CBS CORP
Form 10-Q
May 04, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from ____________ to ____________

Commission File Number 001-09553

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

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

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

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

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

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

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

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

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

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

Number of shares of common stock outstanding at April 30, 2018:

Class A Common Stock, par value $.001 per share— 37,507,617
Class B Common Stock, par value $.001 per share— 341,480,807

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 March 31,	
	2018	2017
Revenues	$3,761	$3,343
Costs and expenses:		
Operating	2,400	2,074
Selling, general and administrative	524	488
Depreciation and amortization	56	55
Merger and acquisition-related costs	9	—
Total costs and expenses	2,989	2,617
Operating income	772	726
Interest expense	(118)	(109)
Interest income	17	13
Other items, net	(11)	(21)
Earnings from continuing operations before income taxes and equity in loss of investee companies	660	609
Provision for income taxes	(135)	(138)
Equity in loss of investee companies, net of tax	(14)	(17)
Net earnings from continuing operations	511	454
Net loss from discontinued operations, net of tax (Note 3)	—	(706)
Net earnings (loss)	$511	$(252)
Basic net earnings (loss) per common share:		
Net earnings from continuing operations	$1.34	$1.11
Net loss from discontinued operations	$—	$(1.72)
Net earnings (loss)	$1.34	$(.61)
Diluted net earnings (loss) per common share:		
Net earnings from continuing operations	$1.32	$1.09
Net loss from discontinued operations	$—	$(1.70)
Net earnings (loss)	$1.32	$(.61)
Weighted average number of common shares outstanding:		
Basic	382	410
Diluted	386	416
Dividends per common share	$.18	$.18

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Net earnings (loss)	$511	$(252)
Other comprehensive income, net of tax:		
Cumulative translation adjustments	(6)	2
Amortization of net actuarial loss	15	12
Total other comprehensive income, net of tax	9	14
Total comprehensive income (loss)	$520	$(238)

See notes to consolidated financial statements.

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

	At March 31, 2018	At December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$147	$285
Receivables, less allowances of $49 (2018 and 2017)	3,820	3,697
Programming and other inventory (Note 4)	1,593	1,828
Prepaid income taxes	52	78
Prepaid expenses	164	194
Other current assets	415	191
Total current assets	6,191	6,273
Property and equipment	3,036	3,051
Less accumulated depreciation and amortization	1,777	1,771
Net property and equipment	1,259	1,280
Programming and other inventory (Note 4)	3,252	2,881
Goodwill	4,891	4,891
Intangible assets	2,661	2,666
Other assets	2,337	2,852
Total Assets	$20,591	$20,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$230	$231
Accrued compensation	198	343
Participants' share and royalties payable	1,104	986
Program rights	631	373
Short-term debt (Note 6)	217	679
Current portion of long-term debt (Note 6)	19	19
Accrued expenses and other current liabilities	1,670	1,341
Total current liabilities	4,069	3,972
Long-term debt (Note 6)	9,470	9,464
Pension and postretirement benefit obligations	1,309	1,328
Deferred income tax liabilities, net	493	480
Other liabilities	3,267	3,621
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Class A Common Stock, par value $.001 per share; 375 shares authorized; 38 (2018 and 2017) shares issued	—	—
Class B Common Stock, par value $.001 per share; 5,000 shares authorized; 835 (2018) and 834 (2017) shares issued	1	1
Additional paid-in capital	43,743	43,797
Accumulated deficit	(18,650)	(18,900)
Accumulated other comprehensive loss (Note 8)	(653)	(662)

	24,441	24,236
Less treasury stock, at cost; 492 (2018) and 489 (2017) Class B shares	22,458	22,258
Total Stockholders’ Equity	1,983	1,978
Total Liabilities and Stockholders’ Equity	$20,591	$20,843

