

TO OUR SHAREHOLDERS

In 1989 income from continuing operations at CBS increased as the result of improved broadcast earnings, while net interest income remained steady. Broadcast income was lifted by the performance of the CBS Television Network, which benefited from a strong demand for advertising in the latter half of the year. Nonetheless, Television Network earnings remained markedly beneath the levels realized in the mid-1980s, reflecting increased competition for programming, viewers and advertising dollars.

CBS's net sales rose 7 percent to \$2.96 billion for 1989. Income from continuing operations rose 5 percent to \$297.1 million, or \$11.54 per share. Net income for 1989 was \$11.51 per share, compared to \$44.75 per share in 1988, which included an after-tax, non-recurring gain on the sale of CBS/Records of \$866.6 million, or \$33.73 per share.

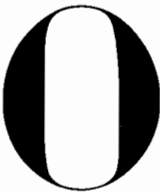
During 1989 Broadcast Group sales rose 7 percent and profits increased 27 percent to \$294.6 million. The CBS Television Network reported higher earnings, largely due to renewed demand for advertising, which resulted in strong unit price increases in the upfront market for virtually all dayparts. Network programming costs were increased by the 1988 Writers Guild strike, which led to the broadcast of more original program episodes during 1989, but were offset in part by the absence of expenses related to coverage of the 1988 Presidential election campaign. The Television Stations Division increased sales and profits, despite sluggish conditions in certain local markets. CBS Radio earnings declined, primarily due to sales weakness within the radio networks and AM stations.

CBS has a very strong balance sheet. At the end of 1989, the Company's cash and marketable securities position of \$2.8 billion far exceeded its total debt of \$0.8 billion. Corporate cash was invested in a well-diversified portfolio of high-quality securities, generating pre-tax interest income of \$246.7 million. CBS's strong cash flow from operations enabled it to reduce long-term debt over the past two years, while making substantial investments in program rights and broadcast assets. Shareholders' equity rose to \$2.4 billion from \$2.2 billion at the end of the prior year.

Even though 1989 resulted in financial success for CBS, it was also a year of some disappointments, particularly the Network's third-place ratings finish in the primetime rankings. We have no higher priority than reestablishing the Company as the nation's leading television network. To this end, we set forth in last year's letter to shareholders a strategy that emphasized three central elements: improved programming, aggressive promotion to attract new viewers, and innovative marketing to enhance the value of network television to advertisers. During 1989 we made significant headway with respect to this long-range plan, mainly in the areas of promotion and marketing. Programming, however, remains our most prominent challenge. Although our competitive standing in prime time

was unimproved, key changes were implemented to realize better ratings in the future.

Solidifying CBS's position as the leader in sports television is a fundamental part of our strategy to return to leadership in prime time. In 1989 we continued to make major commitments to secure the exclusive broadcast rights to premier athletic events. In August CBS won the bidding for the 1994 Winter Olympics in Lillehammer, Norway, complementing the previously acquired rights to the 1992 Winter Games in Albertville, France. In November we extended our partnership with NCAA Basketball through 1997 by securing the exclusive broadcast rights to its widely watched championship tournament, expanding coverage on over-the-air free television.

ur sports strategy of broadcasting premier events offers a number of powerful advantages to CBS. Athletic championships often capture the immediacy, excitement and drama that make television such a unique and compelling medium. Consequently, major sports events have generally withstood the audience erosion that has affected network programming and routinely deliver large ratings. Moreover, the proven audience attraction of sports can be used as a vehicle to promote CBS's entertainment and news programming, as well as to provide unique marketing opportunities for advertisers. As a result of our strategy, CBS Sports showcases in 1990 its "Dream Season" that includes the NFL Super Bowl, the NCAA Basketball Tournament, the NBA Playoffs and Finals, and the League Championships and World Series of Major League Baseball, among other special events.

Comedy programming is another component of CBS's agenda to improve primetime ratings and expand viewer demographics. The Monday night lineup of half-hour comedies—including the highly regarded *Murphy Brown*, *Designing Women* and *Newhart*—proved successful, and provides a platform for expanding the number of comedy programs on other nights of the primetime schedule.

In the first half of the current television season, we made progress toward a further goal of attracting younger viewers to the strategic opening hour of prime time, with improvement on five of seven nights. Despite strong competition, new primetime series such as *Major Dad* and *Rescue 911* have shown the promise of building a solid audience base in the early evening. The appointment of Jeff Sagansky as President of the Entertainment Division was well-received by affiliates, advertisers and the creative community. Mr. Sagansky brings a strong management background and creative skills, as well as extensive industry contacts, to this critically important job.

Led by the *CBS Evening News with Dan Rather*, CBS News had an outstanding year, highlighted by its international reporting of events in China, the Soviet Union, Eastern Europe and Panama. CBS News coverage of China was awarded the Alfred I. duPont-Columbia University Journalism Award. In its 22nd season, *60 Minutes* continued to set

superior standards for broadcast journalism and remained in the top ten of primetime shows.

In 1989 we took bold steps to enhance the value of advertising on the CBS Television Network and to promote our programming schedule. Most notably, the launch of the 1989-90 primetime season was supported by the largest promotional event in television history—the CBS/K mart “Get Ready Giveaway,” which substantially increased viewer sampling of our series’ premieres. Based on its success, we have undertaken further innovations in television marketing and promotion, including a national shopping mall tour featuring sports participation and the use of freestanding newspaper inserts.

During the year the acquisitions of a television station in Miami, Florida, and two radio stations in Detroit, Michigan, were completed. These investments reflect CBS’s continuing commitment to purchase broadcast properties within the ownership limits permitted by the Federal Communications Commission. In addition, the upgrading of technical and production facilities remains a major priority. Studio production capacity is being markedly increased in Los Angeles, where a new state-of-the-art facility was opened in 1989 and two additional studios are planned in support of CBS primetime programming.

For the first quarter of 1990, we expect CBS to report higher earnings per share, largely due to the broadcast of the NFL Super Bowl. However, for the balance of the year, we have two principal concerns that make earnings progress more difficult to forecast. First, the strength of the U.S. economy is worrisome, and a general downturn would result in weaker advertising demand, adversely affecting broadcast operating income. However, the cash reserves of CBS provide ample financial resources to handle an economic recession. Secondly, we recognize that the higher costs of acquiring the rights to premier sports events could put pressure on Network profits in the short term. Nevertheless, we believe that being positioned as the nation’s number one sports broadcaster fits our overall strategy to improve programming and audience delivery, and thereby ensures the long-term growth, vitality and financial success of the Television Network and the network-affiliate partnership.

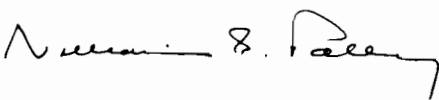
There is no more valuable information and entertainment resource available to the American public than free broadcast television. But free television is a business whose risks and rewards should not be put at a competitive disadvantage by outdated government regulations. The structure of American television has changed fundamentally in the past decade, yet the basic framework of broadcast regulation remains unaltered. Consequently, CBS is committed to working for the repeal of government regulations that fail to take into account the realities of today’s network economics. In this context, we are particularly dedicated to modifying the financial interest and syndication rules that limit a network’s return on its investment in the programs that it finances, promotes and broadcasts. We are

also concerned about the growing imbalance between over-the-air free television and cable, whose dual revenue stream from both advertisers and subscribers provides an unfair advantage in bidding for major program properties.

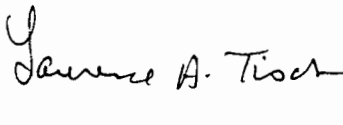
As the new decade unfolds, we see more television sets and more television viewing in the average American home. We also see significant increases in dollars generated from advertisers. The strength of the 1989-90 upfront television marketplace signaled, in part, a movement by national advertisers away from promotion, merchandising and more specialized media. This renewed interest in network television reflected the simple fact that broadcasting is a medium that works for advertisers. The power of *free* television's reach and efficiency is unequaled because for most Americans it is their primary source of news, information and entertainment.

CBS enters the new decade with the creative people, the corporate commitment and the financial resources to provide the American public with first-rate broadcasts of the major events of our time. In today's media environment, a rapid improvement in audience ratings has become difficult to achieve with heightened competition for viewers from cable, independent television and home video. We are convinced that our long-term strategy for improving our programming and audience delivery will ultimately prevail. We face the future with confidence that the key elements are in place to make CBS the nation's foremost broadcast enterprise of the 1990s.

March 1, 1990



William S. Paley
Chairman



Laurence A. Tisch
President and Chief Executive Officer

CBS/BROADCAST GROUP

(Dollars in millions)

	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>
Net Sales.....	\$2,959.9	\$2,776.8	\$2,761.8	\$2,807.9	\$2,778.3
Operating Profits.....	294.6	232.4	232.8	228.6	373.8

The Company's broadcasting operations consist of the CBS Television Network, five television stations, the CBS Radio Networks and 20 radio stations. In 1989 Broadcast Group sales increased 7 percent to \$2.96 billion, while operating profits increased 27 percent to \$294.6 million. Effective management held the Group's cost growth to less than 5 percent, while providing the necessary resources for program development, marketing and promotion.

Bolstered by the strength of the 1989-90 upfront advertising market, the CBS Television Network posted solid gains in sales and profits for the year. The CBS Television Stations Division achieved record sales and profits in 1989, despite listless conditions in certain local markets. The Radio Division's profits declined in 1989, as sales weakness within the networks and AM stations offset improved results for the FM stations. Detailed discussion of the Company's broadcasting operations is provided in subsequent sections of this report.

To capitalize on expanding international demand for television programming, as well as increased opportunities in the domestic ancillary markets, the CBS Enterprises Division was formed in November. The new Division is responsible for the international sales and licensing of CBS-owned programming, in addition to overseas investment and co-venture activities. The Enterprises Division also manages the distribution of CBS programming to home video through the CBS/FOX joint venture.

The Broadcast Group's Communications unit has refocused and recharged the areas of promotion, advertising and media relations to attract new viewers to the Network's programming. A central element of 1989's promotional plan was the CBS/K mart "Get Ready Giveaway," a national watch-and-win sweepstakes, geared to build interest in the new television season and increase viewer sampling of new CBS shows. The campaign helped to increase the Network's premiere episode ratings by 28 percent over the previous season. In a separate area, the Program Practices department continued to review the Company's broadcasts to ensure that the contents of CBS's programs and commercials meet community standards.

As part of CBS's longstanding commitment to public service, the Group continued its strong support of the national campaign against drug abuse. CBS employees and on-air talent consulted with the Partnership for a Drug Free America and the National Institute on Drug Abuse to develop and broadcast powerful messages concerning the consequences of substance abuse. Among other activities, CBS set aside commercial time during Super Bowl XXIV—one of the most watched broadcasts of the year—to target its anti-drug message.

CBS TELEVISION NETWORK

Profits for the CBS Television Network increased in 1989 on expanded sales of 6 percent. Network advertising sales rose mainly due to higher unit prices in major dayparts. Two principal product categories, automobiles and restaurants, showed exceptional growth in advertising spending for a post-Olympic year. Network pricing also strengthened as marketing expenditures were partly shifted from promotion and merchandising to more traditional television buys.

The rate of erosion in the three-network share of audience viewing continues to slow, in part reflecting the gradual maturity of the cable and home video industries. For the 1989-90 season, the three-network primetime share is expected to be nearly unchanged from the strike-affected 1988-89 share of 67 percent.

