CBS CORP
Form 10-Q
November 06, 2017

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from ____________ to ____________

Commission File Number 001-09553

CBS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-2949533 (I.R.S. Employer Identification No.)
51 W. 52nd Street, New York, New York (Address of principal executive offices)	10019 (Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Number of shares of common stock outstanding at October 31, 2017:

Class A Common Stock, par value $.001 per share— 37,598,604
Class B Common Stock, par value $.001 per share— 362,580,107

CBS CORPORATION
INDEX TO FORM 10-Q

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$3,171	$3,084	$9,771	$9,648
Costs and expenses:				
Operating	1,862	1,788	5,940	5,818
Selling, general and administrative	547	521	1,585	1,534
Depreciation and amortization	55	54	166	168
Other operating items, net	—	—	—	(9)
Total costs and expenses	2,464	2,363	7,691	7,511
Operating income	707	721	2,080	2,137
Interest expense	(116)	(104)	(336)	(304)
Interest income	17	7	45	22
Loss on early extinguishment of debt (Note 6)	(5)	—	(5)	—
Other items, net	3	—	9	(7)
Earnings from continuing operations before income taxes and equity in loss of investee companies	606	624	1,793	1,848
Provision for income taxes	(172)	(145)	(479)	(524)
Equity in loss of investee companies, net of tax	(16)	(13)	(45)	(43)
Net earnings from continuing operations	418	466	1,269	1,281
Net earnings (loss) from discontinued operations, net of tax (Note 3)	174	12	(871)	93
Net earnings	$592	$478	$398	$1,374
Basic net earnings (loss) per common share:				
Net earnings from continuing operations	$1.04	$1.05	$3.13	$2.84
Net earnings (loss) from discontinued operations	$.43	$.03	$(2.15)	$.21
Net earnings	$1.48	$1.08	$.98	$3.05
Diluted net earnings (loss) per common share:				
Net earnings from continuing operations	$1.03	$1.04	$3.10	$2.82
Net earnings (loss) from discontinued operations	$.43	$.03	$(2.12)	$.20
Net earnings	$1.46	$1.07	$.97	$3.02
Weighted average number of common shares outstanding:				
Basic	401	442	405	451
Diluted	406	446	410	455
Dividends per common share	$.18	$.18	$.54	$.48

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings	$592	$478	$398	$1,374
Other comprehensive income, net of tax:				
Cumulative translation adjustments	2	1	4	2
Amortization of net actuarial loss and prior service cost	13	10	37	29
Total other comprehensive income, net of tax	15	11	41	31
Total comprehensive income	$607	$489	$439	$1,405

See notes to consolidated financial statements.

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

	At September 30, 2017	At December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$144	$598
Receivables, less allowances of $48 (2017) and $60 (2016)	3,598	3,314
Programming and other inventory (Note 4)	1,830	1,427
Prepaid income taxes	—	30
Prepaid expenses	182	185
Other current assets	185	204
Current assets of discontinued operations (Note 3)	355	305
Total current assets	6,294	6,063
Property and equipment	3,001	2,935
Less accumulated depreciation and amortization	1,793	1,694
Net property and equipment	1,208	1,241
Programming and other inventory (Note 4)	2,814	2,439
Goodwill	4,891	4,864
Intangible assets	2,617	2,633
Other assets	2,745	2,707
Assets of discontinued operations (Note 3)	3,325	4,291
Total Assets	$23,894	$24,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$233	$148
Accrued compensation	257	369
Participants' share and royalties payable	997	1,024
Program rights	509	290
Income taxes payable	55	—
Commercial paper (Note 6)	590	450
Current portion of long-term debt (Note 6)	19	23
Accrued expenses and other current liabilities	1,238	1,249
Current liabilities of discontinued operations (Note 3)	154	155
Total current liabilities	4,052	3,708
Long-term debt (Note 6)	9,080	8,902
Pension and postretirement benefit obligations	1,619	1,769
Deferred income tax liabilities, net	645	590
Other liabilities	3,038	3,129
Liabilities of discontinued operations (Note 3)	2,466	2,451
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Class A Common Stock, par value $.001 per share; 375 shares authorized; 38 (2017 and 2016) shares issued	—	—

Class B Common Stock, par value $.001 per share; 5,000 shares authorized; 833 (2017) and 829 (2016) shares issued	1	1
Additional paid-in capital	43,830	43,913
Accumulated deficit	(18,859)	(19,257)
Accumulated other comprehensive loss (Note 8)	(726)	(767)
	24,246	23,890
Less treasury stock, at cost; 471 (2017) and 455 (2016) Class B shares	21,252	20,201
Total Stockholders' Equity	2,994	3,689
Total Liabilities and Stockholders' Equity	$23,894	$24,238

