8X8 INC /DE/
Form 10-Q
February 02, 2009

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

FORM 10-Q

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from ________to _________

Commission file number 000-21783

8X8, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**77-0142404**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

3151 Jay Street
Santa Clara, CA 95054

(Address of Principal Executive Offices including Zip Code)

(408) 727-1885

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

The number of shares of the Registrant's Common Stock outstanding as of January 29, 2009 was 62,417,873.

FORM 10-Q PDF
TABLE OF CONTENTS

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

8X8, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	December 31, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,195	$ 11,185
Short-term investments	-	3,382
Accounts receivable, net	698	1,807
Inventory	1,901	1,539
Deferred cost of goods sold	652	943
Other current assets	662	549
Total current assets	20,108	19,405
Property and equipment, net	1,814	2,010
Other assets	11	136
Total assets	$ 21,933	$ 21,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,992	$ 4,885
Accrued compensation	1,435	1,048
Accrued warranty	327	314
Accrued taxes	1,589	2,896
Deferred revenue	3,212	3,139
Other accrued liabilities	963	976
Total current liabilities	11,518	13,258
Other liabilities	56	109
Fair value of warrant liability	10	335
Total liabilities	11,584	13,702
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock	62	62
Additional paid-in capital	209,094	208,001
Accumulated other comprehensive income (loss)	-	5
Accumulated deficit	(198,807)	(200,219)
Total stockholders' equity	10,349	7,849
Total liabilities and stockholders' equity	$ 21,933	$ 21,551

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

8X8, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts; unaudited)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Service revenues	$ 14,366	$ 14,426	44,288	$ 41,109
Product revenues	1,837	1,378	4,621	4,205
Total revenues	16,203	15,804	48,909	45,314
Operating expenses:				
Cost of service revenues	3,699	4,364	11,535	12,780
Cost of product revenues	1,681	1,175	4,786	5,210
Research and development	1,183	1,081	3,674	3,164
Selling, general and administrative	9,562	9,604	27,980	28,573
Total operating expenses	16,125	16,224	47,975	49,727
Income (loss) from operations	78	(420)	934	(4,413)
Other income, net	74	1,361	266	1,654
Income on change in fair value of warrant liability	66	448	325	2,098
Income (loss) before provision for income taxes	218	1,389	1,525	(661)
Provision for income taxes	38	-	113	-
Net income (loss)	$ 180	$ 1,389	1,412	$ (661)
Net income (loss) per share:				
Basic	$ 0.00	$ 0.02	$ 0.02	$ (0.01)
Diluted	$ 0.00	$ 0.02	$ 0.02	$ (0.01)
Weighted average number of shares:				
Basic	62,332	61,927	62,236	61,857
Diluted	62,394	62,113	62,428	61,857

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

8X8, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Nine Months Ended December 31,	
	2008	**2007**
Cash flows from operating activities:		
Net income (loss)	$ 1,412	$ (661)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	976	1,187
Stock compensation	870	958
Income on change in fair value of warrant liability	(325)	(2,098)
Other	175	109
Changes in assets and liabilities:		
Accounts receivable, net	997	46
Inventory	(419)	656
Other current and noncurrent assets	12	(209)
Deferred cost of goods sold	291	839
Accounts payable	(1,010)	(112)
Accrued compensation	387	344
Accrued warranty	13	13
Accrued taxes and fees	(1,307)	787
Deferred revenue	73	1,556
Other current and noncurrent liabilities	(38)	(804)
Net cash provided by operating activities	2,107	2,611
Cash flows from investing activities:		
Purchases of property and equipment	(677)	(505)
Purchase of investments	-	(3,323)
Maturities of short-term investments	3,385	2,150
Sale of short-term investments	-	1,000
Sale of property and equipment	-	1
Net cash provided by (used in) investing activities	2,708	(677)
Cash flows from financing activities:		
Capital lease payments	(28)	(30)
Proceeds from issuance of common stock under employee stock plans	223	130
Net cash provided by financing activities	195	100
Net increase in cash and cash equivalents	5,010	2,034
Cash and cash equivalents at the beginning of the period	11,185	6,735
Cash and cash equivalents at the end of the period	$ 16,195	$ 8,769

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

8X8, Inc.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

THE COMPANY

8x8, Inc. ("8x8" or the "Company") develops and markets communication technology and services for Internet protocol, or IP, telephony and video applications. The Company was incorporated in California in February 1987, and in October 1996 was reincorporated in Delaware.

The Company offers the Packet8 broadband Voice over Internet Protocol, or VoIP, and video communications services and equipment, Packet8 Virtual Office service, Packet8 Trunking service, Packet8 Hosted Key System service and Packet8 MobileTalk service. The Packet8 voice and video communications service ("Packet8") enables broadband Internet users to add digital voice and video communications services to their high-speed Internet connection. Customers can choose a direct-dial phone number from any of the rate centers offered by the service, and then use an 8x8-supplied terminal adapter to connect any telephone to a broadband Internet connection to make or receive calls from a regular telephone number. All Packet8 telephone accounts come with voice mail, caller ID, call waiting, call forwarding, hold, 3-way conferencing, web access to account controls, and online billing. In addition, 8x8 offers videophones for use with the Packet8 service. 8x8 has developed a suite of business services called Packet8 Virtual Office that offer feature-rich communications services to small and medium-sized business, eliminating the need for traditional telecommunications services and business phone systems. 8x8's primary product focus is on replacing private branch exchange, or PBX, telephone systems in the small business marketplace with a hosted business VoIP solution. Packet8 Virtual Office can completely replace a company's PBX infrastructure and deliver all telecom services over a managed or unmanaged broadband Internet connection. In June 2008, the Company launched Packet8 Virtual Trunking, which allows customers to utilize their existing PBX equipment and purchase inbound and outbound dial tone service from the Company. In July 2008, the Company introduced the Packet8 Hosted Key System service which replaces traditional premise-based telephone "key systems" typically used by companies whose size or structure dictates the sharing of multiple, common phone lines among employees. The Company also sells pre-programmed IP and analog telephones with speakerphones and a display screen, in conjunction with its Virtual Office service plans, which enable its business customers to access additional features of Virtual Office through on-screen phone menus. The Company's Packet8 MobileTalk service enables mobile phone users to make international phone calls from their mobile phones over the Packet8 international network.

The Company's fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in these notes and this report on Form 10-Q to the consolidated financial statements refers to the fiscal year ending March 31 of the calendar year indicated (for example, fiscal 2009 refers to the fiscal year ending March 31, 2009).

LIQUIDITY

Although the Company achieved positive cash flows from operations in the fiscal year ended March 31, 2008, and the nine months ended December 31, 2008, the Company historically has had negative cash flows from operations in comparable periods. These net losses and negative cash flows have been funded primarily through the issuance of equity securities and borrowings. The Company believes that current cash, cash equivalents and investments will be sufficient to finance the Company's operations for at least the next twelve months. However, the Company continually evaluates its cash needs and may pursue additional equity or debt financing in order to achieve the Company's overall business objectives. There can be no assurance that such financing will be available, or, if available, on terms that are acceptable to the Company. Failure to generate sufficient revenues, raise additional capital or reduce certain discretionary spending could have an adverse impact on the Company's ability to achieve its long term business objectives.

2. BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared on substantially the same basis as our annual financial statements for the fiscal year ended March 31, 2008. In the opinion of management, these financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of our financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The March 31, 2008 year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements and does not include all of the disclosures required by U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2008 and notes thereto included in the Company's fiscal 2008 Annual Report on Form 10-K.

The results of operations and cash flows for the interim periods included in these financial statements are not necessarily indicative of the results to be expected for any future period or the entire fiscal year.

Investments

The Company's investments are comprised of money market funds. All short-term investments are classified as available-for-sale.

Revenue Recognition

The Company recognizes new subscriber revenue in the month the new order is shipped, net of an allowance for expected cancellations. The allowance for expected cancellations is based on the Company's history of subscriber conduct or cancellations within the 30-day trial period.

Emerging Issues Task Force (EITF) consensus No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. In addition, arrangement consideration must be allocated among the separate units of accounting based on their relative fair values, with certain limitations. The provisioning of the Packet8 service with the accompanying desktop terminal or videophone adapter constitutes a revenue arrangement with multiple deliverables. In accordance with the guidance of EITF No. 00-21, the Company allocates Packet8 revenues, including activation fees, among the desktop terminal adapter or videophone and subscriber services. Revenues allocated to the desktop terminal adapter or videophone are recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. All other revenues are recognized when the related services are provided.

Deferred Cost of Goods Sold

Deferred cost of goods sold represents the cost of products sold for which the customer has a right of return. The cost of the products sold is recognized contemporaneously with the recognition of revenue.

Warrant Liability

The Company accounts for its warrants in accordance with Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock" ("EITF 00-19") which requires warrants to be classified as permanent equity, temporary equity or as assets or liabilities. In general, warrants that either require net-cash settlement or are presumed to require net-cash settlement are recorded as assets and liabilities at fair value and warrants that require settlement in shares are recorded as equity instruments. Certain of the Company's warrants require settlement in shares and are accounted for as permanent equity. The Company has two investor warrants that are classified as liabilities because they include a provision that specifies that the Company must deliver freely tradable shares upon exercise by the warrant holder. Because there are circumstances, irrespective of likelihood, that may not be within the control of the Company that could prevent delivery of registered shares, EITF 00-19 requires that the warrants be recorded as a liability at fair value, with subsequent changes in fair value recorded as income (loss) in change in fair value of warrant liability. The fair value of the warrant is determined using a Black-Scholes option pricing model, and is affected by changes in inputs to that model including our stock price, expected stock price volatility and contractual term.

Accounting for Stock-Based Compensation

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which establishes standards for the accounting for equity instruments exchanged for employee services. SFAS 123(R) revised SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and superseded Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations. Under the provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant), net of estimated forfeitures. The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R).

Stock-based compensation expense recognized in the Company's Condensed Consolidated Statements of Operations for the first quarter of fiscal 2009 included both the unvested portion of stock-based awards granted prior to April 1, 2006 and stock-based awards granted subsequent to April 1, 2006. Stock options granted in periods prior to fiscal 2007 were measured based on SFAS 123 criteria, whereas stock options granted subsequent to April 1, 2006 were measured based on SFAS 123(R) criteria. In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation from the accelerated multiple-option approach to the straight-line single option method. Compensation expense for all share-based payment awards granted subsequent to April 1, 2006 is recognized using the straight-line single-option method. Stock-based compensation expense includes the impact of estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock Option Plans

The Company has several stock-based compensation plans (the "Plans") that are described in Note 5 "Stockholders' Equity" of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2008. The Company, under its various equity plans, grants stock options for shares of common stock to employees, non-employees, directors and consultants. As of December 31, 2008, the 1992 Stock Plan, 1996 Stock Plan, 1996 Director Option Plan and 1999 Nonstatutory Stock Option Plan had expired or been cancelled, but there are still options outstanding under these plans, which generally vest over four years. Such options were granted at fair market value on the date of the grant and expire ten years from that date.

The Company's 2006 Stock Plan (the "2006 Plan") has 7,000,000 shares of common stock reserved for issuance. The 2006 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The exercise price of incentive stock options may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2006 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options generally vest over four years and expire ten years after grant. The 2006 Plan expires in May 2016.

Option Activity

Option activity since March 31, 2008 is summarized as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding		Weighted Average Exercise Price Per Share
Balance at March 31, 2008	3,935,125	10,301,064	$	2.00
Granted	(1,724,500)	1,724,500		0.86
Exercised	-	(3,000)		0.69
Canceled/forfeited	560,742	(560,742)		1.63
Termination of plans	(249,200)	-		-
Balance at December 31, 2008	2,522,167	11,461,822	$	1.85

The following table summarizes the stock options outstanding and exercisable at December 31, 2008:

	Options Outstanding				Options Exercisable		
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
$0.01 - $1.18	2,718,973	$ 0.92	7.46	$ 11,039	907,367	$ 1.01	$ 10,551
$1.19 - $1.27	2,316,833	$ 1.26	8.31	-	925,105	$ 1.26	-
$1.28 - $1.72	2,717,209	$ 1.56	5.77	-	2,229,225	$ 1.57	-
$1.73 - $2.81	2,436,431	$ 1.98	4.30	-	2,239,015	$ 1.99	-
$2.82 - $14.94	1,272,376	$ 5.27	2.52	-	1,272,376	$ 5.27	-
	11,461,822			$ 11,039	7,573,088		$ 10,551

Stock-based Compensation Expense

As of December 31, 2008, total unrecognized compensation cost related to stock options was $2.1 million. The Company expects to recognize these costs over a weighted average period of 2.68 years.

To value option grants and other awards for actual and pro forma stock-based compensation, the Company has used the Black-Scholes option valuation model. When the measurement date is certain, the fair value of each option grant is estimated on the date of grant. Fair value determined using Black-Scholes varies based on assumptions used for the expected stock price volatility, expected life, risk-free interest rates and future dividend payments. During the three and nine-month periods ended December 31, 2008 and 2007, the Company used historical volatility of the common stock over a period equal to the expected life of the options to estimate their fair value. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through the review of historical exercise behavior of stock-based award grants with similar vesting periods. The risk-free interest rate is based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the expected term of the option. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts.

The following table summarizes the assumptions used to compute reported and pro forma stock-based compensation to employees and directors for the three and nine months ended December 31, 2008 and 2007:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Expected volatility	77%	75%	79%	79%
Expected dividend yield	-	-	-	-
Risk-free interest rate	2.07%	3.50%	2.79%	4.44%
Weighted average expected option term	4.74 years	3.00 years	4.69 years	3.45 years
Weighted average fair value of options granted	$ 0.37	$ 0.66	$ 0.54	$ 0.72

In accordance with SFAS 123(R), the Company recorded compensation expense relative to stock options of $176,000 and $287,000 for the three months ended December 31, 2008 and 2007 and $787,000 and $874,000 for the nine months ended December 31, 2008 and 2007, respectively.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan, eligible employees can participate and purchase common stock semi- annually through payroll deductions at a price equal to 85% of the fair market value of the common stock at the beginning of each one year offering period or the end of a six month purchase period, whichever is lower. The contribution amount may not exceed ten percent of an employee's base compensation, including commissions but not including bonuses and overtime. The Company accounts for the Employee Stock Purchase Plan as a compensatory plan and recorded compensation expense of $30,000 and $37,000 for the three months ended December 31, 2008 and 2007 and $83,000 and $84,000 for the nine months ended December 31, 2008 and 2007, respectively, in accordance with SFAS 123(R).

The estimated fair value of stock purchase rights granted under the Employee Stock Purchase Plan were estimated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Expected volatility	47%	54%	47%	54%
Expected dividend yield	-	-	-	-
Risk-free interest rate	1.69%	4.89%	1.69%	4.89%
Weighted average expected option term	0.75 years	0.75 years	0.75 years	0.75 years
Weighted average fair value of options granted	$ 0.35	$ 0.46	$ 0.35	$ 0.46

As of December 31, 2008, total unrecognized compensation cost related to employee stock purchases was $28,000. The Company expects to recognize these costs over a weighted average period of 0.2 years.

SFAS No. 123(R) requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow rather than as an operating cash flow. The future realizability of tax benefits related to stock compensation is dependent upon the timing of employee exercises and future taxable income, among other factors. The Company did not realize any tax benefit from the stock compensation charge incurred during the three months ended December 31, 2008 and 2007 as the Company believes that it is more likely than not that it will not realize the benefit from tax deductions related to equity compensation.

As prescribed by SFAS No. 123(R), the following table summarizes the distribution of stock-based compensation expense related to employee stock options and employee stock purchases under SFAS No. 123(R) among the Company's operating functions for the three and nine months ended December 31, 2008 and 2007 which was recorded as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Cost of service revenues	$ 9	$ 7	$ 16	$ 14
Cost of product revenues	7	6	16	13
Research and development	12	59	137	184
Selling, general and administrative	178	252	701	747
Total stock-based compensation expense related to employee stock options and employee stock purchases, pre-tax	206	324	870	958
Tax benefit	-	-	-	-
Stock based compensation expense related to employeee stock options and employee stock purchases, net of tax	$ 206	$ 324	$ 870	$ 958

3. BALANCE SHEET DETAIL

	December 31, 2008	March 31, 2008

Inventory (in thousands):				
Work-in-process	$	1,095	$	1,095
Finished goods		806		444
	$	1,901	$	1,539

4. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of vested, unrestricted common shares outstanding during the period (denominator). Diluted net income (loss) per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, shares to be issued under the employee stock purchase plan and warrants.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Numerator:				
Net income (loss) available to common stockholders	$ 180	$ 1,389	$ 1,412	$ (661)
Denominator:				
Common shares	62,332	61,927	62,236	61,857
Denominator for basic calculation	62,332	61,927	62,236	61,857
Employee stock options	38	100	71	-
Employee stock purchase plan	24	43	121	-
Warrants	-	43	-	-
Denominator for diluted calculation	62,394	62,113	62,428	61,857
Net income (loss) per share				
Basic	$ 0.00	$ 0.02	$ 0.02	$ (0.01)
Diluted	$ 0.00	$ 0.02	$ 0.02	$ (0.01)

The following shares attributable to outstanding stock options and warrants were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Common stock options	11,365	9,591	10,588	10,287
Warrants	5,445	7,976	5,445	8,081
	16,810	17,567	16,033	18,368

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), as defined, includes all changes in equity (net assets) during a period from non-owner sources. The difference between the Company's net income (loss) and comprehensive income (loss) is due primarily to unrealized gains and losses on investments classified as available-for-sale. Comprehensive income (loss) for the three and nine months ended December 31, 2008 and 2007 was as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Net income (loss), as reported	$ 180	$ 1,389	$ 1,412	$ (661)

Unrealized gain (loss) on investments in securities	-	(3)	(5)	6
Comprehensive income (loss)	$ 180	$ 1,386	$ 1,407	$ (655)

6. SEGMENT REPORTING

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under SFAS No. 131, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. The Company has determined that it has only one reportable segment. The following net revenues for this segment are presented by groupings of similar products and services (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Packet8 services and videophones/equipment	$ 16,186	$ 15,724	$ 48,637	$ 45,095
Technology licensing and related software	17	80	272	219
Total revenues	$ 16,203	$ 15,804	$ 48,909	$ 45,314

No customer represented greater than 10% of the Company's total revenues for the three and nine months ended December 31, 2008 or 2007. Revenues from customers outside the United States were not material for the three and nine months ended December 31, 2008 or 2007.

