

CBS CORP
Form 10-Q
November 06, 2017

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

FORM 10-Q

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

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 10019

(Address of principal executive offices) (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 No

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 No

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 Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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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
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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, 2017 | | Nine Months Ended September 30, 2016 | |
|--|--|---------|---|---------|
| | 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 | | Nine Months Ended | |
|---|--------------------------|-------|--------------------------|---------|
| | September 30, 2017 | 2016 | September 30, 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. | | | | |

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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 | — | — |

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| | | |
|---|-----------|-----------|
| 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. | | |

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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.

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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 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

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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, 2017 | | Nine Months Ended September 30, 2016 | |
|---|--|------|---|------|
| (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.

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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

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

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

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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.

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.

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 | |
|--|------------------|-------|-------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Three Months Ended September 30, | | | | |
| 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 | |
| | 2017 | 2016 | 2017 | 2016 |
| Nine Months Ended September 30, | | | | |
| 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.

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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 | | Nine Months | |
|--|-----------------|---------|-----------------|---------|
| | Ended September | | Ended September | |
| | 30, | 30, | 30, | 2016 |
| | 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.

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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

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

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, 2017 | | Nine Months Ended September 30, 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, 2017 | | Nine Months Ended September 30, 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, 2017 | | Nine Months Ended September 30, 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, 2017 | | Nine Months Ended September 30, 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 |

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

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

| | Three Months Ended September 30, 2017 | 2016 | Nine Months Ended September 30, 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, 2017 | 2016 | Nine Months Ended September 30, 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 September 30, 2016 | At December 31, 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) | \$ 489 |

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, 2016 | | | | |
| | CBS Corp. | CBS Operations Inc. | Non-Guarantor Affiliates | Eliminations | CBS Corp. Consolidated |
| Revenues | \$ 125 | \$ 9 | \$ 9,514 | \$ — | \$ 9,648 |
| Costs and expenses: | | | | | |
| Operating | 48 | 4 | 5,766 | — | 5,818 |
| Selling, general and administrative | 62 | 194 | 1,278 | — | 1,534 |
| Depreciation and amortization | 4 | 17 | 147 | — | 168 |
| Other operating items, net | — | — | (9 |) — | (9) |
| Total costs and expenses | 114 | 215 | 7,182 | — | 7,511 |
| Operating income (loss) | 11 | (206 |) 2,332 | — | 2,137 |
| Interest (expense) income, net | (377 |) (319 |) 414 | — | (282) |
| Other items, net | (2 |) 3 | (8 |) — | (7) |
| Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of investee companies | (368 |) (522 |) 2,738 | — | 1,848 |
| Benefit (provision) for income taxes | 120 | 170 | (814 |) — | (524) |
| Equity in earnings (loss) of investee companies, net of tax | 1,622 | 876 | (43 |) (2,498 |) (43) |
| Net earnings from continuing operations | 1,374 | 524 | 1,881 | (2,498 |) 1,281 |
| Net earnings (loss) from discontinued operations, net of tax | — | (1 |) 94 | — | 93 |
| Net earnings | \$ 1,374 | \$ 523 | \$ 1,975 | \$ (2,498 |) \$ 1,374 |
| Total comprehensive income | \$ 1,405 | \$ 540 | \$ 1,965 | \$ (2,505 |) \$ 1,405 |

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

| | Balance Sheet | | | | |
|--|-----------------------|---------------------|--------------------------|--------------|------------------------|
| | At September 30, 2017 | | | | |
| | CBS Corp. | CBS Operations Inc. | Non-Guarantor Affiliates | Eliminations | CBS Corp. Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$ 18 | \$ — | \$ 126 | \$ — | \$ 144 |
| Receivables, net | 24 | 1 | 3,573 | — | 3,598 |
| Programming and other inventory | 3 | 3 | 1,824 | — | 1,830 |
| Prepaid expenses and other current assets | 8 | 25 | 370 | (36) | 367 |
| Current assets of discontinued operations | — | — | 355 | — | 355 |
| Total current assets | 53 | 29 | 6,248 | (36) | 6,294 |
| Property and equipment | 48 | 207 | 2,746 | — | 3,001 |
| Less accumulated depreciation and amortization | 27 | 158 | 1,608 | — | 1,793 |
| Net property and equipment | 21 | 49 | 1,138 | — | 1,208 |
| Programming and other inventory | 3 | 5 | 2,806 | — | 2,814 |
| Goodwill | 98 | 62 | 4,731 | — | 4,891 |
| Intangible assets | — | — | 2,617 | — | 2,617 |
| Investments in consolidated subsidiaries | 45,155 | 14,915 | — | (60,070) | — |
| Other assets | 154 | 8 | 2,583 | — | 2,745 |
| Intercompany | — | 1,331 | 28,353 | (29,684) | — |
| Assets of discontinued operations | — | — | 3,325 | — | 3,325 |
| Total Assets | \$ 45,484 | \$ 16,399 | \$ 51,801 | \$ (89,790) | \$ 23,894 |
| Liabilities and Stockholders' Equity | | | | | |
| Accounts payable | \$ 1 | \$ 3 | \$ 229 | \$ — | \$ 233 |
| Participants' share and royalties payable | — | — | 997 | — | 997 |
| Program rights | 4 | 3 | 502 | — | 509 |
| Commercial paper | 590 | — | — | — | 590 |
| Current portion of long-term debt | 2 | — | 17 | — | 19 |
| Accrued expenses and other current liabilities | 374 | 219 | 993 | (36) | 1,550 |
| Current liabilities of discontinued operations | — | — | 154 | — | 154 |
| Total current liabilities | 971 | 225 | 2,892 | (36) | 4,052 |
| Long-term debt | 8,991 | — | 89 | — | 9,080 |
| Other liabilities | 2,844 | 237 | 2,221 | — | 5,302 |
| Liabilities of discontinued operations | — | — | 2,466 | — | 2,466 |
| Intercompany | 29,684 | — | — | (29,684) | — |
| Stockholders' Equity: | | | | | |
| Preferred stock | — | — | 126 | (126) | — |
| Common stock | 1 | 123 | 590 | (713) | 1 |
| Additional paid-in capital | 43,830 | — | 60,894 | (60,894) | 43,830 |
| Retained earnings (accumulated deficit) | (18,859) | 16,128 | (12,748) | (3,380) | (18,859) |
| Accumulated other comprehensive income (loss) | (726) | 17 | 71 | (88) | (726) |
| | 24,246 | 16,268 | 48,933 | (65,201) | 24,246 |
| Less treasury stock, at cost | 21,252 | 331 | 4,800 | (5,131) | 21,252 |
| Total Stockholders' Equity | 2,994 | 15,937 | 44,133 | (60,070) | 2,994 |

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Total Liabilities and Stockholders' Equity \$45,484 \$ 16,399 \$ 51,801 \$ (89,790) \$ 23,894

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

| | Balance Sheet At December 31, 2016 | | | | |
|--|---------------------------------------|---------------------|--------------------------|--------------|------------------------|
| | CBS Corp. | CBS Operations Inc. | Non-Guarantor Affiliates | Eliminations | CBS Corp. Consolidated |
| Assets | | | | | |
| Cash and cash equivalents | \$321 | \$ — | \$277 | \$ — | \$ 598 |
| Receivables, net | 27 | 2 | 3,285 | — | 3,314 |
| Programming and other inventory | 3 | 3 | 1,421 | — | 1,427 |
| Prepaid expenses and other current assets | 102 | 55 | 297 | (35) | 419 |
| Current assets of discontinued operations | — | — | 305 | — | 305 |
| Total current assets | 453 | 60 | 5,585 | (35) | 6,063 |
| Property and equipment | 47 | 201 | 2,687 | — | 2,935 |
| Less accumulated depreciation and amortization | 25 | 140 | 1,529 | — | 1,694 |
| Net property and equipment | 22 | 61 | 1,158 | — | 1,241 |
| Programming and other inventory | 5 | 7 | 2,427 | — | 2,439 |
| Goodwill | 98 | 62 | 4,704 | — | 4,864 |
| Intangible assets | — | — | 2,633 | — | 2,633 |
| Investments in consolidated subsidiaries | 44,473 | 13,853 | — | (58,326) | — |
| Other assets | 150 | 8 | 2,549 | — | 2,707 |
| Intercompany | — | 1,785 | 26,976 | (28,761) | — |
| Assets of discontinued operations | — | 3 | 4,288 | — | 4,291 |
| Total Assets | \$45,201 | \$ 15,839 | \$50,320 | \$(87,122) | \$ 24,238 |
| Liabilities and Stockholders' Equity | | | | | |
| Accounts payable | \$1 | \$ 3 | \$ 144 | \$ — | \$ 148 |
| Participants' share and royalties payable | — | — | 1,024 | — | 1,024 |
| Program rights | 4 | 4 | 282 | — | 290 |
| Commercial paper | 450 | — | — | — | 450 |
| Current portion of long-term debt | 6 | — | 17 | — | 23 |
| Accrued expenses and other current liabilities | 421 | 284 | 948 | (35) | 1,618 |
| Current liabilities of discontinued operations | — | — | 155 | — | 155 |
| Total current liabilities | 882 | 291 | 2,570 | (35) | 3,708 |
| Long-term debt | 8,798 | — | 104 | — | 8,902 |
| Other liabilities | 3,071 | 244 | 2,173 | — | 5,488 |
| Liabilities of discontinued operations | — | — | 2,451 | — | 2,451 |
| Intercompany | 28,761 | — | — | (28,761) | — |
| Stockholders' Equity: | | | | | |
| Preferred stock | — | — | 126 | (126) | — |
| Common stock | 1 | 123 | 590 | (713) | 1 |
| Additional paid-in capital | 43,913 | — | 60,894 | (60,894) | 43,913 |
| Retained earnings (accumulated deficit) | (19,257) | 15,483 | (13,838) | (1,645) | (19,257) |
| Accumulated other comprehensive income (loss) | (767) | 29 | 50 | (79) | (767) |
| | 23,890 | 15,635 | 47,822 | (63,457) | 23,890 |
| Less treasury stock, at cost | 20,201 | 331 | 4,800 | (5,131) | 20,201 |
| Total Stockholders' Equity | 3,689 | 15,304 | 43,022 | (58,326) | 3,689 |