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
Operating Activities:		
Net earnings	$398	$1,374
Less: Net earnings (loss) from discontinued operations, net of tax	(871)	93
Net earnings from continuing operations	1,269	1,281
Adjustments to reconcile net earnings from continuing operations to net cash flow provided by operating activities from continuing operations:		
Depreciation and amortization	166	168
Stock-based compensation	129	123
Equity in loss of investee companies, net of tax and distributions	45	48
Change in assets and liabilities, net of investing and financing activities	(674)	(503)
Net cash flow provided by operating activities from continuing operations	935	1,117
Net cash flow provided by operating activities from discontinued operations	52	189
Net cash flow provided by operating activities	987	1,306
Investing Activities:		
Acquisitions (including acquired television library)	(258)	(51)
Capital expenditures	(112)	(111)
Investments in and advances to investee companies	(67)	(44)
Proceeds from sale of investments	10	—
Proceeds from dispositions	11	20
Other investing activities	17	7
Net cash flow used for investing activities from continuing operations	(399)	(179)
Net cash flow used for investing activities from discontinued operations	(18)	(2)
Net cash flow used for investing activities	(417)	(181)
Financing Activities:		
Proceeds from short-term debt borrowings, net	140	33
Proceeds from issuance of senior notes	889	685
Repayment of senior notes and debentures	(701)	(199)
Proceeds from debt borrowings of CBS Radio	40	—
Repayment of debt borrowings of CBS Radio	(23)	—
Payment of capital lease obligations	(13)	(13)
Payment of contingent consideration	(7)	—
Dividends	(224)	(209)
Purchase of Company common stock	(1,111)	(1,534)
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(89)	(57)
Proceeds from exercise of stock options	81	13
Excess tax benefit from stock-based compensation (Note 1)	—	13
Other financing activities	—	(1)
Net cash flow used for financing activities	(1,018)	(1,269)
Net decrease in cash and cash equivalents	(448)	(144)
Cash and cash equivalents at beginning of period (includes $24 (2017) and $6 (2016) of discontinued operations cash)	622	323
Cash and cash equivalents at end of period (includes $30 (2017) and $1 (2016) of discontinued operations cash)	$174	$179

Supplemental disclosure of cash flow information		
Cash paid for interest:		
Continuing operations	$393	$358
Discontinued operations	$52	$—
Cash paid for income taxes:		
Continuing operations	$321	$310
Discontinued operations	$58	$60

See notes to consolidated financial statements.

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

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

Pending Acquisition-On August 27, 2017, the Company signed a binding agreement to acquire Ten Networks Holdings Limited (“Network Ten”), one of three major commercial broadcast networks in Australia, after Network Ten entered into voluntary administration. During the third quarter of 2017, the Company paid $138 million of the purchase price, primarily for the assumption of the secured debt of Network Ten’s lenders, and funding for working capital. The transaction, which is expected to close in the fourth quarter of 2017, will be completed in accordance with Australian applicable laws and procedures and is subject to certain regulatory approvals.

Discontinued Operations-On February 2, 2017, the Company entered into an agreement with Entercom Communications Corp. (“Entercom”) to combine the Company’s radio business, CBS Radio Inc. (“CBS Radio”), with Entercom in a merger to be effected through a Reverse Morris Trust transaction, which is expected to be tax-free to CBS Corp. and its stockholders. In connection with this transaction, on October 19, 2017, the Company commenced an exchange offer through which it will split-off CBS Radio (See Note 3). CBS Radio has been presented as a discontinued operation in the Company’s consolidated financial statements for all periods presented.

Basis of Presentation-The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission. These financial statements should be read in conjunction with the more detailed financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

Other Operating Items, Net-Other operating items, net for the nine months ended September 30, 2016 included a gain from the sale of a business and a multiyear, retroactive impact of a new operating tax.

Net Earnings (Loss) per Common Share-Basic net earnings (loss) per share (“EPS”) is based upon net earnings (loss) divided by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the effect of the assumed exercise of stock options and vesting of restricted stock units (“RSUs”) and

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

market-based performance share units (“PSUs”) only in the periods in which such effect would have been dilutive. Excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive, were 4 million stock options for each of the three and nine months ended September 30, 2017 and 5 million stock options for each of the three and nine months ended September 30, 2016.

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)	2017	2016	2017	2016
Weighted average shares for basic EPS	401	442	405	451
Dilutive effect of shares issuable under stock-based compensation plans	5	4	5	4
Weighted average shares for diluted EPS	406	446	410	455

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

Additional Paid-In Capital-For the nine months ended September 30, 2017 and 2016, the Company recorded dividends of $221 million and $218 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

Adoption of New Accounting Standards

Improvements to Employee Share-Based Payment Accounting

During the first quarter of 2017, the Company adopted amended Financial Accounting Standards Board (“FASB”) guidance which simplifies several aspects of the accounting for employee share-based payment transactions. Under this amended guidance, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement in the period in which the awards vest or are exercised. In the statement of cash flows, excess tax benefits are classified with other income tax cash flows in operating activities. As a result of the adoption of this guidance, the Company’s excess tax benefits associated with the exercise of stock options and vesting of RSUs for the three and nine months ended September 30, 2017 were recorded in the provision for income taxes on the Consolidated Statements of Operations. The guidance requires the income statement classification to be applied prospectively, and therefore, excess tax benefits for prior periods remain classified in stockholders’ equity on the balance sheet. The Company elected to apply the cash flow classification provision of this guidance prospectively and therefore, excess tax benefits for prior periods remain classified as financing activities on the statements of cash flows. The amended guidance also gives the option to make a policy election to account for forfeitures as they occur. The Company, however, has elected to continue its existing practice of estimating forfeitures.

Simplifying the Accounting for Goodwill Impairment

During the first quarter of 2017, the Company early adopted amended FASB guidance which simplifies the accounting for goodwill impairment. This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge is recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill.

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

Recent Pronouncements

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued amended guidance for hedge accounting, which expands the eligibility of hedging strategies that qualify for hedge accounting, modifies the recognition and presentation of hedges in the financial statements, and changes how companies assess hedge effectiveness. In addition, this guidance amends and expands disclosure requirements. This guidance, which is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted, is not expected to have a material impact on the Company’s consolidated financial statements.

Stock Compensation: Scope of Modification Accounting

In May 2017, the FASB issued amended guidance on the accounting for stock-based compensation which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award as equity or liability changes as a result of the change in the terms or conditions of a share-based payment award. This guidance, which is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted, is not expected to have an impact on the Company’s consolidated financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued amended guidance on the presentation of net periodic pension and postretirement benefit cost (“net benefit cost”). This guidance requires an employer to present on the statement of operations the service cost component of net benefit cost in the same line item(s) as other compensation costs of the related employees. The other components of net benefit cost will be presented in the statement of operations separately from the service cost component and below the subtotal of operating income. This guidance is required to be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted as of the beginning of an annual reporting period. Upon adoption, the Company’s operating income will increase or decrease by an amount equal to the components of net benefit cost other than service cost, which are disclosed in Note 7.