7. INCOME TAXES

The Company accounts for income taxes using the asset and liability approach. Under the asset and liability approach, a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributed to temporary differences and carryforwards. If necessary, the deferred tax assets are reduced by the amount of benefits that, based on available evidence, it is more likely than not expected to be realized. Other than $38,000 state tax due to adoption of new tax laws in several states and a $75,000 foreign withholding tax on royalty revenue from a customer in Spain, the Company made no provision for income taxes in any periods presented in the accompanying condensed consolidated financial statements because of net losses incurred or net operating loss carryforwards that it expects to utilize for which there is a valuation allowance.

On April 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in income taxes recognized in an enterprise's financial statements. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company believes that any income tax filing positions and deductions not sustained on audit will not result in a material change to its financial position or results of operations.

The Company had unrecognized tax benefits of approximately $2.1 million as of March 31, 2008 related to federal and state research and development tax credits. The Company does not believe that there has been any change in the amounts of its unrecognized tax benefits in the period ended December 31, 2008 and does not believe it is reasonably possible that the amount will materially change in the next 12 months. The application of FIN 48 would have resulted in a decrease in the accumulated deficit of $2.1 million, but such decrease would not have been material as it would have been fully offset by the application of a valuation allowance. To the extent that the unrecognized tax benefits are ultimately recognized, they may have an impact on the effective tax rate in future periods; however, such impact on the effective tax rate would only occur if the recognition of such unrecognized tax benefits occurs in a future period when the Company has already determined that its deferred tax assets are more likely than not realizable.

The Company is subject to taxation in the U.S., California and various states and foreign jurisdictions in which we have or had a subsidiary or branch operations or we are collecting sales tax. All tax returns from fiscal 1995 to fiscal 2008 may be subject to examination by the Internal Revenue Service, California and various states. The Company extended the filing date of the 2008 federal tax return and all state income tax returns. As of January 15, 2009, the federal return and all state returns that the Company believes it is required to file, with the exception of one state return, had been filed. In addition, as of December 31, 2008, there were no active federal, state or local income tax audits. The foreign tax jurisdictions may be subject to examination for the fiscal years 2005 to 2008.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of operating expense income before taxes. During the nine months ended December 31, 2008 and 2007, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

8. COMMITMENTS AND CONTINGENCIES

Guarantees

Indemnifications

In the normal course of business, the Company indemnifies other parties, including customers, lessors and parties to other transactions with the Company, with respect to certain matters, such as

hold harmless provisions for losses arising from a breach of representations or covenants or intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors.

It is not possible to determine the maximum potential amount of the Company's exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results, financial position or cash flows. Under some of these agreements, however, the Company's potential indemnification liability might not have a contractual limit.

Product Warranties

The Company accrues for the estimated costs that may be incurred under its product warranties upon revenue recognition. Changes in the Company's product warranty liability, which is included in cost of product revenues in the condensed consolidated statements of operations during the three and nine months ended December 31, 2008 and 2007, were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Balance at beginning of period	$ 298	$ 339	$ 314	$ 323
Accruals for warranties	120	66	259	250
Settlements	(91)	(69)	(246)	(237)
Balance at end of period	$ 327	$ 336	$ 327	$ 336

Standby letters of credit

The Company has a standby letter of credit totaling $100,000, which was issued to guarantee its noncancelable operating lease obligation for its corporate headquarters in Santa Clara, CA, and is collateralized by cash deposits at the Company's bank. This letter of credit is recorded in the "other current assets" line item in the condensed consolidated balance sheets.

Leases

At December 31, 2008, future minimum annual lease payments under noncancelable operating leases were as follows (in thousands):

Year ending March 31:		
Remaining 2009	$	123
2010		206
Total minimum payments	$	329

In April 2005, June 2006 and March 2007, the Company entered into a series of noncancelable capital lease agreements, respectively, for office equipment bearing interest at various rates. At December 31, 2008, future minimum annual lease payments under noncancelable capital leases were as follows (in thousands):

Year ending March 31:		
Remaining 2009	$	11
2010		42
2011		26
2012		22
Total minimum payments		101
Less: Amount representing interest		(6)
		95
Less: Short-term portion of capital lease obligations		(39)
Long-term portion of capital lease obligations	$	56

Capital leases included in office equipment were $182,000 at December 31, 2008. Total accumulated depreciation was $93,000 at December 31, 2008. Amortization expense for assets recorded under capital leases is included in depreciation expense.

Minimum Third Party Customer Support Commitments

In January 2008, the Company entered into a contract with one of its third party customer support vendors containing a minimum monthly commitment of approximately $436,000 effective January 1, 2008 through March 31, 2009. At December 31, 2008, the total remaining obligation under the contract was $1.3 million.

Legal Proceedings

From time to time, the Company may be involved in various legal claims and litigation that arise in the normal course of its operations. While the results of such claims and litigation cannot be predicted with certainty, the Company currently believes that it is not a party to any litigation the final outcome of which is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. However, should the Company not prevail in any such litigation it could have a material adverse impact on the Company's operating results, cash flows or financial position.

State and Municipal Taxes

For a period of time, the Company did not collect or remit state or municipal taxes (such as sales, excise, and ad valorem taxes), fees or surcharges ("Taxes") on the charges to the Company's customers for its services, although the Company historically complied with the California sales tax and financial contributions to the 9-1-1 system and Universal Service Fund. The Company has received inquiries or demands from a number of state and municipal taxing agencies seeking payment of Taxes that are applied to or collected from customers of providers of traditional public switched telephone network services. Although the Company has consistently maintained that these Taxes do not apply to its service for a variety of reasons depending on the statute or rule that establishes such obligations, a number of states have changed their statutes as part of streamlined sales tax initiatives and, in response to these statutory changes, the Company has begun collecting and remitting Taxes in those states. Some of these Taxes could apply to the Company retroactively, and two states currently are conducting Tax audits of the Company's records. The Company has accrued a tax liability of $0.5 million at December 31, 2008 as its current estimate of the potential tax exposure for any retroactive Tax assessment by numerous states and municipalities.

Regulatory Matters

Like many interconnected VoIP providers, the Company relies on a third party to route emergency calls originated by our customers. For certain customers, the third party solution provider may route 911 calls to a national emergency call center in the event of a system outage or other circumstances. The emergency dispatchers in this national call center may utilize the location information provided by the customer to route the call to the correct Public Safety Answering Point ("PSAP"), which is a local call center staffed by trained emergency operators, or first responder. The FCC could determine that calls routed in this manner do not satisfy its requirements should we be unable to connect our customers directly to a PSAP. The Company may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties for those customers, whose 911 calls are routed to a national emergency call center and not directly to a PSAP. As of December 31, 2008, the Company provided emergency calling services to 100% of its customers located in the United States.

The effect of any future laws, regulations and the orders on the Company's operations, including, but not limited to, the Packet8 service, cannot be forecast with any reliability at this time. But as a general matter, increased regulation and the imposition of additional funding obligations increases the Company's costs of providing service that may or may not be recoverable from the Company's customers. This could result in making the Company's services less competitive with traditional telecommunications services if the Company increases its retail prices or decreases the Company's profit margins if it attempts to absorb such costs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors. These factors include, but are not limited to, customer acceptance and demand for our VoIP products and services, the reliability of our services, the prices for our services, customer renewal rates, customer acquisition costs, actions by our competitors, including price reductions for their telephone services, potential federal and state regulatory actions, compliance costs, potential warranty claims and product defects, our needs for and the availability of adequate working capital, our ability to innovate technologically, the timely supply of products by our contract manufacturers, potential future intellectual property infringement claims that could adversely affect our business and operating results, and our ability to retain our listing on the NASDAQ Capital Market. The forward-looking statements may also be impacted by the additional risks faced by us as described in this Report. All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. In addition to those factors discussed elsewhere in this Form 10-Q, see the Risk Factors discussion in Item 1A of our 2008 Form 10-K and Part II, Item 1A of this Form 10-Q. The forward-looking statements included in this Form 10-Q are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

BUSINESS OVERVIEW

We develop and market telecommunication technology for Internet protocol, or IP, telephony and video applications. We offer the Packet8 broadband voice over Internet protocol, or VoIP, and video communications service, Packet8 Virtual Office service, Packet8 Trunking service, Packet8 Hosted Key System service, Packet8 MobileTalk and videophone equipment and services (collectively, Packet8). We shipped our first VoIP product in 1998, launched our Packet8 service in November 2002, launched the Packet8 Virtual Office business service offering in March 2004, and launched the Packet8 Virtual Trunking service offering in June 2008. Substantially all of our revenues are generated from the sale, license and provisioning of VoIP products, services and technologies.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008.

SELECTED OPERATING STATISTICS

We periodically review certain key business metrics, within the context of our articulated performance goals, in order to evaluate the effectiveness of our operational strategies, allocate resources and maximize the financial performance of our business. The selected operating statistics include the following:

Selected Operating Statistics

	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007
Gross business customer additions (1)	2,437	3,324	2,398	2,162	1,924	1,872	1,746
Gross business customer cancellations (less cancellations within 30 days of sign-up)	1,224	1,187	1,098	1,138	949	849	876
Business customer churn (less cancellations within 30 days of sign-up) (2)	2.9%	3.1%	3.2%	3.6%	3.3%	3.3%	3.8%
Total business customers (3)	14,706	13,744	11,898	10,845	10,007	9,111	8,160
Business customer average service revenue per customer (4)	$ 208	$ 220	$ 237	$ 229	$ 233	$ 234	$ 247
Revenue from business customers (in '000s)	$ 10,614	$ 9,826	$ 9,077	$ 8,111	$ 7,542	$ 6,953	$ 6,444
Revenue from residential and video customers (in '000s)	$ 5,572	$ 6,356	$ 7,192	$ 7,685	$ 8,182	$ 7,793	$ 8,181
Revenue from technology licensing (in '000s)	$ 17	$ 243	$ 12	$ 536	$ 80	$ 22	$ 117
Total Revenue	$ 16,203	$ 16,425	$ 16,281	$ 16,332	$ 15,804	$ 14,768	$ 14,742
Percentage of revenue from business customers	65.5%	59.8%	55.8%	49.7%	47.7%	47.1%	43.7%
Percentage of revenue from residential and video customers	34.4%	38.7%	44.1%	47.0%	51.8%	52.8%	55.5%
Percentage of revenue from technology licensing	0.1%	1.5%	0.1%	3.3%	0.5%	0.1%	0.8%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Overall service margin	74%	73%	75%	74%	70%	67%	70%
Overall product margin	9%	-10%	-13%	-23%	15%	-77%	-4%
Overall gross margin	67%	65%	68%	67%	65%	52%	64%
Total (business, residential and video) subscriber acquisition cost per service (5)	$ 135	$ 163	$ 162	$ 155	$ 129	$ 99	$ 138
Business subscriber acquisition cost per service (6)	$ 141	$ 171	$ 171	$ 158	$ 161	$ 142	$ 141
Average number of services subscribed to per business customer	6.6	6.9	7.1	7.2	7.3	7.2	7.0
Business customer subscriber acquisition cost (7)	$ 933	$ 1,174	$ 1,217	$ 1,135	$ 1,177	$ 1,028	$ 991
Residential lines in service	86,992	93,865	100,937	107,260	112,229	117,338	100,571
Total (business, residential and video) customer churn (less cancellations within 30 days of sign-up) (8)	3.9%	4.2%	3.5%	4.0%	3.8%	3.9%	4.6%

(1) Includes 1,154 "Find me, Follow me" and 40 8x8 Virtual Office customers acquired in the second quarter of fiscal 2009 from Avtex Solutions, LLC ("Avtex"). During the second fiscal quarter of 2009, we incurred an expense of approximately $0.1 million related to the acquisition of 1,194 business customers from Avtex.

(2) Business customer churn is calculated by dividing the number of business customers that terminated (after the expiration of the 30 day trial) during that period by the simple average number of business customers during the period and dividing the result by the number of months in the period. The simple average number of business customers during the period is the number of business customers on the first day of the period plus the number of business customers on the last day of the period divided by two.

(3) Business customers are defined as customers paying for service. Prior to April 1, 2008, 8x8 included customers in the business customer count that were using the service as a trial or evaluation and not yet paying for service. The numbers in this table prior to and after April 1, 2008, only include business customers that are paying for service. Customers that have prepaid for their first month of service and are currently in the 30 day trial period are considered to be customers that are paying for service.

(4) Business customer average service revenue per customer is service revenue from business customers in the period divided by the number of months in the period divided by the simple average number of business customers during the period.

(5) Total (business, residential and video) subscriber acquisition cost per service is defined as the combined costs of advertising, marketing, promotions, commissions and equipment subsidies during the period divided by the number of gross services added during the period.

(6) Business subscriber acquisition cost per service is defined as the combined costs of advertising, marketing, promotions, commissions and equipment subsidies for business services sold during the period divided by the number of gross business services added during the period. The addition of 1,154 Avtex customers that migrated to 8x8 in the second fiscal quarter of 2009 but subscribed to "Find me, Follow me" services rather than 8x8 Virtual Office service, and the $79,230 in expense related to the acquisition of these 1,154 customers, is excluded from this calculation.

(7) Business customer subscriber acquisition cost is business subscriber acquisition cost per service times the average number of services subscribed to per business customer.

(8) Total (business, residential and video) customer churn is calculated by dividing the number of services terminated (after the expiration of the 30 day trial) during that period by the simple average number of services during the period and dividing the result by the number of months in the period. The simple average number of services during the period is the number of services on the first day of the period plus the number of services on the last day of the period divided by two.

OUTLOOK

As reflected in the Selected Operating Statistics above, 8x8 achieved record organic (non-acquisition-related) sales to business customers during the third fiscal quarter of 2009. While our IP-based communications services are innately designed to save businesses money on monthly telecommunications costs, we are conscious that, in light of the current macroeconomic environment, our new sales could potentially decline if business customers are forced to reduce their telecommunication spending. In addition, we actively monitor business customer cancellations for non- payment. While our business customer churn declined to 2.9% in the third quarter of 2009 compared with 3.6% in the same period a year ago, we have determined that in the first and second quarter of fiscal 2009, cancellations for non-payment represented 33% and 34% of our total business customer cancellations while in the third quarter of fiscal 2009, cancellations for non-payment of our business customer cancellations increased to 40% of total business customer cancellations. Management remains focused on monitoring these metrics in light of the current U.S. macroeconomic conditions.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto.

	December 31,			
Service revenues	**2008**	**2007**	**Dollar Change**	**Percent Change**
	(dollar amounts in thousands)			
Three months ended	$ 14,366	$ 14,426	$ (60)	-0.4%
Percentage of total revenues	88.7%	91.3%		
Nine months ended	$ 44,288	$ 41,109	$ 3,179	7.7%
Percentage of total revenues	90.6%	90.7%		

Service revenues consist primarily of revenues attributable to the provision of our Packet8 service and royalties earned under our VoIP technology licenses. We expect that Packet8 service revenues will continue to comprise nearly all of our service revenues for the foreseeable future.

The decrease for the third quarter of fiscal 2009 compared with the same period in the prior fiscal year was primarily due to a $2.2 million decrease in revenues attributable to residential and videophone services and a $0.1 million decrease in revenue attributable to royalties earned. The decrease in service revenues from residential and video customers resulted from a reduction in the number of residential and video lines in service from approximately 112,000 in the third quarter of fiscal 2008 to approximately 87,000 in the third quarter of fiscal 2009. This decrease was offset by an increase of $2.2 million in revenue attributable to the growth in the business customer base. In fiscal 2007, we redirected most of our marketing efforts away from targeting residential customers to marketing our business services to small businesses. Our business customer base grew from approximately 10,000 businesses on December 31, 2007 to approximately 14,700 on December 31, 2008.

The increase in revenues from operations for the first nine months of fiscal 2009 compared with the same period in the prior fiscal year resulted primarily from a $7.1 million increase in revenues attributable to the growth in the business customer base and a $0.1 million increase in revenue attributable to royalties earned. The increase in service revenues from business customers was partially offset by a net reduction of $3.4 million attributable to residential and videophone services in the nine-month period. Also, compared with the same period last year, there was a $0.6 million reduction in the one time recognition of revenue due to a ruling by the U.S. Court of Appeals for the District of Columbia in June 2007 that interconnected VoIP providers are not required to obtain pre-approval of traffic studies. As a result of the ruling, in the first quarter of fiscal 2008 we retroactively applied our traffic study contribution rate to the historical subscriber retail revenues which resulted in the recognition of revenue of $0.6 million from the reduction of the related accrued liability in the first fiscal quarter of 2008.

	December 31,						
		2008		2007		Dollar Change	Percent Change
Product revenues							
			(dollar amounts in thousands)				
Three months ended	$	1,837	$	1,378	$	459	33.3%
Percentage of total revenues		11.3%		8.7%			
Nine months ended	$	4,621	$	4,205	$	416	9.9%
Percentage of total revenues		9.4%		9.3%			

Product revenues consist of revenues from sales of VoIP terminal adapters, telephones and videophones, primarily attributable to our Packet8 service. The increase in product revenue for the three and nine months ended December 31, 2008 was primarily due to growth in the business customer base. This increase in product revenues was offset by a decrease in new residential customers.

No customer represented greater than 10% of our total revenues for the three and nine months ended December 31, 2008 and 2007. Revenues from customers outside the United States were not material for the three and nine months ended December 31, 2008 or 2007.

	December 31,						
		2008		2007		Dollar Change	Percent Change
Cost of service revenues							
			(dollar amounts in thousands)				
Three months ended	$	3,699	$	4,364	$	(665)	-15.2%
Percentage of service revenues		25.7%		30.3%			
Nine months ended	$	11,535	$	12,780	$	(1,245)	-9.7%
Percentage of service revenues		26.0%		31.1%			

The cost of service revenues primarily consists of costs associated with network operations and related personnel, telephony origination and termination services provided by third party carriers and technology license and royalty expenses. Cost of service revenues for the three and nine months ended December 31, 2008 decreased $0.7 million and $1.2 million, respectively, over the comparable periods in the prior fiscal year primarily due to a reduction in pricing by third party network service vendors and our use of multiple third party network provider vendors, which allows us to route call traffic to the third party network provider vendor with the most favorable pricing. The reduction in pricing by third party network service vendors was partially offset by an increase in personnel costs over the comparable periods in the prior fiscal year.

Cost of service revenues as a percentage of service revenues decreased from 30.3% and 31.1% of service revenues for the three and nine months ended December 31, 2007 to 25.7% and 26.0% of service revenues for the three and nine months ended December 31, 2008. The cost of service revenues as a percentage of service revenues decreased from the three and nine months ended December 31, 2007 to the three and nine months ended December 31, 2008 due to a reduction in pricing by third party network service vendors and an increase in the percentage of total revenue from business customers. The cost of service revenues as a percentage of service revenues is less for business customers than for residential customers.