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| | | | | | |
|--|----------|-----------|-----------|--------------|-----------|
| Total Liabilities and Stockholders' Equity | \$45,201 | \$ 15,839 | \$ 50,320 | \$ (87,122) | \$ 24,238 |
|--|----------|-----------|-----------|--------------|-----------|

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CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular dollars in millions, except per share amounts)

| | Statement of Cash Flows | | | |
|---|--|---------------------------|---------------------------------|--|
| | For the Nine Months Ended September 30, 2017 | | | |
| | CBS Corp. | CBS Operations Inc. | Non- Guarantor Affiliates | CBS Eliminations Corp. Consolidated |
| Net cash flow (used for) provided by operating activities | \$(851) | \$(180) | \$2,018 | \$ — —\$ 987 |
| Investing Activities: | | | | |
| Acquisitions (including acquired television library) | — | — | (258) | — (258) |
| Capital expenditures | — | (15) | (97) | — (112) |
| Investments in and advances to investee companies | — | — | (67) | — (67) |
| Proceeds from sale of investments | — | — | 10 | — 10 |
| Proceeds from dispositions | — | — | 11 | — 11 |
| Other investing activities | 17 | — | — | — 17 |
| Net cash flow provided by (used for) investing activities from continuing operations | 17 | (15) | (401) | — (399) |
| Net cash flow provided by (used for) investing activities from discontinued operations | 1 | (4) | (15) | — (18) |
| Net cash flow provided by (used for) investing activities | 18 | (19) | (416) | — (417) |
| Financing Activities: | | | | |
| Proceeds from short-term debt borrowings, net | 140 | — | — | — 140 |
| Proceeds from issuance of senior notes | 889 | — | — | — 889 |
| Repayment of senior notes | (701) | — | — | — (701) |
| Proceeds from debt borrowings of CBS Radio | — | — | 40 | — 40 |
| Repayment of debt borrowings of CBS Radio | — | — | (23) | — (23) |
| Payment of capital lease obligations | — | — | (13) | — (13) |
| Payment of contingent consideration | — | — | (7) | — (7) |
| Dividends | (224) | — | — | — (224) |
| Purchase of Company common stock | (1,111) | — | — | — (1,111) |
| Payment of payroll taxes in lieu of issuing shares for stock-based compensation | (89) | — | — | — (89) |
| Proceeds from exercise of stock options | 81 | — | — | — 81 |
| Increase (decrease) in intercompany payables | 1,545 | 199 | (1,744) | — — |
| Net cash flow provided by (used for) financing activities | 530 | 199 | (1,747) | — (1,018) |
| Net decrease in cash and cash equivalents | (303) | — | (145) | — (448) |
| Cash and cash equivalents at beginning of period (includes \$24 million of discontinued operations cash) | 321 | — | 301 | — 622 |
| Cash and cash equivalents at end of period (includes \$30 million of discontinued operations cash) | \$18 | \$ — | \$ 156 | \$ — —\$ 174 |

CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular dollars in millions, except per share amounts)

| | Statement of Cash Flows | | | | |
|---|--|---------------------|--------------------------|--------------|------------------------|
| | For the Nine Months Ended September 30, 2016 | | | | |
| | CBS Corp. | CBS Operations Inc. | Non-Guarantor Affiliates | Eliminations | CBS Corp. Consolidated |
| Net cash flow (used for) provided by operating activities | \$(696) | \$ (146) | \$ 2,148 | \$ — | —\$ 1,306 |
| Investing Activities: | | | | | |
| Acquisitions | — | — | (51) | — | (51) |
| Capital expenditures | — | (16) | (95) | — | (111) |
| Investments in and advances to investee companies | — | — | (44) | — | (44) |
| Proceeds from dispositions | (4) | — | 24 | — | 20 |
| Other investing activities | 7 | — | — | — | 7 |
| Net cash flow provided by (used for) investing activities from continuing operations | 3 | (16) | (166) | — | (179) |
| Net cash flow used for investing activities from discontinued operations | — | — | (2) | — | (2) |
| Net cash flow provided by (used for) investing activities | 3 | (16) | (168) | — | (181) |
| Financing Activities: | | | | | |
| Proceeds from short-term borrowings, net | 33 | — | — | — | 33 |
| Proceeds from issuance of senior notes | 685 | — | — | — | 685 |
| Repayment of senior debentures | (199) | — | — | — | (199) |
| Payment of capital lease obligations | — | — | (13) | — | (13) |
| Dividends | (209) | — | — | — | (209) |
| Purchase of Company common stock | (1,534) | — | — | — | (1,534) |
| Payment of payroll taxes in lieu of issuing shares for stock-based compensation | (57) | — | — | — | (57) |
| Proceeds from exercise of stock options | 13 | — | — | — | 13 |
| Excess tax benefit from stock-based compensation | 13 | — | — | — | 13 |
| Other financing activities | (1) | — | — | — | (1) |
| Increase (decrease) in intercompany payables | 1,736 | 162 | (1,898) | — | — |
| Net cash flow provided by (used for) financing activities | 480 | 162 | (1,911) | — | (1,269) |
| Net (decrease) increase in cash and cash equivalents | (213) | — | 69 | — | (144) |
| Cash and cash equivalents at beginning of period (includes \$6 million of discontinued operations cash) | 267 | 1 | 55 | — | 323 |
| Cash and cash equivalents at end of period (includes \$1 million of discontinued operations cash) | \$54 | \$ 1 | \$ 124 | \$ — | —\$ 179 |

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.

(Tabular dollars in millions, except per share amounts)

Management's discussion and analysis of the results of operations and financial condition of CBS Corporation (the "Company" or "CBS Corp.") should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report filed on Form 10-K for the fiscal year ended December 31, 2016.

Overview

Business overview and strategy

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

Operational highlights - Three Months Ended September 30, 2017 versus Three Months Ended September 30, 2016

| Consolidated results of operations | Increase/(Decrease) | | | | |
|---|---------------------|---------|-----------|-------|---|
| Three Months Ended September 30, | 2017 | 2016 | \$ | % | |
| GAAP: | | | | | |
| Revenues | \$3,171 | \$3,084 | \$ 87 | 3 | % |
| Operating income | \$707 | \$721 | \$ (14) | (2) | % |
| Net earnings from continuing operations | \$418 | \$466 | \$ (48) | (10) | % |
| Net earnings | \$592 | \$478 | \$ 114 | 24 | % |
| Diluted EPS from continuing operations | \$1.03 | \$1.04 | \$ (.01) | (1) | % |
| Diluted EPS | \$1.46 | \$1.07 | \$.39 | 36 | % |

Non-GAAP: ^(a)

| | | | | | |
|--|--------|--------|----------|------|---|
| Adjusted net earnings from continuing operations | \$421 | \$419 | \$ 2 | — | % |
| Adjusted net earnings | \$450 | \$467 | \$ (17) | (4) | % |
| Adjusted diluted EPS from continuing operations | \$1.04 | \$.94 | \$.10 | 11 | % |
| Adjusted diluted EPS | \$1.11 | \$1.05 | \$.06 | 6 | % |

(a) See pages 37 - 38 for reconciliations of adjusted results to the most directly comparable financial measures in accordance with accounting principles generally accepted in the United States ("GAAP").

For the three months ended September 30, 2017, the 3% increase in revenues reflects 52% higher affiliate and subscription fee revenues, which was driven by Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event, 27% growth in station affiliation fees and retransmission revenues, and growth from new digital initiatives, including the Company's owned streaming subscription services, CBS All Access and the Showtime digital streaming subscription offering, and third-party live television streaming services. Content licensing and distribution revenues decreased 22%, as a result of the timing of domestic licensing sales, partially offset by growth in international television licensing. Advertising revenues decreased 5% driven by lower political advertising sales and lower ratings, partially offset by higher pricing.

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

Operating income for the three months ended September 30, 2017 decreased 2% and the operating income margin decreased one point to 22% for the third quarter of 2017 from 23% for the third quarter of 2016, mainly as a result of the mix of revenues. Results for 2017 included lower-margin revenues from the pay-per-view boxing event and 2016 included a larger volume of higher-margin political advertising and television licensing revenues.

Net earnings from continuing operations decreased 10% and diluted earnings per share ("EPS") from continuing operations decreased 1%, reflecting lower operating income as well as a one-time tax benefit of \$47 million in the third quarter of 2016 associated with a multiyear adjustment to a tax deduction. Adjusted net earnings from continuing operations for the third quarter of 2017 were comparable with the same prior-year period. Adjusted diluted EPS from continuing operations increased 11%, benefiting from lower weighted average shares outstanding in the third quarter of 2017 as a result of the Company's ongoing share repurchase program. Net earnings for the three months ended September 30, 2017 of \$592 million included, in discontinued operations, a noncash gain of \$100 million, or \$.25 per diluted share, to adjust the carrying value of CBS Radio Inc. ("CBS Radio") to the value indicated by the stock valuation of Entercom Communications Corp. ("Entercom"). CBS Radio is classified as held for sale and therefore, in accordance with Financial Accounting Standards Board ("FASB") guidance, its carrying value is adjusted based on the trading price of Entercom's stock, which will result in an additional gain or loss at the time of the closing of the transaction with Entercom. Adjusted net earnings from continuing operations and Adjusted diluted EPS from continuing operations are non-GAAP financial measures. See pages 37 - 38 for details of the discrete items excluded from financial results, and reconciliations of adjusted results to the most directly comparable financial measures in accordance with GAAP.