Although the Network maintained household ratings leadership in sports and daytime, its third-place primetime ranking was a disappointment. However, in the first half of the current season, the Network's primetime performance has shown a modest increase in household delivery. Audience ratings have also risen on five nights of the week in the strategic first hour of primetime viewing.

During the year, the Network encountered cost pressures due to the 1988 Writers Guild strike, which increased first-run regular series programming on the schedule in 1989. Higher expenses were also incurred to implement marketing and promotional plans. These increases were offset, in part, by internal cost control and the absence of expenses related to 1988 Presidential campaign coverage. In total, Network cost growth for 1989 was held well below the national rate of inflation.

The CBS Television Network is supported by six divisions: Entertainment, Sports, News, Marketing, Affiliate Relations, and Operations and Administration.

CBS ENTERTAINMENT

The Entertainment Division is responsible for the development, acquisition or production, and scheduling of all entertainment programs on the CBS Television Network. The foremost concern of the Division is to improve the competitive standing of the Network's primetime schedule, increasing the delivery of both total households and key demographic groups desired by advertisers. Development of new programs that attract families and younger viewers in the early evening hours is a basic element of the Division's strategy for a primetime ratings recovery. In addition, management is intent on establishing long-term affiliations with the top talent in the creative community—writers, producers, actors and directors—in order to ensure a supply of fresh programming with broad appeal.

Through the midpoint of the 1989-90 television season, CBS ratings advanced during the critical opening hour of primetime viewing on five nights of the week, largely due to the popularity of two new series, *Major Dad* and *Rescue 911*, and the second year program *Paradise*. *Major Dad* starring Gerald McRaney and *Rescue 911* with William Shatner are among the most favorably received shows of the new season. With a stronger foundation in the initial hour of the primetime schedule, the Division is better positioned to realize its long-term program development goals.

Traditionally, situation comedy has drawn families and young adults to the television set. The Monday night lineup of comedies—including *Murphy Brown*, *Designing Women* and *Newhart*—has been successful thus far in the current season, and creates a capacity to expand comedy blocks on other nights. Introduced in the 1988-89 season, *Murphy Brown* received Emmy awards for best actress, Candice Bergen, and for writing, Diane English.



Sunday night continued as television's most watched night, and the CBS schedule—*60 Minutes*; *Murder, She Wrote*; and *The CBS Sunday Movie*—ranked number one among viewers. Both *60 Minutes* and *Murder, She Wrote* remained in the top ten of primetime regularly scheduled programs for the 1988-89 season. Angela Lansbury, the star of *Murder, She Wrote*, agreed to remain with the program through 1991.

In the 1988-89 season, CBS retained its leadership position in Monday-to-Friday daytime, improving its audience demographics. The Division broadcasts six of the top ten-

rated daytime programs, including the number one series, *The Young and the Restless*. Among women aged 25 to 54, a demographic group targeted by advertisers, CBS was the only network to show a daytime ratings increase in the past season.

Lonesome Dove, which aired in February 1989, ranked as the highest-rated mini-series in the last six years, attracting 87 million viewers over four nights. The three-network share of audience exceeded 80 percent, on average, during the airing of *Lonesome Dove*, supporting CBS's longstanding tenet that programming of the highest quality will prevail in the competition for viewers.



CBS SPORTS

Building on 1988's acquisitions of Major League Baseball and the 1992 Winter Olympics, CBS Sports continued its aggressive strategy of securing broadcast rights to high-profile sports properties in 1989. In August CBS acquired the rights to the 1994 Winter Olympic Games in Lillehammer, Norway. In November CBS Sports extended its alliance with the NCAA Basketball Championship Tournament through 1997.

The proliferation of sports programming on local television, cable and pay-television has increased fan interest and total viewing audiences. The Division's strategy of broadcasting renowned events enables the Network to capitalize on the audience appetite for sports that is created by competing outlets by feeding that viewership into post-season play on CBS. In addition, major athletic championships have generally resisted the audience erosion that has affected other forms of network programming, and often deliver large and predictable ratings at crucial periods during the broadcast year, such as the February sweeps when the Winter Games will air.

As a result of its major event strategy, CBS expects to broadcast a "Dream Season" in 1990: the NFL Super Bowl, the Daytona 500, the NCAA Basketball Championship, the World Figure Skating Championships, the Masters® Golf Tournament and the PGA Tour, the NBA Playoffs and Finals, the U.S. Open Tennis Championships, the NFL regular

season, CFA college football, and the League Championships and World Series of Major League Baseball, among other key events.

CBS Sports' 34th year of NFL coverage continued to enjoy ratings supremacy over its weekend competition, aided by the talented lead announcing team of Pat Summerall and John Madden. *The NFL Today*, hosted by Brent Musburger, also maintained its position as the dominant pre-game program.

In recognition of its excellence in production and coverage, CBS Sports garnered a number of awards in 1989. The Division won six Emmy awards, including "Outstanding Live Sports Series" for NCAA Basketball. For the sixth consecutive year, John Madden won an Emmy for "Outstanding Sports Personality/Analyst."

CBS NEWS

For more than half a century, CBS News has set the standards for broadcast journalism. In 1989 the Division maintained its excellence in special event coverage, highlighted by incisive reporting of the pro-democracy movements in China, Eastern Europe and the Soviet Union. Domestic reporting was equally distinguished and included coverage of the inauguration of President Bush and the devastation caused by Hurricane Hugo, the San Francisco Bay area's earthquake, and the Alaskan oil spill.



The *CBS Evening News with Dan Rather* was the place where millions of Americans received nightly news reports, ranking first among the evening news broadcasts for much of 1989. The News Division's coverage of the student rebellion in China, anchored by Dan Rather from Tiananmen Square in Beijing, was awarded the prestigious Alfred I. duPont-Columbia University Journalism Award.

The information needs of the public were further served by CBS's two morning programs, *CBS This Morning* and the *CBS Morning News*. *Face the Nation*, *Nightwatch* and

Sunday Morning with Charles Kuralt also contributed to the Division's performance in 1989.

CBS News is the only network news division with three primetime programs—*60 Minutes*, *48 Hours* and *Saturday Night with Connie Chung*. In its 22nd season, *60 Minutes* is the most watched news broadcast in television history and the longest-running primetime series in production. In the 1988-89 television season, *60 Minutes* finished among the top ten-rated network programs for the 12th consecutive year. *48 Hours* continued its acclaimed coverage of critical social concerns, highlighted by the three hour special, *48 Hours: Return to Crack Street*. Connie Chung, one of broadcasting's most respected journalists, returned to CBS in 1989 to anchor *Saturday Night with Connie Chung*, as well as the Sunday *CBS Evening News*.

CBS MARKETING

Capitalizing on better advertising demand, CBS Marketing posted record sales in the upfront market, the period when advertisers bought commercial time in advance for the 1989-90 television season. Higher pricing was led by particular strength in the dayparts of evening, sports and news. After several years of softness, unit prices rose in the upfront selling of the Monday-to-Friday daytime period, an important Network profit center.

Several forces spurred upfront market demand. The mass media budgets of national marketers were partly reallocated from sales promotion efforts to television advertising campaigns. This change indicated renewed confidence among media buyers in the effectiveness of delivering commercial messages on network television. In addition, automotive advertising, one of the largest product categories on television, rose significantly due to new model introductions by a number of manufacturers. The 1989-90 upfront marketplace also gained from the absence of uncertainty and confusion created by the Writers Guild strike in 1988 and the transition to Nielsen "people meter" ratings measurement in 1987.

The Division has developed a number of innovative and aggressive marketing programs to make Network purchases more productive for advertisers. A national shopping mall tour was launched during Super Bowl XXIV promoting the premier event schedule of CBS Sports, the products of major advertisers on sports broadcasts, and the programming of local CBS affiliate stations. Traveling to 28 cities, the mall tour uses interactive displays, celebrity appearances and consumer contests to reach out to television viewers. In the first marketing tie-in to the primetime schedule of CBS Entertainment, a newspaper insert was developed that linked major advertisers, a sweepstakes contest and coupons to themes based on *Dallas* and *Knots Landing*. With client-involved projects, the Division is countering the advertisers' perception of buying network commercial time as if it were a commod-

ity—a point of view that undervalues the effectiveness of network advertising. Major advertisers have quickly embraced these fully-integrated marketing tools, because these techniques clearly amplify the impact of network advertising.

CBS AFFILIATE RELATIONS

CBS Affiliate Relations seeks to strengthen the network-affiliate partnership, the underpinning of CBS's ability to reach a broad, nationwide television audience. CBS Network programming is carried by over 200 affiliated stations, as well as the five CBS Owned stations, reaching 99 percent of the television homes in the country.

Among its key accomplishments in 1989, the Division improved the clearance of Network programming by affiliates, particularly within the categories of daytime game shows, late night and one-time-only primetime preemptions. The Division also established a new compensation and performance structure for affiliates that rewards the clearance of certain dayparts with greater payments to stations. Nearly half of the affiliate stations have been converted to this new incentive-based compensation system. In addition, the Division focused on building the cross-promotional aspects of the network-affiliate relationship. Affiliate participation was central to the success of the Network's principal promotional campaign of the past year—the watch-and-win sweepstakes event that helped launch the television season.

CBS OPERATIONS AND ADMINISTRATION

The Operations and Administration Division provides the technical facilities that produce and transmit CBS entertainment, sports and news programming. In 1989 the Division continued to undertake substantial investments to upgrade the Network's technological infrastructure, while maintaining significant cost reduction programs.

At Television City in Los Angeles, a new production studio was completed in 1989, and plans were announced in February 1990 for the construction of two additional studios that will be dedicated to the production of primetime programming. Also, in 1989, CBS purchased satellite transponders that will serve the Network's program-gathering and affiliate transmission requirements into the next century.

To meet increasing demand for stereo television, the entire primetime entertainment schedule was broadcast in stereo, and plans are underway to extend this audio format to other parts of the broadcast day in 1990. In addition, to protect the CBS signal from unauthorized distribution, major portions of the schedule were encrypted in 1989.

CBS TELEVISION STATIONS

In 1989 the Television Stations Division achieved record sales and profits, despite soft conditions in certain local economies and start-up costs related to the acquisition of WCIX-TV Miami. The Division's sales rose 9 percent in 1989 with over half of the increase due to the WCIX-TV purchase. Weakness in local retail advertising occurred in the New York and Philadelphia markets. These sluggish sales were countered by the Division's cost management policies, which held the growth rate of expenses, excluding Miami, below the national inflation rate.

With the purchase of WCIX-TV in January 1989, the CBS Owned stations reach 20.8 percent of the nation's television homes. This acquisition reflects CBS's intention to acquire additional television stations within the 25 percent limitation established by the Federal Communications Commission. CBS's other Owned stations are in the nation's four largest television markets.



Station	Market	Market Rank	% of U.S.
WCBS-TV	New York	1	7.7%
KCBS-TV	Los Angeles	2	5.4
WBBM-TV	Chicago	3	3.4
WCAU-TV	Philadelphia	4	2.9
WCIX-TV	Miami	16	1.4
Total			20.8%

(Source: Arbitron, 1989-1990 season, total ADI television homes)

From a programming perspective, each of the Division's stations performed competitively in its respective market. During the November sweeps, significant ratings gains were achieved in certain dayparts at WCBS-TV, KCBS-TV and WCIX-TV.

