CBS CORP
Form 10-Q
November 05, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

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

Number of shares of common stock outstanding at October 31, 2007:

Class A Common Stock, par value $.001 per share	59,582,073
Class B Common Stock, par value $.001 per share	625,461,052

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,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	$ 3,281.4	$ 3,378.8	$ 10,314.1	$ 10,437.3
Expenses:				
Operating	1,855.0	1,921.9	6,092.8	6,123.6
Selling, general and administrative	668.8	701.0	1,967.8	2,062.7
Depreciation and amortization	111.8	109.5	336.5	326.1
Total expenses	2,635.6	2,732.4	8,397.1	8,512.4
Operating income	645.8	646.4	1,917.0	1,924.9
Interest expense	(141.7)	(140.1)	(427.0)	(425.2)
Interest income	30.0	41.4	103.1	72.5
Loss on early extinguishment of debt				(6.0)
Other items, net	(8.3)	(9.2)	(5.5)	(27.3)
Earnings from continuing operations before income taxes, equity in loss of affiliated companies and minority interest	525.8	538.5	1,587.6	1,538.9
Provision for income taxes	(172.5)	(208.4)	(610.4)	(487.6)
Equity in loss of affiliated companies, net of tax	(13.0)	(6.1)	(19.8)	(3.1)
Minority interest, net of tax	(.1)	(.4)	.3	(.3)
Net earnings from continuing operations	340.2	323.6	957.7	1,047.9
Discontinued operations (Note 4):				
Earnings (loss) from discontinued operations before income taxes	(17.0)		(17.0)	453.5
(Provision) benefit for income taxes	20.1	(6.7)	20.1	(175.9)
Net earnings (loss) from discontinued operations	3.1	(6.7)	3.1	277.6
Net earnings	$ 343.3	$ 316.9	$ 960.8	$ 1,325.5
Basic earnings per common share:				
Net earnings from continuing operations	$ .48	$ .42	$ 1.32	$ 1.37
Net earnings (loss) from discontinued operations	$	$ (.01)	$	$ .36
Net earnings	$ .49	$ .41	$ 1.32	$ 1.73
Diluted earnings per common share:				
Net earnings from continuing operations	$ .48	$ .42	$ 1.30	$ 1.36

Net earnings (loss) from discontinued operations	$	$ (.01)	$	$ .36
Net earnings	$ .48	$ .41	$ 1.30	$ 1.72
Weighted average number of common shares outstanding:				
Basic	707.1	766.0	728.0	764.5
Diluted	715.4	774.2	736.5	770.2
Dividends per common share	$ ..25	$ ..20	$ ..69	$ ..54

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions, except per share amounts)

	At September 30, 2007	At December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,226.0	$ 3,074.6
Receivables, less allowances of $147.5 (2007) and $152.6 (2006)	2,592.9	2,824.0
Programming and other inventory (Note 6)	792.2	982.9
Deferred income tax assets, net	307.7	307.7
Prepaid expenses and other current assets	664.3	757.3
Current assets of discontinued operations (Note 4)	160.2	197.6
Total current assets	5,743.3	8,144.1
Property and equipment:		
Land	338.7	343.7
Buildings	638.7	582.3
Capital leases	215.9	207.3
Advertising structures	1,738.2	1,619.0
Equipment and other	1,650.1	1,522.3
	4,581.6	4,274.6
Less accumulated depreciation and amortization	1,737.1	1,460.8
Net property and equipment	2,844.5	2,813.8
Programming and other inventory (Note 6)	1,645.9	1,665.6
Goodwill (Note 5)	19,081.5	18,821.5
Intangible assets (Note 5)	10,240.4	10,425.0
Other assets	1,465.2	1,553.2
Assets of discontinued operations (Note 4)	80.9	85.6
Total Assets	$ 41,101.7	$ 43,508.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 375.6	$ 502.3
Accrued compensation	301.2	375.3
Participants' share and royalties payable	614.3	767.5
Program rights	974.9	906.9
Current portion of long-term debt (Note 8)	19.8	15.0
Accrued expenses and other current liabilities	1,953.5	1,813.8
Current liabilities of discontinued operations (Note 4)	23.9	18.7
Total current liabilities	4,263.2	4,399.5
Long-term debt (Note 8)	7,035.9	7,027.3
Pension and postretirement benefit obligations	1,989.3	1,993.3
Deferred income tax liabilities, net	2,372.3	2,310.7
Other liabilities	3,628.1	3,595.6
Liabilities of discontinued operations (Note 4)	613.7	658.9