Operational highlights - Nine Months Ended September 30, 2017 versus Nine Months Ended September 30, 2016

| Consolidated results of operations | Increase/(Decrease) | | | |
|--|---------------------|---------|------------|--------|
| Nine Months Ended September 30, | 2017 | 2016 | \$ | % |
| GAAP: | | | | |
| Revenues | \$9,771 | \$9,648 | \$ 123 | 1 % |
| Operating income | \$2,080 | \$2,137 | \$ (57) | (3)% |
| Net earnings from continuing operations | \$1,269 | \$1,281 | \$ (12) | (1)% |
| Net earnings | \$398 | \$1,374 | \$ (976) | (71)% |
| Diluted EPS from continuing operations | \$3.10 | \$2.82 | \$.28 | 10 % |
| Diluted EPS | \$.97 | \$3.02 | \$ (2.05) | (68)% |
| Non-GAAP: (a) | | | | |
| Adjusted operating income | \$2,080 | \$2,128 | \$ (48) | (2)% |
| Adjusted net earnings from continuing operations | \$1,250 | \$1,235 | \$ 15 | 1 % |
| Adjusted net earnings | \$1,318 | \$1,364 | \$ (46) | (3)% |
| Adjusted diluted EPS from continuing operations | \$3.05 | \$2.71 | \$.34 | 13 % |
| Adjusted diluted EPS | \$3.21 | \$3.00 | \$.21 | 7 % |

(a) See pages 38 - 39 for reconciliations of adjusted results to the most directly comparable financial measures in accordance with GAAP.

For the nine months ended September 30, 2017, revenues increased 1%, driven by 28% higher affiliate and subscription fee revenues, led by Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event, a 27% increase in station affiliation fees and retransmission revenues, and growth from new digital initiatives, including the Company's owned streaming subscription services, CBS All Access and the Showtime digital streaming subscription service, and third-party live television streaming services. This growth was

offset by the benefit to 2016 from CBS's broadcast of Super Bowl 50.

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

Operating income decreased 3% for the nine months ended September 30, 2017, primarily as a result of a mix of lower-margin revenues in 2017 compared to 2016. Net earnings from continuing operations decreased 1% mainly as a result of the lower operating income. Diluted EPS from continuing operations increased 10% due to lower weighted average shares outstanding in 2017 as a result of the Company's ongoing share repurchase program. Adjusted net earnings from continuing operations and adjusted diluted EPS from continuing operations increased 1% and 13%, respectively. Net earnings for the nine months ended September 30, 2017 of \$398 million included a noncash charge of \$980 million, or \$2.39 per diluted share, in discontinued operations to reduce the carrying value of CBS Radio to the value indicated by the stock valuation of Entercom. CBS Radio is classified as held for sale and therefore, in accordance with FASB guidance, its carrying value is adjusted based on the trading price of Entercom's stock, which will result in an additional gain or loss at the time of the closing of the transaction with Entercom. See pages 38 - 39 for details of the discrete items excluded from financial results, and reconciliations of adjusted results to the most directly comparable financial measures in accordance with GAAP.

The Company generated operating cash flow from continuing operations of \$935 million for the nine months ended September 30, 2017 compared with \$1.12 billion for the nine months ended September 30, 2016. Free cash flow for the nine months ended September 30, 2017 was \$823 million compared with \$1.01 billion for the same prior-year period. These decreases were driven by the decline in advertising revenues including from the benefit in 2016 from CBS's broadcast of Super Bowl 50, and discretionary pension contributions of \$100 million made during the first quarter of 2017 to prefund the Company's qualified plans. Free cash flow for the three and nine months ended September 30, 2017 benefited from higher affiliate and subscription fee revenues. Free cash flow is a non-GAAP financial measure. See "Free Cash Flow" on pages 54 - 55 for a reconciliation of net cash flow provided by (used for) operating activities, the most directly comparable GAAP financial measure, to free cash flow.

Recent Developments

On October 19, 2017, the Company commenced an exchange offer for the split-off of its radio business, CBS Radio, as part of its previously announced agreement to combine CBS Radio with Entercom in a merger. In the exchange offer, the Company's stockholders will 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, which is subject to certain customary terms and conditions. The exchange offer is scheduled to expire on November 16, 2017, unless the exchange offer is extended or terminated.

Share Repurchases and Dividends

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.

Planned Pension Settlement

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

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

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.

Reconciliation of Non-GAAP Measures

Results for the three and nine months ended September 30, 2017 and 2016 included discrete items that were not part of the normal course of operations. The following tables present non-GAAP financial measures, which exclude the impact of these discrete items, reconciled to the most directly comparable financial measures in accordance with GAAP. The Company believes that presenting its financial results adjusted for the impact of discrete items is relevant and useful for investors because it allows investors to view performance in a manner similar to the method used by the Company's management and provides a clearer perspective on the underlying performance of the Company.

Three Months Ended September 30, 2017

| | Reported | Extinguishment of Debt | Tax Item (a) | Discrete CBS Radio Adjustments (b) | Adjusted |
|---|----------|---------------------------|-----------------|---------------------------------------|----------|
| Operating income | \$707 | \$ — | \$— | \$ — | \$ 707 |
| Interest expense | (116) | — | — | — | (116) |
| Interest income | 17 | — | — | — | 17 |
| Loss on early extinguishment of debt | (5) | 5 | — | — | — |
| Other items, net | 3 | — | — | — | 3 |
| Earnings from continuing operations before income taxes | 606 | 5 | — | — | 611 |
| Provision for income taxes | (172) | (2) | — | — | (174) |
| Equity in loss of investee companies, net of tax | (16) | — | — | — | (16) |
| Net earnings from continuing operations | 418 | 3 | — | — | 421 |
| Net earnings from discontinued operations, net of tax | 174 | — | (45) | (100) | 29 |
| Net earnings | \$592 | \$ 3 | \$(45) | \$ (100) | \$ 450 |
| Diluted EPS from continuing operations | \$1.03 | \$.01 | \$— | \$ — | \$ 1.04 |
| Diluted EPS | \$1.46 | \$.01 | \$(.11) | \$ (.25) | \$ 1.11 |

(a) Reflects a tax benefit from the resolution of a tax matter in a foreign jurisdiction relating to a previously disposed business.

(b) Reflects a noncash gain associated with a valuation allowance for the carrying value of CBS Radio.

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

| | Three Months Ended September 30, 2016 | | |
|---|--|-----------------------------|----------|
| | Reported | Discrete | |
| | | Tax Items ^(a) | Adjusted |
| Earnings from continuing operations before income taxes | \$624 | \$— | \$ 624 |
| Provision for income taxes | (145) | (47) | (192) |
| Equity in loss of investee companies, net of tax | (13) | — | (13) |
| Net earnings from continuing operations | 466 | (47) | 419 |
| Net earnings from discontinued operations, net of tax | 12 | 36 | 48 |
| Net earnings | \$478 | \$(11) | \$ 467 |
| Diluted EPS from continuing operations | \$1.04 | \$(.11) | \$.94 |
| Diluted EPS | \$1.07 | \$(.02) | \$ 1.05 |

(a) 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, and a charge of \$36 million in discontinued operations from the resolution of a tax matter in a foreign jurisdiction relating to a previously disposed business.

| | Nine Months Ended September 30, 2017 | | | | |
|--|--------------------------------------|---------------------------|-----------------------------|----------------------------|----------|
| | Reported | Extinguishment of Debt | Discrete CBS Radio | | Adjusted |
| | | | Tax Items ^(a) | Adjustments ^(b) | |
| Operating income | \$2,080 | \$ — | \$— | \$ — | \$2,080 |
| Interest expense | (336) | — | — | — | (336) |
| Interest income | 45 | — | — | — | 45 |
| Loss on early extinguishment of debt | (5) | 5 | — | — | — |
| Other items, net | 9 | — | — | — | 9 |
| Earnings from continuing operations before income taxes | 1,793 | 5 | — | — | 1,798 |
| Provision for income taxes | (479) | (2) | (22) | — | (503) |
| Equity in loss of investee companies, net of tax | (45) | — | — | — | (45) |
| Net earnings from continuing operations | 1,269 | 3 | (22) | — | 1,250 |
| Net earnings (loss) from discontinued operations, net of tax | (871) | — | (45) | 984 | 68 |
| Net earnings | \$398 | \$ 3 | \$(67) | \$ 984 | \$ 1,318 |
| Diluted EPS from continuing operations | \$3.10 | \$.01 | \$(.05) | \$ — | \$3.05 |
| Diluted EPS | \$.97 | \$.01 | \$(.16) | \$ 2.40 | \$3.21 |

(a) Reflects a tax benefit of \$22 million from the resolution of certain state income tax matters and a tax benefit of \$45 million in discontinued operations from the resolution of a tax matter in a foreign jurisdiction relating to a previously disposed business.

(b) Reflects a noncash charge of \$980 million associated with a valuation allowance for the carrying value of CBS Radio, and a restructuring charge of \$7 million (\$4 million, net of tax) at CBS Radio.

