 2011 through 2015, to be as follows:

	2011	2012	2013	2014	2015
Amortization expense	$ 121	$ 102	$ 89	$ 80	$ 69

4) PROGRAMMING AND OTHER INVENTORY

	At September 30, 2011	At December 31, 2010
Program rights	$ 1,221	$ 1,372
Television programming:		
Released (including acquired libraries)	527	534
In process and other	142	119
Theatrical programming:		
Released	22	29
In process and other	10	26
Publishing, primarily finished goods	66	69
Other	1	1
Total programming and other inventory	1,989	2,150
Less current portion	536	725
Total noncurrent programming and other inventory	$ 1,453	$ 1,425

5) 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, 2011, NAI directly or indirectly owned approximately 79% of CBS Corp.'s voting Class A Common Stock, and owned approximately 6% of CBS Corp.'s Class A Common Stock and non-voting Class B Common Stock on a combined basis.

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CBS CORPORATION AND SUBSIDIARIES

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

Viacom Inc. CBS Corp., as part of its normal course of business, enters into transactions with Viacom Inc. and its subsidiaries. CBS Corp., through its Entertainment segment, licenses its television products to Viacom Inc., primarily MTV Networks and BET Networks. In addition, CBS Corp. recognizes advertising revenues for media spending placed by various subsidiaries of Viacom Inc., primarily Paramount Pictures. Viacom Inc. also distributes certain of the Company's television products in the home entertainment market. CBS Corp.'s total revenues from these transactions were $72 million and $129 million for the three months ended September 30, 2011 and 2010, respectively, and $211 million and $239 million for the nine months ended September 30, 2011 and 2010, respectively.

CBS Corp. places advertisements with, and leases production facilities, licenses programming and purchases other goods and services from various subsidiaries of Viacom Inc. The total amounts for these transactions were $6 million and $4 million for the three months ended September 30, 2011 and 2010, respectively, and $16 million and $15 million for the nine months ended September 30, 2011 and 2010, respectively.

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 September 30, 2011		At December 31, 2010	
Amounts due from Viacom Inc.				
Receivables	$	88	$	104
Other assets (Receivables, noncurrent)		226		252
Total amounts due from Viacom Inc.	$	314	$	356
Amounts due to Viacom Inc.				
Accounts payable	$	5	$	5
Program rights		2		4
Other liabilities (Program rights, noncurrent)				1
Total amounts due to Viacom Inc.	$	7	$	10

Other Related Parties The Company has equity interests in a domestic television network and several international joint ventures for television channels, from which the Company earns revenues primarily by selling its television programming. Total revenues earned from these joint ventures were $30 million and $27 million for the three months ended September 30, 2011 and 2010, respectively, and $93 million and $105 million for the nine months ended September 30, 2011 and 2010, 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.

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CBS CORPORATION AND SUBSIDIARIES

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

6) BANK FINANCING AND DEBT

The following table sets forth the Company's debt.

	At September 30, 2011	At December 31, 2010
Senior debt (4.30% 8.875% due 2012 2056)[(a)]	$ 5,926	$ 5,929
Other notes	4	2
Obligations under capital leases	82	90
Total debt	6,012	6,021
Less discontinued operations debt [(b)]	21	21
Total debt from continuing operations	5,991	6,000
Less current portion	30	27
Total long-term debt from continuing operations, net of current portion	$ 5,961	$ 5,973

(a) At September 30, 2011 and December 31, 2010, the senior debt balances included (i) a net unamortized premium of $3 million and $1 million, respectively, and (ii) an increase in the carrying value of the debt relating to previously settled fair value hedges of $77 million and $83 million, respectively. The face value of the Company's senior debt was $5.85 billion at both September 30, 2011 and December 31, 2010.

(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 million of the Company's wholly owned subsidiary, CBS Broadcasting Inc., is not guaranteed.

At September 30, 2011, the Company classified $490 million of senior notes and debentures maturing in August 2012 as long-term debt on the Consolidated Balance Sheet, reflecting its intent and ability to refinance this debt on a long-term basis.