The addition of news anchor Ernie Anastos at WCBS-TV improved the station's competitive position in New York's local news marketplace. With the acquisitions of *Wheel of Fortune* and *Jeopardy*, KCBS-TV more than doubled its audience in the key primetime access period, finishing first in the November sweeps. WBBM-TV remained competitive in late news and with the addition of *Who's the Boss?* solidified its strength in the late afternoon. WCAU-TV improved its audience share in the late afternoon and access dayparts in the November sweeps compared to the prior year. WCIX-TV's ratings, from sign-on to sign-off, increased 40 percent during 1989. The hiring of John Hambrick as news anchor at WCIX-TV added a powerful and experienced veteran to the station's news team.

The Division continued its ardent commitment to coverage of local community events and concerns. WCIX-TV and KCBS-TV aired "Town Meetings" on critical social issues such as racism, education and crime. WBBM-TV sponsored an ongoing community service campaign aimed at reducing Chicago's high rate of infant mortality, while WCAU-TV's Save-a-Life program encouraged viewers to get free cancer screenings at area hospitals. WCBS-TV was the first local television station to broadcast a New York City mayoral debate in 1989.



CBS RADIO

Radio Division profits declined moderately in 1989, largely due to sales weakness within the radio networks and AM stations, which offset improved results at the FM stations. Radio sales rose by 10 percent, lifted by the acquisition of two radio stations, WWJ(AM) and WJOI(FM), in Detroit in March 1989, as well as by substantial FM growth.

In the highly competitive radio marketplace, CBS Radio's strategy is to establish and defend distinctive programming franchises. With the purchase of the Detroit stations, the Company owns 20 radio stations, eight AM and twelve FM, and is represented in each of the top ten radio markets in the country. The Company announced in February 1990 its intention to sell WSUN(AM), located in Tampa. The Division also operates radio networks that serve nearly 900 affiliates.

The specialty format of the AM station group is news and news/talk, which builds on CBS's expertise and tradition in news coverage. CBS Radio's commitment to news and community service was demonstrated by KCBS San Francisco during the October earthquake. Local listeners received commercial-free coverage of the disaster and recovery work for nearly a week, and the station provided the entire country with continuous coverage of the disaster via the CBS Radio Network.

CBS's FM group achieved record sales and profits in 1989, largely as a result of the continued ratings strength of its principal format franchise of oldies music. Oldies stations

in New York and Boston enjoyed an especially successful year. A format change at KODJ Los Angeles in 1989 brought to five the number of Owned stations broadcasting in the oldies format.

Linked to CBS's sports strategy of premier events programming, the CBS Radio Network maintained its standing as the nation's foremost sports radio network in 1989. The Network renewed contracts with Major League Baseball and the National Football League, and expanded its successful marketing and merchandising programs based on advertiser sponsorship of major sporting events. CBS Radio embarked on a significant new direction by establishing the CBS Hispanic Radio Network, which will broadcast baseball in Spanish beginning in 1990.

To maximize its strength in the attractive age 25 to 54 demographic, CBS Radio launched in 1990 the CBS Spectrum Radio Network, offering advertisers access to news and adult music stations nationwide. CBS Radio Programs offers syndicated long form programming services, including Tom Joyner's *On the Move*, the nation's leading urban contemporary broadcast.

Station	Market	Market Rank	% of U.S.
WCBS(AM)/WCBS(FM)	New York	1	6.9%
KNX(AM)/KODJ(FM)	Los Angeles	2	4.5
WBBM(AM)/WBBM(FM)	Chicago	3	3.3
KCBS(AM)/KRQR(FM)	San Francisco	4	2.4
WCAU(AM)/WOGL(FM)	Philadelphia	5	2.0
WWJ(AM)/WJOI(FM)	Detroit	6	1.8
KTXQ(FM)	Dallas/Ft. Worth	7	1.6
WODS(FM)	Boston	8	1.6
WLTT(FM)	Washington, DC	9	1.5
KLTR(FM)	Houston/Galveston	10	1.4
KMOX(AM)/KLOU(FM)	St. Louis	15	1.0
WSUN(AM)/WYNF(FM)	Tampa/St. Petersburg	21	0.9
		Total	28.9%

(Source: Arbitron, Fall 1989, total metro-populations age 12+)

JOINT VENTURES

The Company holds equity positions in two joint ventures, the CBS/FOX Company and the CBS/MTM Company.

The CBS/FOX Company, the home video partnership between CBS and Twentieth Century-Fox, reported lower earnings in 1989 mainly due to increased royalty expenses for theatrical film releases. CBS/FOX is one of the largest competitors in the home video industry with combined domestic and international sales of more than \$475 million.

CBS/MTM operates a television production studio in Studio City, California. The studio is used for the production and editing of television series, mini-series and made-for-television movies. In 1989 the production facility had improved results. The studio's performance was hampered in 1988 by the Writers Guild strike, which stopped television production in the latter half of the year.

MANAGEMENT'S FINANCIAL COMMENTARY

During the five-year period ended December 31, 1989 the Company underwent a series of significant changes which included a major recapitalization in 1985 and a series of asset dispositions, culminating with the sale of the CBS/Records Group in January 1988. Since the Company now operates predominantly in a single industry there is no requirement for segment reporting. However, for purposes of comparability the Company is continuing to provide segment-type information for its broadcasting and other operations.

Although the Liquidity and Capital Resources section is based upon the Consolidated Statements of Cash Flows, certain of the data in the presentation has been rearranged for purposes of clarification. The section, therefore, should be read in conjunction with the Consolidated Statements of Cash Flows.

RESULTS OF OPERATIONS

Net Sales

Net sales rose 7 percent in 1989 with all of the major components of the Broadcast Group reflecting increases.

An improved network advertising market during the second half contributed to the Television Network's 6 percent sales increase in 1989. In 1988, Network sales had declined slightly from 1987's level, largely due to the adverse impact of the Writers Guild of America strike and the absence of the Super Bowl which had been broadcast by the Company in 1987. (It was next broadcast by the Company in January 1990.) Sales from 1985 through 1988 were hurt by the softness in the network advertising market as well as by the primetime ratings of the CBS Television Network.

Television Stations' sales rose 9 percent in 1989 with over half of the increase resulting from the acquisition of WCIX (Miami) in January 1989. Sales had risen modestly in 1988 due to continued sluggish local and national spot sales. Excluding the sales of KMOX-TV, which had been sold during 1986, division sales in 1987 approximated 1986's level.

The Radio Division recorded a 10 percent growth in sales in 1989 after reflecting an 11 percent growth in 1988. Slightly less than half of 1989's increase was attributable to the acquisition of two radio stations in Detroit in March 1989. Sales in 1987 increased slightly over 1986's level.

Income from Continuing Operations

After three years of relatively flat profit performance, the CBS/Broadcast Group's operating profits rose 27 percent in 1989 led by improvement in the Television Network. The Television Stations Division's profits were up slightly in 1989, while the Radio Division reported a decline. In the three years prior to 1989, declining profits at the Television Network had been offset by increasing profits in the Television Stations and Radio divisions.

The Network's profit improvement in 1989 was attributable principally to the previously explained increase in sales as well as to the absence of costs associated with the coverage of the 1988 Presidential election. These benefits more than offset higher spending for primetime programming as well as higher advertising and promotional costs to launch the 1989-1990 television season. The 1989 profit increase in Television Stations was sales related, partially offset by anticipated first-year losses related to the Miami television station acquired in January 1989. In Radio, the 1989 decline was due principally to lower profits at the Radio Networks and at the AM stations and to the amortization of acquisition costs related to the March 1989 acquisition of the Detroit radio stations. These more than offset improved performance by the FM stations.

In 1989 interest income, net of interest expense, declined slightly from 1988 due principally to a reduction in the average portfolio balance. During the two prior years there had been significant increases in net interest income due to asset dispositions. These portfolio changes and asset dispositions are discussed in the Liquidity and Capital Resources section of this Commentary.

The increase in general corporate expenses in 1989 was held to an inflationary increase due to management's continued vigilance in controlling these costs which had been reduced significantly in the prior two years. The 1989 decline in joint venture income reflects lower equity income from CBS/FOX, a partnership engaged in the marketing and distribution of home video cassettes. This decline was due principally to higher royalty costs for theatrical film releases.

As a result of the above, income from continuing operations reached record levels in 1989 for the second year in a row.

	1989	1988	1987	1986	1985
			<i>(In millions)</i>		
CBS/Broadcast Group	\$2,959.9	\$2,776.8	\$2,761.8	\$2,807.9	\$2,778.3
Other	1.6	.9	.2	.9	4.6
Net sales	\$2,961.5	\$2,777.7	\$2,762.0	\$2,808.8	\$2,782.9

	1989	1988	1987	1986	1985
			<i>(In millions)</i>		
CBS/Broadcast Group	\$ 294.6	\$ 232.4	\$ 232.8	\$ 228.6	\$ 373.8
Other .....	.1	8.5	12.3	(3.1)	15.3
Operating profits	294.7	240.9	245.1	225.5	389.1
Corporate interest, net	180.7	184.8	(6.9)	(86.7)	(83.3)
General corporate expenses	(27.6)	(26.4)	(40.9)	(63.2)	(69.8)
Joint ventures, net of taxes	7.9	22.9	20.7	14.0	17.1
Income from continuing operations before income taxes	455.7	422.2	218.0	89.6	253.1
Income taxes	(158.6)	(138.8)	(82.0)	(15.4)	(106.1)
Income from continuing operations	\$ 297.1	\$ 283.4	\$ 136.0	\$ 74.2	\$ 147.0

Net Income

In addition to income from continuing operations, net income includes income and/or loss from discontinued operations as well as loss on the extinguishment of debt.

The Company sold its Records Group in 1988, its Magazines Division in 1987 and its Educational and Professional Publishing Division in 1986. In 1985 the Company discontinued its toys, theatrical films and home computer software operations.

LIQUIDITY AND CAPITAL RESOURCES (Dollars in millions)

Cash and Marketable Securities

The Company's liquid assets include its cash and cash equivalents as well as readily marketable securities held in its short-term and long-term portfolios. These assets increased significantly over the period 1986 through 1988, principally as a result of the Company's asset dispositions which culminated with the sale of its Records Group in January 1988. The other major dispositions during this period were the Magazines Division in 1987 and both the Educational and Professional Publishing Division and a television station in St. Louis in 1986. In addition, the Company issued \$400.0 of convertible debt in 1987, as noted in "Cash Flows From Financing Activities."

Total cash and marketable securities peaked in the first quarter of 1988 as a result of the Records Group sale and declined over the remainder of the year due to tax payments and the repurchase of debt.

In 1989 the Company retired additional debt, acquired a television station and two radio stations (note 2) and made substantial investments in program rights and broadcasting assets as discussed subsequently in this Commentary. These expenditures more than offset cash flows from normal operations and accounted for the decline in the year-end balances from 1988 to 1989. Nevertheless, the Company continues to have a high degree of liquidity, with its portfolios invested in high quality, readily marketable securities.

Additional details on specific cash flows are provided in subsequent sections of this Commentary.

	1989	1988	1987	1986	1985
	<i>(In millions, except per share amounts)</i>				
Income from continuing operations	\$ 297.1	\$ 283.4	\$ 136.0	\$ 74.2	\$ 147.0
Discontinued operations:					
Income from operations			135.5	129.4	10.6
Gain (loss) on disposal		869.6	181.3	185.6	(130.2)
Extraordinary items:					
Loss on extinguishment of debt	(.8)	(3.1)	(.3)	(14.1)	
Net income*	\$ 296.3	\$ 1,149.9	\$ 452.5	\$ 375.1	\$ 27.4
Per share:					
Continuing operations	\$ 11.54	\$ 11.02	\$ 5.21	\$ 2.62	\$ 5.22
Discontinued operations		33.85	12.54	13.40	(4.41)
Extraordinary items	(.03)	(.12)	(.01)	(.60)	
Net income	\$ 11.51	\$ 44.75	\$ 17.74	\$ 15.42	\$.81
Dividends per common share	\$ 4.40	\$ 3.35	\$ 3.00	\$ 3.00	\$ 3.00

*All categories in this table are net of income taxes.