	December 31,			
Cost of product revenues	**2008**	**2007**	**Dollar Change**	**Percent Change**
	(dollar amounts in thousands)			
Three months ended	$ 1,681	$ 1,175	$ 506	43.1%
Percentage of product revenues	91.5%	85.3%		
Nine months ended	$ 4,786	$ 5,210	$ (424)	-8.1%
Percentage of product revenues	103.6%	123.9%		

The cost of product revenues consists of costs associated with systems, components, system manufacturing, assembly and testing performed by third-party vendors, estimated warranty obligations and direct and indirect costs associated with product purchasing, scheduling, quality assurance, shipping and handling.

The increase for the third quarter of fiscal 2009 compared with the same period in the prior fiscal year was primarily due to the one time reduction in product reserves of $0.5 million in the third quarter of fiscal 2008, as we eliminated a royalty expense accrual after determining that we were unlikely to pay royalties in the future, and a $0.4 million increase in the shipment of equipment to our business customers. The increase in cost of product revenues was partially offset by a $0.4 million decrease in shipments of equipment to residential subscribers.

The decrease in cost of product revenues for the first nine months of fiscal 2009 compared with the same period in the prior fiscal year was primarily due to a $1.5 million decrease in shipments of equipment to residential subscribers and a $0.3 million decrease in shipping costs. This decrease was partially offset by a $0.9 million increase in shipments of equipment to our business customers and a one time reduction in product reserves of $0.5 million in the third quarter of fiscal 2008 resulting from the elimination of a royalty expense accrual..

We generally do not separately charge Packet8 residential subscribers for the terminal adapters or telephone equipment used to provide our service when they subscribe via our website. We have offered incentives to customers who purchase terminal adapters in our retail channels to offset the cost of the equipment purchased from a retailer, and generally these incentives are recorded as reductions of revenue. In accordance with FASB Emerging Issues Task Force Issue No. 00-21, a portion of Packet8 services revenues is allocated to product revenues, but these revenues are less than the cost of the terminal adapters at the time of purchase.

Cost of product revenues as a percentage of product revenues increased from 85.3% for the third quarter of fiscal 2008 to 91.5% for the third quarter of fiscal 2009. The cost of product revenues as a percentage of product revenue increased due to a one-time $0.5 million reduction in product reserves in the third quarter of fiscal 2008 resulting from the elimination of a royalty expense accrual.

Cost of product revenues as a percentage of product revenues decreased from 123.9% for the nine months ended December 31, 2007 to 103.6% for the nine months ended December 31, 2008. The cost of product revenues as a percentage of product revenues decreased in part due to a reduction in discounting of product sales by our sales force in the nine months ended December 31, 2008.

Research and development	December 31, 2008		December 31, 2007		Dollar Change	Percent Change
	(dollar amounts in thousands)					
Three months ended	$	1,183	$	1,081	$ 102	9.4%
Percentage of total revenues		7.3%		6.8%		
Nine months ended	$	3,674	$	3,164	$ 510	16.1%
Percentage of total revenues		7.5%		7.0%		

Research and development expenses consist primarily of personnel, system prototype, software and equipment costs necessary for us to conduct our engineering and development efforts. The increase in research and development expenses for the third quarter of fiscal 2009 and the first nine months of fiscal 2009 compared with the same periods in the prior fiscal year was primarily attributable to an increase in personnel expenses.

Selling, general and administrative	December 31, 2008		December 31, 2007		Dollar Change	Percent Change
	(dollar amounts in thousands)					
Three months ended	$	9,562	$	9,604	$ (42)	-0.4%
Percentage of total revenues		59.0%		60.8%		
Nine months ended	$	27,980	$	28,573	$ (593)	-2.1%
Percentage of total revenues		57.2%		63.1%		

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, customer support, finance, human resources and general management. Such costs also include sales commissions, trade show, advertising and other marketing and promotional expenses. Selling, general and administrative expenses for the third quarter of fiscal 2009 decreased over the same quarter in the prior fiscal year primarily because of a $0.3 million reduction in advertising, public relations and other marketing and promotional expenses, a $0.3 million reduction in sales agent and retailer commissions and a $0.1 reduction in sales and use tax expense as we began collecting such taxes directly from customers in fiscal 2008. The decrease in expenses was partially offset by a $0.7 million increase in personnel and temporary personnel costs.

Selling, general and administrative expenses for the first nine months of fiscal 2009 decreased over the same period in the prior fiscal year primarily because of a $1.3 million reduction in sales and use tax expense as we began collecting such taxes directly from customers in fiscal 2008, a $1.2 million reduction in sales agent and retailer commissions, a $0.3 million reduction in accounting and tax expenses and a $0.1 million reduction credit card processing fees. The decrease in expenses was partially offset by a $1.6 million increase in personnel and temporary personnel costs, a $0.5 million increase in advertising, public relations and other marketing and promotional expenses, a $0.1 million increase in travel expenses and a $0.1 million increase in printing expenses.

Other income, net	December 31, 2008		December 31, 2007		Dollar Change	Percent Change
	(dollar amounts in thousands)					
Three months ended	$	74	$	1,361	$ (1,287)	-94.6%
Percentage of total revenues		0.5%		8.6%		
Nine months ended	$	266	$	1,654	$ (1,388)	-83.9%
Percentage of total revenues		0.5%		3.7%		

In the third fiscal quarter of 2009 and the first nine months of fiscal 2009, other income, net primarily consisted of interest and investment income earned on our cash, cash equivalents and investment balances. The decrease in other income, net for the third quarter of fiscal 2009 and the first nine months of fiscal 2009 from the same periods in fiscal 2008 was primarily due to the sale of two patents in the third quarter of fiscal 2008 for $1.2 million, lower average interest rates and a reduction in investments.

Income on change in fair value of warrant liability	December 31, 2008		December 31, 2007		Dollar Change	Percent Change
	(dollar amounts in thousands)					
Three months ended	$	66	$	448	$ (382)	-85.3%
Percentage of total revenues		0.4%		2.8%		
Nine months ended	$	325	$	2,098	$ (1,773)	-84.5%
Percentage of total revenues		0.7%		4.6%		

In connection with the sale of shares of our common stock in fiscal 2005 and 2006, we issued warrants in three different equity financings. The warrants included a provision that we must deliver freely tradable shares upon exercise of the warrant. Because there are circumstances that may not be within our control that could prevent delivery of registered shares, EITF 00-19 requires the warrants be recorded as a liability at fair value with subsequent changes in fair value recorded as a gain or loss. The fair value of the warrant is determined using a Black-Scholes option pricing model and is affected by changes in inputs to that model including our stock price, expected stock price volatility and contractual term. To the extent that the fair value of the warrant liability increases or decreases, we record a loss or income in our statement of operations. The decrease in the income from change in fair value of warrants in the third fiscal quarter of 2009 and the first nine months of fiscal 2009 compared with the same periods in fiscal 2008 was due to the reclassification of amended warrants for 3,659,624 shares of common stock from a liability to equity in the second quarter of fiscal 2008 and a reduction in the fair value of the remaining warrants due to a reduction in the expected stock price, interest rates and contractual life of the warrants which are the primary assumptions applied to the Black-Scholes model which we have used to calculate the fair value of the warrants.

Provision for income tax	December 31, 2008		December 31, 2007		Dollar Change	Percent Change
	(dollar amounts in thousands)					
Three months ended	$	38	$	-	$ 38	100.0%
Percentage of total revenues		0.2%		0.0%		
Nine months ended	$	113	$	-	$ 113	100.0%
Percentage of total revenues		0.2%		0.0%		

No income tax provision was recorded during the three and nine month periods ended December 31, 2008 due to year to date net losses incurred. We recorded a provision for the three and nine month periods of fiscal 2009 for state tax in several states and foreign withholding tax on royalty revenue. We believe that, based on the history of our operating losses and other factors, the weight of available evidence indicates that it is more likely than not that we will not be able to realize the entire benefit of our net operating losses. Accordingly, a valuation reserve has been recorded against our net deferred tax assets.

Liquidity and Capital Resources

As of December 31, 2008, we had approximately $16.2 million in cash and cash equivalents.

Net cash provided by operating activities for the nine months ended December 31, 2008 was $2.1 million, compared with $2.6 million provided by operating activities for the nine months ended December 31, 2007. The net cash provided by operating activities for the nine months ended December 31, 2008 resulted primarily from net income of $1.4 million, a $1.8 million adjustment for depreciation and stock compensation, a $1.0 million reduction in accounts receivable primarily related to the payment by national retailers and payments from licensing and royalty revenue, a $0.3 million reduction in deferred cost of goods sold primarily related to sell thru of equipment by retailers and net retailer returns, and a $0.1 million increase in deferred revenue related to cash collections of $3.7 million from annual service plans in which the customer pre-pays for 12 months of service offset by a $3.4 million recognition of deferred annual plan revenue and a $0.2 million reduction related to sell thru of equipment by retailers and net retailer returns. This was reduced by a $0.4 million increase in inventory due to the procurement of the new business IP phones launched in July 2008, a $1.0 million reduction in accounts payable, a reduction of $1.1 million due to payment of accrued sales tax and a net $0.2 million reduction in accrued taxes.

The net cash provided by operating activities for the nine months ended December 31, 2007 resulted primarily from a $1.6 million increase in deferred revenue related to cash collections of $4.2 million from annual plan subscriptions offset by recognition of $2.0 million of annual plan revenue and $0.5 million due to conversion of retailer transactions to consigned inventory, a $2.1 million adjustment for depreciation and stock compensation, a $0.8 million decrease in deferred cost of goods primarily due to conversion of retailer transactions to consigned inventory, a $0.7 million decrease in inventory due to lower inventory levels of customer premise equipment (CPE), and a net increase of $0.3 million in accrued expenses and other current and noncurrent liabilities offset by a $0.7 million net loss, and a $2.1 million reduction in the fair value of warrant liability.

While cancellations for non-payment by business customers increased compared with the first and second fiscal quarters of 2009, our cash collection rate has not declined compared with prior fiscal years. Cash collection rate is cash we collected for recurring billing divided by cash we attempted to collect. We actively monitor this metric and our cash flow from operations could be negatively impacted if our customers are unable to pay their bills.

Contractual Obligations

In April 2005, June 2006 and March 2007, we entered into a series of noncancelable capital lease agreements for office equipment bearing interest at various rates. Assets under capital lease at December 31, 2008 totaled $182,000 with accumulated amortization of $93,000.

We lease our primary facility in Santa Clara, California under a noncancelable operating lease that expires in fiscal 2010. We also have a leased facility in France. The facility leases include rent escalation clauses that require us to pay taxes, insurance and normal maintenance costs. Rent expense is reflected in our consolidated financial statements on a straight-line basis over the term of the leases.

In January 2008, we entered into a contract with one of our third party customer support vendors containing a minimum monthly commitment of approximately $436,000 effective January 1, 2008 through March 31, 2009. At December 31, 2008, the total remaining obligation under the contract was $1.3 million.

At December 31, 2008, we had open purchase orders of approximately $1.6 million, primarily related to inventory purchases from our contract manufacturers. These purchase commitments are reflected in our consolidated financial statements once goods or services have been received or at such time when we are obligated to make payments related to these goods or services.

As of December 31, 2008, we did not have any material changes to our contractual obligations that were disclosed in the Liquidity section of our Form 10-K for the fiscal year ended March 31, 2008 due to the adoption of FIN 48.

Based upon our current expectations, we believe that our current cash and cash equivalents and short-term investments, together with cash expected to be generated from future operations, will be sufficient to satisfy our expected working capital and capital expenditure requirements for at least the next 12 months.

Although we believe that our current cash and cash equivalents will satisfy our expected working capital and capital expenditure requirements through at least the next 12 months, our future capital requirements will depend on many factors, including the amount of revenue we generate, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new services or products, the costs to ensure access to our telecommunications services, and the continuing market acceptance of our services and products. However, if we do not meet our plan, we could be required, or might elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us or at all. We also might decide to raise additional capital at such times and upon such terms as management considers favorable and in our interests.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency

Our financial market risk consists primarily of risks associated with international operations and related foreign currencies. We derive a portion of our revenues from customers in Europe and Asia. In order to reduce the risk from fluctuation in foreign exchange rates, the vast majority of our sales are denominated in U.S. dollars. In addition, almost all of our arrangements with our contract manufacturers are denominated in U.S. dollars. The operations at our subsidiary in France expose us to market risk from changes in exchange rates. We have not entered into any currency hedging activities. To date, our exposure to exchange rate volatility has not been significant, and we do not currently anticipate significant growth in foreign operations that would result in increased exposure to this risk.

Investments

We maintain an investment portfolio of various holdings, types and maturities. These marketable securities are generally classified as available for sale and, consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive loss.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Disclosure Controls") that are designed to ensure that information the Company is required to disclose in reports filed or submitted under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

As of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision of our Chief Executive Officer and our Chief Financial Officer, our management evaluated the effectiveness of our Disclosure Controls. Based on this evaluation our Chief Executive Officer and our Chief Financial Officer have concluded that our Disclosure Controls were effective as of December 31, 2008.

Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's Disclosure Controls or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control over Financial Reporting

During the third quarter of fiscal 2009, there were no material changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1. Legal Proceedings

Descriptions of our legal proceedings are contained in Part I, Item 1, Financial Statements - Notes to Condensed Consolidated Financial Statements - "Note 8," which is incorporated herein by reference.

ITEM 1A. Risk Factors

We face many significant risks in our business, some of which are unknown to us and not presently foreseen. These risks could have a material adverse impact on our business, financial condition and results of operations in the future. We have disclosed a number of material risks under Item 1A of our annual report on Form 10-K for the year ended March 31, 2008, which we filed with the Securities and Exchange Commission on May 27, 2008. The following discussion relates to material changes to risk factors disclosed in that report.

We have a history of losses and are uncertain as to our future profitability.

Although we recorded operating income of $0.9 million for the nine months ended December 31, 2008, we ended the period with an accumulated deficit of $199 million. We recorded an operating loss of $3.7 million for the year ended March 31, 2008 and ended the period with an accumulated deficit of $200 million. In addition, we recorded operating losses of $14 million and $25 million for the fiscal years ended March 31, 2007 and 2006, respectively. We may incur operating losses in the foreseeable future, and such losses may be substantial. We may need to increase revenues in order to generate sustainable and increasing operating profit. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to achieve profitability consistently or to increase our profitability on either a quarterly or annual basis in the future.

We may not be able to maintain our listing on the NASDAQ Capital Market.

Our common stock trades on the NASDAQ Capital Market, which has certain compliance requirements for continued listing of common stock. We have in the past been subject to delisting procedures due to a drop in the price of our common stock. If our minimum closing bid price per share falls below $1.00 for a period of 30 consecutive trading days in the future, we may again be subject to delisting procedures. As of the close of business on January 29, 2009, our common stock had a closing bid price of approximately $0.51 per share. We also must meet additional continued listing requirements contained in NASDAQ Marketplace Rule 4310(c)(2)(b), which requires that we have a minimum of $2,500,000 in stockholders' equity or $35,000,000 market value of listed securities held by non-affiliates or $500,000 of net income from continuing operations for the most recently completed fiscal year (or two of the three most recently completed fiscal years). As of January 29, 2009, based on our closing price as of that day, the market value of our securities held by non-affiliates approximated $31,512,000 and we were therefore in compliance with NASDAQ Marketplace Rule 4310(c)(2)(b).

On December 19, 2008, NASDAQ announced that it would temporarily suspend enforcement of its rules regarding minimum closing bid price and minimum market value of public shares in light of current extraordinary market conditions. Both rules are to be reinstated on April 20, 2009.

There can be no assurances that we will continue to meet the continued listing requirements. Delisting could reduce the ability of our shareholders to purchase or sell shares as quickly and as inexpensively as they have done historically. For instance, failure to obtain listing on another market or exchange may make it more difficult for traders to sell our securities. Broker-dealers may be less willing or able to sell or make a market in our common stock. Not maintaining our NASDAQ Capital Market listing may:

- result in a decrease in the trading price of our common stock;
- lessen interest by institutions and individuals in investing in our common stock;
- make it more difficult to obtain analyst coverage; and
- make it more difficult for us to raise capital in the future.

Taxes will increase our customers' cost of using our service and we may be subject to liabilities for past sales and additional taxes, surcharges and fees.

Until 2007, we did not collect or remit state or municipal taxes, such as sales, excise, and ad valorem taxes, fees or surcharges on the charges to our customers for our services, except that we have historically complied with the collection of California sales tax and financial contributions to the 9-1-1 system and Universal Service Fund. We have received inquiries or demands from a number of state and municipal taxing agencies seeking payment of taxes, fees or surcharges that are applied to or collected from customers of providers of traditional public switched telephone network services. Although we have consistently maintained that these taxes, fees or surcharges do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, a number of states have changed their statutes as part of streamlined sales tax initiatives and we are now collecting and remitting sales taxes in those states. The collection of these taxes, fees or surcharges will have the effect of decreasing any price advantage we may have over other providers who have historically paid these taxes and fees. Our compliance with these tax initiatives will also make us less competitive with those competitors who choose not to comply with these tax initiatives. Additionally, the Company is currently being audited by two states for state and municipal taxes. We have established an accrued tax liability of $0.5 million as of December 31, 2008, to account for the claims by some states that we should have collected and remitted sales taxes in the past. If our ultimate liability exceeds that amount, it could result in significant charges to our earnings.

The Rates We Pay to Underlying Telecommunications Carriers May Increase Which May Reduce Our Profitability and Increase the Retail Price of our Service.

The FCC has several open proceedings considering new rules that may impact charges that regulated telecommunications carriers assess each other for originating and terminating traffic. It is possible that the FCC will adopt new rules that subjects interconnected VoIP traffic to increased charges. Should this occur, the rates that we pay to our underlying carriers may increase which may reduce our profitability and may also increase the retail price of our service making our service less competitive with other providers of similar calling services. We cannot predict either the timing or the outcome of these proceedings.

ITEM 5. Other Information.

On January 27, 2009, our board of directors approved the acceleration of unvested stock options to purchase 3,902,186 shares of common stock. 1,737,509 of these shares are subject to options held by our executive officers and directors. These options of our executive officers and directors, taken as a whole, have a weighted average exercise price of $1.06 per share and range from $0.63 to $1.79 per share, and a weighted average remaining vesting term of 2.85 years. We expect to incur total stock-based compensation expense of approximately $2.4 million to $2.6 million in the fourth fiscal quarter of 2009 related to this action, of which approximately $1.0 million to $1.1 million will apply to the options held by our executive officers and directors. We believe this will benefit shareholders as the net effect of this action will be to largely eliminate any FAS-123(R) stock-based compensation expense, resulting from past stock option grants, in future fiscal years. We believe the Company is being valued in the financial markets based on traditional GAAP metrics. Because stock-based compensation represented such a large percentage of the Company's net income (or loss) for the first three quarters of fiscal 2009, we believe that eliminating these stock-based compensation charges going forward best positions the Company for these continued valuation metrics leading into our 2010 fiscal year beginning April 1, 2009.