Commitments and contingencies (Note 12)		
Minority interest	1.1	1.0
Stockholders' Equity:		
Class A Common Stock, par value $.001 per share; 375.0 shares authorized; 59.9 (2007) and 61.5 (2006) shares issued	.1	.1
Class B Common Stock, par value $.001 per share; 5,000.0 shares authorized; 726.4 (2007) and 715.5 (2006) shares issued	.7	.7
Additional paid-in capital	44,228.0	44,259.3
Accumulated deficit	(19,211.0)	(20,175.9)
Accumulated other comprehensive loss (Note 1)	(116.4)	(246.3)
	24,901.4	23,837.9
Less treasury stock, at cost; 114.7 (2007) and 8.6 (2006) Class B Shares	3,703.3	315.4
Total Stockholders' Equity	21,198.1	23,522.5
Total Liabilities and Stockholders' Equity	$ 41,101.7	$ 43,508.8

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Nine Months Ended September 30,	
	2007	**2006**
Operating Activities:		
Net earnings	$ 960.8	$ 1,325.5
Less: Net earnings from discontinued operations	3.1	277.6
Net earnings from continuing operations	957.7	1,047.9
Adjustments to reconcile net earnings from continuing operations to net cash flow provided by operating activities:		
Depreciation and amortization	336.5	326.1
Stock-based compensation	80.8	51.7
Equity in loss of affiliated companies, net of tax	19.8	3.1
Distributions from affiliated companies	4.9	9.8
Change in assets and liabilities, net of effects of acquisitions	491.4	380.2
Net cash flow provided by operating activities from continuing operations	1,891.1	1,818.8
Net cash flow from (used for) operating activities attributable to discontinued operations	4.8	(74.0)
Net cash flow provided by operating activities	1,895.9	1,744.8
Investing Activities:		
Capital expenditures	(302.2)	(195.7)
Acquisitions, net of cash acquired	(329.1)	(75.3)
Proceeds from dispositions	346.3	1,262.9
Investments in and advances to affiliated companies	(20.9)	(48.6)
Net receipts from Viacom Inc. related to the Separation	174.9	28.4
Other, net	(1.2)	(.8)
Net cash flow (used for) provided by investing activities from continuing operations	(132.2)	970.9
Net cash flow used for investing activities attributable to discontinued operations		(34.5)
Net cash flow (used for) provided by investing activities	(132.2)	936.4
Financing Activities:		
Repayment of notes	(660.0)	(832.0)
Proceeds from issuance of notes	678.0	
Borrowings from (repayments to) banks, including commercial paper, net	1.9	(4.5)
Payment of capital lease obligations	(12.6)	(10.9)
Purchase of Company common stock	(3,351.3)	(6.1)
Dividends	(472.4)	(365.8)
Proceeds from exercise of stock options	195.2	58.0
Excess tax benefit from stock-based compensation	8.9	1.4
Net cash flow used for financing activities	(3,612.3)	(1,159.9)
Net (decrease) increase in cash and cash equivalents	(1,848.6)	1,521.3

Cash and cash equivalents at beginning of period		3,074.6		1,655.3
Cash and cash equivalents at end of period	$	1,226.0	$	3,176.6
Supplemental disclosure of cash flow information				
Cash paid for interest	$	(432.4)	$	(432.7)
Cash paid for income taxes	$	(427.9)	$	(559.4)
Non-cash investing and financing activities:				
Non-cash purchase of Company common stock (Note 3)	$	(64.0)	$	
Equipment acquired under capitalized leases	$	9.6	$	.1
Acquisition of CSTV Networks:				
Fair value of assets acquired	$		$	350.3
Fair value of liabilities assumed				(30.3)
Cash paid, net of cash acquired				(47.3)
Impact on Stockholders' Equity	$		$	272.7

See notes to consolidated financial statements.

CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in millions, except per share amounts)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business CBS Corporation (together with its consolidated subsidiaries unless the context otherwise requires, the "Company" or "CBS Corp.") is comprised of the following segments: Television (CBS Television, comprised of the CBS Network, television stations, and its television production and syndication operations; Showtime Networks; and CSTV Networks), Radio (CBS Radio), Outdoor (CBS Outdoor) and Publishing (Simon & Schuster). During 2006, the Company sold Paramount Parks to Cedar Fair, L.P. for $1.24 billion in cash. As a result, Paramount Parks is presented as a discontinued operation in the consolidated financial statements.

Basis of Presentation The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC"). These financial statements should be read in conjunction with the more detailed financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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

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

Net Earnings per Common Share Basic earnings per share ("EPS") is based upon net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the effect of the assumed vesting of restricted shares and restricted stock units ("RSUs") and the assumed exercise of stock options only in the periods in which such effect would have been dilutive. For both the three and nine months ended September 30, 2007, stock options to purchase 11.7 million shares of CBS Corp. Class B Common Stock were outstanding but excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2006, respectively, stock options to purchase 32.8 million and 36.6 million shares of CBS Corp. Class B Common Stock were outstanding but excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive.

CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular dollars in millions, except per share amounts)

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

(in millions)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Weighted average shares for basic EPS	707.1	766.0	728.0	764.5
Dilutive effect of shares issuable under stock-based compensation plans	8.3	8.2	8.5	5.7
Weighted average shares for diluted EPS	715.4	774.2	736.5	770.2

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net earnings	$ 343.3	$ 316.9	$ 960.8	$ 1,325.5
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustments	63.1	7.0	114.1	52.2
Adjustment for amortization of actuarial losses and prior service costs	5.3		16.1	
Minimum pension liability adjustment		13.6		15.9
Net unrealized gain (loss) on securities	(.6)	1.1	(.6)	.8
Change in fair value of cash flow hedges	(.1)		.3	
Other comprehensive income from discontinued operations, net of tax				17.5
Total comprehensive income	$ 411.0	$ 338.6	$ 1,090.7	$ 1,411.9

Other Liabilities Other liabilities consist primarily of residual liabilities of previously disposed businesses, program rights, participation liabilities, deferred compensation and other employee benefit accruals.

Additional Paid-In Capital For the nine months ended September 30, 2007 and 2006, the Company recorded dividends of $495.8 million and $413.1 million, respectively, as a reduction to additional paid-in capital as the Company had an accumulated deficit balance.

Company Common Stock Held by Subsidiaries In connection with a restructuring of the Company's international subsidiaries, certain wholly owned subsidiaries hold 179.3 million shares of CBS Corp. Class B Common Stock, of which 47.3 million shares were repurchased through an accelerated share repurchase transaction and 132.0 million shares were issued by the Company to wholly owned subsidiaries. The 47.3 million repurchased shares are reflected as treasury shares and the 132.0 million shares are eliminated in consolidation.

Adoption of New Accounting Standards Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition of income tax positions, classification of income tax liabilities, accounting for interest and penalties associated with unrecognized tax benefits, accounting for uncertain tax positions in interim periods, and income tax disclosures. The adoption of FIN 48 on January 1, 2007 did not have a material impact on the Company's consolidated financial statements. See Note 11 for additional information.

(Tabular dollars in millions, except per share amounts)

Recent Pronouncements In February 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159") effective as of the beginning of the first fiscal year that begins after November 15, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company is currently evaluating the impact of the adoption of SFAS 159 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS 157 establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. The Company is currently evaluating the impact of the adoption of SFAS 157 on the consolidated financial statements.