	1989	1988	1987	1986	1985
	<i>(In millions)</i>				
Balance at beginning of year:					
Cash and cash equivalents	\$ 406.1	\$ 561.9	\$ 472.6	\$ 45.9	\$ 204.3
Marketable securities:					
Short-term	426.0	935.6	19.9	1.0	.9
Long-term	2,187.5				
	<u>3,019.6</u>	<u>1,497.5</u>	<u>492.5</u>	<u>46.9</u>	<u>205.2</u>
Net change during year:					
Cash and cash equivalents	192.4	(155.8)	89.3	426.7	(158.4)
Marketable securities:					
Short-term	(268.7)	(509.6)	915.7	18.9	.1
Long-term	(136.1)	2,187.5			
	<u>(212.4)</u>	<u>1,522.1</u>	<u>1,005.0</u>	<u>445.6</u>	<u>(158.3)</u>
Balance at end of year:					
Cash and cash equivalents	598.5	406.1	561.9	472.6	45.9
Marketable securities:					
Short-term	157.3	426.0	935.6	19.9	1.0
Long-term	2,051.4	2,187.5			
Cash and marketable securities at end of year*	\$ 2,807.2	\$ 3,019.6	\$ 1,497.5	\$ 492.5	\$ 46.9

*Includes securities and offsetting liabilities related to securities sold subject to repurchase agreements (note 1).

Capital Structure

The common stock subject to redemption (note 10) and the redeemable preference stock (note 11) are included in total capitalization although excluded from shareholders' equity because of their redemption features.

The Company believes that the combination of excellent liquidity and a strong debt-to-total capitalization ratio gives it significant financial flexibility and has enabled it to continue to make those program commitments that it considers important to its broadcast business (note 8).

Cash Flows

Cash flows before investments in marketable securities increased significantly during the 1986 through 1988 period while declining in 1989 due to the Company's other investing and debt reduction activities as described elsewhere in this Commentary. The positive cash flows arising from asset dispositions and normal operations have enabled the Company to accumulate a substantial amount of cash and marketable securities while allowing it to retire debt and make major investments and commitments in program rights, broadcasting assets and the acquisition of television and radio stations.

	December 31				
	1989	1988	1987	1986	1985
	<i>(In millions)</i>				
Capital structure:					
Current debt	\$ 3.3	\$ 3.2	\$ 39.7	\$ 55.9	\$ 271.0
Long-term debt	795.5	857.3	963.6	630.8	952.2
Total debt	798.8	860.5	1,003.3	686.7	1,223.2
Common stock subject to redemption	65.2	65.2	65.2	65.2	65.2
Redeemable preference stock	124.0	123.8	123.6	123.4	123.2
Shareholders' equity	2,394.0	2,208.0	1,201.6	806.5	481.3
Total capitalization	\$3,382.0	\$3,257.5	\$2,393.7	\$1,681.8	\$1,892.9
Total debt as a percentage of total capitalization	23.6%	26.4%	41.9%	40.8%	64.6%

	1989	1988	1987	1986	1985
		<i>(In millions)</i>			
Cash flows before interest and taxes:					
Operating activities	\$ 153.7	\$ 320.4	\$ 419.1	\$ 632.6	\$ 711.3
Investing activities	193.3	353.7	(318.8)	572.5	(603.7)
Financing activities	(192.1)	(253.5)	241.8	(643.8)	(115.0)
	154.9	420.6	342.1	561.3	(7.4)
Interest, net	181.9	186.3	(6.8)	(86.7)	(83.2)
Taxes	(144.4)	(762.7)	(246.0)	(47.9)	(67.8)
Net change in cash and cash equivalents	192.4	(155.8)	89.3	426.7	(158.4)
Remove cash flows related to marketable securities included above:					
Short-term*	(268.7)	(509.6)	915.7	18.9	.1
Long-term	(136.1)	2,187.5			
Cash flows before investments in marketable securities	\$ (212.4)	\$1,522.1	\$1,005.0	\$ 445.6	\$ (158.3)

*Includes securities and offsetting liabilities related to securities sold subject to repurchase agreements (note 1).

Cash Flows from Operating Activities

As required by Statement of Financial Accounting Standards (SFAS) No. 95, cash flows from operating activities include all cash flows not classified as investing and financing activities. Operating results of discontinued as well as continuing businesses are included as are all interest and taxes, including those related to investing and financing activities.

The principal reason for the decline in cash flows from operating activities before interest and taxes in 1989 is the Company's increased investment in program rights, as previously discussed.

The table is self-explanatory. From an overall standpoint, the fluctuations in cash flows from continuing operating activities before interest and taxes, over the period covered by the table, were principally due to changes in income, cash receipts from the Company's equity investments (mainly CBS/FOX) and investments in program rights. Additionally, there were period-to-period swings in year-end levels of accounts receivable, accounts payable and various other accounts primarily due to the timing of transactions.

As required by SFAS No. 95, the cash flows related to discontinued operations are segregated between cash flows from operating activities and cash flows from investing activities. The various operations discontinued during the period are discussed elsewhere in this Commentary.

A major component of the tax expense in 1988 is attributable to the sale of the Records Group (note 5) while the significant improvement in net interest over the period reflects the cash received on this sale as well as on the other asset dispositions.

	1989	1988	1987	1986	1985
	<i>(In millions)</i>				
Income from continuing operations					
before taxes.....	\$ 455.7	\$ 422.2	\$ 218.0	\$ 89.6	\$ 253.1
Non-cash items and other adjustments:					
Remove items included above:					
Gain on asset dispositions.....			(6.2)	(102.3)	(55.6)
Interest, net.....	(181.9)	(186.3)	6.8	86.7	83.2
Tax expense on equity income.....	9.7	13.1	16.4	8.6	8.9
Depreciation and amortization:					
CBS/Broadcast Group.....	57.3	52.1	57.7	43.4	36.9
Other.....	6.3	5.3	5.7	8.0	9.4
Cash received in excess of equity income.....	29.6	53.1	4.9	53.5	(16.2)
Changes in assets and liabilities:					
Accounts receivable.....	(46.9)	(13.2)	(22.0)	12.0	(7.1)
Program rights, net.....	(160.5)	47.0	9.8	97.0	(17.7)
Accounts payable.....	6.6	7.6	(27.2)	(60.2)	51.3
Other, net.....	(22.2)	(49.1)	(55.2)	49.2	79.6
Cash flows from continuing operating activities before interest and taxes ...	153.7	351.8	208.7	285.5	425.8
Income from discontinued operations					
before taxes.....			222.1	221.5	3.1
Depreciation and amortization.....			44.2	81.3	99.4
Changes in net assets.....		(31.4)	(55.9)	44.3	183.0
Cash flows from discontinued operating activities before taxes		(31.4)	210.4	347.1	285.5
Cash flows from operating activities before interest and taxes	153.7	320.4	419.1	632.6	711.3
Interest, net.....	181.9	186.3	(6.8)	(86.7)	(83.2)
Cash flows from operating activities before taxes	335.6	506.7	412.3	545.9	628.1
Taxes.....	(144.4)	(762.7)	(246.0)	(47.9)	(67.8)
Cash flows from operating activities	\$ 191.2	\$(256.0)	\$ 166.3	\$ 498.0	\$ 560.3

Cash Flows from Investing Activities before Interest and Taxes

In 1989 the Company acquired a television station in Miami and two radio stations in Detroit (note 2). In addition, the increase in CBS/Broadcast Group capital expenditures was due principally to the acquisition of satellite capacity for distribution of television network programs to affiliated stations.

The pretax cash receipts on the sale of the Company's Records Group, Magazines Division and Educational and Professional Publishing Division are reflected on the asset dispositions line under discontinued operations in 1988, 1987 and 1986, respectively. The pretax cash receipts on the sale of KMOX-TV are included on the asset dispositions line under continuing operations in 1986. Tax expense, related to the above sales, of \$573.5, \$121.9, \$134.4 and \$36.7, respectively, is reflected in the "Cash Flows from Operating Activities" section of this Commentary as required by SFAS No. 95. It should be considered when evaluating cash flows from investing activities.

Interest income on the investment portfolios is presented separately for informational purposes.

Cash Flows from Financing Activities before Interest and Taxes

During 1985 the Company underwent a recapitalization through the repurchase of 6.4 million common shares and the issuance of preference stock and debt as follows:

Retirement of common stock	\$(962.9)
Redemption of 5 ¹ / ₂ % promissory notes	(21.0)
Ten-year 10 ⁷ / ₈ % senior notes	699.9
Preference stock, Series B	123.1
Short-term debt	<u>160.9</u>
Net cash impact of recapitalization	\$ 0.0

In the years since the recapitalization the Company retired debt as indicated in the table. Also, in 1987 the Company issued \$400.0 of 5 percent convertible debt (note 7).

Interest expense on debt is presented separately for informational purposes.

	1989	1988	1987	1986	1985
	(In millions)				
Continuing operations:					
Major acquisitions	\$(117.0)				\$(164.5)
Capital expenditures:					
CBS/Broadcast Group	(96.9)	\$ (39.6)	\$ (32.5)	\$ (38.1)	(62.1)
Other	(1.8)	(7.7)	(1.8)	(4.8)	(11.7)
Asset dispositions	4.2	3.4	25.4	174.0	44.0
Discontinued operations:					
Major acquisitions					(369.5)
Capital expenditures			(44.2)	(39.7)	(39.8)
Asset dispositions		2,075.5	650.0	500.0	
Cash flows before investments in marketable securities	(211.5)	2,031.6	596.9	591.4	(603.6)
Net amounts realized from (invested in) marketable securities:					
Short-term*	268.7	509.6	(915.7)	(18.9)	(.1)
Long-term	136.1	(2,187.5)			
Cash flows from investing activities before interest and taxes**	\$ 193.3	\$ 353.7	\$(318.8)	\$ 572.5	\$(603.7)
Interest income on investments, net (not included above) (note 3)**	\$ 246.7	\$ 269.0	\$ 80.4	\$ 10.9	\$ 8.7

*Includes securities and offsetting liabilities related to securities sold subject to repurchase agreements (note 1).

**Interest and taxes are included in operating activities in accordance with SFAS No. 95.

	1989	1988	1987	1986	1985
	(In millions)				
Fifteen-year 5% convertible debentures			\$ 400.0		
Ten-year 10 ⁷ / ₈ % senior notes	\$ (26.7)	\$ (99.5)		\$(300.0)	
Ten-year 14 ¹ / ₂ % notes	(50.0)			(50.0)	\$ (50.0)
Eight-year 11 ³ / ₈ % notes	(1.0)	(3.7)	(1.7)	(18.1)	
Ten-year 10 ⁷ / ₈ % sterling notes				(56.9)	10.2
Commercial paper and other debt	(2.8)	(39.6)	(81.7)	(111.5)	56.5
Dividends to shareholders	(116.5)	(91.6)	(83.3)	(83.1)	(85.0)
Other, net	4.9	(19.1)	8.5	(24.2)	(46.7)
Cash flows from financing activities before interest and taxes*	\$(192.1)	\$ (253.5)	\$ 241.8	\$(643.8)	\$(115.0)
Interest expense on debt (not included above) (note 3)*	\$ (64.8)	\$ (82.7)	\$ (87.2)	\$ (97.6)	\$ (91.9)

*Interest and taxes are included in operating activities in accordance with SFAS No. 95.