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (PDF as a courtesy)

31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (PDF as a courtesy)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (PDF as a courtesy)

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (PDF as a courtesy)

SIGNATURE

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

Date: January 30, 2009

8X8, INC.
(Registrant)
By: /s/ DANIEL WEIRICH
Daniel Weirich
Chief Financial Officer
(Principal Financial and Chief Accounting Officer and
Duly Authorized Officer)

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Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d) (1)(2)	Stock Awards ($) (e) (2)(3)	Option Awards ($) (f) (2)(4)	Change in Pension Value and NQDC Earnings ($) (g) (5)	All Other Compensation ($) (h) (2)(6)	Total ($) (i)
Sumner M. Redstone	2014	1,756,731	9,000,000	0	0	21,078	52,149	10,829,958
Executive Chairman and	2013	1,756,731	10,000,000	0	0	45,422,412	11,966	57,191,109
Founder	2012	1,756,731	10,000,000	5,672,794	0	13,885,193	11,997	31,326,715
Leslie Moonves(7)	2014	3,513,461	25,000,000	14,499,972	9,999,994	2,771,924	1,390,294	57,175,645

President and Chief Executive	2013	3,513,461	28,500,000	26,499,925	5,845,000	1,343,336	1,230,859	66,932,581
Officer	2012	3,513,461	27,500,000	11,499,958	16,329,994	1,903,379	1,410,234	62,157,026
Joseph R. Ianniello(7)	2014	2,509,615	8,970,000	8,199,864	6,799,972	270,482	280,795	27,030,728
Chief Operating Officer	2013	2,086,539	10,250,000	3,899,937	8,099,994	0	237,857	24,574,327
	2012	1,505,769	7,100,000	1,799,962	1,199,997	228,895	403,907	12,238,530
Lawrence P. Tu(7)(8)	2014	1,204,615	3,000,000	3,713,605	1,399,991	0	2,026,859	11,345,070
Senior Executive Vice President								
and Chief Legal Officer								
Anthony G. Ambrosio(7)	2014	878,365	1,400,000	1,049,946	699,996	313,724	118,605	4,460,636
Senior Executive Vice President,	2013	824,038	1,600,000	899,978	599,989	0	126,282	4,050,287
Chief Administrative Officer								
	2012	752,885	1,402,500	899,980	599,999	256,879	96,255	4,008,498
and Chief Human Resources Officer								

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(1)

With respect to Mr. Moonves' 2014 bonus, the Compensation Committee awarded to Mr. Moonves a total cash bonus amount which reflects an $18,000,000 payment for the successes in his role as President and Chief Executive Officer of the Company and a special cash payment of $7,000,000 for his contributions to the creative successes across the Company's portfolio of businesses. During 2015, the Compensation Committee, as part of his bonus for such contributions to creative successes, determined to grant Mr. Moonves shares of the Company's Class B Common Stock having a grant date value of $3,000,000. This award will be reportable in the Company's 2016 proxy statement in accordance with SEC rules.

With respect to all named executive officers, amounts set forth in the "Bonus" column for 2014, 2013 and 2012 reflect cash payments made in early 2015 for fiscal year 2014 performance, early 2014 for fiscal year 2013 performance, and early 2013 for fiscal year 2012 performance, respectively.

(2)

The table below sets forth the following 2014 compensation items: (i) cash compensation comprised of salary and annual bonus awards, (ii) annual equity awards, and (iii) certain special awards. The table below differs from the Summary Compensation Table, in that the table below excludes column (g) ("Change in Pension Value and NQDC Earnings") and, except as noted in footnote (d) below, column (h) ("All Other Compensation"), and as further described in the footnotes to the table below. This table is not required by SEC rules and is not designed to replace the Summary Compensation Table. It is intended to provide information that the Company believes is useful in understanding and analyzing 2014 compensation decisions.

	Annual Compensation				
	Cash Portion				
Name	**Salary ($)**	**Bonus ($)**	**Annual Equity Awards ($) (a)**	**Total Annual Compensation ($)**	**Special Award ($)**
Sumner M. Redstone	1,756,731	9,000,000	0	10,756,731	
Leslie Moonves	3,513,461	25,000,000(b)	20,999,977	49,513,438	
Joseph R. Ianniello	2,509,615	8,970,000	6,999,900	18,479,515	7,999,936(c)
Lawrence P. Tu	1,204,615	3,000,000	3,513,659	7,718,274	3,599,938(d)
Anthony G. Ambrosio	878,365	1,400,000	1,749,942	4,028,307	

(a)

Represents the grant date fair value, determined in accordance with FASB ASC Topic 718, of the annual stock and option awards, as applicable, granted in 2014 to the named executive officers, as disclosed in columns (e) and (f) in the Summary Compensation Table. For Mr. Moonves, does not include the $3.5 million in shares of the Company's Class B Common Stock granted to him as part of his bonus for fiscal year 2013 performance. For Messrs. Ianniello and Tu, does not include the grants of shares of the Company's Class B Common Stock noted in (c) and (d) below.

(b) See footnote (1) above for a discussion of Mr. Moonves' 2014 bonus. During 2015, the Compensation Committee, as part of Mr. Moonves' 2014 bonus for contributions to the creative successes across the Company's portfolio of businesses, determined to grant to him shares of the Company's Class B Common Stock having a grant date value of $3,000,000. This award will be reportable in the Company's 2016 proxy statement in accordance with SEC rules.

(c) Represents the grant date fair value, determined in accordance with FASB ASC Topic 718, of a special stock option grant and a special restricted share unit grant awarded to Mr. Ianniello on February 20, 2014, as disclosed in columns (e) and (f) of the Summary Compensation Table, in connection with the execution of his employment agreement on June 4, 2013.

(d) Represents (i) the grant date fair value, determined in accordance with FASB ASC Topic 718, of a special restricted share unit grant awarded to Mr. Tu on January 1, 2014, as disclosed in column (e) of the Summary Compensation Table, and (ii) a cash payment in respect of forfeited compensation with his former employer, as disclosed in column (h) and footnote 6 to the Summary Compensation Table, in each case in connection with the execution of his employment agreement on November 11, 2013.

(3) These amounts reflect the aggregate grant date fair values determined in accordance with FASB ASC Topic 718 of grants of (i) restricted share units ("RSUs"), (ii) performance share units ("PSUs"), and (iii) shares of the Company's Class B Common Stock ("Share Award"), as applicable, for each executive. In 2014, the Company did not grant any PSU awards. In 2014, only Mr. Moonves was granted a Share Award, with a value of $3.5 million, as part of his bonus for 2013. For the performance-based RSUs granted in 2014 to Messrs. Moonves, Ianniello, Tu and Ambrosio (representing, of the aggregate grant date values included in column (e), $5,499,992 for Mr. Moonves, $2,099,959 for Mr. Ianniello, $1,049,946 for Mr. Tu and $524,973 for Mr. Ambrosio), the maximum grant date value, determined in accordance with FASB ASC Topic 718, would be $6,600,030, $2,520,003, $1,259,936 and $629,968, respectively. For a discussion of the assumptions made in calculating the grant date fair value amounts for 2014, see "RSUs and PSUs" in Note 12 to the audited 2014 consolidated financial statements on pages II-60 II-61 in the Company's Form 10-K for the fiscal year ended December 31, 2014.

(4) These amounts reflect the aggregate grant date fair values determined in accordance with FASB ASC Topic 718. For a discussion of the assumptions made in calculating the grant date fair value amounts for 2014, see "Stock Options and Equivalents" in Note 12 to the audited 2014 consolidated financial statements on pages II-61 II-62 in the Company's Form 10-K for the fiscal year ended December 31, 2014.

For Mr. Moonves, the 2014 amount represents a grant of 548,546 stock options awarded by the Compensation Committee, using its discretion to grant stock options during the annual LTMIP award cycle to Mr. Moonves under his employment agreement.

(5) These amounts relate to changes in pension value only, except that for Mr. Redstone, (a) the amounts for 2014, 2013 and 2012 also include the minimum required distributions he received under qualified pension plans, and (b) the amounts for 2013 and 2012 include increases in the intrinsic value of his SOEs, as described below. See "Pension Benefits in 2014" for further information on the Company's pension plans. None of the Company's nonqualified deferred compensation plans provide for above-market interest or preferential earnings, except, potentially, as they relate to Mr. Redstone's SOEs, as further described below.

Pursuant to Mr. Redstone's amended employment agreement, effective March 16, 2007, the approximate $10 million balance of his vested deferred salary compensation account was converted to stock option equivalents ("SOEs") of equal value. For purposes of this table, the Company considers an increase in the intrinsic value of the SOEs (*i.e.*, the extent to which the market price of the stock underlying an SOE is above its exercise price at a given point in time) as preferential.

During 2014, Mr. Redstone notionally exercised 1,529,600 of his SOEs, the net proceeds of which were credited to his deferred compensation account, which does not provide for preferential earnings. With respect to SOEs that remained outstanding as of December 31, 2014, there was no increase in the intrinsic value of such SOEs from December 31, 2013 to December 31, 2014. See "Employment Agreements Sumner M. Redstone" for further information on the SOEs. Information about each nonqualified deferred compensation plan, including Mr. Redstone's deferred compensation arrangement, is included in the "Description of Nonqualified Deferred Compensation" section.

(6) The following table and footnotes describe each component of the "All Other Compensation" column for 2014:

					PERQUISITES AND OTHER PERSONAL BENEFITS				
Named Executive	**Company Contribution**	**Company Contribution**	**Company-Paid Life**	**Tax Reimbursement**	**Other Compensation**	**Extended Service**	**Transportation-Related**	**Security ($) (f)**	**Total ($) (g)**

Officer	**to 401(k) Plan ($)**	**to 401(k) Excess Plan ($)**	**Insurance ($) (a)**	**($) (b)**	**($) (c)**	**Expense ($) (d)**	**Benefits ($) (e)**		
Sumner M. Redstone			3,960				48,189		52,149
Leslie Moonves	4,083	22,167	130,920		7,500		702,855	522,769	1,390,294
Joseph R. Ianniello	9,100	17,150	3,960	162,403		61,408	26,774		280,795
Lawrence P. Tu	7,808	17,150	1,901		2,000,000	0			2,026,859
Anthony G. Ambrosio	4,083	22,167	1,386	90,969		0			118,605

(a) Represents premiums paid in 2014 by the Company for life insurance coverage.

59

Table of Contents

(b)
For Messrs. Ianniello and Ambrosio, amounts include tax reimbursement on imputed income associated with the Extended Service Expense (defined below).

(c)
For Mr. Moonves, the amount reflects matching charitable contributions made by the Company on his behalf, in his capacity as a director, under the directors' matching gift program. For Mr. Tu, the amount reflects a cash payment in respect of forfeited compensation with his former employer in connection with the execution of his employment agreement.

(d)
The Company requires that certain East Coast-based senior executives provide extended services at the Company's West Coast operations (and *vice versa*), for which the Company provides an estimated expense allowance. The amounts shown in this column represent certain other costs and expenses incurred in connection with providing these services ("Extended Service Expense").

(e)
The amounts of perquisites and other personal benefits shown in this column include (i) the percentage of personal use of a car and driver and amounts attributable to personal use of car service, all provided for business-related security reasons, (ii) for Mr. Moonves, automobile insurance provided by the Company ($1,200), and (iii) the incremental cost to the Company of the personal use of the Company aircraft. The incremental cost to the Company of the personal use of the Company aircraft is calculated by dividing the total variable costs (including fuel, unscheduled maintenance, landing and navigation fees, catering, flight crew trip expenses, telecommunications, supplies and miscellaneous expenses) by the total flight hours for such year and multiplying such amount by the executive's total number of flight hours for his personal use for the year (including flights made to reposition the plane in connection with such personal use). Fixed costs which do not change based on usage, such as pilot salaries, hangar rental and insurance, are excluded. To the extent that Mr. Redstone uses the corporate aircraft of Viacom for personal use, the Company reimburses Viacom 50% of a per flight hourly amount based on fixed costs and 50% of an amount based on variable costs; to the extent that Mr. Redstone uses the corporate aircraft of the Company for personal use, Viacom reimburses the Company 50% of a per flight hourly amount based on fixed costs and 50% of an amount on variable costs. For 2014, the amount set forth with respect to Mr. Redstone's personal use of corporate aircraft reflects amounts reimbursed to Viacom.

(f)
The amount represents the cost to the Company for the provision of a Company-specified level of regular security coverage (*i.e*., exclusive of cost for any extraordinary incident coverage) deemed necessary to protect CBS's business interests. Although the security is directed by and provided at the request of the Company for business purposes, the cost is being reported as a perquisite.

(g)
From time to time, tickets to sporting and other entertainment events are provided to certain employees, including the named executive officers, without charge, to attend these events as they relate to a business purpose. Tickets are made available to employees, including the named executive officers, for personal use if the tickets are not otherwise needed for business use. The Company does not incur incremental costs with respect to tickets to sporting and other entertainment events, as the tickets were purchased by the Company for business purposes and are made available if the tickets are not utilized for such purposes.

(7)
Salary includes amounts deferred under qualified and nonqualified arrangements. For 2014, all named executive officers, except for Mr. Redstone, deferred a portion of their salary under qualified and nonqualified deferred compensation arrangements. See the Nonqualified Deferred Compensation in 2014 table for further information on amounts deferred under nonqualified deferred compensation arrangements.

(8)
Mr. Tu began his employment with the Company effective January 1, 2014.

Employment Agreements

All of the named executive officers have employment agreements that set forth the terms and conditions of their employment with the Company. The material terms of each of these agreements necessary to an understanding of the information provided in the Summary Compensation Table for Fiscal Year 2014 and the Grants of Plan-Based Awards During 2014 table are provided below. For the vesting terms of long-term incentive awards granted to the named executive officers during 2014, see "Grants of Plan-Based Awards During 2014 Description of Plan-Based Awards." See "Potential Payments Upon Termination or Certain Other Events" for a description of the payments and benefits that would be provided to the named executive officers in connection with a termination of their employment and enhanced payments and benefits available to certain named executive officers in connection with specified corporate events.

Table of Contents

Sumner M. Redstone

Effective March 13, 2007, the Company entered into an amendment to Mr. Redstone's December 2005 employment agreement, pursuant to which he serves as Executive Chairman and Founder of CBS Corporation. During 2014, Mr. Redstone had a base salary of $1.75 million and a target bonus of $5 million, both of which were reviewed by the Committee. No equity based awards have been granted to Mr. Redstone since 2012. Mr. Redstone is provided with life insurance during his employment with the Company in accordance with the terms of his agreement.

Effective as of March 16, 2007, the approximate $10 million balance of Mr. Redstone's vested deferred compensation account was converted into appreciation rights ("Stock Option Equivalents" or "SOEs") with the same fair value on the conversion date. The Stock Option Equivalents had an exercise price equal to the closing price of a share of the Company's Class B Common Stock on the date of conversion, which vested ratably over a four-year period and had a term of eight years. Accordingly, Mr. Redstone only realized value on such Stock Option Equivalents to the extent the price of a share of the Company's Class B Common Stock was higher, at the time the Stock Option Equivalents were exercised, than the exercise price.

Leslie Moonves

On December 11, 2014, the Company entered into a new employment agreement with Mr. Moonves, which superseded his prior employment agreement and extended the term of his employment through June 30, 2019. The agreement continued to provide for an annual base salary of $3.5 million and a target bonus of $12 million, both subject to an annual review and increase at the discretion of the Compensation Committee. Also continuing from his prior agreement, a portion of the bonus amount payable to Mr. Moonves, if any, is subject to a payment schedule based on levels of achievement of the "Company-Wide Performance Goal(s)" established by the Compensation Committee, which goal for 2014 was the same as the performance criterion under the Senior Executive STIP. Pursuant to the new agreement, for 2014, the payment schedule provided that an 80% level of achievement against this goal would result in a payment of at least 75% of his target bonus amount; a 100% level of achievement would result in a payment of at least 100% of the target amount; and a 108% or greater level of achievement would result in a payment of at least 133.33% of the target amount.

Mr. Moonves' agreement provides for an annual RSU award through 2019, with each award subsequent to the award for 2014 having a grant date value that is $1.5 million higher than the prior year's award (except for the 2019 RSU award, the value of which will be prorated by 50% to reflect the agreement's scheduled expiration on June 30, 2019). In addition, the Committee determined that the performance goal applicable to one-half of Mr. Moonves' 2014 RSU award will be the same as that set for the other named executive officers. On February 20, 2014, as part of the annual LTMIP awards, Mr. Moonves received (i) an annual RSU award with a grant date value of $11 million, which reflected the Committee's determination in February 2014 to increase the value of his target annual RSU award to $11 million beginning with his 2014 RSU award, in connection with a competitive review of Mr. Moonves' annual target compensation package as provided in his employment agreement, and (ii) pursuant to the Committee's use of discretion under the agreement, a grant of 548,546 stock options. The Compensation Committee may make additional awards to Mr. Moonves in future years.

The agreement contains restrictive covenants imposing non-competition obligations, restricting solicitation of employees, and protecting confidential information and the Company's ownership of work product and requiring cooperation in litigation, as well as other covenants, during Mr. Moonves' employment and for specified periods after the termination of employment.

Mr. Moonves reports to the Board and to Mr. Redstone, and Mr. Moonves is nominated annually for election to the Board and agrees to serve as a member of the Board for each period for which he is so elected. Mr. Moonves is provided with life insurance during his employment with the Company in accordance with the terms of his agreement.

Joseph R. Ianniello

On June 4, 2013, the Company entered into an employment agreement with Mr. Ianniello, which superseded his prior employment agreement and provides for his continued employment with the Company as its Chief Operating Officer through June 3, 2018. The agreement provides for an annual base salary of $2.5 million, which shall be annually reviewed and increased at the discretion of the Compensation Committee. Under the agreement, Mr. Ianniello's annual target bonus is 300% of his base salary as in effect on November 1st of the applicable year, and Mr. Ianniello is eligible to receive annual grants of long-term compensation, as determined by the Company's Compensation Committee, based on a target value of $7 million, commencing in 2014. In connection with the extension of the term of his employment through June 3, 2018 and his new role as Chief Operating Officer, on June 4, 2013, the Compensation Committee approved (i) an RSU grant made on February 20, 2014 having a grant date value of $4 million and (ii) a grant of stock options made on February 20, 2014 having a grant date value of $4 million. Also, in connection with the execution of his employment agreement in 2013, the Compensation Committee approved an RSU grant to be made in each of 2015 and 2016 when other senior executives of the Company receive their annual LTMIP grants for those years (generally in February), with the number of RSUs subject to each such grant determined by dividing $7 million by the closing price of the Company's Class B Common Stock on June 4, 2013.