Clarifying the Definition of a Business

In January 2017, the FASB issued amended guidance on the accounting for business combinations which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued amended guidance on the accounting for income taxes, which eliminates the exception in existing guidance which defers the recognition of the tax effects of intra-entity asset transfers other than inventory until the transferred asset is sold to a third party. Rather, the amended guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance, which is effective for interim and annual periods beginning after December 15, 2017, is not expected to have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows: Classification of Cash Receipts and Cash Payments
In August 2016, the FASB issued amended guidance which clarifies how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The new guidance is intended to reduce the existing diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

Leases
In February 2016, the FASB issued new guidance on the accounting for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The Company is currently evaluating the impact of this guidance on its consolidated balance sheets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

Revenue from Contracts with Customers
In May 2014, the FASB issued guidance on the recognition of revenues which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. This guidance is effective for the Company beginning in the first quarter of 2018. The Company anticipates that it will apply the modified retrospective method of adoption with the cumulative effect of the initial adoption reflected as an adjustment to the opening balance of accumulated deficit as of January 1, 2018. The Company has identified the predominant changes to its accounting policies and is in the process of quantifying the impact on its consolidated financial statements and evaluating the additional disclosures that may be required. The adoption of this guidance is not expected to have a significant impact on the Company's total revenues. The Company has identified changes to its revenue recognition policies primarily relating to two areas of content licensing and distribution revenues. First, revenues from certain distribution arrangements of third-party content will be recognized based on the gross amount of consideration received by the Company for such sale, with an associated expense recognized for the fees paid to the third-party producer. Under current accounting guidance, such revenues are recognized at the net amount retained by the Company after the payment of fees to the third-party producer. This change will not have an impact on the Company's operating income. Second, revenues associated with the extension of an existing licensing arrangement, which are currently recognized upon the execution of such extension, will be recognized at a later date once the extension period begins. This change is not expected to have a material impact on the Company's results on an annual basis, since revenues from extensions executed each year approximate revenues from extensions for which the license period has begun.

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

2) STOCK-BASED COMPENSATION
The following table summarizes the Company's stock-based compensation expense for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
RSUs and PSUs	$38	$35	$109	$102
Stock options	6	7	20	21
Stock-based compensation expense, before income taxes	44	42	129	123
Related tax benefit	(17)	(17)	(50)	(48)
Stock-based compensation expense, net of tax benefit	$27	$25	$79	$75

During the nine months ended September 30, 2017, the Company granted 2 million RSUs for CBS Corp. Class B Common Stock with a weighted average per unit grant-date fair value of $66.75. RSUs granted during the first nine months of 2017 generally vest over a one- to four-year service period. Compensation expense for RSUs is determined based upon the market price of the shares underlying the awards on the date of grant. For certain RSU awards the number of shares an employee earns ranges from 0% to 120% of the target award, based on the outcome of established performance conditions. Compensation expense is recorded based on the probable outcome of the performance conditions. During the nine months ended September 30, 2017, the Company also granted awards of market-based PSUs. The number of shares that will be issued upon vesting of the PSUs is based on the Company's stock price performance over a designated measurement period, as well as the achievement of established operating goals. The fair value of the PSUs is determined on the grant date using a Monte Carlo simulation model and is expensed over the required employee service period. The fair value of the PSU awards granted during the nine months ended September 30, 2017 was $23 million.

During the nine months ended September 30, 2017, the Company also granted 1 million stock options with a weighted average exercise price of $66.31. Stock options granted during the first nine months of 2017 vest over a four-year service period and expire eight years from the date of grant. Compensation expense for stock options is determined based on the grant date fair value of the award calculated using the Black-Scholes options-pricing model.

Total unrecognized compensation cost related to unvested RSUs and PSUs at September 30, 2017 was $235 million, which is expected to be recognized over a weighted average period of 2.3 years. Total unrecognized compensation cost related to unvested stock option awards at September 30, 2017 was $45 million, which is expected to be recognized over a weighted average period of 2.5 years.

3) DISCONTINUED OPERATIONS
On February 2, 2017, the Company entered into an agreement with Entercom to combine the Company's radio business, CBS Radio, with Entercom in a merger to be effected through a Reverse Morris Trust transaction, which is expected to be tax-free to CBS Corp. and its stockholders. In connection with this transaction, on October 19, 2017, the Company commenced an exchange offer through which it will split-off CBS Radio. In the exchange offer, the Company's stockholders have the opportunity to exchange their shares of the Company's Class B Common Stock for shares of CBS Radio common stock, which will be immediately converted into shares of Entercom Class A common stock upon completion of the merger. The exchange ratio is calculated based on the trading prices of CBS Class B Common Stock and Entercom Class A common stock with a 7% discount per-share value, subject to an upper limit of

5.7466 shares of CBS Radio common stock for each share of CBS Class B

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

Common Stock. Based on the exchange ratio at the commencement of the exchange offer, and assuming the exchange offer is fully subscribed, the Company would receive approximately 19 million shares in the exchange offer, thereby reducing the Company's shares outstanding. However, the exchange ratio will change based on fluctuations in the trading prices of CBS Class B Common Stock and Entercom Class A common stock. A 10% change to the exchange ratio would change the number of shares the Company receives in the exchange offer by approximately 2 million shares. The exchange offer is scheduled to expire on November 16, 2017, unless the exchange offer is extended or terminated. The transaction is subject to certain customary terms and conditions. CBS Radio has been classified as held for sale and presented as a discontinued operation in the Company's consolidated financial statements for all periods presented.