Working Capital

The change in working capital between year-end 1988 and 1989 was primarily attributable to increases in accounts receivable and program rights. The increased accounts receivable level was related principally to higher fourth quarter sales in 1989 versus 1988. The increase in program rights was due to increased investment as explained previously and to a lower than normal level at year-end 1988 due to the impact of the Writers Guild strike on program production.

The lower level of working capital in 1988 was due primarily to the decrease in cash and marketable securities arising principally from the reclassification of certain of the marketable securities to the Company's long-term portfolio. In 1986 and 1987 the improved working capital position was principally attributable to asset dispositions.

In evaluating the Company's working capital position, the readily marketable nature of the Company's \$2,051.4 long-term portfolio, as discussed in "Cash and Marketable Securities," should be considered.

SUPPLEMENTARY DATA

Identifiable Assets

Broadcast Group assets increased in 1989 due to increased investment in program rights, capital expenditures and the acquisitions of a television station in Miami and two radio stations in Detroit. Broadcast Group assets had declined over the prior three years due primarily to reduced program rights related principally to reductions in theatrical films inventory purchases and writedowns, and in 1988, to the Writers Guild strike.

The significant 1988 and 1987 increases in Other are due primarily to increases in cash and cash equivalents and marketable securities, resulting from the sale of the Records Group in 1988 and from the sale of the Magazines Division and the issuance of convertible debt in 1987.

Other

The Company will adopt SFAS No. 96, "Accounting for Income Taxes," in January 1992 and estimates that it will not have a material effect on its financial statements. In 1989 the impact of inflation on the Company's financial statements was nominal due to low levels of inflation; therefore, additional current cost disclosures have not been included in these statements.

	December 31				
	1989	1988	1987	1986	1985
	<i>(In millions)</i>				
Current assets:					
Cash and marketable securities* . . .	\$ 755.8	\$ 832.1	\$1,497.5	\$ 492.5	\$ 46.9
Accounts receivable	450.0	402.9	389.7	367.7	379.7
Program rights	353.5	276.4	380.3	458.1	470.1
Recoverable income taxes					135.2
Prepaid expenses and other	19.8	12.6	12.6	12.7	10.3
Total current assets	1,579.1	1,524.0	2,280.1	1,331.0	1,042.2
Current liabilities:					
Accounts payable	48.4	41.1	33.5	60.7	120.9
Liabilities for talent and program rights	183.9	205.1	225.4	262.1	276.1
Current debt	3.3	3.2	39.7	55.9	271.0
Income taxes . . . . .	.9	4.9	19.3	6.9	
Other current liabilities	262.2	291.7	355.7	352.5	316.1
Total current liabilities	498.7	546.0	673.6	738.1	984.1
Working capital	\$1,080.4	\$ 978.0	\$1,606.5	\$ 592.9	\$ 58.1
Ratio of current assets to current liabilities	3.17:1	2.79:1	3.38:1	1.80:1	1.06:1

*Includes securities and offsetting liabilities related to securities sold subject to repurchase agreements (note 1).

	December 31				
	1989	1988	1987	1986	1985
	<i>(In millions)</i>				
CBS/Broadcast Group	\$1,398.3	\$1,078.8	\$1,182.0	\$1,278.3	\$1,412.9
Other	3,239.6	3,328.3	1,648.8	649.2	459.8
Continuing operations	4,637.9	4,407.1	2,830.8	1,927.5	1,872.7
Discontinued operations			1,079.4	1,442.8	1,640.3
Total identifiable assets	\$4,637.9	\$4,407.1	\$3,910.2	\$3,370.3	\$3,513.0

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The consolidated financial statements presented on the following pages have been prepared by management in conformity with generally accepted accounting principles consistently applied. The reliability of the financial information, which includes amounts based on judgment, is the responsibility of management.

The Company uses systems and procedures for handling routine business activities that seek to prevent or detect unauthorized transactions. The Company's internal control system envisages a segregation of duties among the Company's personnel, a wide dissemination to these personnel of the Company's written policies and procedures, the use of formal approval authorities and the selection and training of qualified people. The design of internal control systems involves a balancing of estimated benefits against estimated costs. The system is monitored by an internal audit program. The scope and results of the internal audit function and the adequacy of the system of internal accounting controls are reviewed regularly by the Audit Committee of the Board of Directors.

Management believes that the Company's system provides reasonable assurance that assets are safeguarded against material loss and that the Company's financial records permit the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Report of Independent Certified Public Accountants

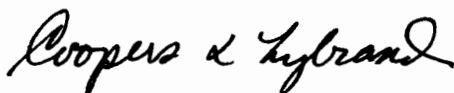
To the Shareholders of CBS Inc.:

We have audited the accompanying consolidated balance sheets of CBS Inc. and subsidiaries as of December 31, 1989, 1988 and 1987, and the related consolidated statements of income, retained earnings and additional paid-in capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CBS Inc. and subsidiaries as of December 31, 1989, 1988 and 1987, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

1251 Avenue of the Americas
New York, New York 10020
February 14, 1990



**CONSOLIDATED STATEMENTS
OF INCOME**
CBS Inc. and subsidiaries

(Dollars in millions, except per share amounts)

	Year ended December 31		
	1989	1988	1987
Net sales	\$ 2,961.5	\$ 2,777.7	\$ 2,762.0
Cost of sales	(2,313.2)	(2,245.8)	(2,220.7)
Selling, general and administrative expenses	(384.1)	(329.7)	(338.2)
Other income, net (note 3)	9.6	33.7	21.7
Operating income	273.8	235.9	224.8
Interest income on investments, net (note 3)	246.7	269.0	80.4
Interest expense on debt (note 3)	(64.8)	(82.7)	(87.2)
Interest, net	181.9	186.3	(6.8)
Income from continuing operations before income taxes	455.7	422.2	218.0
Income taxes (note 4)	(158.6)	(138.8)	(82.0)
Income from continuing operations	297.1	283.4	136.0
Discontinued operations, net of taxes (note 5):			
Income from operations			135.5
Gain on disposal		869.6	181.3
Extraordinary items, net of taxes:			
Loss on extinguishment of debt (note 7)	(0.8)	(3.1)	(0.3)
Net income	\$ 296.3	\$ 1,149.9	\$ 452.5
Per share of common stock (note 6):			
Continuing operations	\$ 11.54	\$ 11.02	\$ 5.21
Discontinued operations		33.85	12.54
Extraordinary items	(0.03)	(0.12)	(0.01)
Net income	\$ 11.51	\$ 44.75	\$ 17.74

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

CBS Inc. and subsidiaries

ASSETS

	December 31		
	1989	1988	1987
Current assets:			
Cash and cash equivalents (note 1).....	\$ 598.5	\$ 406.1	\$ 561.9
Marketable securities (note 1).....	479.3	624.6	935.6
Accounts receivable, less allowance for doubtful accounts: 1989, \$9.1; 1988, \$8.2; 1987, \$7.6.	450.0	402.9	389.7
Program rights.....	353.5	276.4	380.3
Prepaid expenses and other.....	19.8	12.6	12.6
Total current assets	1,901.1	1,722.6	2,280.1
Assets of discontinued operations (note 5).....			1,079.4
Investments in marketable securities (note 1).....	2,051.4	2,187.5	
Property, plant and equipment:			
Land.....	28.7	19.1	19.3
Buildings.....	203.3	175.2	166.8
Machinery and equipment.....	492.4	425.7	410.4
Leasehold improvements.....	23.7	25.2	24.8
	748.1	645.2	621.3
Less accumulated depreciation.....	387.5	363.0	328.7
Net property, plant and equipment	360.6	282.2	292.6
Other assets:			
Program rights.....	149.9	86.2	78.4
Goodwill, less accumulated amortization (note 1): 1989, \$12.1; 1988, \$8.1; 1987, \$5.7.....	155.6	86.4	88.8
Other.....	19.3	42.2	90.9
Total other assets	324.8	214.8	258.1
	\$4,637.9	\$4,407.1	\$3,910.2

(Dollars in millions, except per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	1989	1988	1987
Current liabilities:			
Accounts payable	\$ 48.4	\$ 41.1	\$ 33.5
Accrued salaries, wages and benefits	52.8	56.2	73.4
Liabilities for talent and program rights	183.9	205.1	225.4
Liabilities for securities sold under repurchase agreements (note 1)	322.0	198.6	
Current debt	3.3	3.2	39.7
Income taxes .....	.9	4.9	19.3
Other	209.4	235.5	282.3
Total current liabilities	820.7	744.6	673.6
Liabilities of discontinued operations (note 5)			483.1
Long-term debt (note 7)	795.5	857.3	963.6
Other liabilities	232.9	202.0	170.4
Deferred income taxes	205.6	206.2	229.1
Commitments and contingent liabilities (notes 8 and 14)			
Common stock subject to redemption (note 10)	65.2	65.2	65.2
Preference stock, Series B, par value \$1.00 per share, subject to redemption (note 11)	124.0	123.8	123.6
Shareholders' equity:			
Preference stock, Series A, par value \$1.00 per share; outstanding 23,416 shares (note 12)			
Common stock, par value \$2.50 per share; authorized 100,000,000 shares; issued 24,620,178 shares (notes 7, 10, 11, 12 and 13)	60.5	60.4	60.1
Additional paid-in capital	256.7	250.8	240.1
Foreign currency fluctuations (note 5)			37.6
Retained earnings	2,149.9	1,970.3	912.2
	2,467.1	2,281.5	1,250.0
Less 968,861 shares of common stock in treasury, at cost (note 12)	73.1	73.5	48.4
Total shareholders' equity	2,394.0	2,208.0	1,201.6
	\$4,637.9	\$4,407.1	\$3,910.2

See notes to consolidated financial statements

**CONSOLIDATED STATEMENTS
OF RETAINED EARNINGS AND
ADDITIONAL PAID-IN CAPITAL**
CBS Inc. and subsidiaries

(Dollars in millions, except per share amounts)

RETAINED EARNINGS

	Year ended December 31		
	1989	1988	1987
Balance at beginning of year	\$1,970.3	\$ 912.2	\$543.2
Net income	296.3	1,149.9	452.5
Cash dividends:			
Common stock (per share—1989, \$4.40; 1988, \$3.35; 1987, \$3.00—see note 7 for dividend restrictions) ..	(104.0)	(79.1)	(70.8)
Preference stock, Series A (\$1.00 per share) and Series B (\$10.00 per share)	(12.5)	(12.5)	(12.5)
Accretion of preference stock, Series B (note 11)	(2)	(2)	(2)
Balance at end of year	\$2,149.9	\$1,970.3	\$912.2

ADDITIONAL PAID-IN CAPITAL

Balance at beginning of year	\$ 250.8	\$ 240.1	\$230.9
Exercise of stock options and other items	5.9	10.7	9.2
Balance at end of year	\$ 256.7	\$ 250.8	\$240.1

See notes to consolidated financial statements

**CONSOLIDATED STATEMENTS
OF CASH FLOWS**
CBS Inc. and subsidiaries

(Dollars in millions)