Mr. Ianniello's employment agreement contains restrictive covenants imposing non-competition obligations, restricting solicitation of employees, protecting the Company's confidential information and its ownership of work product and requiring cooperation in litigation, as well as other covenants, during his employment and for specified periods after the termination of employment. The agreement also provides for enhanced severance payments and benefits in the event his employment is terminated by the Company without cause or by him for good reason, in either case in connection with specified corporate events.

Lawrence P. Tu

On November 11, 2013, the Company entered into an employment agreement with Mr. Tu to provide for his employment with the Company as its Senior Executive Vice President and Chief Legal Officer, commencing on January 1, 2014. The agreement provides for an annual base salary of $1.2 million, which may be reviewed and increased at the discretion of the Compensation Committee and an annual target bonus of 200% of his base salary as in effect on November 1st of the applicable year, and Mr. Tu is eligible to receive annual grants of long-term compensation, as determined by the Company's Compensation Committee, based on a target value of $3.5 million. In connection with the execution of his employment agreement and in respect of forfeited compensation with his former employer, the agreement also provided for an initial grant of RSUs to be made on January 1, 2014, the commencement date of his employment, with a grant date value of $1.6 million, and a cash payment of $2.0 million, which is subject to repayment on a prorated basis, in the event of his voluntary resignation without good reason or the termination of his employment for cause during the first two years of his employment with the Company.

Mr. Tu's employment agreement contains restrictive covenants imposing non-competition obligations, restricting solicitation of employees, protecting the Company's confidential information and its ownership of work product and requiring cooperation in litigation, as well as other covenants, during his employment and for specified periods after the termination of employment. The agreement also provides for enhanced severance payments and benefits in the event his employment is terminated by the Company without cause or by him for good reason, in either case in connection with specified corporate events.

Table of Contents

Anthony G. Ambrosio

Effective June 7, 2013, the Company entered into an employment agreement with Mr. Ambrosio, which superseded his prior employment agreement and provides for his continued employment with the Company as its Senior Executive Vice President, Chief Administrative Officer and Chief Human Resources Officer through June 6, 2017. The agreement provides for an annual base salary of $875,000, which may be reviewed and increased at the discretion of the Compensation Committee, and an annual target bonus equal to 125% of his base salary as in effect on November 1st of the applicable year. Mr. Ambrosio is also eligible to receive annual grants of long-term compensation, as determined by the Company's Compensation Committee, based on a target value of $1.75 million.

The agreement contains restrictive covenants imposing non-competition obligations, restricting solicitation of employees, protecting the Company's confidential information and its ownership of work product and requiring cooperation in litigation, as well as other covenants, during his employment and for specified periods after the termination of employment. The agreement also provides for enhanced severance payments and benefits in the event his employment is terminated by the Company without cause or by him for good reason, in either case in connection with specified corporate events.

Grants of Plan-Based Awards During 2014

The following table sets forth information concerning grants of equity awards under the Company's incentive programs to the named executive officers in fiscal year 2014.

			Estimated Possible Payouts Under Equity Incentive Plan Awards						
Name	**Grant Date**	**Committee Action Date (1)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)(2)**	**Grant Date Fair Value of Stock and Option Awards ($)(3)**
Sumner M. Redstone									
Leslie Moonves	1/28/2014	1/28/2014				59,625			3,499,988
	2/20/2014	2/20/2014	66,758	83,447	100,137				5,499,992
	2/20/2014	2/20/2014				83,447			5,499,992
	2/20/2014	2/20/2014					548,546	65.91	9,999,994
Joseph R. Ianniello	2/20/2014	2/20/2014	25,489	31,861	38,234				2,099,959
	2/20/2014	2/20/2014				31,861			2,099,959
	2/20/2014	6/4/2013				60,688			3,999,946
	2/20/2014	2/20/2014					153,592	65.91	2,799,982
	2/20/2014	6/4/2013					219,418	65.91	3,999,990
Lawrence P. Tu	1/1/2014	8/29/2013				25,101			1,599,938
	2/20/2014	2/20/2014	12,744	15,930	19,116				1,049,946
	2/20/2014	2/20/2014				15,930			1,049,946
	2/20/2014	2/20/2014					76,796	65.91	1,399,991

	4/1/2014	2/20/2014				218			13,775
Anthony G. Ambrosio	2/20/2014	2/20/2014	6,372	7,965	9,558				524,973
	2/20/2014	2/20/2014				7,965			524,973
	2/20/2014	2/20/2014					38,398	65.91	699,996

(1) The "Committee Action Date" refers to the date on which the Compensation Committee approved the grants reported in the table. With respect to Mr. Ianniello's stock option and time-based RSU awards granted on February 20, 2014 with a "Committee Action Date" of June 4, 2013, and Mr. Tu's time-based RSU award granted on January 1, 2014, the "Committee Action Date" refers to the date on which the Compensation Committee approved the terms of their respective employment agreements which provided for these grants. With respect to Mr. Tu's April 1, 2014 grant, the "Committee Action Date" refers to the date on which the Compensation Committee approved the grant under the Company's Fund-the-Future Program ("FtF").

(2) The exercise price of the options is the closing price of the Company's Class B Common Stock on the date of grant.

(3) Amounts reflect the fair value on the date of grant, calculated in accordance with FASB ASC Topic 718, of the awards reported in the table.

Table of Contents

Description of Plan-Based Awards

Equity awards reported in the Grants of Plan-Based Awards During 2014 table were granted to the named executive officers under the Company's long-term incentive programs, except for the unrestricted share award made to Mr. Moonves as part of his bonus for fiscal year 2013 performance.

RSUs The number of RSUs awarded is determined by dividing the value to be delivered by the closing price of a share of the Company's Class B Common Stock on the NYSE on the date of grant. Except for Mr. Moonves' annual RSU grants and Mr. Tu's January 1, 2014 special grant and FtF grant, vesting for RSUs occurs in equal annual installments over four years. Some RSU awards are subject to performance conditions ("PRSUs"), as described under "Compensation Discussion and Analysis Long-Term Incentive Programs Performance Goals for LTMIP Awards PRSUs." With respect to Mr. Moonves' annual RSU grant for 2014, the PRSUs vest and settle upon the later of the first anniversary of the grant date and the date of the Compensation Committee's certification of the level of performance achieved, and the RSUs subject only to time-based vesting are scheduled to vest in thirds, with $33^1/_3$% vesting on each of the first three anniversaries of the date of grant. With respect to Mr. Tu's January 1, 2014 special RSU grant, the RSUs vest in two equal annual installments on the first and second anniversaries of the grant date.

Stock Options The number of stock options awarded is determined by using a Black-Scholes valuation methodology in accordance with FASB ASC Topic 718 employing the same methodologies and assumptions that are applied for purposes of the Company's financial accounting statements (as reviewed by the Compensation Committee's independent consultant). Stock options have an exercise price not less than the closing price of a share of the Company's Class B Common Stock on the NYSE on the grant date and have an eight-year term. Vesting for stock options occurs in four equal annual installments on the first four anniversaries of the grant, except that the fourth installment for Mr. Moonves' stock option vests on June 30, 2017.

Fund-the-Future Program ("FtF") For 2014, the number of RSUs awarded under the FtF equaled the quotient derived by dividing (i) 2.5% of an individual's eligible compensation (benefits base rate of pay in effect on the grant date, limited to a maximum of $550,000) by (ii) the closing price of a share of the Company's Class B Common Stock on the NYSE on the grant date, rounded up or down to the nearest whole number. The RSUs vest ratably over three years from the grant date.

For other terms of these awards relating to performance goals and grant dates, see "Compensation Discussion and Analysis Long-Term Incentive Programs Performance Goals for LTMIP Awards" and " Grant Date of Awards."

Table of Contents

Outstanding Equity Awards at Fiscal Year-End 2014

The following table sets forth for each named executive officer information concerning the outstanding equity awards at December 31, 2014, which included unexercised and vested stock options, unexercised and unvested stock options, and unvested RSUs and PSUs. The market values in this table were calculated using the closing price of a share of the Company's Class B Common Stock on December 31, 2014, which was $55.34.

		Option Awards				Stock Awards			
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options Exercisable (#)(1)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)(1)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)(2)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: # of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)(3)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Sumner M. Redstone	3/1/2011	0	98,814	23.19	3/1/2019				
	1/1/2012					235,806	13,049,504		
Leslie Moonves	10/19/2007	750,000	0	28.70	10/19/2015				
	3/1/2011	2,050,000	900,000	23.19	3/1/2019				
	2/23/2012	666,666	333,334	29.44	2/23/2020				
	10/18/2012	790,305	0	34.06	10/18/2020				
	2/12/2013	125,000	375,000	43.21	2/12/2021				
	2/20/2014	0	548,546	65.91	2/20/2022				
	2/23/2012					50,951	2,819,628		
	2/12/2013					241,071	13,340,869		
	2/20/2014					174,405	9,651,573		
Joseph R. Ianniello	3/1/2011	118,576	39,526	23.19	3/1/2019				
	2/23/2012	67,950	67,950	29.44	2/23/2020				
	2/12/2013	34,217	102,652	43.21	2/12/2021				

	6/10/2013	120,817	362,454	47.79	6/10/2021		
	2/20/2014	0	373,010	65.91	2/20/2022		
	2/23/2011					22,748	1,258,874
	2/23/2012					33,627	1,860,918
	2/12/2013					45,825	2,535,956
	6/4/2013					22,908	1,267,729
	2/20/2014					127,278	7,043,565
Lawrence P. Tu	2/20/2014	0	76,796	65.91	2/20/2022		
	1/1/2014					25,101	1,389,089
	2/20/2014					33,294	1,842,490
	4/1/2014					218	12,064
Anthony G. Ambrosio	2/28/2008	28,000	0	23.96	2/28/2016		
	2/24/2009	60,000	0	5.20	2/24/2017		
	3/1/2010	120,967	0	13.43	3/1/2018		
	3/1/2011	59,288	19,763	23.19	3/1/2019		
	2/23/2012	33,975	33,975	29.44	2/23/2020		
	2/12/2013	12,831	38,494	43.21	2/12/2021		
	2/20/2014	0	38,398	65.91	2/20/2022		
	2/23/2011					11,374	629,437
	2/23/2012					16,815	930,542
	2/12/2013					17,185	951,018
	2/20/2014					16,647	921,245

(1) Each option award identified in the above table vests as follows: 25% vesting on each of the first four anniversaries of the date of grant, except with respect to the following grants for Mr. Moonves: (i) the 10/19/07 grant, of which 25% vested on each of October 1, 2008 and the first two anniversaries thereof and 25% vested on September 30, 2011, (ii) the 3/1/11 grant, of which 25% vested on each of the first three anniversaries thereof and the final 25% installment vested on February 22, 2015, (iii) the 2/23/12 grant, of which 33$^1/_3$% vested on each of the first two anniversaries of the date of grant and the final 33$^1/_3$% installment vested on February 22, 2015, (iv) the 10/18/12 grant, which vested fully on the first anniversary of the date of grant, and (v) the 2/20/2014 grant, of which 25% vests on the first three anniversaries of the date of grant and the final 25% installment vests on June 30, 2017.

Table of Contents

(2)
Set forth below is a schedule of the vesting related to each grant date for the stock awards identified in the above table:

Grant Date	Stock Awards Vesting Schedule	Type
2/23/2011	25% vested on each of the first four anniversaries of the date of grant. One half of each initial award was subject to the satisfaction of performance conditions for 2011.	RSU
1/1/2012	0-300% of the award vested subject to the satisfaction of performance conditions for the three-year measurement period ending December 31, 2014.	PSU
2/23/2012	25% vested on each of the first three anniversaries of the date of grant and 25% vests on the fourth anniversary of the date of grant, except with respect to Mr. Moonves' award. One half of each initial award was subject to the satisfaction of performance conditions for 2012. For Mr. Moonves, one half vested on the first anniversary of the date of grant following Compensation Committee certification as to the achievement of performance conditions for 2012, and with respect to the other half of his award, 33 1/3% vested on each of the first two anniversaries of the date of grant and 33 1/3% vested on February 22, 2015.	RSU
2/12/2013	25% vested on each of the first two anniversaries of the date of grant, and 25% vests on each of the next two anniversaries of the date of grant, except with respect to Mr. Moonves' award. One half of each initial award was subject to the satisfaction of performance conditions for 2013. For Mr. Moonves, with respect to the time-based RSU award granted in connection with the execution of his 2012 employment agreement, one half of the RSU award vested on each of the first two anniversaries of the date of grant, and with respect to his annual LTMIP award, one half vested on the first anniversary of the date of grant following Compensation Committee certification as to the achievement of performance conditions for 2013, and with respect to the other half of his award, 33 1/3% vested on each of the first two anniversaries of the date of grant and 33 1/3% vests on the third anniversary of the date of grant.	RSU
6/4/2013	25% vested on the first anniversary of the date of grant, and 25% vests on each of the next three anniversaries of the date of grant.	RSU
1/1/2014	25% vested on the first anniversary of the date of grant, and 25% vests on each of the next three anniversaries of the date of grant.	RSU
2/20/2014	25% vested on the first anniversary of the date of grant, and 25% vests on each of the next three anniversaries of the date of grant, except with respect to Mr. Moonves' award. One half of each initial award was subject to the satisfaction of performance conditions for 2014. For Mr. Moonves, one half vested on the first anniversary of the date of grant following Compensation Committee certification as to the achievement of performance conditions for 2014, and with respect to the other half of his award, 33 1/3% vested on the first anniversary of the date of grant and 33 1/3% vests on each of the next two anniversaries of the date of grant. See also the paragraph below this chart.	RSU
4/1/2014	33 1/3% vested on the first anniversary of the date of grant, and 33 1/3% vests on each of the next two anniversaries of the date of grant.	RSU

For RSUs with a grant date of 2/20/2014, amounts in these columns, with respect to the portion of each award that is subject to performance conditions, reflect actual achievement of the applicable performance conditions for 2014. For PSUs with a grant date of 1/1/2012, amounts in these columns reflect actual achievement for the 1/1/2012-12/31/2014 measurement period.

Table of Contents

Option Exercises and Stock Vested During 2014

The following table sets forth information concerning each exercise of stock options and the vesting of stock awards during 2014 for each of the named executive officers.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#) (1)	Value Realized on Vesting ($) (2)
Sumner M. Redstone	4,401,922	183,833,828	462,842	30,505,916
Leslie Moonves	5,800,000 (3)	194,802,051	495,862	31,439,803
Joseph R. Ianniello	217,742 (3)	10,703,024	96,687	6,309,178
Lawrence P. Tu				
Anthony G. Ambrosio	163,196 (3)	5,791,098	44,517	2,929,366

(1) Represents RSUs and PSUs that vested during 2014 and unrestricted shares that were awarded to Mr. Moonves in 2014 as part of his bonus for 2013. The net shares delivered to each of Messrs. Redstone, Moonves, Ianniello and Ambrosio after withholding for applicable taxes were as follows: Mr. Redstone, 202,493 shares; Mr. Moonves, 221,896 shares; Mr. Ianniello, 42,808 shares; and Mr. Ambrosio, 21,419 shares.

(2) Represents the number of shares underlying RSUs and PSUs that vested during 2014 and the number of unrestricted shares awarded to Mr. Moonves in 2014 as part of his bonus for 2013, multiplied by the closing price of the Company's Class B Common Stock on the NYSE on the applicable vesting date.

(3) Represents stock options that were exercised during 2014 (i) for Mr. Moonves, a substantial portion of which was pursuant to the executive's 10b5-1 plan, and (ii) for Messrs. Ianniello and Ambrosio, all of which were pursuant to the executive's 10b5-1 plan.

Table of Contents

Pension Benefits in 2014

The following tables set forth information concerning each qualified and nonqualified defined benefit pension plan that provides payments in connection with retirement with respect to each of the named executive officers, except for Mr. Tu, who does not participate in any such plan. The first table sets forth information with respect to pension plans pursuant to which the applicable named executive officers were accruing benefits as of December 31, 2014, and the second table sets forth information with respect to pension plans pursuant to which the applicable named executive officers had an accumulated benefit but were not accruing benefits as of December 31, 2014.

Pension plans pursuant to which the applicable named executive officers were accruing benefits as of December 31, 2014:

Name	Plan Name	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit ($) (2)	Payments During Last Fiscal Year ($)
Sumner M. Redstone	Qualified CBS Retirement Plan Component of CBS Combined Pension Plan (CCPP)	11.7	64,058	6,224 (3)
	Nonqualified CBS Retirement Excess Pension Plan	11.7	117,095	
Leslie Moonves	Qualified CBS Retirement Plan Component of CCPP	10.5	526,719	
	Nonqualified CBS Retirement Excess Pension Plan	10.5	7,325,580	
Joseph R. Ianniello	Qualified CBS Retirement Plan Component of CCPP	11.0	256,746	
	Nonqualified CBS Retirement Excess Pension Plan	11.0	583,304	
Anthony G. Ambrosio	Qualified CBS Retirement Plan Component of CCPP	9.0	249,477	
	Nonqualified CBS Retirement Excess Pension Plan	9.0	599,151	

(1) The years of credited service under the plans identified in the table above differ from the years of actual service with respect to Messrs. Redstone, Moonves, Ianniello and Ambrosio, who have been employed by the Company since 1996, 1995, 1997 and 1985, respectively. Their respective credited service for benefit accruals began in the following years: Mr. Redstone, 2003; Messrs. Moonves and Ianniello, 2004; and Mr. Ambrosio, 2006. Prior to their participation in these plans, Messrs. Moonves, Ianniello and Ambrosio participated in the pension plans identified in the table set forth below.

(2) The present value of each applicable named executive officer's accumulated benefit at December 31, 2014 in these plans was calculated assuming commencement of benefits at age 65 (except with respect to Mr. Redstone) using a discount rate of 4.10% and mortality rates in accordance with the RP-2000 sex distinct mortality table with a 14-year projection using the Scale AA sex distinct table. Since Mr. Redstone is above the plan's normal retirement age, the present value calculations assume immediate commencement.

(3) Mr. Redstone receives certain minimum required payments from the CBS Retirement Plan Component of the CCPP (CRP Component) on a monthly basis.