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2018	2017
Operating Activities:		
Net earnings (loss)	$511	$(252)
Less: Net loss from discontinued operations, net of tax	—	(706)
Net earnings from continuing operations	511	454
Adjustments to reconcile net earnings from continuing operations to net cash flow provided by operating activities from continuing operations:		
Depreciation and amortization	56	55
Stock-based compensation	44	40
Equity in loss of investee companies, net of tax and distributions	14	17
Change in assets and liabilities, net of investing and financing activities	92	112
Net cash flow provided by operating activities from continuing operations	717	678
Net cash flow provided by operating activities from discontinued operations	—	41
Net cash flow provided by operating activities	717	719
Investing Activities:		
Investments in and advances to investee companies	(40)	(49)
Capital expenditures	(30)	(27)
Acquisitions	—	(21)
Other investing activities	3	15
Net cash flow used for investing activities from continuing operations	(67)	(82)
Net cash flow used for investing activities from discontinued operations	(23)	(7)
Net cash flow used for investing activities	(90)	(89)
Financing Activities:		
Repayments of short-term debt borrowings, net	(462)	(420)
Repayment of debt borrowings of CBS Radio	—	(3)
Payment of capital lease obligations	(4)	(4)
Payment of contingent consideration	(5)	(7)
Dividends	(71)	(77)
Purchase of Company common stock	(186)	(531)
Payment of payroll taxes in lieu of issuing shares for stock-based compensation	(52)	(76)
Proceeds from exercise of stock options	16	36
Other financing activities	(1)	—
Net cash flow used for financing activities	(765)	(1,082)
Net decrease in cash and cash equivalents	(138)	(452)
Cash and cash equivalents at beginning of period (includes $24 (2017) of discontinued operations cash)	285	622
Cash and cash equivalents at end of period (includes $7 (2017) of discontinued operations cash)	$147	$170
Supplemental disclosure of cash flow information		
Cash paid for interest:		
Continuing operations	$182	$162
Discontinued operations	$—	$11
Cash paid for income taxes:		

Continuing operations	$29	$1
Discontinued operations	$—	$12

See notes to consolidated financial statements.

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

1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Description of Business-CBS Corporation (together with its consolidated subsidiaries unless the context otherwise requires, the “Company” or “CBS Corp.”) is comprised of the following segments: Entertainment (CBS Television, comprised of the CBS Television Network, CBS Television Studios, CBS Studios International, and CBS Television Distribution; Network Ten; 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).

Discontinued Operations-On November 16, 2017, the Company completed the disposition of CBS Radio Inc. (“CBS Radio”) through a split-off. CBS Radio has been presented as a discontinued operation in the Company’s consolidated financial statements (See Note 3).

Basis of Presentation-The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”). These financial statements should be read in conjunction with the more detailed financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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 (“GAAP”) 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.

Revenues
Advertising Revenues-Advertising revenues, net of agency commissions, are recognized when the advertising spots are aired on television or displayed on digital platforms. If there is a guarantee to deliver a targeted audience rating or number of impressions, revenues are recognized as the actual audience rating or impressions are delivered. Audience ratings and impressions are determined based on data provided by independent third-party companies. Advertising contracts, which are generally short-term, are billed monthly, with payments due shortly after the invoice date.

Advertising revenues are primarily generated by the Entertainment and Local Media segments.

Content Licensing and Distribution Revenues-Content licensing and distribution revenue is generated from the licensing of internally-produced television programming, fees from the distribution of third-party programming, and the publishing and distribution of consumer books.

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

Program Licensing and Distribution

Revenues from the licensing of internally produced television programming are recognized when the content is made available to the licensee for exhibition at the beginning of the license period. For license agreements containing multiple deliverables, revenues are allocated based on the relative standalone selling price of each program. Agreements to license programming are often long term, with collection terms ranging from one to five years.

The Company also distributes programs on behalf of third parties. In such arrangements, the Company generally obtains control of the program before selling it to the customer. Therefore, revenues from such distribution arrangements, which include both content licensing and advertising revenues, are recognized based on the gross amount of consideration received from the customer, with a participation expense recognized for the fees paid to the third party producer.

Substantially all of the Company’s program licensing and distribution revenues are generated by the Entertainment segment, with the remainder generated by the Cable Networks segment.

Publishing

Publishing revenues are recognized when merchandise is shipped or electronically delivered to the consumer. Consumer print books are generally sold with a right of return. The Company records a returns reserve and corresponding decrease in revenue at the time of sale based upon historical trends. For publishing revenues, payments are due shortly after shipment or electronic delivery.