	Year ended December 31		
	1989	1988	1987
Operating activities:			
Net income	\$ 296.3	\$ 1,149.9	\$ 452.5
Adjustments*:			
Depreciation and amortization	63.6	57.4	107.6
Cash received in excess of equity income	29.6	53.1	4.9
Gain on discontinued operations		(1,445.1)	(303.1)
Gain on other asset dispositions			(6.2)
Loss on extinguishment of debt	1.3	5.1	.5
Changes in assets and liabilities**:			
Accounts receivable	(46.9)	(13.2)	(22.0)
Program rights, net	(160.5)	47.0	9.8
Accounts payable	6.6	7.6	(27.2)
Income taxes	(4.0)	(14.4)	12.4
Deferred income taxes	27.4	(22.9)	30.8
Discontinued operations		(31.4)	(38.5)
Other, net	(22.2)	(49.1)	(55.2)
	191.2	(256.0)	166.3
Investing activities:			
Marketable securities:			
Short-term	145.3	311.0	(915.7)
Long-term	136.1	(2,187.5)	
Repurchase agreements	123.4	198.6	
	404.8	(1,677.9)	(915.7)
Continuing operations:			
Major acquisitions	(117.0)		
Capital expenditures	(98.7)	(47.3)	(34.3)
Asset dispositions	4.2	3.4	25.4
Discontinued operations:			
Capital expenditures			(44.2)
Asset dispositions		2,075.5	650.0
	193.3	353.7	(318.8)
Financing activities:			
Proceeds from convertible debentures			400.0
Extinguishment of debt	(80.5)	(142.8)	(83.4)
Dividends to shareholders	(116.5)	(91.6)	(83.3)
Other, net	4.9	(19.1)	8.5
	(192.1)	(253.5)	241.8
Net increase (decrease) in cash and cash equivalents ...	192.4	(155.8)	89.3
Cash and cash equivalents at beginning of year	406.1	561.9	472.6
Cash and cash equivalents at end of year	\$ 598.5	\$ 406.1	\$ 561.9

See notes to consolidated financial statements

*Adjustments are on a pretax basis.

**Excludes effect of major acquisitions and items included in Adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 20-50 percent owned companies are carried on the equity basis. Investments of less than 20 percent are carried at cost. All significant intercompany transactions have been excluded from the consolidated financial statements.

The Company operates predominantly in a single industry and therefore is not required to report on a segment basis. However, for purposes of comparability, the Company is continuing to provide segment-type information for its broadcasting and other operations.

All notes relate to continuing operations unless otherwise indicated.

Revenue Recognition. The Company's practice is to record revenues from services when performed.

Income Taxes. The Company recognizes the tax effects of transactions in the year such transactions enter into the determination of net income regardless of when they are recognized for income tax purposes. Deferred income taxes are provided for timing differences. The Company will adopt SFAS No. 96, "Accounting for Income Taxes," in January 1992 and estimates that it will not have a material effect on its financial statements.

Cash Equivalents and Marketable Securities. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less, including accrued interest thereon, to be cash equivalents. Marketable securities include U.S. Treasury notes, money market instruments, tax-exempt securities and corporate debt and equity securities. The Company also enters into agreements to sell and repurchase certain of these securities. Due to the agreements to repurchase, the sale of these securities is not recorded. Instead, the liability to repurchase securities sold under these agreements is reported as a current liability and the investments acquired with the funds received from the securities sold are included in cash equivalents and/or short-term marketable securities.

Marketable securities managed for long-term yield and not required for working capital needs are classified as long-term investments and are carried at cost, which approximated market value at year-end 1989 and 1988. Other marketable securities are classified as current assets and are carried at the aggregate of the lower of cost or market value (carried at market value at year-end 1989 and 1988 and at cost at year-end 1987). The marketable securities in current assets include accrued interest on short-term and long-term marketable securities.

Program Rights for Television Broadcast. Costs incurred in connection with the production of, or the purchase of rights to, programs to be broadcast on television within one year are classified as current assets while costs of those programs to be broadcast subsequently are considered non-current. The program costs are charged to expense as the respective programs are broadcast.

Property, Plant and Equipment. Land, buildings and equipment are stated at cost. Major improvements to existing plant and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the assets are charged to expense as incurred. The cost of properties retired or otherwise disposed of and any related accumulated depreciation are generally removed from the accounts and the resulting gain or loss is reflected in income currently. Depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Depreciation expense, in millions, for 1989, 1988 and 1987 was \$55.9, \$54.3 and \$59.3, respectively.

Goodwill. The goodwill at the date of acquisition of net assets of businesses acquired is being amortized over a period of 40 years on a straight-line basis. The increase in 1989 is attributable to the acquisitions described in note 2.

2. Business Acquisitions (Dollars in millions)

In January 1989 the Company acquired a television station located in Miami, Florida (WCIX) for \$59.0 and in March 1989 it acquired two radio stations located in Detroit, Michigan (WWJ-AM and WJOI-FM) for \$58.0.

Both acquisitions were for cash and were accounted for by the purchase method and the results of their operations are included in the accompanying financial statements since their respective dates of acquisition. Had the acquisitions occurred on January 1, 1987, consolidated results of operations for 1989, 1988 and 1987 would not have been materially different.

3. Interest and Other Income, net (Dollars in millions)

Interest income on investments, net, was net of interest expense on repurchase agreements of \$53.2 and \$41.7 in 1989 and 1988, respectively.

Interest expense on debt was net of amounts capitalized in 1989, 1988 and 1987 of \$5.5, \$3.8 and \$5.6, respectively, as part of the cost of investments in property, plant and equipment, made-for-television movies and mini-series.

Interest paid on debt during the years 1989, 1988 and 1987 was \$71.6, \$92.0 and \$79.4, respectively.

Other income, net, includes primarily post-tax income of \$7.9, \$22.9 and \$20.7 in 1989, 1988 and 1987, respectively, from equity basis investments (principally The CBS/FOX Company) as well as miscellaneous items of income and expense. In 1987 it also includes a net loss from unusual items of \$3.7 consisting of a net gain on asset dispositions of \$6.2 offset by charges associated with staff reductions of \$9.9.

4. Income Taxes (Dollars in millions)

The provision for income taxes consisted of the following:

	Year ended December 31		
	1989	1988	1987
Federal:			
Current.....	\$116.1	\$ 75.8	\$46.8
Deferred*	6.4	30.8	20.6
Other:			
Current.....	17.7	8.8	10.9
Deferred*	18.4	23.4	3.7
	<u>\$158.6</u>	<u>\$138.8</u>	<u>\$82.0</u>
*Deferred tax expense:			
Amortization of intangibles.....	\$ 4.8	\$ 9.1	\$17.2
Tax benefit leases.....	(1.1)	(.9)	7.7
Depreciation.....	3.8	3.6	6.0
Employee benefits, severance and relocation..	2.6	24.4	
Other state and local taxes	16.5	17.5	
Other, net	(1.8)	.5	(6.6)
	<u>\$ 24.8</u>	<u>\$ 54.2</u>	<u>\$24.3</u>

Income taxes paid in the years 1989, 1988 and 1987 were \$144.4, \$762.7 and \$246.0, respectively.

A reconciliation between the statutory federal income tax rate and the Company's effective income tax rate as a percentage of income from continuing operations before income taxes is as follows:

	Year ended December 31		
	1989	1988	1987
Statutory federal income tax rate.....	34.1%	34.1%	40.1%
Income from tax preference securities	(4.4)	(4.8)	
Equity income.....	(.6)	(1.8)	(3.6)
Capital gains.....			(2.3)
State and local taxes.....	5.2	5.0	4.0
Other, net .....	.5	.4	(.6)
Effective income tax rate.....	<u>34.8%</u>	<u>32.9%</u>	<u>37.6%</u>

5. Discontinued Operations (Dollars in millions)

In 1987 the Company sold its Magazines Division and agreed to sell its Records Group and certain related foreign holding companies. These records operations were sold in January 1988 for approximately two billion dollars, subject to a purchase price adjustment based upon audited net assets delivered as of the closing date. The estimated results of this sale are subject to adjustment pursuant to net asset audit and contractual procedures. The December 31, 1987 balance in the foreign currency fluctuations component of shareholders' equity related to this sale and was included in the calculation of these estimated results.

In 1987 revenues from operations were \$1,847.5 and income tax expense applicable to operations was \$86.6. For the years 1988 and 1987, income tax expenses applicable to disposals were \$575.5 and \$121.8, respectively.

6. Earnings Per Share Data (In thousands)

The data used in the computation of earnings per share was as follows*:

	Year ended December 31		
	1989	1988	1987
Earnings:			
Income from continuing operations	\$297,114	\$ 283,382	\$136,016
Add: Post-tax interest on convertible debentures (assumes conversion)	12,555	12,555	8,338
Less: Dividends on preference stock	(12,688)	(12,688)	(12,688)
Adjusted income from continuing operations . .	296,981	283,249	131,666
Discontinued operations, net of taxes		869,597	316,719
Extraordinary items, net of taxes	(774)	(3,058)	(255)
Net income applicable to common shares	\$296,207	\$1,149,788	\$448,130
Shares:			
Weighted average shares outstanding	23,635	23,597	23,607
Add common stock equivalents:			
Convertible debentures (issued in 1987)	2,000	2,000	1,474
Other	89	98	177
Adjusted weighted average shares outstanding .	25,724	25,695	25,258

*In 1989 the fully diluted earnings per share calculation produced an anti-dilutive effect. In 1988 and 1987 fully diluted earnings per share were considered equal to primary earnings per share because the addition of potentially dilutive securities which were not common stock equivalents would have resulted in immaterial dilution.

7. Long-Term Debt (Currency amounts in millions)

Long-term debt consisted of the following:

	December 31		
	1989	1988	1987
5% convertible debentures due 2002	\$400.0	\$400.0	\$400.0
10 ⁷ / ₈ % senior notes due 1995	273.7	300.4	399.9
11 ³ / ₈ % notes due 1992	75.5	76.5	80.2
14 ¹ / ₂ % notes due 1992		50.0	50.0
7.85% debentures due 2001	29.8	32.5	34.7
Various medium-term notes			35.9
Capital lease obligations and other	19.8	1.1	1.9
Reclassified to current debt	(3.3)	(3.2)	(39.0)
	<u>\$795.5</u>	<u>\$857.3</u>	<u>\$963.6</u>

During 1989, 1988 and 1987 the Company repurchased or redeemed long-term debt (excluding normal retirements) of \$80.4, \$105.4 and \$31.0, respectively. The repurchases resulted in post-tax losses on extinguishment of debt as indicated in the Consolidated Statements of Income, net of income tax benefits of \$.5, \$2.0 and \$.2 in the respective years. This repurchased or redeemed debt consisted of the following:

	Year ended December 31		
	1989	1988	1987
14 ¹ / ₂ % notes due 1992	\$ 50.0		
10 ⁷ / ₈ % senior notes due 1995	26.7	\$ 99.5	
11 ³ / ₈ % notes due 1992	1.0	3.7	\$ 1.7
7.85% debentures due 2001	2.7	2.2	2.8
Various medium-term notes			26.5
	<u>\$ 80.4</u>	<u>\$105.4</u>	<u>\$ 31.0</u>

The terms of the various long-term issues are as follows:

The 5 percent convertible debentures are due April 7, 2002. At the holder's option, each five-thousand dollar debenture is convertible into 25 shares of the Company's common stock at any time prior to redemption or maturity. Two million common shares are reserved for issuance upon conversion of these debentures. The debentures are redeemable, in whole or in part, at the option of the Company, subject to certain restrictions, at a redemption price which declines from 104 percent of the principal amount during the 12-month period ending April 6, 1990 to 100 percent on April 7, 1997 and thereafter, together in each case with accrued interest to the date fixed for redemption. However, if certain events occur involving U.S. taxes or U.S. information reporting requirements, the Company may redeem all the outstanding debentures at par value plus accrued interest.