Table of Contents

Pension plans pursuant to which the applicable named executive officers had an accumulated benefit but were not accruing benefits as of December 31, 2014:

Name	Benefit Accrual Status	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2)	Payments During Last Fiscal Year ($)
Leslie Moonves	Frozen Benefit	Qualified Cash Balance Component of CCPP	9.0	182,731	
	Frozen Benefit	Nonqualified CBS Supplemental Executive Retirement Plan (SERP)	9.0	2,085,569	
	Frozen Benefit	Nonqualified CBS Bonus Supplemental Executive Retirement Plan (Bonus SERP)	3.8	613,815	
Joseph R. Ianniello	Frozen Benefit	Qualified Cash Balance Component of CCPP	6.3	65,118	
	Frozen Benefit	Nonqualified SERP	6.3	7,815	
Anthony G. Ambrosio	Frozen Benefit	Qualified Cash Balance Component of CCPP	25.5	276,358	
	Frozen Benefit	Nonqualified SERP	25.5	78,505	
	Frozen Benefit	Nonqualified CBS Bonus SERP	14.1	42,550	

(1) The years of credited service under the plans identified in the table above differ from the years of actual service, as Messrs. Moonves, Ianniello and Ambrosio have been employed by the Company since 1995, 1997 and 1985, respectively. Their respective years of credited service under these plans reflect actual service through the date on which these plans froze their respective benefit accruals, as follows: Cash Balance Component of CCPP and SERP for Messrs. Moonves and Ianniello, December 31, 2003; Cash Balance Component of CCPP and SERP for Mr. Ambrosio, August 14, 2010; and CBS Bonus SERP for Messrs. Moonves and Ambrosio, March 31, 1999.

(2) The present value of the applicable named executive officer's accumulated benefit at December 31, 2014 in these plans was calculated assuming commencement of benefits at age 65, a discount rate of 4.10% and mortality rates in accordance with the GAM-94 static male mortality table, with a 17-year projection using the Scale AA sex distinct table, with no setback for males and a three-year setback for females.

Description of Pension Benefits

The Company currently maintains several qualified and nonqualified defined benefit plans as a result of various mergers, acquisitions and divestitures involving the Company and its various businesses, as well as changes implemented by the Company and its predecessors in retirement programs. Most of these plans, including all of the plans identified below, are closed to new participants and operate only for employees who are grandfathered into these plans. The normal retirement age for all Company-sponsored pension plans is 65. See the two immediately preceding tables for the applicable named executive officers' participation in these plans.

Pension plans pursuant to which the applicable named executive officers were accruing benefits as of December 31, 2014:

CBS Combined Pension Plan ("CCPP")

The Company maintains the CCPP, a tax-qualified defined benefit plan for eligible employees who satisfied age and service requirements prior to the CCPP's closure to new participants. The CCPP contains seven separate components, including the CBS Retirement Plan Component (described below) (which became a component as of December 31, 2011), and the Cash Balance Component (described below). Each of the components has been closed to new participants generally since March 31, 1999, except that the CRP Component has been closed to new participants since July 2010. For all of the

69

Table of Contents

components, employees are fully vested in their accrued benefit upon completion of five years of vesting service. The Company pays the cost of the benefits provided by the CCPP. Eligible compensation for purposes of the CCPP is limited by federal law; for 2014, the limit was $260,000 (the "Annual Limit"). Early retirement reductions differ in each of these components of the CCPP; however, each component defines early retirement eligibility as age 55 with 10 years of vesting service while actively employed for each component.

CBS Retirement Plan Component of the CCPP (CRP Component). All of the named executive officers, except for Mr. Tu, participate in the CRP Component. For existing participants, participation in the CRP Component began on the later of the date an eligible employee attained age 21 or completed one year of eligibility service. For each year of credited service up to a maximum of 30 years, the benefit formula for calculating an age 65 accrued benefit under the CRP Component is 1.25% of the participant's final average compensation up to the Social Security covered compensation amount, plus 1.75% of the participant's final average compensation above the Social Security covered compensation amount. Final average compensation includes eligible salary, commissions, overtime and short-term incentive awards. If an employee who participates in the CRP Component reaches age 55 with 10 years of eligibility service, he or she is considered eligible for an early retirement benefit. The reductions for retiring early are 6% per year for each year that the benefit begins between ages 65 and 60, plus 4% per year for each year that the benefit begins between ages 60 and 55. The normal forms of payment for a married or single participant are a 50% joint and survivor annuity or single life annuity, respectively. All optional forms of payment under the CRP Component are actuarially equivalent to the normal forms of payment.

CBS Retirement Excess Pension Plan ("CREPP")

The Company maintains the CREPP, an unfunded nonqualified defined benefit plan, to provide benefits to employees who are participants in the CRP Component and whose annual base salary and commissions have exceeded the Annual Limit. The benefits under the CREPP are calculated by determining the excess, if any, of (i) the benefits that would be payable under the CRP Component if it were not subject to the Annual Limit, over (ii) the benefits actually payable under the CRP Component. Early retirement reduction factors are identical to those of the CRP Component. The maximum amount of total annual compensation that may be taken into account under the CRP and the CREPP together is $750,000, except with respect to Messrs. Redstone and Moonves. For Mr. Redstone, who is also eligible to participate in the Viacom pension and excess pension plans, the amount of compensation that can be taken into account is $375,000. Pursuant to the terms of Mr. Moonves' employment agreement, the amount of compensation that can be taken into account for him equals the amount of his base salary. Employees are fully vested in their accrued CREPP benefit upon completion of five full years of vesting service. The normal forms of payment for a married or single participant are a 50% joint and survivor annuity or single life annuity, respectively. All optional forms of payment under the CREPP are actuarially equivalent to the normal form of payment.

Pension plans pursuant to which the applicable named executive officers had an accumulated benefit but were not accruing benefits as of December 31, 2014:

Cash Balance Component of the CCPP

Messrs. Moonves, Ianniello and Ambrosio have frozen benefits in the Cash Balance Component of the CCPP (described above). The cash balance benefit is expressed in the form of a hypothetical account balance. Benefits accrue monthly at a rate generally between 2%-12% of eligible compensation; the rate may increase with service. Eligible compensation is generally base salary. Interest credits are applied monthly to the prior month's balance, with a minimum interest rate of 5%. The normal forms of payment for a married or single participant are a 50% joint and survivor annuity or single life annuity, respectively; however, a lump sum payment option is available for this

Table of Contents

component. All optional forms of payment under the Cash Balance Component are actuarially equivalent to the normal forms of benefit. The named executive officers participating in the Cash Balance Component are eligible to commence receiving benefits upon termination from employment at any age, without any early retirement subsidy, and to the extent an annuity payment is elected, an early retirement supplement and subsidy are available on the portion of the benefit accrued prior to March 31, 1999.

CBS Supplemental Executive Retirement Plan ("SERP")

The Company maintains the SERP, an unfunded nonqualified defined benefit plan, for eligible employees who participate in certain components of the CCPP whose annual base salary has exceeded the Annual Limit. The benefits under the SERP applicable to the named executive officers are calculated by determining the excess, if any, of (i) the benefits that would be payable under the Cash Balance Component if it were not subject to the Annual Limit, over (ii) the benefits actually payable under the Cash Balance Component. The normal forms of payment for a married or single participant are a 50% joint and survivor annuity or single life annuity, respectively. All optional forms of payment under the SERP are actuarially equivalent to the normal form of payment.

CBS Bonus Supplemental Executive Retirement Plan ("Bonus SERP")

The Company established the Bonus SERP, an unfunded nonqualified defined benefit plan, to provide benefits based on short-term incentive awards to certain employees who are participants in certain components of the CCPP. This plan has been closed to new participants since March 31, 1999, at which time all benefits vested. The benefit is based on 50% of the average of a participant's highest five consecutive short-term incentive awards for the last 10 years, multiplied by 1.7% times credited service up to a maximum of 35. Benefits under the Bonus SERP applicable to the named executive officers have been frozen since March 31, 1999. Early retirement reduction factors are identical to those of the applicable CCPP component. The normal forms of payment for a married or single participant are a 50% joint and survivor annuity or single life annuity, respectively. All optional forms of payment under the Bonus SERP are actuarially equivalent to the normal form of payment.

Nonqualified Deferred Compensation in 2014

The following table sets forth information concerning nonqualified deferred compensation.

Name	Plan Name	Executive Contributions in Last FY ($)(1)	Registrant Contributions in Last FY ($)(2)	Aggregate Earnings in Last FY ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Sumner M. Redstone	Deferred salary plans	0	0	(12,020,544)(4)	0	47,382,006
	Deferred bonus plans	0	0	0	0	0
Leslie Moonves	Deferred salary plans	507,500	22,167	938,547	0	21,032,928
	Deferred bonus plans	0	0	113,785	0	2,223,226
Joseph R. Ianniello	Deferred salary plans	112,000	17,150	(18,950)	0	936,152
	Deferred bonus plans	0	0	0	0	0
Lawrence P. Tu	Deferred salary plans	46,538	17,150	(646)	0	63,042
	Deferred bonus plans	0	0	0	0	0
Anthony G. Ambrosio	Deferred salary plans	113,750	22,167	(5,903)	0	1,504,529
	Deferred bonus plans	0	0	0	0	0

(1) Executive contributions pursuant to deferred salary and bonus plans are included in the "Salary" and "Bonus" columns, respectively, in the Summary Compensation Table for Fiscal Year 2014.

Table of Contents

(2)
Amounts reported are included in the "All Other Compensation" column of the Summary Compensation Table for Fiscal Year 2014.

(3)
Amounts reflect earnings or losses on all amounts deferred in 2014 and prior years in nonqualified plans, net of deductions for fees. No portion of these amounts is included in the Summary Compensation Table for Fiscal Year 2014, as none of these plans or arrangements provided for above-market or preferential earnings during 2014, as noted in footnote (6) to the Summary Compensation Table for Fiscal Year 2014.

(4)
Amount takes into account Mr. Redstone's notional exercise of 1,529,600 SOEs in the aggregate during 2014, pursuant to which the net proceeds of such notional exercises were credited to his deferred compensation account, the balance of which as of December 31, 2014 was less than the intrinsic value of these SOEs as of December 31, 2013. Amount also reflects the decrease in intrinsic value from December 31, 2013 to December 31, 2014 of the SOEs that remained outstanding as of December 31, 2014 and earnings on amounts deferred under the Excess 401(k) Plan. See "Employment Agreements Sumner M. Redstone" for further information on the SOEs.

Description of Nonqualified Deferred Compensation

Set forth below is information with respect to each plan under which deferrals of compensation are reflected in the table above.

Deferred Salary Plans

CBS Excess 401(k) Plan for Designated Senior Executives ("Excess 401(k) Plan")

The Company maintains supplemental 401(k) plans, including the Excess 401(k) Plan, an unfunded nonqualified deferred compensation plan intended to provide benefits to employees who are eligible to participate in the CBS 401(k) Plan and whose annual base salary exceeds the Annual Limit. A participant can defer between 1% and 15% of his or her eligible compensation through payroll deductions on a pre-tax basis. Eligible compensation generally includes base pay or salary, including pre-tax contributions to the CBS 401(k) Plan and the Company's group health and welfare plans, flexible spending accounts and contributions to the commuter reimbursement account plan, plus overtime, commissions, hazard pay and shift differential pay. For 2014, the Company matched Excess 401(k) Plan contributions based on the rate of matching contributions under the CBS 401(k) Plan (70% of the first 5% of eligible compensation deferred on a pre-tax basis). Company contributions are fully vested after five years of service. Matching contributions made by the Company to the CBS 401(k) Plan and the Excess 401(k) Plan together are not made with respect to compensation in excess of $750,000. For Mr. Redstone, who is eligible to participate in the Viacom 401(k) and 401(k) excess plans, the amount of compensation that can be taken into account for Company matching amounts is limited to $375,000.

Deferred amounts are reflected in phantom notional accounts and are credited with earnings and/or losses as if the deferred amounts were actually invested in accordance with the participant's investment elections under the Excess 401(k) Plan with respect to investment options which are the same as those available under the CBS 401(k) Plan. The Company's matching contributions are also reflected in phantom notional accounts, which are credited with earnings and/or losses as if the matching contributions were actually invested in the CBS 401(k) Plan's CBS Class B Company Stock Fund. The Excess 401(k) Plan offers 20 investment options in which Excess 401(k) Plan balances may be notionally invested, and participants may change or reallocate investment directions on any business day on which the NYSE is open. The vested portion of a participant's Excess 401(k) Plan account is distributed in cash after termination of employment in accordance with the participant's distribution election, either in a lump sum payment or in installment payments. All of the named executive officers actively participated in the Excess 401(k) Plan during 2014, except for Mr. Redstone, although he does maintain a balance in the Excess 401(k) Plan.

Table of Contents

CBS Supplementary Employee Investment Fund ("SEIF")

The SEIF was established to provide benefits to employees who were eligible to participate in the former CBS Corporation's qualified defined contribution plan and whose annual base salary exceeded the Annual Limit during the applicable years. This nonqualified deferred compensation plan, which is partially funded using a rabbi trust, was closed to new participants as of 1998 and ceased permitting new contributions effective January 1, 2002. Participants were permitted to contribute 1% to 12.5% of their eligible compensation, which was matched by the former CBS Corporation. Eligible compensation generally included base pay or salary and excluded bonus payments, overtime compensation, deferred compensation and additional compensation. The SEIF offers six investment options in which employee contributions may be invested and in which Company matching contributions may be notionally invested, and participants may reallocate investment directions on any business day on which the NYSE is open. Payouts under the SEIF are made in cash after termination of employment in accordance with the participant's distribution election, either in a lump sum payment or installment payments. Mr. Moonves has a balance in the SEIF.

CBS Deferred Compensation Arrangements

The Company previously required certain senior executives to defer specified amounts of their base salary compensation, as determined by their respective employment contracts. Deferred amounts are held in phantom accounts and are credited with earnings and/or losses as if the deferred amounts were actually invested in accordance with the participant's investment elections with respect to investment options which are the same as those available under the Excess 401(k) Plan. These arrangements are not funded. Distributions are made in accordance with the individual's respective employment contract. Mr. Moonves has a deferred compensation balance in connection with these arrangements due to deferral requirements from a prior employment contract with the Company.

Mr. Redstone has a deferred compensation balance as a result of his notional exercise, during 2014, of 1,529,600 of his SOEs, the net proceeds of which were credited to his deferred compensation account. See "Employment Agreements Sumner M. Redstone" for additional information on the SOEs.

Deferred Bonus Plans

CBS Bonus Deferral Plan for Designated Senior Executives ("BDP")

The Company maintains bonus deferral plans, including the BDP, an unfunded nonqualified deferred compensation plan intended to provide benefits to employees who are eligible to participate in the CBS 401(k) Plan and whose annual base salary exceeds the Annual Limit. Participants can defer between 1% and 15% of their short-term incentive plan bonus to the BDP on a pre-tax basis. Deferred amounts are reflected in phantom accounts and are credited with earnings and/or losses as if the deferred amounts were actually invested in accordance with the participant's investment elections under the BDP with respect to investment options which are the same as those available under the CBS 401(k) Plan. Amounts deferred under the BDP are distributed in cash after termination of employment in accordance with the participant's distribution election, either in a lump sum payment or installment payments. None of the named executive officers made elections to defer bonus amounts paid in 2014. Mr. Moonves is the only named executive officer who maintains a balance in the BDP.

Table of Contents

Potential Payments upon Termination and Certain Other Events

During 2014, all of the named executive officers had employment agreements providing for payments upon certain types of termination of employment. In addition, Mr. Moonves' employment agreement provides for acceleration of his outstanding equity awards in the event that the Company's stock ceases to be publicly traded. The tables and narrative below set forth estimated potential payments that would be made to a named executive officer if his employment had terminated as of December 31, 2014, and, in the case of Mr. Moonves, payments related to an acceleration of equity awards in the event that the Company's stock had ceased being publicly traded as of December 31, 2014. In determining the benefits payable upon certain terminations of employment, the Company has assumed in all cases that the executive has complied and continues to comply with all of the restrictive and other covenants included in his employment agreement and has not become employed by a new employer in those cases where the employment agreement requires mitigation by the executive.

The following tables and narrative indicate the incremental payments and benefits that would be owed by the Company to the executive beyond what the named executive officer had earned and which were no longer subject to vesting conditions, as of December 31, 2014, and do not reflect benefits that are provided pursuant to plans or arrangements that do not discriminate in favor of executive officers and are available generally to all salaried employees, such as amounts accrued under the CBS 401(k) and 401(k) excess plans, accumulated and vested benefits under the Company's pension plans, disability benefits and accrued vacation pay. Payments made to a named executive officer would be made subject to any applicable requirements of Section 409A of the Code. In the case of Messrs. Moonves, Ianniello, Tu and Ambrosio, receipt of the payments and benefits shown below upon a termination without Cause or for Good Reason is conditioned on the named executive officer's execution of a release in favor of the Company.

	Continuation of Salary and Other Cash Compensation ($)(1)	Annual Bonus Continuation ($)(2)	Incremental Pension Benefit ($)	Continuation of Medical, Dental and Life Insurance ($)(3)	Vesting of Equity Awards ($)(4)
Sumner M. Redstone (5)					
Termination for Cause	0	0	0	0	0
Voluntary termination	0	0	0	0	0
Without Cause termination	0	0	0	0	3,176,870
Death	0	0	0	0	3,176,870
Disability	0	0	0	0	3,176,870
Leslie Moonves					
Termination for Cause	0	0	0	0	0
Voluntary termination without Good Reason	0	0	0	0	0
Without Cause termination	55,500,000	74,000,000	2,378,278	635,396	92,832,171
Good Reason termination	53,404,110	74,000,000	2,378,278	635,396	92,832,171
Death	0	0	0	0	67,513,512
Disability	0	0	0	587,520	67,513,512
Joseph R. Ianniello					
Termination for Cause	0	0	0	0	0
Voluntary termination without Good Reason	0	0	0	0	0
Without Cause termination	19,000,000	17,350,000	0	57,979	20,979,404
Good Reason termination	19,000,000	17,350,000	0	57,979	20,979,404
Death	14,000,000	0	0	0	20,820,688
Disability	14,000,000	0	0	0	20,820,688

Table of Contents

	Continuation of Salary and Other Cash Compensation ($)(1)	Annual Bonus Continuation ($)(2)	Incremental Pension Benefit ($)	Continuation of Medical, Dental and Life Insurance ($)(3)	Vesting of Equity Awards ($)(4)
Lawrence P. Tu					
Termination for Cause	0	0	0	0	0
Voluntary termination without Good Reason	0	0	0	0	0
Without Cause termination	1,800,000	3,600,000	0	43,257	2,318,359
Good Reason termination	1,800,000	3,600,000	0	43,257	2,318,359
Death	0	0	0	0	3,243,643
Disability	0	0	0	0	3,243,643
Anthony G. Ambrosio					
Termination for Cause	0	0	0	0	0
Voluntary termination without Good Reason	0	0	0	0	0
Without Cause termination	1,312,500	1,640,625	0	36,050	4,020,567
Good Reason termination	1,312,500	1,640,625	0	36,050	4,020,567
Death	0	0	0	0	4,493,262
Disability	0	0	0	0	4,493,262

(1) Amounts reflect, with respect to base salary for "Without Cause" and "Good Reason" terminations: for Mr. Moonves, three times his annual base salary; for Mr. Ianniello, the continuation of his base salary for a period of 24 months, in this instance, January 1, 2015 through December 31, 2016; and for Messrs. Tu and Ambrosio, the continuation of their base salary for a period of 18 months, in this instance, January 1, 2015 through June 30, 2016. In addition, Mr. Moonves' amount includes the following cash compensation: (a) a cash payment of $35 million ($15 million of which would have been prorated in the case of a termination for "Good Reason") in respect of consideration not received over the remainder of the employment term and (b) a cash payment of $10 million which would be payable to Mr. Moonves unless he elects to provide services as a producer to the Company following his termination without "Cause" or for "Good Reason." Mr. Ianniello's amounts, including for "Death" and "Disability," also include a cash payment of $14 million in respect of RSUs not granted over the remainder of the employment term.