FASB Accounting Standards Codification ("ASC") 360 requires that an asset classified as held for sale be measured each reporting period at the lower of its carrying amount or fair value less cost to sell. The ultimate value of the transaction with Entercom will be determined based on Entercom's stock price at the closing of the transaction. The Company recorded a noncash gain of $100 million for the three months ended September 30, 2017 and a noncash charge of $980 million for the nine months ended September 30, 2017 associated with a valuation allowance to adjust the carrying value of CBS Radio to the value indicated by the stock valuation of Entercom. The Company will record an additional gain or loss upon the closing of the transaction, which is expected to occur in the fourth quarter of 2017. A 10% change to Entercom's stock price would change the carrying value of CBS Radio by approximately $110 million.

For the nine months ended September 30, 2017, CBS Radio recorded a restructuring charge of $7 million associated with the reorganization of certain business operations, reflecting severance costs and costs associated with exiting contractual obligations.

The following tables set forth details of net earnings (loss) from discontinued operations for the three and nine months ended September 30, 2017 and 2016. Net earnings (loss) from discontinued operations included the operating results of CBS Radio for all periods presented. Net earnings (loss) from discontinued operations also included a tax benefit of $45 million for the three and nine months ended September 30, 2017 and a charge of $36 million for the three and nine months ended September 30, 2016, in each case from the resolution of a tax matter in a foreign jurisdiction relating to a previously disposed business that was accounted for as a discontinued operation.

Three Months Ended September 30, 2017	CBS Radio	Other	Total
Revenues	$300	$—	$300
Costs and expenses: [a]			
Operating	113	—	113
Selling, general and administrative	121	(1)	120
Benefit from valuation allowance	(100)	—	(100)
Total costs and expenses	134	(1)	133
Operating income	166	1	167
Interest expense	(21)	—	(21)
Earnings from discontinued operations	145	1	146
Income tax (provision) benefit	(17)	45	28
Net earnings from discontinued operations, net of tax	$128	$46	$174

(a) CBS Radio has been classified as held for sale beginning in the fourth quarter of 2016. Under ASC 360, assets held for sale are not depreciated or amortized.

-12-

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

Three Months Ended September 30, 2016	CBS Radio	Other	Total
Revenues	$317	$—	$317
Costs and expenses:			
Operating	110	—	110
Selling, general and administrative	123	—	123
Depreciation and amortization	7	—	7
Total costs and expenses	240	—	240
Operating income	77	—	77
Other income	2	—	2
Earnings from discontinued operations	79	—	79
Income tax provision	(31)	(36)	(67)
Net earnings (loss) from discontinued operations, net of tax	$48	$(36)	$12

Nine Months Ended September 30, 2017	CBS Radio	Other	Total
Revenues	$856	$—	$856
Costs and expenses: [a]			
Operating	307	—	307
Selling, general and administrative	372	(1)	371
Restructuring charge	7	—	7
Provision for valuation allowance	980	—	980
Total costs and expenses	1,666	(1)	1,665
Operating income (loss)	(810)	1	(809)
Interest expense	(60)	—	(60)
Earnings (loss) from discontinued operations	(870)	1	(869)
Income tax (provision) benefit	(47)	45	(2)
Net earnings (loss) from discontinued operations, net of tax	$(917)	$46	$(871)

(a) CBS Radio has been classified as held for sale beginning in the fourth quarter of 2016. Under ASC 360, assets held for sale are not depreciated or amortized.

Nine Months Ended September 30, 2016	CBS Radio	Other	Total
Revenues	$892	$—	$892
Costs and expenses:			
Operating	298	—	298
Selling, general and administrative	359	—	359
Depreciation and amortization	20	—	20
Total costs and expenses	677	—	677
Operating income	215	—	215
Other income	2	—	2
Earnings from discontinued operations	217	—	217
Income tax provision	(88)	(36)	(124)
Net earnings (loss) from discontinued operations, net of tax	$129	$(36)	$93

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

The following table presents the major classes of assets and liabilities of the Company's discontinued operations.

	At September 30, 2017	At December 31, 2016
Receivables, net	$ 254	$ 244
Other current assets	101	61
Goodwill	1,285	1,285
Intangible assets	2,832	2,832
Net property and equipment	157	145
Other assets	31	29
Valuation allowance for carrying value	(980)	—
Total Assets	$ 3,680	$ 4,596
Current portion of long-term debt	$ 10	$ 10
Other current liabilities	144	145
Long-term debt	1,355	1,335
Deferred income tax liabilities	1,013	998
Other liabilities	98	118
Total Liabilities	$ 2,620	$ 2,606

The following table presents CBS Radio's long-term debt.

	At September 30, 2017	At December 31, 2016
Term Loan due October 2023, net of discount	$ 947	$ 955
7.250% Senior Notes due November 2024	400	400
Revolving Credit Facility	36	10
Deferred financing costs	(18)	(20)
Total long-term debt, including current portion	$ 1,365	$ 1,345

CBS Radio's senior secured term loan ("Term Loan") bears interest at a rate equal to 3.50% plus the greater of the London Interbank Offered Rate ("LIBOR") and 1.00%. The Term Loan is part of CBS Radio's credit agreement which also includes a $250 million senior secured revolving credit facility (the "Revolving Credit Facility") which expires in 2021. Interest on the Revolving Credit Facility is based on either LIBOR or a base rate plus a margin based on CBS Radio's Consolidated Net Secured Leverage Ratio. The Consolidated Net Secured Leverage Ratio reflects the ratio of CBS Radio's secured debt (less up to $150 million of cash and cash equivalents) to CBS Radio's consolidated EBITDA (as defined in the credit agreement). The Revolving Credit Facility requires CBS Radio to maintain a maximum Consolidated Net Secured Leverage Ratio of 4.00 to 1.00.