During the nine months ended September 30, 2010, the Company issued $500 million of senior notes and used the net proceeds to repurchase $500 million of senior notes and debentures, through a tender offer. During the nine months ended September 30, 2010, the Company redeemed and repurchased an additional $440 million of senior notes and debentures. These transactions resulted in a pre-tax loss on early extinguishment of debt of $38 million.

Credit Facility

At September 30, 2011, the Company had a $2.0 billion revolving credit facility which expires in March 2015 (the "Credit Facility"). The Credit Facility requires the Company to maintain a maximum Consolidated Leverage Ratio of 4.0x at the end of each quarter and a minimum Consolidated Coverage Ratio of 3.0x for the trailing four quarters, each as further described in the Credit Facility. At September 30, 2011, the Company's Consolidated Leverage Ratio was approximately 1.9x and Consolidated Coverage Ratio was approximately 7.4x.

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CBS CORPORATION AND SUBSIDIARIES

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

The Consolidated Leverage Ratio reflects 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 non-cash items. The Consolidated Coverage Ratio reflects the ratio of Consolidated EBITDA to the Company's cash interest expense on indebtedness, adjusted to exclude certain capital lease obligations, in each case for the trailing four consecutive quarters.

The primary purpose of the Credit Facility is to support commercial paper borrowings. At September 30, 2011, the Company had no commercial paper borrowings under its $2.0 billion commercial paper program. At September 30, 2011, the remaining availability under the Credit Facility, net of outstanding letters of credit, was $1.985 billion.

Accounts Receivable Securitization Program

During and prior to the first quarter of 2010, the Company participated in a revolving accounts receivable securitization program which provided for the sale of receivables on a non-recourse basis to unrelated third parties on a one-year renewable basis. During the first quarter of 2010, the Company reduced the amounts outstanding under its revolving accounts receivable securitization program by $400 million to zero and terminated the program.

7) 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,	**2011**	**2010**	**2011**	**2010**
Components of net periodic cost:				
Service cost	$ 9	$ 8	$	$
Interest cost	62	66	9	11
Expected return on plan assets	(60)	(56)		
Amortization of actuarial losses (gains)	16	18	(3)	(3)
Net periodic cost	$ 27	$ 36	$ 6	$ 8

	Pension Benefits		Postretirement Benefits	
Nine Months Ended September 30,	**2011**	**2010**	**2011**	**2010**
Components of net periodic cost:				
Service cost	$ 27	$ 24	$	$
Interest cost	186	200	27	32
Expected return on plan assets	(179)	(170)		
Amortization of actuarial losses (gains)	48	54	(8)	(8)
Net periodic cost	$ 82	$ 108	$ 19	$ 24

During the nine months ended September 30, 2011, the Company made pension contributions of $210 million principally to pre-fund its qualified plans, of which $200 million was contributed during the third quarter of 2011.

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CBS CORPORATION AND SUBSIDIARIES

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

8) STOCKHOLDERS' EQUITY

During the nine months ended September 30, 2011, the Company repurchased 35.2 million shares of CBS Corp. Class B Common Stock for $850 million under its $1.5 billion share repurchase program, of which $350 million was spent in the third quarter to repurchase 13.5 million shares.

During the third quarter of 2011, the Company declared a quarterly cash dividend of $.10 per share on its Class A and Class B Common Stock payable on October 1, 2011. The total dividend was $67 million of which $66 million was paid on October 1, 2011 and $1 million was accrued to be paid upon vesting of RSUs. During the third quarter of 2011, the Company paid $67 million for the dividend declared during the second quarter of 2011 and for dividend payments on RSUs that vested during the third quarter of 2011.

9) INCOME TAXES

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

The provision for income taxes for the three months ended September 30, 2011 increased to $217 million from $179 million and for the nine months ended September 30, 2011 increased to $569 million from $291 million for the comparable prior-year period, in both cases driven by the increase in earnings before income taxes. The provision for income taxes for the nine months ended September 30, 2010 included a $62 million reduction of deferred tax assets associated with the enactment of the Patient Protection and Affordable Care Act in 2010, partially offset by a $26 million reversal of previously established deferred tax liabilities. The Company's tax provision for the three and nine months ended September 30, 2010 also included tax benefits from the settlement of income tax audits of $18 million and $28 million, respectively.