The 10⁷/₈ percent senior notes have a stated maturity of August 1, 1995. The notes are redeemable, in whole or in part, at the option of the Company, at any time after August 1, 1992, at 100 percent of their principal amount plus accrued interest to the date fixed for redemption. In addition, the Company is prohibited from making cash dividend payments exceeding \$150.0 plus 50 percent of the consolidated net income (loss) of the Company between June 30, 1985 and the end of the most recent fiscal quarter. The amount available for dividends at December 31, 1989 was \$842.6.

The 11³/₈ percent notes are not redeemable before December 20, 1990. Thereafter, the notes may be redeemed, in whole or in part, at the option of the Company, during the 12-month period beginning December 20, 1990, at a redemption price of 100.5 percent of their principal amount and at their principal amount on or after December 20, 1991, together in each case with accrued interest to the date fixed for redemption. However, if certain events occur involving U.S. taxes or U.S. information reporting requirements, the Company may redeem all the outstanding notes at par value plus accrued interest.

The 7.85 percent debentures are redeemable, in whole or in part, at the option of the Company, at a redemption price which declines from 102.2 percent of the principal amount during the 12-month period ending July 31, 1990 to 100 percent in 1996 and thereafter. The Company is required to make annual sinking fund deposits of \$2.5 in cash or debentures. These deposits commenced on August 1, 1982.

The aggregate amounts of maturities of the Company's long-term debt for the five years subsequent to December 31, 1989 are as follows:

1990	\$ 3.3
1991	3.1
1992	78.7
1993	3.0
1994	<u>2.9</u>
	\$91.0

In 1986 the Company repurchased 10 percent of the 10⁷/₈ percent sterling notes, denominated in British pounds, that it had previously issued, and defeased the remaining 90 percent. The in-substance defeasance was accomplished through the purchase of £36.0 of United Kingdom Treasury Loan securities which, together with £1.0 in cash, were placed in an irrevocable trust established by the Company for the payment of all future interest and principal on these notes, which are not redeemable before December 20, 1992. Thereafter, the notes may be redeemed, in whole or in part, during the 12-month period beginning December 20, 1992 at a redemption price of 100.5 percent of their principal amount and at their principal amount on or after December 20, 1993, together in each case with accrued interest to the date fixed for redemption. However, if certain events occur involving U.S. taxes or U.S. information reporting requirements, the Company may redeem all the outstanding notes at par value plus accrued interest.

8. Leases and Commitments (Dollars in millions)

Rent expense, excluding payments of real estate taxes, insurance and other expenses required under some leases, amounted to \$52.9, \$55.0 and \$62.3 in 1989, 1988 and 1987, respectively. At December 31, 1989, minimum future rental payments and receipts under non-cancelable leases (including capital leases and subleases, which are not significant) are \$114.4 and \$67.6, respectively. The amounts for each of the five succeeding years are as follows:

	<u>Payments</u>	<u>Receipts</u>
1990	\$27.4	\$13.7
1991	17.9	13.7
1992	10.9	13.7
1993	8.6	2.8
1994	6.3	1.8

The Company routinely enters into commitments to purchase the rights to broadcast programs, including feature films and sports events. These contracts permit the broadcast of such properties for various periods ending no later than April 1997. As of December 31, 1989 the Company was committed to make payments of \$3,180.9 under such broadcasting contracts. These commitments are significantly higher than at December 31, 1988 due to the acquisitions of certain rights to NCAA Basketball and to the 1994 Winter Olympics.

9. Retirement Plans (Dollars in millions)

The Company has pension plans covering substantially all of its employees. Benefits are based on formulas which consider years of service and average compensation. The Company's general policy is to fund pension costs accrued over the lives of the plans to the extent the contributions will be tax deductible. The market value of all plan assets exceeds the projected benefit obligations of all plans by \$130.5 at December 31, 1989. These assets consist primarily of interest-bearing securities.

The net pension cost for 1989, 1988 and 1987 was as follows:

	<u>Year ended December 31</u>		
	<u>1989</u>	<u>1988</u>	<u>1987</u>
Service cost	\$12.6	\$12.2	\$19.4
Interest cost	34.9	33.2	39.2
Net amortization and deferral	<u>23.7</u>	<u>(4.8)</u>	<u>(6.2)</u>
	71.2	40.6	52.4
Less: Return on plan assets	<u>74.5</u>	<u>48.4</u>	<u>51.3</u>
Net pension cost	\$ (3.3)	\$ (7.8)	\$ 1.1

Reconciliations of the funded status of these plans were as follows:

	December 31		
	1989	1988	1987
Plans whose assets exceed accumulated benefits			
Accumulated pension benefit obligation:			
Vested	\$325.9	\$306.9	\$324.4
Non-vested.....	20.5	17.2	24.3
	<u>\$346.4</u>	<u>\$324.1</u>	<u>\$348.7</u>
Market value of plan assets	\$589.9	\$546.9	\$604.5
Less projected pension benefit obligation	<u>435.0</u>	<u>403.3</u>	<u>452.3</u>
Assets exceed projected benefit obligation	154.9	143.6	152.2
Less items not yet recognized in net periodic pension cost:			
Unrecognized net asset	126.4	136.9	163.5
Unrecognized net gain.....	42.2	32.3	28.7
Unrecognized prior service cost	<u>(15.0)</u>	<u>(20.2)</u>	<u> </u>
Pension asset (liability) excluding unrecognized items*	\$ 1.3	\$ (5.4)	\$ (40.0)

**Amounts recognized in the Consolidated Balance Sheets. Unrecognized items will be recognized in future years as a net reduction in pension expense and pension liability under the provisions of SFAS No. 87, "Employers' Accounting for Pensions."*

	December 31		
	1989	1988	1987
Plans whose accumulated benefits exceed assets			
Accumulated pension benefit obligation:			
Vested	\$ 12.9	\$ 9.1	\$ 10.3
Non-vested.....	2.7	2.0	2.5
	<u>\$ 15.6</u>	<u>\$ 11.1</u>	<u>\$ 12.8</u>
Market value of plan assets	\$ —	\$ —	\$ —
Less projected pension benefit obligation	<u>24.4</u>	<u>20.2</u>	<u>21.5</u>
Assets (are less than) projected benefit obligation	(24.4)	(20.2)	(21.5)
Additional minimum (liability).....	<u>(2.5)</u>	<u> </u>	<u> </u>
	(26.9)	(20.2)	(21.5)
Less items not yet recognized in net periodic pension cost:			
Unrecognized net (liability).....	(8.0)	(8.7)	(12.2)
Unrecognized net (loss) gain.....	(2.4)	(.5)	.8
Unrecognized prior service cost	<u>(.8)</u>	<u>(.5)</u>	<u> </u>
Pension (liability) excluding unrecognized items	\$ (15.7)	\$ (10.5)	\$ (10.1)

9. Retirement Plans (continued)

The actuarial assumptions used as of December 31 were as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Weighted average discount rate	8.00%	8.25%	8.25%
Rate of compensation increase	6.50%	6.50%	6.50%
Weighted average long-term rate of return on plan assets	8.00%	8.00%	8.00%

On January 5, 1988, the Company sold its Records Group, resulting in a pension settlement and curtailment gain of \$35.6. Subsequent to this sale, the Company offered a special early-retirement program to its employees at a cost of \$11.0. Both of these items were included in the gain on disposal of the discontinued operation.

The Company also participates in various multi-employer union-administered defined benefit pension plans that cover certain broadcast employees. Pension expense under these plans for 1989, 1988 and 1987 was \$8.3, \$7.2 and \$6.8, respectively.

In addition to providing pension benefits, the Company provides hospital, surgical, medical and life insurance benefits for retired employees. Substantially all of the Company's non-union employees may become eligible for these benefits when they retire from the Company. Also included are those union employees covered by a collective bargaining agreement which provides for such benefits. The estimated cost of these benefits is determined actuarially and accrued over the working lives of those employees expected to qualify for the benefits. The costs of providing these benefits were \$7.3, \$5.0 and \$4.3 for 1989, 1988 and 1987, respectively.

All costs in this note relate to the covered employees of both the continuing and discontinued operations of the Company.

10. Common Stock Subject To Redemption

In August 1985 the Company repurchased 6.365 million shares of its common stock pursuant to an Offer to Purchase that it made in July 1985. At the time of the Offer to Purchase, William S. Paley, Chairman of the Board, owned directly 1,548,091 shares of the Company's common stock, and certain members of his family, a related partnership and certain affiliated trusts (Related Persons) collectively owned 360,155 shares of common stock. Mr. Paley and the partnership entered into an agreement with the Company under which they agreed not to tender any shares owned by them pursuant to the Offer to Purchase. However, Mr. Paley and the Related Persons have the option to sell to the Company, subject to certain limitations, a maximum of 434,489 shares for \$150 per share in cash (without interest). The option will expire on August 1, 1995.

11. Redeemable Preference Stock

In connection with the Company's repurchase of shares in 1985, a series of \$1 par value preference stock, consisting initially of 1.25 million shares specifically authorized and designated as \$10 Convertible Series B preference stock, was issued. The net proceeds of the issuance was \$123.1 million. The issue has an aggregate liquidation preference of \$125 million. The difference between the redemption value and the net proceeds from the issue is being amortized to retained earnings over 10 years.

Each share is entitled to receive cumulative cash dividends at the rate of \$10 per year, payable in equal quarterly installments, is subject to mandatory redemption on August 1, 1995, and is convertible, at the option of the holder, into .6915 of a share of common stock. There are 864,375 common shares reserved for issuance upon conversion of these shares. Upon redemption, or in the event of voluntary or involuntary liquidation, each shareholder will be entitled to \$100 per share plus any accrued or unpaid dividends.

At December 31, 1989 there were 1.25 million shares of Series B preference stock outstanding.

12. Preference and Common Stock

The Company's certificate of incorporation provides authority for the issuance of 6.0 million shares of preference stock, \$1 par value, and an initial series of preference stock consisting of 3.3 million shares has been specifically authorized and designated as Series A preference stock. In addition, 1.25 million shares have been specifically authorized, designated as Series B preference stock and issued (note 11).

Each share of Series A preference stock, which is redeemable at the Company's option, is convertible into .6886 of a share of common stock. Upon redemption, or in the event of voluntary or involuntary liquidation, each shareholder will be entitled to \$43.50 per share plus any accrued and unpaid dividends. The aggregate liquidation value at December 31, 1989 was \$1.0 million. There were 16,124 common shares reserved for issuance upon conversion of Series A preference stock at December 31, 1989.