In connection with financing for the transaction with Entercom, on March 3, 2017, CBS Radio entered into Amendment No. 1 to its credit agreement, dated as of October 17, 2016, to, among other things, create a tranche of Term B-1 Loans in an aggregate principal amount not to exceed $500 million. The Term B-1 Loans are expected to be funded substantially concurrently with the closing date of the transaction, subject to customary conditions.

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

4) PROGRAMMING AND OTHER INVENTORY

	At September 30, 2017	At December 31, 2016
Acquired program rights	$ 2,087	$ 1,773
Acquired television library	99	—
Internally produced programming:		
Released	1,799	1,746
In process and other	601	298
Publishing, primarily finished goods	58	49
Total programming and other inventory	4,644	3,866
Less current portion	1,830	1,427
Total noncurrent programming and other inventory	$ 2,814	$ 2,439

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 Chairman Emeritus of CBS Corp. and the Chairman Emeritus of 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 each of CBS Corp. and Viacom Inc. Mr. David R. Andelman is a director of CBS Corp. and serves as a director of NAI. At September 30, 2017, NAI directly or indirectly owned approximately 79.5% of CBS Corp.’s voting Class A Common Stock, and owned approximately 9.8% of CBS Corp.’s Class A Common Stock and non-voting Class B Common Stock on a combined basis. NAI is controlled by Mr. Redstone through the Sumner M. Redstone National Amusements Trust (the “SMR Trust”), which owns 80% of the voting interest of NAI, and such voting interest of NAI held by the SMR Trust is voted solely by Mr. Redstone until his incapacity or death. The SMR Trust provides that in the event of Mr. Redstone’s death or incapacity, voting control of the NAI voting interest held by the SMR Trust will pass to seven trustees, who will include CBS Corporation directors Ms. Shari Redstone and Mr. David R. Andelman. No member of the Company’s management is a trustee of the SMR Trust.

Viacom Inc. As part of its normal course of business, the Company licenses its television content, leases production facilities and sells advertising spots to various subsidiaries of Viacom Inc. Viacom Inc. also distributes certain of the Company’s television programs in the home entertainment market. The Company’s total revenues from these transactions were $38 million and $16 million for the three months ended September 30, 2017 and 2016, respectively, and $111 million and $83 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company places advertisements with and leases production facilities from various subsidiaries of Viacom Inc. The total amounts for these transactions were $4 million and $6 million for the three months ended September 30, 2017 and 2016, respectively, and $13 million and $17 million for the nine months ended September 30, 2017 and 2016, 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 Viacom Inc. in the normal course of business as reflected on the Company's Consolidated Balance Sheets. Amounts due to Viacom Inc. were minimal at September 30, 2017 and December 31, 2016.

	At September 30, 2017	At December 31, 2016
Receivables	$ 112	$ 113
Other assets (Receivables, noncurrent)	20	35
Total amounts due from Viacom Inc.	$ 132	$ 148

Other Related Parties. The Company has equity interests in two domestic television networks and several international joint ventures for television channels from which the Company earns revenues primarily by selling its television programming. Total revenues earned from sales to these joint ventures were $5 million and $13 million for the three months ended September 30, 2017 and 2016, respectively, and $54 million and $69 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 and December 31, 2016, total amounts due from these joint ventures were $29 million and $47 million, 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.

6) BANK FINANCING AND DEBT

The following table sets forth the Company's debt.

	At September 30, 2017	At December 31, 2016
Commercial paper	$ 590	$ 450
Senior debt (1.95% - 7.875% due 2017 - 2045) [(a)]	9,039	8,850
Obligations under capital leases	60	75
Total debt	9,689	9,375
Less commercial paper	590	450
Less current portion of long-term debt	19	23
Total long-term debt, net of current portion	$ 9,080	$ 8,902

(a) At September 30, 2017 and December 31, 2016, the senior debt balances included (i) a net unamortized discount of $55 million and $52 million, respectively, (ii) unamortized deferred financing costs of $45 million and $43 million, respectively, and (iii) a $2 million decrease and a $5 million increase, respectively, in the carrying value of the debt relating to previously settled fair value hedges. The face value of the Company's senior debt was $9.14 billion and $8.94 billion at September 30, 2017 and December 31, 2016, respectively.

In July 2017, the Company issued $400 million of 2.50% senior notes due 2023 and $500 million of 3.375% senior notes due 2028. The Company used the net proceeds from these issuances to repay its $400 million outstanding 1.95% senior notes that matured on July 1, 2017 and to redeem all of its $300 million outstanding 4.625% senior notes due May 2018. The remaining proceeds were used for general corporate purposes, including the repayment of short-term borrowings, including commercial paper.

The early redemption of the $300 million 4.625% senior notes due May 2018 resulted in a pre-tax loss on early extinguishment of debt of $5 million ($3 million, net of tax) for the three and nine months ended September 30, 2017.

-16-

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

Commercial Paper

The Company had outstanding commercial paper borrowings under its $2.5 billion commercial paper program of $590 million and $450 million at September 30, 2017 and December 31, 2016, respectively, each with maturities of less than 60 days. The weighted average interest rate for these borrowings was 1.44% at September 30, 2017 and 0.98% at December 31, 2016.

Credit Facility

At September 30, 2017, the Company had a $2.5 billion revolving credit facility (the "Credit Facility") which expires in June 2021. The Credit Facility requires the Company to maintain a maximum Consolidated Leverage Ratio of 4.5x at the end of each quarter as further described in the Credit Facility. At September 30, 2017, the Company's Consolidated Leverage Ratio was approximately 3.0x.

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

The Credit Facility is used for general corporate purposes. At September 30, 2017, the Company had no borrowings outstanding under the Credit Facility and the remaining availability under the Credit Facility, net of outstanding letters of credit, was $2.49 billion.