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

| | Nine Months Ended September 30, 2016 | | | | Adjusted |
|--|--------------------------------------|---------------------------------|------------------------------|---------------------------------------|----------|
| | Reported | Other Operating Items (a) | Discrete Tax Items (b) | Write-down of Investment (c) | |
| Operating income | \$2,137 | \$ (9) | \$ — | \$ — | \$2,128 |
| Interest expense | (304) | — | — | — | (304) |
| Interest income | 22 | — | — | — | 22 |
| Other items, net | (7) | — | — | — | (7) |
| Earnings from continuing operations before income taxes | 1,848 | (9) | — | — | 1,839 |
| Provision for income taxes | (524) | 4 | (47) | — | (567) |
| Equity in loss of investee companies, net of tax | (43) | — | — | 6 | (37) |
| Net earnings from continuing operations | 1,281 | (5) | (47) | 6 | 1,235 |
| Net earnings from discontinued operations, net of tax | 93 | — | 36 | — | 129 |
| Net earnings | \$1,374 | \$ (5) | \$ (11) | \$ 6 | \$1,364 |
| Diluted EPS from continuing operations | \$2.82 | \$ (.01) | \$ (.10) | \$.01 | \$2.71 |
| Diluted EPS | \$3.02 | \$ (.01) | \$ (.02) | \$.01 | \$3.00 |

(a) Reflects a gain on the sale of an internet business in China and a multiyear, retroactive impact of a new operating tax.

(b) 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, and a charge of \$36 million in discontinued operations from the resolution of a tax matter in a foreign jurisdiction relating to a previously disposed business.

(c) Reflects the write-down of an international television joint venture to its fair value.

Consolidated Results of Operations

Three and Nine Months Ended September 30, 2017 versus Three and Nine Months Ended September 30, 2016
Revenues

| Revenues by Type | Three Months Ended September 30, | | | | | | Increase/(Decrease) | |
|------------------------------------|----------------------------------|---------------------------|---------|---------------------------|-----------|--------|---------------------|--|
| | 2017 | % of Total Revenues | 2016 | % of Total Revenues | \$ | % | | |
| Advertising | \$1,106 | 35 % | \$1,162 | 38 % | \$ (56) | (5)% | | |
| Content licensing and distribution | 860 | 27 | 1,108 | 36 | (248) | (22) | | |
| Affiliate and subscription fees | 1,145 | 36 | 753 | 24 | 392 | 52 | | |
| Other | 60 | 2 | 61 | 2 | (1) | (2) | | |
| Total Revenues | \$3,171 | 100 % | \$3,084 | 100 % | \$ 87 | 3 % | | |
| Revenues by Type | Nine Months Ended September 30, | | | | | | Increase/(Decrease) | |
| | 2017 | % of Total Revenues | 2016 | % of Total Revenues | \$ | % | | |
| Advertising | \$4,008 | 41 % | \$4,492 | 46 % | \$ (484) | (11)% | | |
| Content licensing and distribution | 2,761 | 28 | 2,780 | 29 | (19) | (1) | | |

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| | | | | | | | | |
|---------------------------------|---------|-----|---|---------|-----|---|--------|-----|
| Affiliate and subscription fees | 2,835 | 29 | | 2,208 | 23 | | 627 | 28 |
| Other | 167 | 2 | | 168 | 2 | | (1) | (1) |
| Total Revenues | \$9,771 | 100 | % | \$9,648 | 100 | % | \$ 123 | 1 |

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

Advertising

For the three months ended September 30, 2017, the 5% decrease in advertising revenues primarily reflects lower political advertising sales and lower ratings, partially offset by higher pricing. The comparison was also impacted by one less Thursday Night Football game broadcast on the CBS Television Network in the third quarter of 2017. For the nine months ended September 30, 2017, the 11% decrease in advertising revenues primarily reflects the benefit to 2016 from the broadcast of Super Bowl 50 as well as lower political advertising sales.

During the fourth quarter of 2017, the advertising revenue comparison with the prior year will continue to be negatively affected by the benefit in 2016 from strong political advertising. Additionally, the CBS Television Network's upfront advertising sales for the 2017/2018 television broadcast season, which runs from the middle of September 2017 through the middle of September 2018, concluded with increases in pricing compared with the prior broadcast season, and a majority of the Company's deals are based on a live-plus-seven day viewing window, which are expected to benefit advertising revenues during the 2017/2018 broadcast season. However, overall advertising revenues for the Company will be dependent on ratings for its programming and market conditions, including demand in the scatter advertising market, which is when advertisers purchase the remaining advertising spots closer to the broadcast of the related programming. During the first nine months of 2017, compared to the same period in 2016, the Company has experienced lower ratings, which was largely offset by higher pricing.

Content Licensing and Distribution

For the three months ended September 30, 2017, the 22% decrease in content licensing and distribution revenues primarily reflects the timing of domestic television licensing sales and the benefit in the third quarter of 2016 from the licensing of Penny Dreadful and various titles from the Company's television library. These decreases were partially offset by growth in international licensing. For the nine months ended September 30, 2017, the 1% decrease in content licensing and distribution revenues primarily reflects the timing of domestic television licensing and the benefit to 2016 from the international licensing sales of five Star Trek library series, partially offset by strong demand for the Company's content internationally, reflecting additional titles available for sale as a result of the Company's recent increased investment in internally-produced series.

For the remainder of 2017, the content licensing and distribution revenues comparison will be impacted by fluctuations resulting from the timing of when Company-owned television series are made available for multiyear licensing agreements. Television license fee revenues are recognized at the beginning of the license period in which programs are made available to the licensee for exhibition.

Affiliate and Subscription Fees

For the three and nine months ended September 30, 2017, the increases in affiliate and subscription fees of 52% and 28%, respectively, primarily reflect revenues from Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event, which contributed 36 points and 12 points of the growth for the three and nine-month periods, respectively. Underlying affiliate and subscription fee revenues for each of the three and nine months ended September 30, 2017 increased 16%, led by growth in station affiliation fees and retransmission revenues, and higher revenues from new digital initiatives, including the Company's owned streaming subscription services, CBS All Access and the Showtime digital streaming subscription offering, and third-party live television streaming offerings.

Over the next few years, the Company expects to benefit from the renewal of several of its agreements with station affiliates and MVPDs as well as from agreements with new distributors of live television streaming offerings. In addition, the Company's existing agreements with station affiliates and MVPDs include annual contractual

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

increases. Together, these factors are expected to result in continued growth in affiliate and subscription fees over the next several years.

International Revenues

The Company generated approximately 12% and 11% of its total revenues from international regions for the three months ended September 30, 2017 and 2016, respectively, and generated approximately 14% of its total revenues from international regions for each of the nine months ended September 30, 2017 and 2016.

Operating Expenses

| Operating Expenses by Type | Three Months Ended September 30, | | | | | | Increase/(Decrease) | |
|---|----------------------------------|-------------------------|---|---------|-------------------------|---|---------------------|-------|
| | 2017 | % of Operating Expenses | | 2016 | % of Operating Expenses | | \$ | % |
| Programming | \$749 | 40 | % | \$500 | 28 | % | \$ 249 | 50 % |
| Production | 572 | 31 | | 666 | 37 | | (94) | (14) |
| Participation, distribution and royalty | 199 | 11 | | 291 | 16 | | (92) | (32) |
| Other | 342 | 18 | | 331 | 19 | | 11 | 3 |
| Total Operating Expenses | \$1,862 | 100 | % | \$1,788 | 100 | % | \$ 74 | 4 % |
| Operating Expenses by Type | Nine Months Ended September 30, | | | | | | Increase/(Decrease) | |
| | 2017 | % of Operating Expenses | | 2016 | % of Operating Expenses | | \$ | % |
| Programming | \$2,258 | 38 | % | \$2,133 | 37 | % | \$ 125 | 6 % |
| Production | 1,955 | 33 | | 1,933 | 33 | | 22 | 1 |
| Participation, distribution and royalty | 725 | 12 | | 788 | 13 | | (63) | (8) |
| Other | 1,002 | 17 | | 964 | 17 | | 38 | 4 |
| Total Operating Expenses | \$5,940 | 100 | % | \$5,818 | 100 | % | \$ 122 | 2 % |

Programming

For the three and nine months ended September 30, 2017, the increases in programming expenses of 50% and 6%, respectively, were driven by costs associated with Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event, and for the nine months ended September 30, 2017, the increase also reflects costs in 2017 associated with CBS's broadcast of the semifinals and finals of the NCAA Division I Men's Basketball Championship. The increases for the nine-month period were partially offset by costs in the first quarter of 2016 associated with the broadcast of Super Bowl 50.

Production

For the three months ended September 30, 2017, the 14% decrease in production expenses primarily reflects lower costs associated with the decrease in television licensing revenues. For the nine months ended September 30, 2017, the 1% increase in production expenses mainly reflects an increased investment in internally-produced television series and higher costs associated with the mix of titles sold under television licensing arrangements. These increases were partially offset by production costs in the first quarter of 2016 associated with CBS's broadcast of Super Bowl 50.

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

Participation, distribution and royalty

For the three and nine months ended September 30, 2017, the decreases in participation, distribution and royalty costs of 32% and 8%, respectively, were driven by lower television licensing revenues and the mix of titles sold under licensing arrangements.

Selling, General and Administrative Expenses

| | Three Months Ended September 30, | | | | |
|--|----------------------------------|---------------|---------|---------------|---------------------|
| | 2017 | % of Revenues | 2016 | % of Revenues | Increase/(Decrease) |
| Selling, general and administrative expenses | \$547 | 17 % | \$521 | 17 % | 5 % |
| | Nine Months Ended September 30, | | | | |
| | 2017 | % of Revenues | 2016 | % of Revenues | Increase/(Decrease) |
| Selling, general and administrative expenses | \$1,585 | 16 % | \$1,534 | 16 % | 3 % |

Selling, general and administrative ("SG&A") expenses include expenses incurred for selling and marketing costs, occupancy and back office support. For the three and nine months ended September 30, 2017, the increases in SG&A expenses of 5% and 3%, respectively, primarily reflect higher advertising and marketing costs, mainly to support the Company's growth initiatives.