Affiliate and Subscription Fees-A majority of the Company’s affiliate and subscription fees are generated by the Cable Networks segment and consist of fees received from multichannel video programming distributors (“MVPDs”) for carriage of the Company’s cable networks and subscription fees for the Showtime digital streaming subscription offering. The Entertainment segment generates affiliate and subscription fees primarily from television stations affiliated with the CBS Television Network and subscribers to CBS All Access, its owned streaming subscription service. In addition, Local Media receives retransmission fees from MVPDs for carriage of the Company’s television stations.

Affiliate and subscription fees are recognized as access to the Company’s content is provided to the customer over the term of the agreement. For agreements that provide for a variable fee, revenues are determined each month based on an agreed upon contractual rate applied to the number of subscribers to the customer’s service. For agreements that provide for a fixed fee, revenues are recognized based on the relative fair value provided over the term of the agreement. For affiliate and subscription fee revenues, payments are generally due monthly.

Noncurrent Receivables-Noncurrent receivables of $1.58 billion and $1.59 billion at March 31, 2018 and January 1, 2018, respectively, are included in “Other assets” on the Company’s Consolidated Balance Sheets and primarily relate to revenues recognized under long-term television licensing arrangements.

Deferred Revenues-Deferred revenues primarily consist of cash received related to advertising arrangements and the licensing of television programming for which the revenues have not yet been earned. Advertising revenues that have been deferred are recognized when the required audience rating or impressions are delivered and revenues deferred under licensing arrangements are recognized when the content is made available to the customer.

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

Deferred revenues are primarily short term and included within “Accrued expenses and other current liabilities” on the Company’s Consolidated Balance Sheets. Total deferred revenues were $259 million and $284 million at March 31, 2018 and January 1, 2018, respectively. The change in deferred revenue for the three months ended March 31, 2018 reflects $115 million of revenues recognized that were included in deferred revenues at January 1, 2018, offset by cash payments received during the period for which the performance obligation was not satisfied prior to the end of the period.

Unrecognized Revenues Under Contract-As of March 31, 2018, unrecognized revenue attributable to unsatisfied performance obligations under the Company’s long-term contracts was $3.93 billion, of which $1.56 billion is expected to be recognized for the remainder of 2018, $1.28 billion for 2019, $683 million for 2020, and $405 million thereafter. These amounts only include contracts subject to a guaranteed fixed amount or the guaranteed minimum under variable contracts. Such amounts change on a regular basis as the Company renews existing agreements or enters into new agreements. Unrecognized revenues under contract disclosed above do not include (i) contracts with an original expected term of one year or less, mainly consisting of the Company’s advertising contracts (ii) contracts for which variable consideration is determined based on the customer’s subsequent sale or usage, mainly consisting of affiliate and subscription fee agreements and (iii) long-term licensing agreements for multiple programs for which the Company’s right to invoice corresponds with the value of the programs provided to the customer.

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 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 10 million stock options and RSUs for the three months ended March 31, 2018 and 4 million stock options for the three months ended March 31, 2017.

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

	Three Months Ended March 31,	
(in millions)	2018	2017
Weighted average shares for basic EPS	382	410
Dilutive effect of shares issuable under stock-based compensation plans	4	6
Weighted average shares for diluted EPS	386	416

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 three months ended March 31, 2018 and 2017, the Company recorded dividends of $69 million and $75 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

During the first quarter of 2018, the Company adopted Financial Accounting Standards Board ("FASB") guidance on the recognition of revenues which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company applied the modified retrospective method of adoption with the cumulative effect of the initial adoption of $261 million, reflected as an adjustment to the opening balance of accumulated deficit as of January 1, 2018. Prior periods continue to be presented under previous accounting guidance (See Note 13).

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

During the first quarter of 2018, the Company adopted FASB amended guidance on the presentation of net periodic pension and postretirement benefit cost ("net benefit cost"). This guidance requires the Company to present the service cost component of net benefit cost in the same line item(s) on the statement of operations as other compensation costs of the related employees. All of the other components of net benefit cost are presented in the statement of operations separately from the service cost component and below the subtotal of operating income. As a result of the adoption of this guidance, the Company presented $15 million of net benefit costs in "Other items, net" on the Consolidated Statement of Operations for the three months ended March 31, 2018, representing the components of net benefit cost other than service cost. This guidance is required to be applied retrospectively and therefore, $22 million of expenses, previously presented within operating income, have been reclassified to "Other items, net" for the three months ended March 31, 2017.