(2) For terminations without "Cause" or for "Good Reason," amounts reflect, with respect to bonus severance: for Mr. Moonves, three times the average of the last three completed calendar year bonuses, with his target bonus included for 2014; for Mr. Ianniello, 24 months' worth of bonus, based on the greater of his target bonus and the average of the bonuses paid for the two calendar years preceding the calendar year of his termination; and for Messrs. Tu and Ambrosio, 18 months' worth of their target bonuses. With respect to a December 31, 2014 termination date, bonuses for 2014 (as determined by the Compensation Committee, which would have been earned by the named executive officers as set forth in the Summary Compensation Table) are not included as "Annual Bonus Continuation." Target bonus amounts for the named executive officers were as follows for 2014: Mr. Redstone, $5,000,000; Mr. Moonves, $12,000,000; Mr. Ianniello, $7,500,000; Mr. Tu, $2,400,000; and Mr. Ambrosio, $1,093,750.

(3) The amounts shown for Messrs. Moonves, Ianniello, Tu and Ambrosio reflect the Company's cost of providing continued health insurance benefits and life insurance coverage as provided in their respective employment agreements.

(4) The calculation of the value associated with the acceleration of the vesting of outstanding equity awards in accordance with the provisions of each named executive officer's employment agreement, (i) in the case of stock awards, was based on the closing price of the Company's Class B Common Stock on December 31, 2014, which was $55.34, with the inclusion of the PRSUs awarded on February 20, 2014 reflecting actual achievement of the applicable performance conditions (except in the case of death or disability for Messrs. Moonves and Ianniello, whose agreements require that PRSUs be accelerated assuming target level of achievement) and with the inclusion of Mr. Moonves' performance share award (as described below under "Treatment of Mr. Moonves' Performance Share Award upon Termination and Certain Other Events") assuming a target level of achievement; and (ii) in the case of options, was based on the difference between such closing price and the exercise price of the option.

(5) Mr. Redstone's employment agreement does not include a "Good Reason" termination clause.

Table of Contents

None of the employment agreements for Messrs. Redstone, Ianniello, Tu and Ambrosio provide for payments and benefits solely in the event of a change-in-control. Mr. Moonves' employment agreement provides for acceleration of his outstanding equity awards in the event that the Company's stock ceases to be publicly traded. If such event had occurred on December 31, 2014, the value of such benefit to Mr. Moonves would have been $92,416,512.

The following table reflects payments and benefits that are additional to those set forth in the preceding table that would be owed by the Company to Messrs. Ianniello, Tu and Ambrosio if their employment was terminated by the Company without Cause, or if they terminated their employment with Good Reason, on December 31, 2014, within twenty-four months following the occurrence of a "Corporate Event" (as defined below), in accordance with their respective employment agreements.

	Continuation of Salary ($)(1)	Annual Bonus Continuation ($)(2)	Incremental Pension Benefit ($)	Continuation of Medical, Dental and Life Insurance ($)(3)	Outplacement Services ($)(4)	Vesting of Equity Awards ($)(5)
Joseph R. Ianniello						
Without Cause termination	2,500,000	7,100,000	0	28,989	18,000	0
Good Reason termination	2,500,000	7,100,000	0	28,989	18,000	0
Lawrence P. Tu						
Without Cause termination	1,800,000	3,600,000	0	37,814	18,000	925,285
Good Reason termination	1,800,000	3,600,000	0	37,814	18,000	925,285
Anthony G. Ambrosio						
Without Cause termination	1,312,500	2,764,375	0	33,581	18,000	472,695
Good Reason termination	1,312,500	2,764,375	0	33,581	18,000	472,695

(1) Amounts reflect, for Mr. Ianniello, the continuation of his base salary for an additional 12 months, and for Messrs. Tu and Ambrosio, the continuation of their respective base salaries for an additional 18 months.

(2) Amounts reflect the payment of 36 months' worth of bonus, which is based on the average of the bonuses paid for the three calendar years preceding the calendar year of termination, less the amount shown in the preceding table.

(3) Amounts reflect the Company's cost of providing continued health insurance benefits and life insurance coverage for 36 months, less the amount shown in the preceding table.

(4) Amounts reflect the Company's cost of providing outplacement services for a maximum period of 12 months following termination of employment.

(5) Amounts reflect the value associated with the acceleration of the vesting of outstanding equity grants, calculated in the case of stock awards, based on the closing price of the Company's Class B Common Stock on December 31, 2014 ($55.34), and, in the case of options, based on the difference between such closing price and the exercise price of the option, less the amount shown in the preceding table.

In the case of Mr. Moonves, the amount of payments to which he is entitled upon termination is not affected by whether the termination occurs before or after a change-in-control. Mr. Moonves' employment agreement provides for a "gross-up" in the event any payment or benefit owed to him under the agreement is subject to the excise tax imposed by Section 4999 of the Code. If the Company experienced a change-in-control on December 31, 2014, Mr. Moonves was terminated on that date, and such termination was determined to be contingent on the change-in-control, none of Mr. Moonves' payments and benefits would trigger an excise tax imposed under Section 4999 of the Code.

The employment agreement of Mr. Ianniello provides for a "gross-up" if his employment is terminated "Without Cause" or for "Good Reason" within 24 months following the occurrence of a "Corporate Event" and any payment or benefit owed to him under the agreement is subject to the excise tax imposed by Section 4999 of the Code, but only if the aggregate amount of such payments

Table of Contents

and benefits exceeds a specified percentage of a safe harbor amount. If the aggregate amount of payments and benefits owed does not exceed the specified percentage, the payments and benefits would be reduced to avoid imposition of the excise tax. In connection with such termination "Without Cause" or for "Good Reason" on December 31, 2014, which occurred within 24 months following the occurrence of a "Corporate Event," and if the specified percentage were exceeded, the Company would owe Mr. Ianniello as a tax gross-up in respect of the excise tax, an amount equal to approximately 49.4% of the total present value of the payments and benefits he would receive in connection with such termination that are taken into account for purposes of determining the amount of the excise tax.

The employment agreements with each of Messrs. Tu and Ambrosio do not include provisions which would entitle him to a tax gross-up if an excise tax were imposed by Section 4999 of the Code. Their respective agreements provide that in the event that an excise tax may be imposed by Section 4999 of the Code, the respective executive's payments will be delivered in full or reduced to an extent such that there will be no excise tax payable, whichever is greater on an after-tax basis.

Termination for Cause by the Company or Voluntary Termination Without Good Reason by the Named Executive Officer

Each named executive officer's employment agreement includes a definition of "Cause" (as discussed below) for which the executive's employment may be terminated by the Company. The named executive officers will receive no incremental payments and benefits under their respective employment agreements in the event of a termination by the Company for "Cause" or a named executive officer's voluntary termination without "Good Reason" (also discussed below).

Termination Without "Cause" by the Company or for "Good Reason" by the Named Executive Officer

Each named executive officer will receive termination payments and benefits if the Company terminates his employment without "Cause" or, except for Mr. Redstone, if the named executive officer terminates employment with the Company for "Good Reason" pursuant to his employment agreement. Mr. Redstone's employment agreement does not include any provision on resignation for "Good Reason."

If a termination without "Cause" or for "Good Reason" had occurred as of December 31, 2014 then, in addition to compensation the named executive officer would have earned as of the termination date and benefits generally available to all salaried employees (such as amounts accrued under the CBS 401(k) plans, accumulated and vested benefits under the Company's nonqualified deferred compensation and pension plans, disability benefits and accrued vacation pay):

Mr. Redstone would have received accelerated vesting of his outstanding equity awards (for a termination without "Cause");

Mr. Moonves would have received (i) a cash severance amount equal to three times the sum of his salary at the time of termination and the average of the annual bonuses payable with respect to the last three completed calendar years in which he served as President and Chief Executive Officer of the Company; (ii) a cash payment of $35 million ($15 million of which would have been prorated in the case of a December 31, 2014 termination for "Good Reason" to $12,904,110) in respect of consideration not received over the remainder of the employment term; (iii) a cash payment of $10 million unless he elects to provide services to the Company as a Producer following his termination; (iv) Company-paid medical and dental benefits for up to 36 months following termination; (v) Company-paid life insurance until the end of the original employment term; (vi) accelerated vesting of outstanding equity awards; (vii) the opportunity to receive his performance share award at the end of the term of his employment; (viii) up to three years of additional age and service credit under certain

Table of Contents

nonqualified supplemental retirement plans; (ix) certain incidental costs for office space and secretarial support; and (x) interest on amounts delayed pursuant to Section 409A of the Code;

Mr. Ianniello would have received (i) a cash severance amount equal to two times the sum of (*x*) his salary in effect at the time of his termination and (*y*) the greater of his target bonus or the average of the bonuses paid for the two calendar years immediately preceding the calendar year of termination; (ii) Company-paid medical and dental benefits for up to 24 months; (iii) Company-paid life insurance for 24 months; (iv) a cash payment of $14 million in respect of RSUs not received over the remainder of the employment term; and (v) accelerated vesting of all unvested stock options and RSUs;

Mr. Tu would have received (i) a cash severance amount equal to 18 months of his annual salary; (ii) an additional cash severance amount equal to 18 months of his target bonus; (iii) Company paid medical and dental benefits for up to 18 months; (iv) Company paid life insurance until the end of the employment term; (v) accelerated vesting of all unvested stock options, restricted shares and RSUs that would have vested during the 18-month period following his termination of employment; and (vi) accelerated vesting in full of the RSU grant made to him on January 1, 2014; and

Mr. Ambrosio would have received (i) a cash severance amount equal to 18 months of his annual salary; (ii) an additional cash severance amount equal to 18 months of his target bonus; (iii) Company-paid medical and dental benefits for up to 18 months; (iv) Company-paid life insurance until the end of the employment term; and (v) accelerated vesting of all unvested stock options, restricted shares and RSUs that would have vested during the 18-month period following his termination of employment.

With respect to Mr. Moonves, his employment agreement requires that (*x*) the cash severance amount described in clause (i) above be paid 50% in a lump sum within a specified period following the termination date and 50% over the 36-month severance period and (*y*) the cash payments described in clauses (ii) and (iii) above be paid within specified periods following the termination date. The employment agreement for Mr. Ianniello requires that the cash severance amount be paid 50% in a lump sum within a specified period following the termination date and 50% over the 24-month severance period. The employment agreements for Messrs. Tu and Ambrosio requires that salary continuation be paid over the 18-month severance period and that bonus continuation be paid in accordance with the Company's standard practice for the payment of bonuses.

Named executive officers who receive benefits upon termination without "Cause" or for "Good Reason" may be subject to mitigation obligations under the terms of the employment agreement and are subject to certain restrictive covenants relating to non-competition, solicitation of Company employees, protection of the Company's confidential information and its ownership of work product and cooperation in litigation.

Definition of Termination for "Cause":

A termination for "Cause" for Mr. Redstone would have been: commission of any dishonest or fraudulent act that has caused or may reasonably be expected to cause injury to the interest or business reputation of the Company or any of its subsidiaries; conduct constituting a felony, a financial crime, embezzlement or fraud, whether or not related to his employment; willful unauthorized disclosure of confidential information; failure, neglect of or refusal to substantially perform his duties; commission or omission of any other act which is a material breach of the Company's policies regarding employment practices or the applicable federal, state and local laws prohibiting discrimination or which is materially injurious to the financial condition or business reputation of the Company or any subsidiary; failure to comply with the written policies of the Company, including the Company's Business Conduct Statement or successor conduct statement as they apply from time to time; willful failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, whether or not related his employment, after being instructed by the Company to participate; willful destruction or failure to preserve documents or other material known to be relevant to any such investigation; or the willful inducement of others to engage in any of the conduct described above.

A termination for "Cause" for Mr. Moonves would have been: engaging or participating in intentional acts of material fraud against the Company; willful misfeasance having a material adverse effect on the Company (except in the event of his incapacity); conviction of a felony; willful unauthorized disclosure of trade secrets or other confidential material information of the Company having a material adverse effect on the Company; resignation without "Good Reason" (as defined below) other than for death or incapacity; willful and material violation of any Company policy that is generally applicable to all employees or officers of the Company, including, but not limited to, policies concerning insider trading or sexual harassment, the Supplemental Code of Ethics for Senior Financial Officers, and the Company's Business Conduct Statement, provided that such violation has a material adverse effect on the Company; willful failure to cooperate fully with a bona fide Company internal investigation or an investigation of the Company by regulatory or law enforcement authorities, whether or not related to his employment with the Company, after being instructed by the Board to cooperate, or willful destruction of or knowing and intentional failure to preserve documents of other material known by him to be relevant to any such investigation; or willful and material breach of the provisions of his employment contract.

A termination for "Cause" for Mr. Ianniello would have been: engaging or participating in intentional acts of material fraud against the Company and its subsidiaries; willful misfeasance having a material adverse effect on the Company (except in the event of his disability); conviction of a felony; willful failure to obey a material lawful directive that is appropriate to his position from the Chief Executive Officer; willful unauthorized disclosure of trade secret or other confidential material information of the Company and its subsidiaries; terminating his employment without "Good Reason" (as defined below) other than for death or disability; willful and material violation of any formal written policy of the Company that is generally applicable to all employees or all officers of the Company, including the Company's Business Conduct Statement, among others; willful failure to cooperate fully with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, whether or not related to his employment with the Company, after being instructed by the Company's Board of Directors or the Chief Executive Officer to cooperate or his willful destruction of or knowing and intentional failure to preserve documents or other material known by you to be relevant to any such investigation; or a willful and material breach of any of his material obligations under the agreement.

A termination for "Cause" for Mr. Tu would have been: embezzlement, fraud or other conduct that is intended to result in his substantial personal enrichment and which constitutes a felony or a misdemeanor involving fraud or perjury; willful unauthorized disclosure of confidential information that has had or is reasonably likely to have a material negative effect on the Company; failure to obey a material lawful and reasonable directive that is appropriate to his position from an executive in his reporting line; material failure to comply with the material written policies of the Company, including its Business Conduct Statement; material breach of his employment agreement; terminating his employment without "Good Reason" (as defined below) other than for death or disability; continued failure (except in the event of his disability) or refusal to substantially perform material obligations under the agreement; willful failure to materially cooperate with a bona fide internal investigation or investigation by regulatory or law enforcement authorities or the destruction or failure to preserve documents or other material reasonably likely to be relevant to such an investigation, or the inducement of others to fail to cooperate or to destroy or fail to produce documents or other material; or conduct which is considered an offense involving moral turpitude under federal, state or local laws, and which reasonably could be expected to bring him to public disrepute, scandal or ridicule or reflect unfavorably upon any of the Company's businesses or those who conduct business with the Company and its affiliated entities and have a material negative effect on the Company.

A termination for "Cause" for Mr. Ambrosio would have been: embezzlement, fraud or other conduct which would constitute a felony or a misdemeanor involving fraud or perjury; willful unauthorized disclosure of material confidential information; failure to obey a material lawful directive that is appropriate to his position from the Company's Chief Executive Officer; failure to comply with the written policies of the Company, including its Business Conduct Statement; material breach of his employment agreement; failure (except in the event of disability) or refusal to substantially perform his material obligations under the employment agreement; terminating his employment without "Good Reason" (as defined below) other than for death or disability; willful failure to cooperate with a bona fide internal investigation or investigation by regulatory or law enforcement authorities or the destruction or failure to preserve documents or other material reasonably likely to be relevant to such an investigation, or the inducement of others to fail to cooperate or to destroy or fail to produce documents or other material; or conduct which is considered an offense involving moral turpitude under federal, state or local laws, or which might bring him to public disrepute, scandal or ridicule or reflect unfavorably upon any of the Company's businesses or those who conduct business with the Company and its affiliated entities.

Definition of "Good Reason" Termination:

Mr. Redstone's employment agreement does not include any provision on resignation for "Good Reason."

A "Good Reason" termination for Mr. Moonves generally would have been based on the following circumstances: his removal or failure to be reelected as President and Chief Executive Officer of the Company (or any higher office or title attained); his removal from or failure to be reelected to the Board; a failure to fill any vacancy of the Chairman position within a specified period; the appointment of a non-Executive Chairman or Executive Chairman other than the current Executive Chairman or himself; the assignment of duties inconsistent with the usual and customary duties associated with a chief executive officer of a comparable publicly traded company; the diminution or withdrawal of a meaningful portion of his positions, titles, offices, reporting relationships, authorities, duties or responsibilities set forth in the agreement; a reduction in his salary, target bonus or other compensation levels as the same may be increased from time to time during the employment term; the Compensation Committee's failure to set performance goals in accordance with the parameters set forth in his employment agreement; payment of a bonus that is less than the minimum performance bonus determined under his employment agreement; the Company's requiring him to be based anywhere other than the New York or Los Angeles metropolitan area; the date on which a majority of the Board ceases to consist of "original independent directors" and "qualified replacement directors" (each as defined in the employment agreement); the date on which a majority of the members of the Compensation Committee or a majority of the members of the Nominating and Governance Committee of the Board ceases to consist of original independent directors and qualified replacement directors; certain acquisitions or beneficial ownership of stock representing more than twenty percent (20%) of the general voting power of the Company, as set forth in the employment agreement, but only if Mr. Moonves concludes and a majority of the original independent directors and qualified replacement directors concur in writing that such acquisition or then beneficial ownership has adversely affected his ability to perform his duties effectively such that his ability to contribute to the further creation of shareholder value is inhibited; the date on which a person is appointed or elected to, or nominated for appointment or election to, the Board who is: (A) a then current or former chief executive officer of a competitor media company (or substantially equal or higher ranking), other than any person who is serving on the Board at the beginning of the employment term, or (B) a trustee of a trust that, at the beginning of the employment term, directly or indirectly, held stock representing more than 50% of the general voting power of the Company, but only if such trustee's service on the Board would cause the number of trustees of the trust serving on the Board to exceed the number of individuals who (*x*) were trustees of the trust that, on January 1, 2011, held, directly or indirectly, stock representing a majority of the general voting power of the Company and (*y*) served on the Board at the beginning of the employment term; or any other material breach by the Company of its material obligations under the employment agreement.