Depreciation and Amortization

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------|----------------------------------|------|---------------------|---------------------------------|-------|---------------------|
| | 2017 | 2016 | Increase/(Decrease) | 2017 | 2016 | Increase/(Decrease) |
| Depreciation and amortization | \$55 | \$54 | 2 % | \$166 | \$168 | (1) % |

Other Operating Items, Net

For the nine months ended September 30, 2016, other operating items, net included a gain from the sale of an internet business in China and a multiyear, retroactive impact of a new operating tax.

Interest Expense/Income

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|------------------|----------------------------------|---------|---------------------|---|---------------------------------|---------|---------------------|---|
| | 2017 | 2016 | Increase/(Decrease) | % | 2017 | 2016 | Increase/(Decrease) | % |
| Interest expense | \$(116) | \$(104) | 12 | % | \$(336) | \$(304) | 11 | % |
| Interest income | \$17 | \$7 | 143 | % | \$45 | \$22 | 105 | % |

The following table presents the Company's outstanding debt balances, excluding capital leases, and the weighted average interest rate as of September 30, 2017 and 2016:

| | At September 30, | | | |
|----------------------|------------------|--------------------------------|---------|--------------------------------|
| | 2017 | Weighted Average Interest Rate | 2016 | Weighted Average Interest Rate |
| Total long-term debt | \$9,039 | 4.43 % | \$8,849 | 4.47 % |
| Commercial paper | \$590 | 1.44 % | \$33 | 0.75 % |

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

Loss on Early Extinguishment of Debt

For the three and nine months ended September 30, 2017, the loss on early extinguishment of debt of \$5 million reflected a pre-tax loss associated with the redemption of the Company's \$300 million outstanding 4.625% senior notes due May 2018.

Other Items, Net

| | Three Months Ended September 30, 2017 | 2016 | Increase/(Decrease) | Nine Months Ended September 30, 2017 | 2016 | Increase/(Decrease) |
|------------------|---|------|---------------------|--|-------|---------------------|
| Other items, net | \$ — | n/m | | \$ 9 | \$(7) | n/m |

n/m - not meaningful

Other items, net for all periods primarily consists of foreign exchange gains and losses.

Provision for Income Taxes

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

| | Three Months Ended September 30, 2017 | 2016 | Increase/(Decrease) | Nine Months Ended September 30, 2017 | 2016 | Increase/(Decrease) |
|--|---|---------|---------------------|--|---------|---------------------|
| Provision for income taxes, including interest and before other discrete items | \$(187) | \$(207) | (10)% | \$(548) | \$(581) | (6)% |
| Excess tax benefits from stock-based compensation ^(a) | 10 | — | | 41 | — | |
| Other discrete items ^(b) | 5 | 62 | | 28 | 57 | |
| Provision for income taxes | \$(172) | \$(145) | 19% | \$(479) | \$(524) | (9)% |
| 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.

Equity in Loss of Investee Companies, Net of Tax

| | Three Months Ended September 30, 2017 | 2016 | Increase/(Decrease) | Nine Months Ended September 30, 2017 | 2016 | Increase/(Decrease) |
|--|---|--------|---------------------|--|--------|---------------------|
| Equity in loss of investee companies, net of tax | \$(16) | \$(13) | 23% | \$(45) | \$(43) | 5% |

Management's Discussion and Analysis of
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(Tabular dollars in millions, except per share amounts)

Net Earnings from Continuing Operations and Diluted EPS from Continuing Operations

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|----------------------------------|--------|---------------------|---------------------------------|---------|---------------------|
| | 2017 | 2016 | Increase/(Decrease) | 2017 | 2016 | Increase/(Decrease) |
| Net earnings from continuing operations | \$418 | \$466 | (10)% | \$1,269 | \$1,281 | (1)% |
| Diluted EPS from continuing operations | \$1.03 | \$1.04 | (1)% | \$3.10 | \$2.82 | 10 % |

For the three months ended September 30, 2017, the decreases in net earnings from continuing operations and diluted EPS from continuing operations of 10% and 1%, respectively, were primarily the result of lower operating income and the impact of the previously mentioned tax benefit of \$47 million in the third quarter of 2016. Diluted EPS from continuing operations benefited from lower weighted average shares outstanding as a result of the Company's ongoing share repurchase program, which partially offset the lower earnings. For the nine months ended September 30, 2017, the 1% decrease in net earnings from continuing operations primarily reflects lower operating income. The 10% increase in diluted EPS from continuing operations for the nine-month period reflects lower weighted average shares outstanding as a result of the Company's ongoing share repurchase program, which more than offset the lower earnings.

Net Earnings (Loss) from Discontinued Operations

The following table sets 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.

Management's Discussion and Analysis of
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(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 |

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

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Management's Discussion and Analysis of
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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.

Net Earnings and Diluted EPS

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------|----------------------------------|--------|-----------------------|---------------------------------|---------|-----------------------|
| | 2017 | 2016 | Increase/(Decrease) % | 2017 | 2016 | Increase/(Decrease) % |
| Net earnings | \$592 | \$478 | 24 % | \$398 | \$1,374 | (71) % |
| Diluted EPS | \$1.46 | \$1.07 | 36 % | \$.97 | \$3.02 | (68) % |

Segment Results of Operations

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. The reconciliation of Segment Operating Income to the Company's consolidated Net earnings (loss) is presented in Note 13 (Reportable Segments) to the consolidated financial statements.

Three Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | | | | |
|----------------------------------|----------------------------------|-----------------------------|---------|-----------------------------|------------------------|-------|
| | 2017 | % of Total Revenues | 2016 | % of Total Revenues | Increase/(Decrease) \$ | % |
| Revenues: | | | | | | |
| Entertainment | \$1,815 | 57 % | \$1,949 | 63 % | \$ (134) | (7) % |
| Cable Networks | 840 | 26 | 598 | 20 | 242 | 40 |
| Publishing | 228 | 7 | 226 | 7 | 2 | 1 |
| Local Media | 397 | 13 | 409 | 13 | (12) | (3) |
| Corporate/Eliminations | (109) | (3) | (98) | (3) | (11) | (11) |
| Total Revenues | \$3,171 | 100 % | \$3,084 | 100 % | \$ 87 | 3 % |
| Three Months Ended September 30, | | | | | | |
| | 2017 | % of Total Operating Income | 2016 | % of Total Operating Income | Increase/(Decrease) \$ | % |
| Segment Operating Income (Loss): | | | | | | |
| Entertainment | \$345 | 49 % | \$348 | 48 % | \$ (3) | (1) % |
| Cable Networks | 294 | 42 | 285 | 40 | 9 | 3 |
| Publishing | 46 | 6 | 44 | 6 | 2 | 5 |
| Local Media | 105 | 15 | 122 | 17 | (17) | (14) |

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| | | | | | | |
|------------------------|-------|-------|-------|-------|----------|-------|
| Corporate | (83) | (12) | (78) | (11) | (5) | (6) |
| Total Operating Income | \$707 | 100 % | \$721 | 100 % | \$ (14) | (2)% |

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Management's Discussion and Analysis of
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(Tabular dollars in millions, except per share amounts)

| | Three Months Ended September 30, | | | | Increase/(Decrease) | |
|---|-------------------------------------|-----------|---------|-----------|---------------------|--------|
| | 2017 | 2016 | \$ | % | | |
| Depreciation and Amortization: | | | | | | |
| Entertainment | \$29 | \$28 | \$1 | 4 | | % |
| Cable Networks | 5 | 6 | (1) | (17) | |) |
| Publishing | 2 | 1 | 1 | 100 | | |
| Local Media | 11 | 11 | — | — | | |
| Corporate | 8 | 8 | — | — | | |
| Total Depreciation and Amortization | \$55 | \$54 | \$1 | 2 | | % |
| Nine Months Ended September 30, 2017 and 2016 | | | | | | |
| | 2017 | | 2016 | | Increase/(Decrease) | |
| | % of | Total | % of | Total | \$ | % |
| | Total | Revenues | Total | Revenues | | |
| Revenues: | | | | | | |
| Entertainment | \$6,346 | 65 % | \$6,483 | 67 % | \$(137) | (2) % |
| Cable Networks | 1,954 | 20 | 1,659 | 17 | 295 | 18 |
| Publishing | 595 | 6 | 558 | 6 | 37 | 7 |
| Local Media | 1,218 | 13 | 1,253 | 13 | (35) | (3) |
| Corporate/Eliminations | (342) | (4) | (305) | (3) | (37) | (12) |
| Total Revenues | \$9,771 | 100 % | \$9,648 | 100 % | \$123 | 1 % |
| Nine Months Ended September 30, | | | | | | |
| | 2017 | | 2016 | | Increase/(Decrease) | |
| | % of | Total | % of | Total | \$ | % |
| | Segment | Operating | Segment | Operating | Income | Income |
| Segment Operating Income (Loss): | | | | | | |
| Entertainment | \$1,089 | 53 % | \$1,148 | 54 % | \$(59) | (5) % |
| Cable Networks | 795 | 38 | 740 | 35 | 55 | 7 |
| Publishing | 88 | 4 | 83 | 4 | 5 | 6 |
| Local Media | 355 | 17 | 402 | 19 | (47) | (12) |
| Corporate | (247) | (12) | (245) | (12) | (2) | (1) |
| Total Segment Operating Income | 2,080 | 100 % | 2,128 | 100 % | (48) | (2) |
| Other operating items, net | — | | 9 | | (9) | n/m |
| Total Operating Income | \$2,080 | | \$2,137 | | \$(57) | (3) % |
| n/m - not meaningful | | | | | | |
| Nine Months Ended September 30, | | | | | | |
| | 2017 | | 2016 | | Increase/(Decrease) | |
| | \$ | % | \$ | % | | |
| Depreciation and Amortization: | | | | | | |