Stock Compensation: Scope of Modification Accounting

During the first quarter of 2018, the Company adopted FASB 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. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

Clarifying the Definition of a Business

During the first quarter of 2018, the Company adopted FASB 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. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

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

Intra-Entity Transfers of Assets Other than Inventory
During the first quarter of 2018, the Company adopted the FASB amended guidance on the accounting for income taxes, which eliminates the exception in existing guidance that 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. Under this guidance, an entity recognizes the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
In February 2018, the FASB issued amended guidance that permits an entity to reclassify the income tax effects of federal tax legislation enacted in December 2017 (the "Tax Reform Act") on items within accumulated other comprehensive income to retained earnings. The Company is currently evaluating the impact of this guidance, which is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted.

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.

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 reviewing its lease portfolio, evaluating the impact of this guidance on its consolidated balance sheet and assessing system requirements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

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 months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
RSUs and PSUs	$38	$33
Stock options	6	7
Stock-based compensation expense, before income taxes	44	40
Related tax benefit	(11)	(15)
Stock-based compensation expense, net of tax benefit	$33	$25

During the three months ended March 31, 2018, the Company granted 3 million RSUs for CBS Corp. Class B Common Stock with a weighted average per unit grant-date fair value of $54.61. RSUs granted during the first quarter of 2018 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 three months ended March 31, 2018, 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 three months ended March 31, 2018 was $17 million.

During the three months ended March 31, 2018, the Company also granted 2 million stock options with a weighted average exercise price of $54.32. Stock options granted during the first quarter of 2018 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 March 31, 2018 was $295 million, which is expected to be recognized over a weighted average period of 2.6 years. Total unrecognized compensation cost related to unvested stock option awards at March 31, 2018 was $56 million, which is expected to be recognized over a weighted average period of 3.0 years.

3) DISCONTINUED OPERATIONS
On November 16, 2017, the Company completed the split-off of CBS Radio through an exchange offer, in which the Company accepted 17.9 million shares of CBS Corp. Class B Common Stock from its stockholders in exchange for the 101.4 million shares of CBS Radio common stock that it owned. Immediately following the exchange offer, each share of CBS Radio common stock was converted into one share of Entercom Communications Corp. ("Entercom") Class A common stock upon completion of the merger.

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

The following table sets forth details of net loss from discontinued operations for the three months ended March 31, 2017.

	Three Months Ended March 31, 2017
Revenues	$ 250
Costs and expenses:	
Operating	89
Selling, general and administrative	122
Market value adjustment [(a)]	715
Total costs and expenses	926
Operating loss	(676)
Interest expense	(19)
Loss from discontinued operations	(695)
Income tax provision	(11)
Net loss from discontinued operations, net of tax	$ (706)

(a) During 2017, prior to its split-off, CBS Radio was measured each reporting period at the lower of its carrying amount or fair value less cost to sell. The value of the transaction with Entercom was determined based on Entercom's stock price at the closing of the transaction and therefore, the Company recorded a market value adjustment to adjust the carrying value of CBS Radio to the value indicated by the stock valuation of Entercom.

4) PROGRAMMING AND OTHER INVENTORY

	At March 31, 2018	At December 31, 2017
Acquired program rights	$2,008	$ 2,234
Acquired television library	99	99
Internally produced programming:		
Released	2,089	1,780
In process and other	590	543
Publishing, primarily finished goods	59	53
Total programming and other inventory	4,845	4,709
Less current portion	1,593	1,828
Total noncurrent programming and other inventory	$3,252	$ 2,881

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 March 31, 2018, NAI directly or indirectly owned approximately 79.7% of CBS Corp.'s voting Class A Common Stock, and owned approximately 10.3% 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

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

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. On February 1, 2018, the Company announced that its Board of Directors established a special committee of independent directors to evaluate a potential combination with Viacom Inc. There can be no assurance that this process will result in a transaction or on what terms any transaction may occur.

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 $19 million and $54 million for the three months ended March 31, 2018 and 2017, respectively.

The Company leases production facilities and purchases advertising spots from various subsidiaries of Viacom Inc. The total amounts for these transactions were $6 million and $5 million for the three months ended March 31, 2018 and 2017, respectively.

The following table presents the amounts due from Viacom Inc. in the normal course of business as reflected on the Company's Consolidated Balance Sheets. Amounts due to Viacom Inc. were minimal at March 31, 2018 and December 31, 2017.