The Company is currently under examination by the IRS for the years 2008, 2009 and 2010. 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 current expectation to change in the future.

10) COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

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 September 30, 2011, the outstanding letters of credit and surety bonds approximated $401 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 under generally accepted accounting principles.

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Legal Matters

Securities Action. On December 12, 2008, the City of Pontiac General Employees' Retirement System filed a self-styled class action complaint in the United States District Court for the Southern District of New York against the Company and its Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and Treasurer, alleging violations of federal securities law. The complaint, which was filed on behalf of a putative class of purchasers of the Company's common stock between February 26, 2008 and October 10, 2008 (the "Class Period"), alleges that, among other things, the Company's failure to timely write down the value of certain assets caused the Company's reported operating results during the Class Period to be materially inflated. The plaintiffs seek unspecified compensatory damages. On February 11, 2009, a motion was filed in the case on behalf of The City of Omaha, Nebraska Civilian Employees' Retirement System, and The City of Omaha Police and Fire Retirement System (collectively, the "Omaha Funds") seeking to appoint the Omaha Funds as the lead plaintiffs in this case; on March 5, 2009, the court granted that motion. On May 4, 2009, the plaintiffs filed an Amended Complaint, which removes the Treasurer as a defendant and adds the Executive Chairman. On July 13, 2009, all defendants filed a motion to dismiss this action. On March 16, 2010, the court granted the Company's motion and dismissed this action as to the Company and all defendants. On April 30, 2010, the plaintiffs filed a motion for leave to serve an amended complaint. On September 23, 2010, the court issued an order granting leave to amend. On October 8, 2010, the Company was served with an Amended Complaint, which redefines the Class Period to be April 29, 2008 to October 10, 2008 and alleges that the impairment charge should have been taken during the first quarter of 2008. The Company filed a motion to dismiss this Amended Complaint on November 19, 2010. On May 24, 2011, the court granted the motion to dismiss and entered judgment in favor of defendants on May 25, 2011. On June 23, 2011, plaintiffs filed a Notice of Appeal.

CBS Outdoor and London Underground Actions. CBS Outdoor Limited has commenced legal actions against London Underground Limited with respect to disputes regarding project delays and other matters, including the calculation of franchise fees due from CBS Outdoor Limited arising under its 2006 transit contract with London Underground Limited. In these actions, CBS Outdoor Limited is seeking declaratory relief, recovery of monetary damages and other forms of relief. In August 2010, CBS Outdoor Limited filed a claim against London Underground Limited in the High Court of Justice Queen's Bench Division Commercial Court in the U.K. and, in November 2010, London Underground Limited filed a defense and counterclaim against CBS Outdoor Limited, in each case, with respect to such franchise fee calculation disputes. On October 4, 2011, CBS Outdoor Limited gave London Underground Limited six months' notice of termination of the transit contract and filed a claim in the High Court of Justice Queen's Bench Division Technology and Construction Court in the U.K. seeking confirmation of contractual obligations and monetary damages resulting from breaches by London Underground Limited. On October 9, 2011, London Underground Limited filed a defense and counterclaim against CBS Outdoor Limited claiming unspecified damages in relation to the notice of termination.

E-books Actions. Commencing on August 9, 2011, purported class action complaints have been filed in the United States District Court for the Southern District of New York and the United States District Court for the Northern District of California against Apple Inc., Hachette Book Group, Inc., HarperCollins Publishers, Inc., Macmillan Publishers, Inc., Penguin Group (USA) Inc., the Company's subsidiary, Simon & Schuster, Inc., and, in one or more actions, Amazon.com, Inc., Barnes & Noble, Inc. and Random House, Inc. The plaintiffs, electronic book purchasers, allege that, among other things, the defendants are in violation of federal and/or state antitrust laws in connection with the

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sale of electronic books pursuant to agency distribution arrangements between each of the publishers and electronic book retailers. The actions generally seek multiple forms of damages for the purchase of electronic books and injunctive and other relief. On August 16, 2011, a motion was filed with the United States Judicial Panel on Multidistrict Litigation by certain parties seeking to consolidate these actions for pre-trial proceedings in one venue. Simon & Schuster intends to vigorously defend itself in these actions. In addition, certain federal and state governmental entities in the United States and competition entities in Europe are conducting competition investigations of agency distribution arrangements in this industry and Simon & Schuster is cooperating with these competition investigations.