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,	2017	2016	2017	2016
Components of net periodic cost:				
Service cost	$7	$7	$ —	$ —
Interest cost	48	54	4	5
Expected return on plan assets	(50)	(56)	—	—
Amortization of actuarial loss (gain) [(a)]	26	21	(5)	(5)
Net periodic cost	$31	$26	$ (1)	$ —

	Pension Benefits		Postretirement Benefits	
Nine Months Ended September 30,	2017	2016	2017	2016
Components of net periodic cost:				
Service cost	$22	$22	$ —	$ —
Interest cost	143	161	13	15
Expected return on plan assets	(151)	(170)	—	—
Amortization of actuarial loss (gain) [(a)]	77	64	(16)	(16)
Net periodic cost	$91	$77	$ (3)	$ (1)

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

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

On November 1, 2017, the Company entered into a definitive agreement to purchase a group annuity contract, under which an insurance company will be required to pay and administer pension payments to certain of the Company's pension plan participants, or their designated beneficiaries, who have been receiving pension payments. The purchase of this group annuity contract will reduce the Company's outstanding pension benefit obligation by approximately $800 million, representing approximately 20% of the total obligations of the Company's qualified pension plans, and will be funded with pension plan assets. In connection with this transaction, the Company will record a one-time settlement charge in the fourth quarter of 2017 currently estimated at $365 million, reflecting the accelerated recognition of a portion of unamortized actuarial losses in the plan. The actual settlement charge could differ from this estimate due to changes in the Company's actuarial assumptions. Additionally, during the fourth quarter of 2017, the Company expects to make a discretionary contribution of $500 million to prefund its qualified plans, which is expected to be partially funded by long-term borrowings.

8) STOCKHOLDERS' EQUITY

During the third quarter of 2017, the Company repurchased 3.9 million shares of its Class B Common Stock under its share repurchase program for $250 million, at an average cost of $63.52 per share. During the nine months ended September 30, 2017, the Company repurchased 16.2 million shares of its Class B Common Stock for $1.05 billion, at an average cost of $64.70 per share, leaving $3.06 billion of authorization at September 30, 2017.

During the third quarter of 2017, the Company declared a quarterly cash dividend of $.18 on its Class A and Class B Common Stock, resulting in total dividends of $73 million, which were paid on October 1, 2017.

Accumulated Other Comprehensive Income (Loss)

The following tables summarize the changes in the components of accumulated other comprehensive loss.

	Cumulative Translation Adjustments	Net Actuarial Loss and Prior Service Cost		Accumulated Other Comprehensive Loss
At December 31, 2016	$ 151	$ (918)		$ (767)
Other comprehensive income before reclassifications	4	—		4
Reclassifications to net earnings	—	37	(a)	37
Net other comprehensive income	4	37		41
At September 30, 2017	$ 155	$ (881)		$ (726)

	Cumulative Translation Adjustments	Net Actuarial Loss and Prior Service Cost		Accumulated Other Comprehensive Loss
At December 31, 2015	$ 152	$ (922)		$ (770)
Other comprehensive income before reclassifications	2	—		2
Reclassifications to net earnings	—	29	(a)	29
Net other comprehensive income	2	29		31
At September 30, 2016	$ 154	$ (893)		$ (739)

(a) Reflects amortization of net actuarial losses. See Note 7.

The net actuarial loss and prior service cost related to pension and other postretirement benefit plans included in other comprehensive income is net of a tax provision of $24 million and $19 million for the nine months ended September 30, 2017 and 2016, respectively.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Provision for income taxes, including interest and before other discrete items	$(187)	$(207)	$(548)	$(581)
Excess tax benefits from stock-based compensation [(a)]	10	—	41	—
Other discrete items [(b)]	5	62	28	57
Provision for income taxes	$(172)	$(145)	$(479)	$(524)
Effective income tax rate	28.4 %	23.2 %	26.7 %	28.4 %

(a) Reflects excess tax benefits associated with the exercise of stock options and vesting of RSUs. During the first quarter of 2017, the Company adopted FASB guidance which requires that the difference between the tax benefit from stock-based compensation expense and the deduction on the tax return be recognized within the income tax provision on the statement of operations. Previously, such difference was recognized in stockholders' equity on the balance sheet. This difference occurs because stock-based compensation expense is recorded based on the grant-date fair value of the award, whereas the tax deduction is based on the fair value on the date the stock option is exercised or the RSU vests. This guidance requires the income statement classification to be applied prospectively, and therefore, excess tax benefits for prior periods remain classified in stockholders' equity.
(b) For the nine months ended September 30, 2017, primarily reflects tax benefits from the resolution of certain state income tax matters. For the three and nine months ended September 30, 2016, primarily reflects a one-time tax benefit of $47 million associated with a multiyear adjustment to a tax deduction, which was approved by the IRS during the third quarter of 2016.

10) COMMITMENTS AND CONTINGENCIES
Guarantees
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, 2017, the outstanding letters of credit and surety bonds approximated $99 million and were not recorded on the Consolidated Balance Sheet.

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

Legal Matters
General. On an ongoing basis, the Company vigorously defends itself in numerous lawsuits and proceedings and responds to various investigations and inquiries from federal, state, local and international authorities (collectively, ‘‘litigation’’). Litigation may be brought against the Company without merit, is inherently uncertain and always difficult to predict. However, based on its understanding and evaluation of the relevant facts and circumstances, the Company believes that the below-described legal matters and other litigation to which it is a party are not likely, in the aggregate, to have a material adverse effect on its results of operations, financial position or cash flows. Under the

Separation Agreement between the Company and Viacom Inc., the Company and Viacom Inc. have agreed to defend and indemnify the other in certain litigation in which the Company and/or Viacom Inc. is named.