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| | | | | |
|-------------------------------------|-------|-------|---------|-------|
| Entertainment | \$85 | \$88 | \$ (3) | (3)% |
| Cable Networks | 17 | 17 | — | — |
| Publishing | 5 | 4 | 1 | 25 |
| Local Media | 34 | 33 | 1 | 3 |
| Corporate | 25 | 26 | (1) | (4) |
| Total Depreciation and Amortization | \$166 | \$168 | \$ (2) | (1)% |

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

Entertainment (CBS Television Network, CBS Television Studios, CBS Studios International, CBS Television
Distribution, CBS Interactive and CBS Films)

Three Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | Increase/(Decrease) | |
|---|----------------------------------|---------|---------------------|-------|
| | 2017 | 2016 | \$ | % |
| Entertainment Revenues | \$1,815 | \$1,949 | \$ (134) | (7)% |
| Segment Operating Income | \$345 | \$348 | \$ (3) | (1)% |
| Segment Operating Income as a % of revenues | 19 % | 18 % | | |
| Depreciation and amortization | \$29 | \$28 | \$ 1 | 4 % |
| Capital expenditures | \$25 | \$23 | \$ 2 | 9 % |

For the three months ended September 30, 2017, the 7% decrease in revenues was driven by a 26% decline in content licensing and distribution revenues, mainly as a result of the timing of domestic television licensing sales and the benefit to 2016 from sales of various titles from the Company's television library, which were partially offset by growth in international licensing sales. Advertising revenues decreased 3% for the three months ended September 30, 2017, reflecting lower ratings, partially offset by higher pricing. The advertising comparison was also impacted by one less Thursday Night Football game broadcast on the CBS Television Network in the third quarter of 2017. These decreases were partially offset by 35% growth in affiliate and subscription fees, reflecting higher station affiliation fees and growth from new digital initiatives, including CBS All Access and third-party live television streaming services.

For the three months ended September 30, 2017, operating income decreased 1%, while the operating income margin expanded one percentage point reflecting a mix of higher-margin revenues in 2017.

Nine Months Ended September 30, 2017 and 2016

| | Nine Months Ended September 30, | | Increase/(Decrease) | |
|---|---------------------------------|---------|---------------------|-------|
| | 2017 | 2016 | \$ | % |
| Entertainment Revenues | \$6,346 | \$6,483 | \$ (137) | (2)% |
| Segment Operating Income | \$1,089 | \$1,148 | \$ (59) | (5)% |
| Segment Operating Income as a % of revenues | 17 % | 18 % | | |
| Depreciation and amortization | \$85 | \$88 | \$ (3) | (3)% |
| Capital expenditures | \$63 | \$60 | \$ 3 | 5 % |

For the nine months ended September 30, 2017, the 2% decrease in revenues mainly reflects the benefit in 2016 from the broadcast of Super Bowl 50, which was partially offset by a 34% increase in affiliate and subscription fees, reflecting higher station affiliation fees and growth from new digital initiatives, including CBS All Access and third-party live television streaming services. Content licensing and distribution revenues were comparable with the prior-year period, as strong demand for the Company's content internationally, due in part to increased investment in internally-produced series, was partially offset by the benefit to 2016 from the international licensing sales of five Star Trek library series and the timing of domestic television licensing sales.

For the nine months ended September 30, 2017, the 5% decrease in operating income was primarily driven by the revenue decline.

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

Cable Networks (Showtime Networks, CBS Sports Network and Smithsonian Networks)
Three Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | | |
|---|----------------------------------|-------|---------------------|--------|
| | 2017 | 2016 | Increase/(Decrease) | |
| Cable Networks | | | \$ | % |
| Revenues | \$840 | \$598 | \$ 242 | 40 % |
| Segment Operating Income | \$294 | \$285 | \$ 9 | 3 % |
| Segment Operating Income as a % of revenues | 35 % | 48 % | | |
| Depreciation and amortization | \$5 | \$6 | \$ (1) | (17)% |
| Capital expenditures | \$5 | \$4 | \$ 1 | 25 % |

For the three months ended September 30, 2017, the 40% increase in revenues was driven by Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event, growth from the Showtime digital streaming subscription offering and higher international television licensing sales. These increases were partially offset by lower domestic television licensing sales, largely due to the sale of Penny Dreadful in the third quarter of 2016. As of September 30, 2017, subscriptions totaled approximately 25 million for Showtime, the Company's premium television network, and the Showtime digital streaming subscription offering combined, 52 million for CBS Sports Network and 30 million for Smithsonian Networks.

For the three months ended September 30, 2017, the 3% increase in operating income primarily reflects the revenue growth, which was significantly offset by costs associated with the aforementioned pay-per-view boxing event.

Nine Months Ended September 30, 2017 and 2016

| | Nine Months Ended September 30, | | | |
|---|---------------------------------|---------|---------------------|------|
| | 2017 | 2016 | Increase/(Decrease) | |
| Cable Networks | | | \$ | % |
| Revenues | \$1,954 | \$1,659 | \$ 295 | 18 % |
| Segment Operating Income | \$795 | \$740 | \$ 55 | 7 % |
| Segment Operating Income as a % of revenues | 41 % | 45 % | | |
| Depreciation and amortization | \$17 | \$17 | \$ — | — % |
| Capital expenditures | \$12 | \$8 | \$ 4 | 50 % |

For the nine months ended September 30, 2017, the 18% increase in revenues was driven by the aforementioned pay-per-view boxing event, growth from the Showtime digital streaming subscription offering and higher international television licensing sales. These increases were partially offset by lower domestic television licensing sales, largely due to the sale of Penny Dreadful in 2016.

For the nine months ended September 30, 2017, the 7% increase in operating income was driven by the revenue growth, which was significantly offset by higher costs associated with the pay-per-view boxing event.

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

Publishing (Simon & Schuster)

Three Months Ended September 30, 2017 and 2016

| | | | Three Months Ended September 30, Increase/(Decrease) | | |
|---|-------|-------|---|-----|---|
| | 2017 | 2016 | \$ | % | |
| Publishing | | | | | |
| Revenues | \$228 | \$226 | \$ 2 | 1 | % |
| Segment Operating Income | \$46 | \$44 | \$ 2 | 5 | % |
| Segment Operating Income as a % of revenues | 20 | % 19 | % | | |
| Depreciation and amortization | \$2 | \$1 | \$ 1 | 100 | % |
| Capital expenditures | \$1 | \$1 | \$ — | — | % |

For the three months ended September 30, 2017, the 1% increase in revenues was driven by higher print book sales and growth in digital audio sales. Bestselling titles in the third quarter of 2017 included What Happened by Hillary Rodham Clinton and Sleeping Beauties by Stephen King and Owen King.

For the three months ended September 30, 2017, the 5% increase in operating income mainly reflects revenue growth.

Nine Months Ended September 30, 2017 and 2016

| | | | Nine Months Ended September 30, Increase/(Decrease) | | |
|---|-------|-------|--|-------|---|
| | 2017 | 2016 | \$ | % | |
| Publishing | | | | | |
| Revenues | \$595 | \$558 | \$ 37 | 7 | % |
| Segment Operating Income | \$88 | \$83 | \$ 5 | 6 | % |
| Segment Operating Income as a % of revenues | 15 | % 15 | % | | |
| Depreciation and amortization | \$5 | \$4 | \$ 1 | 25 | % |
| Capital expenditures | \$2 | \$7 | \$ (5) | (71) | % |

For the nine months ended September 30, 2017, the 7% increase in revenues was driven by higher print book sales and growth in digital audio sales.

For the nine months ended September 30, 2017, the 6% increase in operating income reflects the revenue growth, which was partially offset by higher production costs.

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

Local Media (CBS Television Stations and CBS Local Digital Media)

Three Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | | |
|---|----------------------------------|-------|---------------------|--------|
| | 2017 | 2016 | Increase/(Decrease) | |
| Local Media | | | \$ | % |
| Revenues | \$397 | \$409 | \$ (12) | (3)% |
| Segment Operating Income | \$105 | \$122 | \$ (17) | (14)% |
| Segment Operating Income as a % of revenues | 26 % | 30 % | | |
| Depreciation and amortization | \$11 | \$11 | \$ — | — % |
| Capital expenditures | \$8 | \$9 | \$ (1) | (11)% |

For the three months ended September 30, 2017, the 3% decrease in revenues was driven by lower political advertising sales, which was partially offset by growth in retransmission revenues.

For the three months ended September 30, 2017, the 14% decrease in operating income primarily reflects a decline in high-margin political advertising sales.

During the fourth quarter of 2017, the revenue comparison will continue to be negatively impacted by the benefit in 2016 from strong political advertising associated with U.S. federal and state elections.