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 (the "Super Bowl Proceeding"). 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 United States 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. In July 2008, the Third Circuit vacated the FCC's order to have the Company pay the forfeiture and remanded the case to the FCC. On November 18, 2008, the FCC filed a petition for certiorari with the United States Supreme Court, seeking review of the Third Circuit's decision. The petition requested that the United States Supreme Court not act on the petition until it ruled in the "fleeting expletives case" mentioned below. On January 8, 2009, the Company filed its opposition to the FCC's petition for certiorari.

In another case involving broadcasts on another network, in June 2007, the United States Court of Appeals for the Second Circuit vacated the FCC's November 2006 finding that the broadcast of fleeting and isolated expletives was indecent and remanded the case to the FCC (the "fleeting expletives case"). On March 17, 2008, the United States Supreme Court granted the FCC's petition to review the United States Court of Appeals for the Second Circuit's decision. On November 4, 2008, the United States Supreme Court heard argument in this case. On April 28, 2009, the United States Supreme Court issued a 5-4 decision reversing the Second Circuit's judgment on administrative grounds in favor of the FCC and remanding the fleeting expletives case to the Second Circuit. The Second Circuit requested additional briefing and argument was heard on January 13, 2010. On July 13, 2010, the Second Circuit struck down an FCC policy on indecency and found that the FCC's indecency policies and decisions regarding the use of "fleeting expletives" on radio and television violated the First Amendment. On August 25, 2010, the FCC filed a petition for rehearing en banc and, on August 31, 2010, the Second Circuit issued an order directing all parties and intervenors to file briefs in response to the FCC's petition on September 21, 2010, which were filed. On November 22, 2010, the Second Circuit denied the FCC's petition for rehearing. On April 21, 2011, the FCC filed a combined petition for certiorari seeking review of the Second Circuit's decision in this case and also in an indecency case involving a broadcast on another television network. On June 27, 2011, the United States Supreme Court granted the FCC's petition for certiorari.

Following the April 28, 2009 decision in the fleeting expletives case, on May 4, 2009, the United States Supreme Court remanded the Super Bowl Proceeding to the United States Court of Appeals for the Third Circuit and requested supplemental briefing from the Company and the FCC, in light of the United States Supreme Court's fleeting expletives decision. Argument was heard by the Third Circuit in the Super Bowl Proceeding on February 23, 2010. On May 18, 2010 and on December 22, 2010, at the

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Third Circuit's request, the Company and the FCC each submitted supplemental briefs. On November 2, 2011, the Third Circuit upheld its earlier decision to vacate the FCC's order to have the Company pay the $550,000 forfeiture.

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.

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.

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, or by asbestos-containing grades of decorative micarta, a laminate used in commercial ships.

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, 2011 the Company had pending approximately 50,120 asbestos claims, as compared with approximately 52,220 as of December 31, 2010 and 56,960 as of September 30, 2010. During the third quarter of 2011, the Company received approximately 1,030 new claims and closed or moved to an inactive docket approximately 1,300 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 2010 and 2009 for settlement and defense of asbestos claims after insurance recoveries and net of tax benefits were approximately $14 million and $18 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. 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 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.

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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.

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 and local 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 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.

11) RESTRUCTURING CHARGES

During the years ended December 31, 2010 and 2009, the Company recorded restructuring charges of $81 million and $23 million, respectively. The charges reflected $87 million of severance costs and $22 million of contract termination and other associated costs, partially offset by reversals of $5 million as a result of changes in estimates of previously established restructuring accruals. As of September 30, 2011, the cumulative amount paid since the restructuring activities began in 2009 was $76 million, of which $66 million was for the severance costs and $10 million was for the contract termination and other associated costs. The Company expects to substantially utilize the remaining reserves by the end of 2011; however, certain payments associated with the early termination of long-term contractual agreements will continue through 2012.