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

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

Claims are frequently filed and/or settled in groups, which may make the amount and timing of settlements, and the number of pending claims, subject to significant fluctuation from period to period. The Company does not report as pending those claims on inactive, stayed, deferred or similar dockets which some jurisdictions have established for claimants who allege minimal or no impairment. As of September 30, 2017, the Company had pending approximately 32,760 asbestos claims, as compared with approximately 33,610 as of December 31, 2016 and 34,400 as of September 30, 2016. During the third quarter of 2017, the Company received approximately 720 new claims and closed or moved to an inactive docket approximately 1,200 claims. The Company reports claims as closed when it becomes aware that a dismissal order has been entered by a court or when the Company has reached agreement with the claimants on the material terms of a settlement. Settlement costs depend on the seriousness of the injuries that form the basis of the claims, the quality of evidence supporting the claims and other factors. In 2016, the Company’s costs for settlement and defense of asbestos claims after insurance and taxes were approximately $48 million. In 2015, as the result of an insurance settlement, insurance recoveries exceeded the Company’s after tax costs for settlement and defense of asbestos claims by approximately $5 million. The Company’s costs for settlement and defense of asbestos claims may vary year to year and insurance proceeds are not always recovered in the same period as the insured portion of the expenses.

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

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

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

11) RESTRUCTURING CHARGES

During the year ended December 31, 2016, in a continued effort to reduce its cost structure, the Company initiated restructuring plans across several of its businesses, primarily for the reorganization of certain business operations. As a result, the Company recorded restructuring charges of $30 million, reflecting $19 million of severance costs and $11 million of costs associated with exiting contractual obligations and other related costs. During the year ended December 31, 2015, the Company recorded restructuring charges of $45 million, reflecting $24 million of severance costs and $21 million of costs associated with exiting contractual obligations and other related costs. As of September 30, 2017, the cumulative settlements for the 2016 and 2015 restructuring charges were $57 million, of which $37 million was for severance costs and $20 million was for costs associated with contractual obligations.

	Balance at December 31, 2016	2017 Settlements	Balance at September 30, 2017
Entertainment	$ 20	$ (12)	$ 8
Cable Networks	4	(2)	2
Publishing	1	(1)	—
Local Media	12	(5)	7
Corporate	2	(1)	1
Total	$ 39	$ (21)	$ 18

	Balance at December 31, 2015	2016 Charges	2016 Settlements	Balance at December 31, 2016
Entertainment	$ 16	$ 16	$ (12)	$ 20
Cable Networks	—	4	—	4
Publishing	—	1	—	1
Local Media	11	6	(5)	12
Corporate	—	3	(1)	2
Total	$ 27	$ 30	$ (18)	$ 39

12) FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company’s carrying value of financial instruments approximates fair value, except for notes and debentures, which are not recorded at fair value. At September 30, 2017 and December 31, 2016, the carrying value of the Company’s senior debt was $9.04 billion and $8.85 billion, respectively, and the fair value, which is estimated based on quoted market prices for similar liabilities (Level 2) and includes accrued interest, was $9.85 billion and $9.51 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 unless there is an underlying exposure and, therefore, the Company does not hold or enter into derivative financial instruments for speculative trading purposes.

Foreign Exchange Contracts

Foreign exchange forward contracts have principally been used to hedge projected cash flows, in currencies such as the British Pound, the Euro, the Canadian Dollar and the Australian Dollar, generally for periods up to 24 months. The Company designates forward contracts used to hedge committed and forecasted foreign currency transactions as cash flow hedges. Gains or losses on the effective portion of designated cash flow hedges are initially recorded in other comprehensive income and reclassified to the statement of operations when the hedged

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

item is recognized. Additionally, the Company enters into non-designated forward contracts to hedge non-U.S. dollar denominated cash flows.

At September 30, 2017 and December 31, 2016, the notional amount of all foreign exchange contracts was $379 million and $433 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	Financial Statement Account
Non-designated foreign exchange contracts	$ (9)	$ 4	$ (29)	$ 13	Other items, net

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

The following tables set forth the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and December 31, 2016. 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, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency hedges	$ —	$ 6	$ —	$ 6
Total Assets	$ —	$ 6	$ —	$ 6
Liabilities:				
Deferred compensation	$ —	$ 347	$ —	$ 347
Foreign currency hedges	—	11	—	11
Total Liabilities	$ —	$ 358	$ —	$ 358

At December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency hedges	$ —	$ 34	$ —	$ 34
Total Assets	$ —	$ 34	$ —	$ 34
Liabilities:				
Deferred compensation	$ —	$ 324	$ —	$ 324
Foreign currency hedges	—	1	—	1
Total Liabilities	$ —	$ 325	$ —	$ 325

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 liabilities 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)

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,	
	2017	2016	2017	2016
Revenues:				
Entertainment	$1,815	$1,949	$6,346	$6,483
Cable Networks	840	598	1,954	1,659
Publishing	228	226	595	558
Local Media	397	409	1,218	1,253
Corporate/Eliminations	(109)	(98)	(342)	(305)
Total Revenues	$3,171	$3,084	$9,771	$9,648

Revenues generated between segments primarily reflect advertising sales, television license fees and station affiliation 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,	
	2017	2016	2017	2016
Intercompany Revenues:				
Entertainment	$111	$102	$348	$316
Local Media	4	2	10	6
Total Intercompany Revenues	$115	$104	$358	$322