2) STOCK-BASED COMPENSATION

The following table summarizes the Company's stock-based compensation expense for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Stock options	$ 1.6	$ 3.2	$ 7.0	$ 18.2
RSUs and restricted shares	27.7	17.7	73.8	33.5
Total stock-based compensation	$ 29.3	$ 20.9	$ 80.8	$ 51.7

During the nine months ended September 30, 2007, the Company granted 4.2 million RSUs with a weighted average per unit grant date fair value of $31.34. RSU grants during 2007 vest over a one- to four-year service period. RSUs granted to certain executives are also subject to satisfying performance and/or market conditions. The number of shares that will be issued upon vesting of RSUs with market conditions is tied to the achievement of certain levels of total shareholder return for CBS Corp. Class B Common Stock as compared to the S&P 500 index and, in certain circumstances, is also subject to achieving operating performance goals. During the nine months ended September 30, 2007, the Company also granted 3.8 million stock options and stock option equivalents with a weighted average exercise price of $30.52. Stock option grants during 2007 generally vest over a three- to four-year service period.

Total unrecognized compensation cost related to unvested restricted shares and RSUs at September 30, 2007 was $206.3 million, which is expected to be expensed over a weighted average period of 2.50 years. Total unrecognized compensation cost related to unvested stock option awards and stock option equivalents at September 30, 2007 was $28.8 million, which is expected to be expensed over a weighted average period of 2.92 years.

CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular dollars in millions, except per share amounts)

3) ACQUISITIONS AND DISPOSITIONS

On May 30, 2007, the Company acquired Last.fm, a global, community-based, music discovery network, for approximately $280 million. Last.fm has been included as part of the Television segment since the date of acquisition. The excess purchase price over the fair value of the tangible and identifiable intangible net assets acquired was allocated to goodwill. The final allocation of the purchase price will be based on an evaluation of the fair value of the assets acquired and liabilities assumed.

On April 16, 2007, the Company completed an exchange agreement with Liberty Media Corporation under which the stock of a subsidiary of the Company which held CBS Corp.'s Green Bay television station and its satellite television station, valued at $64.0 million, and $169.8 million in cash was exchanged for the 7.6 million shares of CBS Corp. Class B Common Stock held by Liberty Media Corporation. In connection with the exchange, the Company recorded a pre-tax gain of $14.6 million in "Other items, net" on the Consolidated Statement of Operations for the nine months ended September 30, 2007.

On April 4, 2007, the Company completed the acquisition of MaxPreps, Inc., an online high school sports network, for $43.0 million. MaxPreps, Inc., has been included as part of the Television segment since the date of acquisition.

On February 26, 2007, the Company completed the sale of its television station in New Orleans for $4.3 million. On February 7, 2007, the Company announced that it entered into an agreement to sell seven of its owned television stations in Austin, Salt Lake City, Providence and West Palm Beach to Cerberus Capital Management, L.P. for approximately $185 million. This transaction is subject to FCC approval and customary closing conditions, and is expected to close in the first quarter of 2008.

During 2006, the Company entered into agreements to sell 39 radio stations in ten of its smaller markets for a total of approximately $668 million in cash. In December 2006, the Company completed the sale of five radio stations in the Buffalo market for approximately $125 million. During the nine months ended September 30, 2007, the sales of 19 radio stations in the Kansas City, Columbus, Fresno, Greensboro and San Antonio markets were completed and the Company received $281.4 million resulting in a pre-tax loss of $2.0 million included in "Other items, net" on the Consolidated Statement of Operations for the nine months ended September 30, 2007. The remaining transactions are subject to customary closing conditions, and are expected to close by early 2008.

4) DISCONTINUED OPERATIONS

During 2006, Paramount Parks was sold to Cedar Fair, L.P. for $1.24 billion in cash and as a result, Paramount Parks has been presented as a discontinued operation in the consolidated financial statements. For the three and nine months ended September 30, 2007, net earnings from discontinued operations of $3.1 million reflects adjustments to the gain on the sale of Paramount Parks.

CBS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Tabular dollars in millions, except per share amounts)

The following table sets forth the detail of CBS Corp.'s net earnings (loss) from discontinued operations for 2006. For the three and nine months ended September 30, 2006, net earnings (loss) from discontinued operations included losses on dispositions related to the Company's aircraft leases and for the 2006 nine-month period also included the operating results and gain on the sale of Paramount Parks.

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues from discontinued operations	$	$ 158.9