Changes in common stock and Series A preference stock during 1987, 1988 and 1989 were as follows:

	Common				Preference	
	Issued Shares	Amount	Treasury Shares	Amount	Series A Shares	Amount
	(In thousands)					
Balance, December 31, 1986	24,395	\$59,901	867	\$48,946	35	\$35
Conversions of preference stock			(4)	(208)	(5)	(5)
Issuances under employee benefit plans	97	241	(10)	(306)		
Balance, December 31, 1987	24,492	60,142	853	48,432	30	30
Conversions of preference stock			(2)	(180)	(4)	(4)
Issuances under employee benefit plans	93	235	(20)	(458)		
Acquisition of treasury shares			151	25,754		
Balance, December 31, 1988	24,585	60,377	982	73,548	26	26
Conversions of preference stock			(2)	(150)	(3)	(3)
Issuances under employee benefit plans	35	87	(11)	(338)		
Balance, December 31, 1989	24,620	\$60,464	969	\$73,060	23	\$23

13. Stock Rights Plan

Under the terms of the Company's 1983 Stock Rights Plan (as amended), which is administered by a committee of the Board of Directors (the Committee), certain key employees (including officers) of the Company may be granted non-qualified stock options at an exercise price not less than 100 percent of the closing market price of a share of common stock on the date of the grant. These are ten-year options which become exercisable 25 percent per year effective one year following the date of grant, unless, in the case of options coupled with alternative stock appreciation rights (SAR's) granted prior to January 1, 1987, they are accelerated under certain defined circumstances. Options granted may stand alone or, at the discretion of the Committee, may be coupled with SAR's. An SAR permits the holder to receive in cash or shares the "spread" between the option price and the common stock price on the date of exercise. In November 1985 the Plan was amended to provide that all options then outstanding, not coupled with an SAR, would be subject to a limited SAR. (Such limited SAR's become exercisable only if certain defined changes in control or concentration of equity ownership of the Company occur.) The limited SAR feature has not been extended to any option grants subsequent to 1986.

The Plan provides that the Committee can authorize dividend share credits on outstanding options and previously issued dividend share credits. Such credits are recorded in shares of common stock based on cash dividends paid to common stock holders. From 1983 through the third quarter of 1986, except for the fourth quarter of 1985, dividend share credits were granted. The Committee took action to permanently suspend granting further dividend share credits effective with the fourth quarter of 1986.

The Plan provides that a maximum of 1.5 million shares in the aggregate are available for option grants and dividend share credits.

Options granted to purchase 111,786 shares of common stock were exercisable at December 31, 1989. The number of shares available for option grants and dividend share credits, should the Committee choose to reintroduce the granting of such credits, were 692,573 shares, 768,153 shares and 846,084 shares at December 31, 1989, 1988 and 1987, respectively. During 1989, 1988 and 1987, \$1.1 million, \$1.3 million and \$4.0 million, respectively, was charged to income to cover the estimated cost of the Plan for all covered employees of both the continuing and discontinued operations of the Company.

The following table summarizes the activity under the Plan during the years ended December 31, 1987, 1988 and 1989:

	Options				
	With Stock Appreciation Rights		Other*		Dividend Share Credits
	Common Shares	Exercise Price	Common Shares	Exercise Price	
Outstanding— December 31, 1986	124,769	\$ 56¹/₄—\$136⁵/₈	406,919	\$ 56¹/₄—\$136⁵/₈	28,728
Exercised	(41,494)	56 ¹ / ₄ — 118 ³ / ₄	(103,464)	56 ¹ / ₄ — 136 ⁵ / ₈	(10,641)
Cancelled	(24,575)	56 ¹ / ₄ — 136 ⁵ / ₈	(47,161)	56 ¹ / ₄ — 136 ⁵ / ₈	(3,120)
Outstanding— December 31, 1987	58,700	56¹/₄— 136⁵/₈	256,294	56¹/₄— 136⁵/₈	14,967
Granted	25,700	163 ⁵ / ₈ — 178 ¹ / ₈	74,400	163 ⁵ / ₈ — 178 ¹ / ₈	
Exercised	(23,550)	56 ¹ / ₄ — 118 ³ / ₄	(96,261)	56 ¹ / ₄ — 136 ⁵ / ₈	(6,883)
Cancelled	(6,950)	76 ³ / ₄ — 118 ³ / ₄	(47,950)	76 ³ / ₄ — 163 ⁵ / ₈	(1,079)
Outstanding— December 31, 1988	53,900	56¹/₄— 178¹/₈	186,483	56¹/₄— 178¹/₈	7,005
Granted	20,900	191 ¹ / ₂	65,400	191 ¹ / ₂	
Converted	3,950	76 ³ / ₄ — 163 ⁵ / ₈	(3,950)	76 ³ / ₄ — 163 ⁵ / ₈	
Exercised	(23,600)	56 ¹ / ₄ — 163 ⁵ / ₈	(38,235)	56 ¹ / ₄ — 163 ⁵ / ₈	(2,986)
Cancelled	(3,000)	118 ³ / ₄ — 163 ⁵ / ₈	(7,700)	118 ³ / ₄ — 191 ¹ / ₂	(20)
Outstanding— December 31, 1989	52,150	\$ 72 —\$191¹/₂	201,998	\$ 56¹/₄—\$191¹/₂	3,999

*All grants outstanding which were issued prior to January 1, 1987 contain limited stock appreciation rights as explained above. (At December 31, 1989 there were 82,148 options of this type outstanding with exercise prices of \$56¹/₄—\$136⁵/₈.)

14. Litigation

Various legal actions, governmental proceedings and other claims against the Company are pending or, with respect to certain claims, unasserted, including claims for environmental investigations and remediation costs resulting from the operations of the discontinued businesses. The types of relief requested in pending matters include injunctions and/or damages (including, in some instances, treble damages). While the Company cannot predict the results of any litigation, it believes that it has meritorious defenses to all such actions and proceedings. The Company believes that the liability, if any, which may result from such litigation or claims will not have a materially adverse effect on its consolidated financial position.

OTHER FINANCIAL INFORMATION

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

(Dollars in millions, except per share amounts)

The quarterly results of operations for the years ended December 31, 1989 and 1988 were as follows:

	1989	1988	1989	1988
	Net Sales		Operating Income	
1st Quarter	\$ 730.6	\$ 696.6	\$ 43.0	\$ 15.2
2nd Quarter	771.8	740.8	134.0	153.7
3rd Quarter	593.3	568.0	46.2	55.7
4th Quarter	865.8	772.3	50.6	11.3
	<u>\$2,961.5</u>	<u>\$2,777.7</u>	<u>\$273.8</u>	<u>\$235.9</u>
	Income from Continuing Operations		Net Income	
1st Quarter	\$ 56.3	\$ 44.8	\$ 56.1	\$ 911.3
2nd Quarter	118.8	128.7	118.8	128.7
3rd Quarter	61.9	69.8	61.9	69.8
4th Quarter	60.1	40.1	59.5	40.1
	<u>\$297.1</u>	<u>\$283.4</u>	<u>\$296.3</u>	<u>\$1,149.9</u>
	Income from Continuing Operations Per Common Share		Net Income Per Common Share	
1st Quarter	\$ 2.19	\$ 1.74	\$ 2.18	\$35.34
2nd Quarter	4.62	5.01	4.62	5.01
3rd Quarter	2.40	2.72	2.40	2.72
4th Quarter	2.33	1.56	2.31	1.56
	<u>\$11.54</u>	<u>\$11.02*</u>	<u>\$11.51</u>	<u>\$44.75*</u>

*Full year totals do not equal the sum of the quarterly per share amounts because the number of shares used in each period differs based on weighting factors.

SHAREHOLDER REFERENCE INFORMATION

Stock Data

The principal market for CBS common stock is the New York Stock Exchange. It is also traded on the Pacific Stock Exchange. There were approximately 17,242 holders of record of CBS common stock as of December 31, 1989. The following table indicates the quarterly high and low prices for CBS common stock as reported in the quotations of consolidated trading for issues on the New York Stock Exchange during the past two years:

	1989	1988	1989	1988
	High		Low	
1st Quarter	\$178 ³ / ₈	\$170 ¹ / ₄	\$166	\$149
2nd Quarter	210 ³ / ₈	163	173 ¹ / ₈	146
3rd Quarter	221	173 ¹ / ₄	199	154 ¹ / ₂
4th Quarter	211 ³ / ₈	182 ³ / ₄	179 ⁵ / ₈	162

Dividends

Cash dividends on CBS common stock were paid quarterly at \$.75 per share during the first three quarters of 1988 and at \$1.10 per share in the fourth quarter of 1988 and quarterly throughout 1989. The Company is subject to certain restrictions on the payment of dividends on its common stock as discussed in note 7. Cash dividends were paid quarterly throughout 1988 and 1989 on Series A preference stock at \$.25 per share and on Series B preference stock at \$2.50 per share.

Transfer Agent and Registrar

First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007

Independent Certified Public Accountants

Coopers & Lybrand
1251 Avenue of the Americas
New York, New York 10020

Annual Meeting

The 1990 annual meeting of shareholders of CBS Inc. will be held at 11 AM, Wednesday, May 9, 1990, at The Museum of Modern Art, 11 West 53 Street, New York, New York.

Form 10-K Annual Report

The Form 10-K Annual Report for the Company's 1989 fiscal year, filed with the Securities and Exchange Commission (SEC), contains certain financial information and, when appropriate, other matters concerning the Company which are required to be reported to the SEC, including information on certain legal proceedings and reports of matters submitted to a vote of shareholders.

Shareholders who wish a copy of this report may obtain one, without charge, upon request to the CBS Shareholder Relations Department, 51 West 52 Street, New York, New York 10019.

DIRECTORS AND OFFICERS

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Laurence A. Tisch, President and Chief Executive Officer
Michel C. Bergerac, Chairman and Chief Executive Officer
M. C. Bergerac & Co., Inc.
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Harold Brown, Chairman of the Foreign Policy Institute
The Johns Hopkins University
Walter Cronkite, Consultant to and Special Correspondent
CBS Inc.
James R. Houghton, Chairman and Chief Executive Officer
Corning Incorporated
Henry A. Kissinger, Chairman
Kissinger Associates, Inc.
International consulting firm
Newton N. Minow, Partner
Sidley & Austin, Attorneys
Henry B. Schacht, Chairman and Chief Executive Officer
Cummins Engine Company, Inc.
Edson W. Spencer
Chairman of the Board
The Ford Foundation
Franklin A. Thomas, President and Chief Executive Officer
The Ford Foundation
Preston R. Tisch, President and Co-Chief Executive Officer
Loews Corporation
Marietta Tree, Director
Llewelyn-Davies, Sahni, Inc.
Architecture and city planning firm
James D. Wolfensohn, President
James D. Wolfensohn Incorporated
Investment banking and advisory firm

Officers

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Laurence A. Tisch, President and Chief Executive Officer
Howard Stringer, Vice President and President, CBS/Broadcast Group
Jay L. Kriegel
Senior Vice President, CBS Inc.
Edward Grebow
Senior Vice President
CBS Operations and Administration
Peter W. Keegan
Senior Vice President, Finance
James F. Sirmons
Senior Vice President, Industrial Relations
George Vradenburg III
Senior Vice President, General Counsel and Secretary
Alvan L. Bobrow
Vice President and Director of Taxes
Anton W. Guitano
Vice President and General Auditor
Louis J. Rauchenberger, Jr.
Vice President and Treasurer
Joan Showalter
Vice President, Personnel

CBS/Broadcast Group

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David W. Burke, President
CBS News Division
Thomas F. Leahy, President
CBS Marketing Division
Anthony C. Malara, President
CBS Affiliate Relations Division
Eric W. Ober, President
CBS Television Stations Division
Neal H. Pilsen, President
CBS Sports Division
Jeffrey F. Sagansky, President
CBS Entertainment Division
James A. Warner, President
CBS Enterprises Division
Nancy C. Widmann, President
CBS Radio Division

Emeritus Officers and Directors

Frank Stanton, President Emeritus
Benno C. Schmidt, Director Emeritus