Nine Months Ended September 30, 2017 and 2016

| | Nine Months Ended September 30, | | | |
|---|---------------------------------|---------|---------------------|--------|
| | 2017 | 2016 | Increase/(Decrease) | |
| Local Media | | | \$ | % |
| Revenues | \$1,218 | \$1,253 | \$ (35) | (3)% |
| Segment Operating Income | \$355 | \$402 | \$ (47) | (12)% |
| Segment Operating Income as a % of revenues | 29 % | 32 % | | |
| Depreciation and amortization | \$34 | \$33 | \$ 1 | 3 % |
| Capital expenditures | \$20 | \$20 | \$ — | — % |

For the nine months ended September 30, 2017, the 3% decrease in revenues was driven by lower advertising revenues, reflecting the benefit in 2016 from CBS's broadcast of Super Bowl 50 and a decline in political advertising sales. This decrease was partially offset by growth in retransmission revenues.

For the nine months ended September 30, 2017, the 12% decrease in operating income primarily reflects lower revenues, as well as the mix of revenues compared to the same prior-year period. Retransmission revenues have associated network affiliation costs paid to the CBS Television Network, whereas political advertising sales have a high operating income margin.

Management's Discussion and Analysis of
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(Tabular dollars in millions, except per share amounts)

Corporate

Three Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | Increase/(Decrease) | |
|-------------------------------|----------------------------------|--------|---------------------|-------|
| Corporate | 2017 | 2016 | \$ | % |
| Segment Operating Loss | \$(83) | \$(78) | \$ (5) | (6)% |
| Depreciation and amortization | \$8 | \$8 | \$ — | — % |
| Capital expenditures | \$5 | \$5 | \$ — | — % |

Corporate expenses include general corporate overhead, unallocated shared company expenses, pension and postretirement benefit costs for plans retained by the Company for previously divested businesses, and intercompany eliminations. For the three months ended September 30, 2017, corporate expenses increased 6%, driven primarily by higher employee-related costs.

Nine Months Ended September 30, 2017 and 2016

| | Nine Months Ended September 30, | | Increase/(Decrease) | |
|-------------------------------|---------------------------------|---------|---------------------|-------|
| Corporate | 2017 | 2016 | \$ | % |
| Segment Operating Loss | \$(247) | \$(245) | \$ (2) | (1)% |
| Depreciation and amortization | \$25 | \$26 | \$ (1) | (4)% |
| Capital expenditures | \$15 | \$16 | \$ (1) | (6)% |

Financial Position

| | At | At | Increase/(Decrease) | |
|--|---------------|--------------|---------------------|--------|
| | September 30, | December 31, | \$ | % |
| | 2017 | 2016 | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 144 | \$ 598 | \$ (454) | (76)% |
| Receivables, net ^(a) | 3,598 | 3,314 | 284 | 9 |
| Programming and other inventory ^(b) | 1,830 | 1,427 | 403 | 28 |
| Prepaid expenses | 182 | 185 | (3) | (2) |
| All other current assets | 540 | 539 | 1 | — |
| Total current assets | \$ 6,294 | \$ 6,063 | \$ 231 | 4 % |

(a) The increase primarily relates to Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event.

(b) The increase primarily reflects the timing of payments for sports programming.

| | At | At | Increase/(Decrease) | |
|--|---------------|--------------|---------------------|--------|
| | September 30, | December 31, | \$ | % |
| | 2017 | 2016 | | |
| Assets of discontinued operations ^(a) | \$ 3,325 | \$ 4,291 | \$ (966) | (23)% |

(a) The decrease primarily reflects a noncash charge of \$980 million associated with a valuation allowance to reduce the carrying value of CBS Radio to the value indicated by the stock valuation of Entercom. (See Note 3 to the consolidated financial statements).

Management's Discussion and Analysis of
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| | At September 30, 2017 | At December 31, 2016 | Increase/(Decrease) | |
|---|-----------------------------|----------------------------|---------------------|------------|
| | | | \$ | % |
| Current Liabilities: | | | | |
| Accounts payable ^(a) | \$ 233 | \$ 148 | \$ 85 | 57 % |
| Accrued compensation ^(a) | 257 | 369 | (112) | (30) |
| Participants' share and royalties payable | 997 | 1,024 | (27) | (3) |
| Program rights ^(b) | 509 | 290 | 219 | 76 |
| Commercial paper | 590 | 450 | 140 | 31 |
| All other current liabilities | 1,466 | 1,427 | 39 | 3 |
| Total current liabilities | \$ 4,052 | \$ 3,708 | \$ 344 | 9 % |

(a) The increase (decrease) reflects the timing of payments.

(b) The increase is primarily associated with Showtime Networks' distribution of the Floyd Mayweather/Conor McGregor pay-per-view boxing event.

| | At September 30, 2017 | At December 31, 2016 | Increase/(Decrease) | |
|---|-----------------------------|----------------------------|---------------------|-------|
| | | | \$ | % |
| Pension and postretirement benefit obligations ^(a) | \$ 1,619 | \$ 1,769 | \$ (150) | (8)% |

(a) The decrease primarily reflects discretionary pension contributions of \$100 million made during the first quarter of 2017 to prefund the Company's qualified plans.

Cash Flows

The changes in cash and cash equivalents were as follows:

| | Nine Months Ended September 30, | | |
|---|---------------------------------|-----------------|---------------------|
| | 2017 | 2016 | Increase/(Decrease) |
| Net cash flow provided by operating activities from: | | | |
| Continuing operations | \$935 | \$1,117 | \$ (182) |
| Discontinued operations | 52 | 189 | (137) |
| Net cash flow provided by operating activities | 987 | 1,306 | (319) |
| Net cash flow used for investing activities from: | | | |
| Continuing operations | (399) | (179) | (220) |
| Discontinued operations | (18) | (2) | (16) |
| Net cash flow used for investing activities | (417) | (181) | (236) |
| Net cash flow used for financing activities | (1,018) | (1,269) | 251 |
| Net decrease in cash and cash equivalents | \$(448) | \$(144) | \$ (304) |

Operating Activities. For the nine months ended September 30, 2017, the decrease in cash provided by operating activities from continuing operations was driven by the decline in advertising revenues including from the benefit in 2016 from CBS's broadcast of Super Bowl 50, and discretionary pension contributions of \$100 million made during the first quarter of 2017 to prefund the Company's qualified plans. These decreases were partially offset by higher affiliate and subscription fee revenues.

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

Investing Activities

| | Nine Months Ended September 30, | |
|--|---------------------------------------|---------|
| | 2017 | 2016 |
| Acquisitions (including acquired television library) ^(a) | \$(258) | \$(51) |
| Capital expenditures | (112) | (111) |
| Investments in and advances to investee companies ^(b) | (67) | (44) |
| Proceeds from dispositions ^(c) | 11 | 20 |
| All other investing activities, net | 27 | 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) |

(a) On August 27, 2017, CBS 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, will be completed in accordance with Australian applicable laws and procedures and is subject to certain regulatory approvals. 2017 also includes the acquisition of a television library and 2016 reflects the acquisition of a sports-focused digital media business.

(b) Mainly includes the Company's investment in The CW as well as its other domestic and international television joint ventures.

(c) 2016 primarily reflects sales of internet businesses in China.

Financing Activities

| | Nine Months Ended September 30, | |
|--|---------------------------------|-------------|
| | 2017 | 2016 |
| Repurchase of CBS Corp. Class B Common Stock | \$ (1,111) | \$ (1,534) |
| 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) |
| Dividends | (224) | (209) |
| Payment of payroll taxes in lieu of issuing shares for stock-based | (89) | (57) |

| | | | | |
|---------------------|----|--------|----|--------|
| compensation | | | | |
| Proceeds from | | | | |
| exercise of stock | 81 | | 13 | |
| options | | | | |
| All other financing | | | | |
| activities, net | (3 |) | (1 |) |
| Net cash flow used | | | | |
| for financing | \$ | (1,018 |) | \$ |
| activities | | | | (1,269 |
| | | | |) |

Free Cash Flow

Free cash flow is a non-GAAP financial measure. Free cash flow reflects the Company's net cash flow provided by (used for) operating activities before operating cash flow from discontinued operations and less capital expenditures. The Company's calculation of free cash flow includes capital expenditures because investment in capital expenditures is a use of cash that is directly related to the Company's operations. The Company's net cash flow provided by (used for) operating activities is the most directly comparable GAAP financial measure.

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

Management believes free cash flow provides investors with an important perspective on the cash available to the Company to service debt, make strategic acquisitions and investments, maintain its capital assets, satisfy its tax obligations, and fund ongoing operations and working capital needs. As a result, free cash flow is a significant measure of the Company's ability to generate long-term value. It is useful for investors to know whether this ability is being enhanced or degraded as a result of the Company's operating performance. The Company believes the presentation of free cash flow is relevant and useful for investors because it allows investors to evaluate the cash generated from the Company's underlying operations in a manner similar to the method used by management. Free cash flow is one of several components of incentive compensation targets for certain management personnel. In addition, free cash flow is a primary measure used externally by the Company's investors, analysts and industry peers for purposes of valuation and comparison of the Company's operating performance to other companies in its industry.

As free cash flow is not a measure calculated in accordance with GAAP, free cash flow should not be considered in isolation of, or as a substitute for, either net cash flow provided by (used for) operating activities as a measure of liquidity or net earnings (loss) as a measure of operating performance. Free cash flow, as the Company calculates it, may not be comparable to similarly titled measures employed by other companies. In addition, free cash flow as a measure of liquidity has certain limitations, does not necessarily represent funds available for discretionary use and is not necessarily a measure of the Company's ability to fund its cash needs. When comparing free cash flow to net cash flow provided by (used for) operating activities, the most directly comparable GAAP financial measure, users of this financial information should consider the types of events and transactions that are not reflected in free cash flow.