	At March 31, 2018	At December 31, 2017
Receivables	$ 43	$ 93
Other assets (Receivables, noncurrent)	14	11
Total amounts due from Viacom Inc.	$ 57	$ 104

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 $31 million and $26 million for the three months ended March 31, 2018 and 2017, respectively. At March 31, 2018 and December 31, 2017, total amounts due from these joint ventures were $24 million and $27 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.

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

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

	At March 31, 2018	At December 31, 2017
Commercial paper	$ 197	$ 679
Short-term bank borrowings	20	—
Senior debt (2.30% - 7.875% due 2019 - 2045) [(a)]	9,428	9,426
Obligations under capital leases	61	57
Total debt	9,706	10,162
Less short-term debt	217	679
Less current portion of long-term debt	19	19
Total long-term debt, net of current portion	$ 9,470	$ 9,464

(a) At March 31, 2018 and December 31, 2017, the senior debt balances included (i) a net unamortized discount of $63 million and $65 million, respectively, (ii) unamortized deferred financing costs of $46 million and $47 million, respectively, and (iii) a $3 million decrease in the carrying value of the debt relating to previously settled fair value hedges at both March 31, 2018 and December 31, 2017. The face value of the Company's senior debt was $9.54 billion at both March 31, 2018 and December 31, 2017.

Commercial Paper
The Company had outstanding commercial paper borrowings under its $2.5 billion commercial paper program of $197 million and $679 million at March 31, 2018 and December 31, 2017, respectively, each with maturities of less than 90 days. The weighted average interest rate for these borrowings was 2.34% at March 31, 2018 and 1.88% at December 31, 2017.

Credit Facility
At March 31, 2018, 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 March 31, 2018, the Company's Consolidated Leverage Ratio was approximately 2.9x.

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 March 31, 2018, 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.

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7) PENSION AND OTHER POSTRETIREMENT BENEFITS

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

	Pension Benefits		Postretirement Benefits	
Three Months Ended March 31,	2018	2017	2018	2017
Components of net periodic cost:				
Service cost	$8	$7	$ —	$ —
Interest cost	37	48	4	4
Expected return on plan assets	(45)	(50)	—	—
Amortization of actuarial loss (gain) [(a)]	24	25	(5)	(5)
Net periodic cost	$24	$30	$ (1)	$ (1)

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

The service cost component of net periodic cost is presented on the Consolidated Statements of Operations within operating income and all other components of net periodic cost are presented within "Other items, net."

8) STOCKHOLDERS' EQUITY

During the first quarter of 2018, the Company repurchased 3.8 million shares of its Class B Common Stock under its share repurchase program for $200 million, at an average cost of $52.67 per share, leaving $2.86 billion of authorization at March 31, 2018.

During the first quarter of 2018, the Company declared a quarterly cash dividend of $.18 on its Class A and Class B Common Stock, resulting in total dividends of $69 million, which were paid on April 1, 2018.

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, 2017	$ 159	$ (821)	$ (662)
Other comprehensive income before reclassifications	(6)	—	(6)
Reclassifications to net earnings	—	15 (a)	15
Net other comprehensive income (loss)	(6)	15	9
At March 31, 2018	$ 153	$ (806)	$ (653)

	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	2	—	2
Reclassifications to net loss	—	12 (a)	12
Net other comprehensive income	2	12	14
At March 31, 2017	$ 153	$ (906)	$ (753)

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

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The net actuarial losses related to pension and other postretirement benefit plans included in other comprehensive income are net of tax provisions of $4 million and $8 million for the three months ended March 31, 2018 and 2017, respectively.

9) INCOME TAXES

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

	Three Months Ended March 31,	
	2018	2017
Provision for income taxes, including interest and before other discrete items [(a)]	$(138)	$(185)
Excess tax benefits from stock-based compensation [(b)]	—	27
Other discrete items [(c)]	3	20
Provision for income taxes	$(135)	$(138)
Effective income tax rate	20.5 %	22.7 %

(a) The lower tax provision for the three months ended March 31, 2018 primarily reflects a reduction in the federal corporate income tax rate from 35% to 21% as a result of the enactment of new federal tax legislation in December 2017.

(b) Reflects the difference between the tax benefit from stock-based compensation expense and the deduction on the tax return associated with the exercise of stock options and vesting of RSUs. 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.