	Balance at December 31, 2010	2011 Payments	Balance at September 30, 2011
Entertainment	$ 11	$ (7)	$ 4
Cable Networks	2	(1)	1
Publishing	2	(1)	1
Local Broadcasting	26	(10)	16
Outdoor	16	(10)	6
Total	$ 57	$ (29)	$ 28

12) FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company's carrying value of financial instruments approximates fair value, except for differences with respect to the notes and debentures. At September 30, 2011 and December 31, 2010, the carrying value of the senior debt was $5.93 billion for both periods and the fair value, which is estimated, based on quoted market prices and includes accrued interest, was $6.68 billion and $6.54 billion, respectively.

The Company uses derivative financial instruments primarily to modify its exposure to market risks from fluctuations in foreign currency exchange rates. The Company does not use derivative instruments

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unless there is an underlying exposure and, therefore, the Company does not hold or enter into derivative financial instruments for speculative trading purposes. The fair value of the Company's derivative instruments and the related activity was not material to the Consolidated Balance Sheets and Consolidated Statements of Operations 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, 2011 and December 31, 2010. 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, 2011	Level 1	Level 2	Level 3	Total
Assets:				
Investments	$ 52	$	$	$ 52
Foreign currency hedges		5		5
Total Assets	$ 52	$ 5	$	$ 57
Liabilities:				
Deferred compensation	$	$ 157	$	$ 157
Foreign currency hedges		1		1
Total Liabilities	$	$ 158	$	$ 158

At December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Investments	$ 66	$	$	$ 66
Total Assets	$ 66	$	$	$ 66
Liabilities:				
Deferred compensation	$	$ 162	$	$ 162
Foreign currency hedges		3		3
Total Liabilities	$	$ 165	$	$ 165

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

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13) 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,	
	2011	2010	2011	2010
Revenues:				
Entertainment	$ 1,632	$ 1,617	$ 5,462	$ 5,370
Cable Networks	420	370	1,226	1,107
Publishing	220	218	558	559
Local Broadcasting	656	677	1,968	1,961
Outdoor	477	459	1,380	1,308
Eliminations	(40)	(44)	(133)	(146)
Total Revenues	$ 3,365	$ 3,297	$ 10,461	$ 10,159

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,	
	2011	2010	2011	2010
Intercompany Revenues:				
Entertainment	$ 27	$ 29	$ 101	$ 112
Local Broadcasting	6	6	15	17
Outdoor	7	9	17	17
Total Intercompany Revenues	$ 40	$ 44	$ 133	$ 146

The Company presents segment operating income (loss) before depreciation and amortization ("Segment OIBDA") as the primary measure of profit and loss for its operating segments in accordance with FASB guidance for segment reporting. The Company believes the presentation of Segment OIBDA is relevant and useful for investors because it allows investors to view segment performance in

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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,	
	2011	2010	2011	2010
Segment OIBDA:				
Entertainment	$ 405	$ 277	$ 1,113	$ 634
Cable Networks	203	167	532	397
Publishing	38	31	64	50
Local Broadcasting	184	195	583	518
Outdoor	80	74	215	163
Corporate	(55)	(59)	(164)	(154)
Residual costs	(19)	64	(56)	12
Eliminations	1	1	(1)	3
OIBDA	837	750	2,286	1,623
Depreciation and amortization	(134)	(139)	(412)	(424)
Total Operating Income	703	611	1,874	1,199
Interest expense	(110)	(127)	(330)	(399)
Interest income	2	1	5	4
Loss on early extinguishment of debt				(38)
Other items, net	(21)	24	(7)	(3)
Earnings before income taxes and equity in loss of investee companies	574	509	1,542	763
Provision for income taxes	(217)	(179)	(569)	(291)
Equity in loss of investee companies, net of tax	(19)	(13)	(38)	(31)
Net earnings	$ 338	$ 317	$ 935	$ 441

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Income (Loss):				
Entertainment	$ 366	$ 237	$	