The following table presents a reconciliation of the Company's net cash flow provided by operating activities to free cash flow.

| | Nine Months Ended September 30, | |
|--|---------------------------------------|---------|
| | 2017 | 2016 |
| Net cash flow provided by operating activities | \$987 | \$1,306 |
| Capital expenditures | (112) | (111) |
| Exclude operating cash flow from discontinued operations | 52 | 189 |
| Free cash flow | \$823 | \$1,006 |

Repurchase of Company Stock and Cash Dividends

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.

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

Capital Structure

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) | 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.

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.

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

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.

Liquidity and Capital Resources

The Company continually projects anticipated cash requirements for its operating, investing and financing needs as well as cash flows generated from operating activities available to meet these needs. The Company's operating needs include, among other items, commitments for sports programming rights, television and film programming, talent contracts, operating leases, interest payments, and pension funding obligations. The Company's investing and financing spending includes capital expenditures, share repurchases, dividends and principal payments on its outstanding indebtedness. The Company believes that its operating cash flows; cash and cash equivalents; borrowing capacity under the Credit Facility, which had \$2.49 billion of remaining availability at September 30, 2017; and access to capital markets are sufficient to fund its operating, investing and financing requirements for the next twelve months.

The Company's funding for short-term and long-term obligations will come primarily from cash flows from operating activities. Any additional cash funding requirements are financed with short-term borrowings, including commercial paper, and long-term debt. To the extent that commercial paper is not available to the Company, the existing Credit Facility provides sufficient capacity to satisfy short-term borrowing needs. The Company routinely assesses its capital structure and opportunistically enters into transactions to lower its interest expense, which could result in a charge from the early extinguishment of debt.

The Company's long-term debt obligations due over the next five years of \$2.10 billion are expected to be funded by cash generated from operating activities and the Company's ability to refinance its debt.

The Company expects to make a pension contribution of \$500 million during the fourth quarter of 2017, which is expected to be partially funded by long-term borrowings.

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.

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.

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Management's Discussion and Analysis of
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(Tabular dollars in millions, except per share amounts)

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.

Filings include claims for individuals suffering from mesothelioma, a rare cancer, the risk of which is allegedly increased by exposure to asbestos; lung cancer, a cancer which may be caused by various factors, one of which is alleged to be asbestos exposure; other cancers, and conditions that are substantially less serious, including claims brought on behalf of individuals who are asymptomatic as to an allegedly asbestos-related disease. The predominant number of claims against the Company are non-cancer claims. 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.

Related Parties

See Note 5 to the consolidated financial statements.

Recent Pronouncements and Adoption of New Accounting Standards

See Note 1 to the consolidated financial statements.

Critical Accounting Policies

See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for a discussion of the Company's critical accounting policies.

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

Cautionary Statement Concerning Forward-Looking Statements

This quarterly report on Form 10-Q, including "Item 2 - Management's Discussion and Analysis of Results of Operations and Financial Condition," contains both historical and forward looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward looking statements are not based on historical facts, but rather reflect the Company's current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "may," "other similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are or may be forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause the actual results, performance or achievements of the Company to be different from any future results, performance and achievements expressed or implied by these statements. These risks, uncertainties and other factors include, among others: advertising market conditions generally; changes in the public acceptance of the Company's content; changes in technology and its effect on competition in the Company's markets; changes in the federal communications laws and regulations; the impact of piracy on the Company's products; the impact of consolidation in the market for the Company's content; the impact of negotiations or the loss of affiliation agreements or retransmission agreements; the impact of union activity, including possible strikes or work stoppages or the Company's inability to negotiate favorable terms for contract renewals; the ability to achieve the separation of the Company's radio business through a merger of CBS Radio Inc. with a subsidiary of Entercom Communications Corp. ("Entercom") on the anticipated terms, which are subject to regulatory and Entercom stockholder approvals, an exchange offer and other customary closing conditions, and fluctuations in the market values of Entercom's Class A common stock and the Company's Class B Common Stock; other domestic and global economic, business, competitive and/or regulatory factors affecting the Company's businesses generally; and other factors described in the Company's filings made under the securities laws, including, among others, those set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our Quarterly Reports on Form 10-Q, and in the Company's recent Current Reports on Form 8-K. There may be additional risks, uncertainties and factors that the Company does not currently view as material or that are not necessarily known. The forward looking statements included in this document are made as of the date of this document and the Company does not have any obligation to publicly update any forward looking statements to reflect subsequent events or circumstances.

Important Notice

This document is provided for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to sell or the solicitation of an offer to buy any securities. In connection with the separation of CBS Radio Inc. and combination of CBS Radio Inc. with Entercom (the "Transaction"), CBS Corporation filed with the U.S. Securities and Exchange Commission (the "SEC") a Schedule TO, and CBS Radio Inc. filed with the SEC a registration statement on Form S-4 and Form S-1 containing a prospectus of CBS Radio Inc., in each case, relating to the exchange offer. Entercom has filed with the SEC a registration statement on Form S-4 relating to the Transaction, containing a prospectus of Entercom, and has also filed a proxy statement. Investors and security holders are urged to read these filings and any amendments or supplements thereto when they become available, as well as any other relevant documents, because they contain important information about CBS Corporation, CBS Radio Inc. and Entercom and the Transaction. These materials and other documents filed with the SEC may be obtained free of charge at the SEC's website, www.sec.gov, and at CBS Corporation's corporate website, www.cbscorporation.com.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to market risk since reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

The Company's chief executive officer and chief operating officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Securities Exchange Act of 1934, as amended.

No change in the Company's internal control over financial reporting occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Company Purchases of Equity Securities

In November 2010, the Company announced that its Board of Directors approved a program to repurchase \$1.5 billion of the Company's common stock in open market purchases or other types of transactions (including accelerated stock repurchases or privately negotiated transactions). Since then, various increases totaling \$16.4 billion have been approved and announced, including most recently, an increase to the share repurchase program to a total availability of \$6.0 billion on July 28, 2016. Below is a summary of CBS Corp.'s purchases of its Class B Common Stock during the three months ended September 30, 2017 under this publicly announced share repurchase program.

| (in millions, except per share amounts) | Total Number of Shares Purchased | Average Price Per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Remaining Authorization |
|---|--|----------------------------------|--|----------------------------|
| July 1, 2017 - July 31, 2017 | 1.4 | \$ 64.80 | 1.4 | \$ 3,214 |
| August 1, 2017 - August 31, 2017 | 1.6 | \$ 65.10 | 1.6 | \$ 3,107 |
| September 1, 2017 - September 30, 2017 | .9 | \$ 58.36 | .9 | \$ 3,057 |
| Total | 3.9 | \$ 63.52 | 3.9 | \$ 3,057 |

Item 6. Exhibits.

Exhibit
No. Description of Document

- (2) Plan of acquisition, reorganization, arrangement, liquidation or succession.
Amendment No. 2, dated as of September 13, 2017, to the Agreement and Plan of Merger, dated as of February 2, 2017, as amended July 10, 2017, by and among CBS Corporation, CBS Radio Inc., Entercom Communications Corp. and Constitution Merger Sub Corp. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of CBS Corporation filed September 13, 2017) (File No. 001-09553).
- (a)
- (4) Instruments defining the rights of security holders, including indentures.
Amended and Restated Senior Indenture dated as of November 3, 2008 (“2008 Indenture”) between CBS Corporation, CBS Operations Inc., and The Bank of New York Mellon, as senior trustee (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 of CBS Corporation filed November 3, 2008 (Registration No. 333-154962) (File No. 001-09553)).
- (a)
- First Supplemental Indenture to 2008 Indenture dated as of April 5, 2010 between CBS Corporation, CBS Operations Inc., and Deutsche Bank Trust Company Americas, as senior trustee (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of CBS Corporation filed April 5, 2010 (File No. 001-09553)).
- (b)
- The other instruments defining the rights of holders of the long-term debt securities of CBS Corporation and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. CBS Corporation hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
- (10) Material Contracts
- (a) Employment Agreement dated July 20, 2017 between CBS Corporation and Joseph R. Ianniello (filed herewith).
- (b) Employment Agreement dated July 20, 2017 between CBS Corporation and Lawrence P. Tu (filed herewith).
- (c) Letter Agreement dated August 4, 2017 amending the Employment Agreement dated as of September 29, 2016 between CBS Corporation and Anthony G. Ambrosio (filed herewith).
- (d) Letter Agreement dated August 4, 2017 amending the Employment Agreement dated December 17, 2015 (effective as of July 1, 2016) between CBS Corporation and Gil Schwartz (filed herewith).
- (12) Statement Regarding Computation of Ratios (filed herewith)
- (31) Rule 13a-14(a)/15d-14(a) Certifications
- (a) Certification of the Chief Executive Officer of CBS Corporation pursuant to Rule 13a-14(a), or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herewith).
- (b) Certification of the Chief Operating Officer of CBS Corporation pursuant to Rule 13a-14(a), or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herewith).
- (32) Section 1350 Certifications
- (a) Certification of the Chief Executive Officer of CBS Corporation furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (furnished herewith).
- (b) Certification of the Chief Operating Officer of CBS Corporation furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (furnished herewith).

(101) Interactive Data File

101. INS XBRL Instance Document.

101. SCH XBRL Taxonomy Extension Schema.

101. CAL XBRL Taxonomy Extension Calculation Linkbase.

101. DEF XBRL Taxonomy Extension Definition Linkbase.

101. LAB XBRL Taxonomy Extension Label Linkbase.

101. PRE XBRL Taxonomy Extension Presentation Linkbase.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CBS CORPORATION
(Registrant)

Date: November 3, 2017 /s/ Joseph R. Ianniello
Joseph R. Ianniello
Chief Operating Officer

Date: November 3, 2017 /s/ Lawrence Liding
Lawrence Liding
Executive Vice President, Controller and
Chief Accounting Officer

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