(c) For the three months ended March 31, 2017, primarily reflects a one-time tax benefit of $22 million from the resolution of certain state income tax matters.

In December 2017, the U.S. government enacted the Tax Reform Act containing significant changes to U.S. federal tax law, including a reduction in the federal corporate tax rate from 35% to 21% and a one-time transition tax on cumulative foreign earnings and profits. For the year ended December 31, 2017 the Company recorded a net provisional charge for the estimated transition tax on cumulative foreign earnings and profits, offset by an estimated benefit to adjust the Company's deferred income tax balances as a result of the reduced corporate income tax rate. The Tax Reform Act also includes a deduction for foreign derived intangible income and a tax on global intangible low-taxed income ("GILTI"), which imposes a U.S. tax on certain income earned by the Company's foreign subsidiaries. The Company included the tax on GILTI in its tax provision for the three months ended March 31, 2018. The Company will complete its analysis of the Tax Reform Act within one year from its enactment. Such analysis will include finalizing and recording any adjustments to provisional estimates, as well as determining whether to treat the tax on GILTI as a period cost when incurred or as a component of deferred taxes.

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10) RESTRUCTURING CHARGES

During the year ended December 31, 2017, 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 $63 million, reflecting $54 million of severance costs and $9 million of costs associated with exiting contractual obligations and other related costs. During the year ended December 31, 2016, 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. As of March 31, 2018, the cumulative settlements for the 2017 and 2016 restructuring charges were $40 million, of which $34 million was for severance costs and $6 million was for costs associated with contractual obligations and other related costs.

	Balance at December 31, 2017	2018 Settlements	Balance at March 31, 2018
Entertainment	$ 45	$ (10)	$ 35
Cable Networks	1	—	1
Publishing	3	(1)	2
Local Media	14	(1)	13
Corporate	3	(1)	2
Total	$ 66	$ (13)	$ 53

	Balance at December 31, 2016	2017 Charges	2017 Settlements	Balance at December 31, 2017
Entertainment	$ 17	$ 44	$ (16)	$ 45
Cable Networks	4	—	(3)	1
Publishing	1	5	(3)	3
Local Media	6	12	(4)	14
Corporate	2	2	(1)	3
Total	$ 30	$ 63	$ (27)	$ 66

11) 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 March 31, 2018 and December 31, 2017, the carrying value of the Company’s senior debt was $9.43 billion and the fair value, which is estimated based on quoted market prices for similar liabilities (Level 2) and includes accrued interest, was $9.76 billion and $10.16 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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item is recognized. Additionally, the Company enters into non-designated forward contracts to hedge non-U.S. dollar denominated cash flows.

At March 31, 2018 and December 31, 2017, the notional amount of all foreign exchange contracts was $362 million and $410 million, respectively.

Losses recognized on derivative financial instruments were as follows:

	Three Months Ended March 31, 2018	2017	Financial Statement Account
Non-designated foreign exchange contracts	$ (4)	$ (8)	Other items, net

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

The following tables set forth the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017. 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 March 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency hedges	$ —	$ 3	$ —	$ 3
Total Assets	$ —	$ 3	$ —	$ 3
Liabilities:				
Deferred compensation	$ —	$ 354	$ —	$ 354
Foreign currency hedges	—	11	—	11
Total Liabilities	$ —	$ 365	$ —	$ 365

At December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency hedges	$ —	$ 5	$ —	$ 5
Total Assets	$ —	$ 5	$ —	$ 5
Liabilities:				
Deferred compensation	$ —	$ 363	$ —	$ 363
Foreign currency hedges	—	10	—	10
Total Liabilities	$ —	$ 373	$ —	$ 373

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.

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12) SEGMENT AND REVENUE INFORMATION

The following tables set forth the Company’s financial information 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 March 31,	
	2018	2017
Revenues:		
Entertainment	$2,716	$2,347
Cable Networks	609	543
Publishing	160	161
Local Media	415	409
Corporate/Eliminations	(139)	(117)
Total Revenues	$3,761	$3,343

Revenues generated between segments primarily reflect advertising sales, content licensing 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 March 31,	
	2018	2017
Intercompany Revenues:		
Entertainment	$139	$119
Local Media	5	3
Total Intercompany Revenues	$144	$122

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