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

The Company presents operating income (loss) excluding restructuring charges and other operating items, net, each where applicable, ("Segment Operating Income") 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 Operating Income is relevant and useful for investors because it allows investors to view segment performance in a manner similar to the primary method used by the Company's management and enhances their ability to understand the Company's operating performance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Segment Operating Income (Loss):				
Entertainment	$345	$348	$1,089	$1,148
Cable Networks	294	285	795	740
Publishing	46	44	88	83
Local Media	105	122	355	402
Corporate	(83)	(78)	(247)	(245)
Total Segment Operating Income	707	721	2,080	2,128
Other operating items, net [(a)]	—	—	—	9
Operating income	707	721	2,080	2,137
Interest expense	(116)	(104)	(336)	(304)
Interest income	17	7	45	22
Loss on early extinguishment of debt	(5)	—	(5)	—
Other items, net	3	—	9	(7)
Earnings from continuing operations before income taxes and equity in loss of investee companies	606	624	1,793	1,848
Provision for income taxes	(172)	(145)	(479)	(524)
Equity in loss of investee companies, net of tax	(16)	(13)	(45)	(43)
Net earnings from continuing operations	418	466	1,269	1,281
Net earnings (loss) from discontinued operations, net of tax	174	12	(871)	93
Net earnings	$592	$478	$398	$1,374

(a) Other operating items, net includes a gain from the sale of an internet business in China and a multiyear, retroactive impact of a new operating tax.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Depreciation and Amortization:				
Entertainment	$29	$28	$85	$88
Cable Networks	5	6	17	17
Publishing	2	1	5	4
Local Media	11	11	34	33

Corporate	8	8	25	26
Total Depreciation and Amortization	$ 55	$ 54	$ 166	$ 168

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock-based Compensation:				
Entertainment	$ 16	$ 16	$ 48	$ 47
Cable Networks	3	3	9	9
Publishing	1	1	3	3
Local Media	3	3	9	9
Corporate	21	19	60	55
Total Stock-based Compensation	$ 44	$ 42	$ 129	$ 123

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Capital Expenditures:				
Entertainment	$ 25	$ 23	$ 63	$ 60
Cable Networks	5	4	12	8
Publishing	1	1	2	7
Local Media	8	9	20	20
Corporate	5	5	15	16
Total Capital Expenditures	$ 44	$ 42	$ 112	$ 111

	At September 30, 2017	At December 31, 2016
Assets:		
Entertainment	$ 12,149	$ 11,262
Cable Networks	3,015	2,618
Publishing	895	880
Local Media	4,006	4,065
Corporate/Eliminations	149	817
Discontinued operations	3,680	4,596
Total Assets	$ 23,894	$ 24,238

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

14) CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

	Statement of Operations For the Three Months Ended September 30, 2017				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$40	$ 3	$ 3,128	$ —	$ 3,171
Costs and expenses:					
Operating	23	1	1,838	—	1,862
Selling, general and administrative	22	62	463	—	547
Depreciation and amortization	1	6	48	—	55
Total costs and expenses	46	69	2,349	—	2,464
Operating income (loss)	(6)	(66)	779	—	707
Interest (expense) income, net	(129)	(123)	153	—	(99)
Loss on early extinguishment of debt	(5)	—	—	—	(5)
Other items, net	—	(8)	11	—	3
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies	(140)	(197)	943	—	606
Benefit (provision) for income taxes	43	62	(277)	—	(172)
Equity in earnings (loss) of investee companies, net of tax	689	369	(16)	(1,058)	(16)
Net earnings from continuing operations	592	234	650	(1,058)	418
Net earnings from discontinued operations, net of tax	—	—	174	—	174
Net earnings	$592	$ 234	$ 824	$ (1,058)	$ 592
Total comprehensive income	$607	$ 229	$ 830	$ (1,059)	$ 607

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

	Statement of Operations For the Nine Months Ended September 30, 2017				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$124	$ 8	$ 9,639	$ —	$ 9,771
Costs and expenses:					
Operating	69	4	5,867	—	5,940
Selling, general and administrative	65	194	1,326	—	1,585
Depreciation and amortization	3	18	145	—	166
Total costs and expenses	137	216	7,338	—	7,691
Operating income (loss)	(13)	(208)	2,301	—	2,080
Interest (expense) income, net	(378)	(360)	447	—	(291)
Loss on early extinguishment of debt	(5)	—	—	—	(5)
Other items, net	1	(33)	41	—	9
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies	(395)	(601)	2,789	—	1,793
Benefit (provision) for income taxes	120	184	(783)	—	(479)
Equity in earnings (loss) of investee companies, net of tax	673	1,062	(45)	(1,735)	(45)
Net earnings from continuing operations	398	645	1,961	(1,735)	1,269
Net loss from discontinued operations, net of tax	—	—	(871)	—	(871)
Net earnings	$398	$ 645	$ 1,090	$ (1,735)	$ 398
Total comprehensive income	$439	$ 633	$ 1,111	$ (1,744)	$ 439

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

	Statement of Operations For the Three Months Ended September 30, 2016				
	CBS Corp.	CBS Operations Inc.	Non-Guarantor Affiliates	Eliminations	CBS Corp. Consolidated
Revenues	$42	$ 3	$ 3,039	$ —	$ 3,084
Costs and expenses:					
Operating	16	1	1,771	—	1,788
Selling, general and administrative	20	62	439	—	521
Depreciation and amortization	2	6	46	—	54
Total costs and expenses	38	69	2,256	—	2,363
Operating income (loss)	4	(66)	783	—	721
Interest (expense) income, net	(129)	(109)	141	—	(97)
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies	(125)	(175)	924	—	624
Benefit (provision) for income taxes	43	60	(248)	—	(145)
Equity in earnings (loss) of investee companies, net of tax	560	327	(13)	(887)	(13)
Net earnings from continuing operations	478	212	663	(887)	466
Net earnings (loss) from discontinued operations, net of tax	—	(1)	13	—	12
Net earnings	$478	$ 211	$ 676	$ (887)	$ 478
Total comprehensive income	$489	$ 215	$ 675	$ (890)	