A "Good Reason" for Mr. Ianniello generally would have been triggered by one of the following: (i) a material reduction in his position, titles, offices, reporting relationships, authorities, duties or responsibilities from those in effect immediately prior to such reduction, including any such reduction effected through the sharing of position, titles, duties, etc. or the removal of positions, titles, duties, etc. which are customarily given to an executive of a comparable public company; (ii) a reduction in his base salary or target compensation in effect immediately prior to such reduction, including his annual target bonus or long-term incentive targets; (iii) the assignment to him of duties or responsibilities that are materially inconsistent with the usual and customary duties associated with a Chief Operating Officer of a publicly traded company or that materially impair his ability to function as the Chief Operating Officer of the Company; (iv) a material breach by the Company of any of its obligations under the agreement; (v) a material reduction in his after-tax income which results from the performance of services in California for the Company; or (vi) the Company requiring him to be based anywhere other than the New York or Los Angeles metropolitan area, except for required business travel. For the avoidance of doubt, (1) a material reduction described in clause (i) above shall include and be deemed to have occurred if either he ceases to be the most senior executive responsible for financial affairs and operational responsibilities at the Company (or if the Company has a public parent company, at the public parent company) or (*y*) neither the Company nor its ultimate parent company (if any) is a public company; and (2) neither the assignment of another individual (or any successor(s) to such individual) to serve as the Company's chief financial officer nor such individual's performance of duties customary to that of a CFO of a public company shall be considered a material reduction or otherwise constitute "Good Reason" so long as such CFO position reports to him.

For Mr. Tu, "Good Reason" generally would have been triggered by one of the following: (i) a material reduction in (A) position, titles, offices, reporting relationships, authorities, duties or responsibilities from those in effect immediately prior to such reduction or (B) base salary or target compensation in effect immediately prior to such reduction; (ii) the assignment of duties or responsibilities that are materially inconsistent with his current duties or that materially impair his ability to function in his role with the Company as of a specified date; (iii) the material breach by the Company of any of its obligations under the agreement;

or (iv) the relocation of his position outside of the Los Angeles metropolitan area to any metropolitan area other than New York. For the avoidance of doubt, a material reduction described in clause (i)(A) above is deemed to have occurred if (*x*) he ceases to be the most senior executive responsible for legal affairs at the Company (or if the Company has a public parent company, at the public parent company) or (*y*) neither the Company nor its ultimate parent company (if any) is a public company.

For Mr. Ambrosio, "Good Reason" generally would have been triggered by one of the following: (i) a material reduction in (A) position, titles, offices, reporting relationships, authorities, duties or responsibilities from those in effect immediately prior to such reduction or (B) base salary or target compensation in effect immediately prior to such reduction; (ii) the assignment of duties or responsibilities that are materially inconsistent with his current duties or that materially impair his ability to function in his role with the Company as of a specified date; (iii) the material breach by the Company of any of its obligations under the agreement; or (iv) the relocation of his position outside of the New York metropolitan area to any metropolitan area other than Los Angeles. For the avoidance of doubt, a material reduction described in clause (i)(A) above is deemed to have occurred if (*x*) he ceases to be the most senior executive responsible for human resources and administration at the Company (or if the Company has a public parent company, at the public parent company) or (*y*) neither the Company nor its ultimate parent company (if any) is a public company.

Termination Without "Cause" by the Company or for "Good Reason" by the Named Executive Officer Following the Occurrence of a Corporate Event

Each of Messrs. Ianniello, Tu and Ambrosio will receive termination payments and benefits if the Company terminates his employment without Cause or if he terminates employment with the Company for Good Reason, in either case within 24 months following the occurrence of a "Corporate Event." If a termination without Cause or for Good Reason during the 24-month period following the occurrence of a "Corporate Event" occurs, then, in addition to the payments and benefits previously described in connection with a termination of employment by the Company without Cause or a termination of employment by the named executive officer for Good Reason, each of Messrs. Ianniello, Tu and Ambrosio would receive the following payments and benefits: (i) the continuation of base salary for an additional 12 months, in the case of Mr. Ianniello, or for an additional 18 months, in the case of Messrs. Tu and Ambrosio; (ii) a prorated target bonus for the calendar year of termination; (iii) an amount generally equal to an additional 12 months of bonus, in the case of Mr. Ianniello, or 18 months of bonus, in the case of Messrs. Tu and Ambrosio; (iv) Company-paid medical and dental benefits for an additional 12 months, in the case of Mr. Ianniello, or for an additional 18 months, in the case of Messrs. Tu and Ambrosio; (v) Company-paid life insurance for 36 months (instead of 24 months, in the case of Mr. Ianniello, or for the remainder of the term, for Mr. Ambrosio); (vi) accelerated vesting of stock options, RSUs and other equity awards to the extent vesting of such awards would not be accelerated upon a termination without Cause or for Good Reason occurring other than during the 24-month period following the occurrence of a Corporate Event; and (vii) outplacement services for up to 12 months. In addition, Mr. Ianniello would be entitled to receive a cash payment of $14 million in respect of RSUs not received over the remainder of his employment term, which amount will be reduced in future years as such grants are made.

A "Corporate Event" generally is defined as the occurrence of (i) a merger, consolidation or reorganization of the Company, subject to certain exceptions, (ii) the sale or disposition of all or substantially all of the assets of the Company, (iii) the acquisition of stock by any person or group representing more than 20% of the voting power of the Company, subject to certain exceptions, or (iv) a majority of the independent directors of the Board ceasing to consist of the independent directors as of January 1, 2011 and their successor independent directors. The full definition of "Corporate Event" is set forth in the employment agreement of each of Messrs. Ianniello, Ambrosio and Tu.

Termination Due to Disability

If Mr. Redstone were to be terminated during the employment term due to disability, the Company would pay salary earned through the date of his termination and the vesting of his outstanding equity awards would be accelerated. If Mr. Moonves were to be terminated during the employment term due to disability, Mr. Moonves would receive salary earned through the date of his termination, a prorated target bonus for the year in which the termination occurs, Company-paid life insurance coverage for the remainder of the term of his agreement, accelerated vesting of his outstanding equity awards and payment of his prorated performance share award. If Mr. Ianniello were to be terminated during the employment term due to disability, he would receive salary earned through the date of termination, a prorated bonus for the calendar year in which the termination occurs (which he would have earned), a prorated target bonus for the period during which he receives short-term disability benefits under the Company's short-term disability program, accelerated vesting of his outstanding equity awards and a cash payment of $14 million in respect of RSUs not received over the remainder of the employment term, which amount will be reduced in future years as such grants are made. If either of Messrs. Tu or Ambrosio were to be terminated during the employment term due to disability, the applicable executive would receive his salary earned through the date of termination, a prorated bonus for the calendar year in which the termination occurs (which he would have earned), a prorated target bonus for the period during which he receives short-term disability benefits under the Company's short-term disability program, and accelerated vesting of his outstanding equity awards.

Termination Due to Death

If Mr. Redstone were to die during the employment term, the Company would pay salary earned through the date of his death and the vesting of his outstanding equity awards would be accelerated. If Mr. Moonves were to die during the employment term, his estate or beneficiary would receive salary earned through the date of his death, a prorated target bonus for the year in which his death occurs, accelerated vesting of his outstanding equity awards and payment of his prorated performance share award. If Mr. Ianniello were to die during the employment term, his beneficiary or estate would receive salary earned through the date of death, a prorated bonus for the calendar year in which death occurs (which he would have earned), accelerated vesting of his outstanding equity awards and a cash payment of $14 million in respect of RSUs not received over the remainder of the employment term, which amount will be reduced in future years as such grants are made. If either of Messrs. Tu or Ambrosio were to die during the employment term, the applicable executive's beneficiary or estate would receive salary earned through the date of death, a prorated bonus for the calendar year in which death occurs (which he would have earned) and accelerated vesting of his outstanding equity awards. No additional payments or benefits would be due under their respective contracts.

Treatment of Mr. Moonves' Performance Share Award upon Termination and Certain Other Events

Pursuant to Mr. Moonves' employment agreement, he is eligible to receive a grant of shares of the Company's Class B Common Stock, with the number of shares to be determined based on the Company's stock price performance over the 4.5 year period from January 1, 2015 through June 30, 2019, as adjusted based on the Company's financial performance during each of 2016, 2017 and 2018. The number of shares that may be awarded (without giving effect to the financial performance adjustment) ranges from 0 to 650,000 shares, with a target award of 450,000 shares. In order to receive shares, the Company's stock price performance must increase by at least 124.6% from the initial stock price at the beginning of the performance period. For a stock price increase of 153.73%, the target number of shares (450,000) shares will be awarded (subject to adjustment) and for a stock price increase equal to or above 188.02%, the maximum number of shares may be earned (subject to adjustment). Generally, stock price performance will be determined within 30 days of the end of the performance period. Once the stock price performance is determined, if the threshold level of stock price performance is achieved, an initial number of shares will be determined and will be divided into thirds with one-third allocated to each of the 2016, 2017 and 2018 calendar years. Based on company financial performance in each of those years, each third of the shares allocated to the respective calendar years can be increased or decreased by up to 10%. Following adjustment for the company performance related to calendar years 2016, 2017 and 2018, the final number of shares will be determined and granted to Mr. Moonves no later than 60 days following June 30, 2019.

In the event of Mr. Moonves' termination of employment during the employment term without Cause or pursuant to his resignation for Good Reason, he will remain eligible to receive shares, determined and paid in the manner described above. In the event of Mr. Moonves' death or termination due to incapacity during the employment term, he will remain eligible to receive shares, determined and paid in the manner described above, but prorated based on the number of days he was employed during the employment term prior to his death or termination due to incapacity.

In the event of a "Going Private Transaction" (as defined in Mr. Moonves' employment agreement), the number of shares granted to Mr. Moonves will be determined by taking the higher of (i) the target number of shares (450,000) and (ii) determining the number of shares based on a truncated performance period such that the last day of the performance period is the tenth business day immediately prior to such transaction following which the Company's stock is no longer publicly traded, and, if such tenth business day occurs prior to the completion of calendar years 2016, 2017 or 2018, no adjustment shall be made to the third of the shares allocated to such incomplete year. In certain circumstances, the delivery of shares may be made earlier than within 60 days of June 30, 2019. During the employment term, in the event that Mr. Moonves' employment is terminated without Cause or due to death or incapacity, or he resigns for Good Reason, and such termination is followed by a "Going Private Transaction," the number of shares granted to Mr. Moonves will be determined and paid in the manner described in this paragraph, except that with respect to termination due to death or incapacity, such number of shares granted would be prorated based on the number of days he was employed during the employment term prior to his death or termination due to incapacity.

Mr. Moonves' Post-Termination Service as a Senior Advisor and/or Producer

Mr. Moonves' employment agreement provides incentives for him to continue his employment with the Company for a period of five years as a Senior Advisor following the end of the original employment term or upon an earlier termination of his employment without "Cause" or for "Good Reason." In connection with his services as a Senior Advisor, his annual salary would be $5.0 million, and he would receive a one-time RSU award having a grant date value of $10.5 million.

Mr. Moonves' employment agreement also provides him with the opportunity to provide services as a Producer for a four-year period (with an option for Mr. Moonves to extend the period to 6 years), upon written notice to the Company, following the end of the original employment term or upon an earlier termination of his employment without "Cause" or for "Good Reason." If Mr. Moonves elects to provide services as a Producer, the material terms set forth in the letter agreement between him and the Company, dated December 11, 2014 (the "Supplemental Agreement"), will constitute a binding production agreement, subject to the parties' obligation to endeavor to enter into a binding long-form production agreement within a specified period that amends or supersedes the Supplemental Agreement. The Supplemental Agreement is filed as Exhibit 10(o) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 13, 2014. In

Table of Contents

the event of a termination of Mr. Moonves' employment without "Cause" or for "Good Reason," or in certain circumstances following the expiration of the original employment term, Mr. Moonves will be entitled to a cash payment of $10.0 million unless he elects to provide services as a Producer.

Under his employment agreement, Mr. Moonves will be entitled to continued participation in the Company's employee benefit plans, continuation of his Company-paid life insurance coverage, use of aircraft comparable to Company aircraft, certain incidental costs for office space and secretarial support and security services while he serves as a Senior Advisor and/or Producer to the Company. His employment agreement also contains restrictive covenants imposing non-competition obligations, restricting solicitation of employees, and protecting confidential information and the Company's ownership of work product as well as other covenants, during the period in which Mr. Moonves provides services as a Senior Advisor and/or Producer and for specified periods thereafter.

Table of Contents

ITEM 3 PROPOSAL TO RE-APPROVE THE MATERIAL TERMS OF THE PERFORMANCE GOALS IN THE CBS CORPORATION SENIOR EXECUTIVE SHORT-TERM INCENTIVE PLAN PURSUANT TO SECTION 162(m) OF THE CODE

The Board of Directors recommends that stockholders re-approve the material terms of the performance goals in the Company's Senior Executive Short-Term Incentive Plan, as amended (the "Senior Executive STIP"). The purpose of asking stockholders to re-approve the material terms of the performance goals under the Senior Executive STIP is so that incentive awards granted under the plan may meet the requirements of tax-deductible qualified performance-based compensation under Section 162(m) of the Code ("Section 162(m)"). For purposes of Section 162(m), the material terms of the performance goals requiring re-approval include (i) the class of employees eligible to receive compensation under the Senior Executive STIP, (ii) a description of the business criteria on which the performance goals may be based and (iii) the maximum amount of compensation that can be paid to an employee under the performance goal. Each of these aspects of the Senior Executive STIP is discussed below.

Background

Section 162(m) places a limit of $1,000,000 on the amount the Company may deduct in any one year for compensation paid to a "covered employee," which for purposes of Section 162(m) means any person who as of the last day of the fiscal year is the chief executive officer or who is among the three other highest compensated officers (other than the chief financial officer) as determined under SEC rules. There is, however, an exception to this limit on deductibility for "qualified performance-based" compensation under Section 162(m). In order for compensation to qualify as performance-based, among other conditions, the material terms of the performance goals of the plan under which the compensation will be paid must be disclosed and approved by stockholders at least once every five years. The Company's stockholders last approved the material terms of the performance goals under the Senior Executive STIP at the Company's 2010 Annual Meeting.

Stockholder approval of the material terms of the performance goals under the Senior Executive STIP is only one of several requirements under Section 162(m) that must be satisfied for amounts paid under the Senior Executive STIP to qualify as performance-based compensation. Even if stockholder re-approval is obtained under this proposal at the Annual Meeting, there can be no guarantee that amounts payable under the Senior Executive STIP will qualify as performance-based compensation.

Below is a description of the material terms of the performance goals of the Senior Executive STIP, in accordance with the stockholder approval requirements under Section 162(m). The complete text of the Senior Executive STIP can be found as Exhibit 10(f) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which text is incorporated herein by reference. The following description is qualified in its entirety by reference to the full text of the Senior Executive STIP.

Eligibility and Participation

The administrator for the Senior Executive STIP is the Compensation Committee. The Senior Executive STIP authorizes the Compensation Committee to grant awards to employees of the Company and its subsidiaries at the level of Senior Vice President or above for a given performance period. The number of employees who currently participate in the Senior Executive STIP is six.

Table of Contents

Performance Goals

The performance goals from which the Compensation Committee can set performance targets will relate to the achievement of financial goals based on the attainment of specified levels of one or more of the following:

operating income before depreciation and amortization (OIBDA),

OIBDA without inter-company eliminations,

operating income,

free cash flow,

net earnings,

net earnings from continuing operations,

earnings per share,

revenue,

net revenue,

operating revenue,

total shareholder return,

share price,

return on equity,

return in excess of cost of capital,

profit in excess of cost of capital,

return on assets,

return on invested capital,

net operating profit after tax,

operating margin,

profit margin, or

any combination thereof.

Performance goals may be described in terms of objectives that are related to the individual participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit and may be measured on an absolute or cumulative basis or on the basis of percentage of improvement over time, and may be measured in terms of Company performance (or performance of the applicable subsidiary, division, department, region, function or business unit) or measured in terms of performance relative to selected peer companies or a market index.

Maximum Award

The aggregate amount of all awards granted under the Senior Executive STIP to any participant for any performance period may not exceed the lesser of (i) eight times the participant's "salary" (as defined below), and (ii) $51.2 million. Under the Senior Executive STIP, "salary" for a performance period means the sum of (i) the annual base salary of the participant as in effect on the first day of the applicable performance period and (ii) an amount equal to the annual rate of compensation (as in effect on the first date of the applicable performance period) that the participant

Table of Contents

is required to defer (if any) for the applicable performance period pursuant to an employment agreement or similar arrangement with the Company.

Plan Benefits

The amounts of awards that will be granted under the Senior Executive STIP in the future are not determinable, as the Compensation Committee will make these determinations in its discretion in accordance with the terms of the Senior Executive STIP. For an understanding of the amounts of bonuses paid to the named executive officers in 2014 under the Senior Executive STIP, see the "Bonus" column of the Summary Compensation Table.

Nothing in this proposal, the Senior Executive STIP, nor the Company proxy materials precludes the Company or the Compensation Committee from making payments or granting awards that do not qualify as performance-based compensation under Section 162(m), the Senior Executive STIP or otherwise. The Board believes that it is in the best interests of the Company and its stockholders for the Company to have the ability to pay compensation that meets the requirements of tax-deductible performance-based compensation under Section 162(m) and the Senior Executive STIP.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors recommends a vote "FOR" re-approval of the material terms of the performance goals in the Senior Executive STIP pursuant to Section 162(m) of the Code.

Table of Contents

ITEM 4 PROPOSAL TO APPROVE AN AMENDED AND RESTATED CBS CORPORATION 2005 RSU PLAN FOR OUTSIDE DIRECTORS

The Board has approved, and is submitting for stockholder approval, an amended and restated CBS Corporation 2005 RSU Plan for Outside Directors (the "Director Equity Plan"), which amends the Company's current 2005 RSU Plan for Outside Directors (the "Existing RSU Plan"), primarily to (i) extend the termination date of the plan from the date of the Company's 2015 Annual Meeting of Stockholders to the date of the Company's 2025 Annual Meeting of Stockholders and (ii) permit, in addition to grants of restricted stock units which are currently permitted under the Existing RSU Plan, grants of other equity-based awards to non-employee directors of the Company ("Outside Directors") in the form of stock options, stock appreciation rights, restricted stock, performance shares and other stock-based awards. If stockholder approval of the Director Equity Plan is obtained at the Company's 2015 Annual Meeting of Stockholders, the plan will be automatically renamed the "CBS Corporation 2015 Equity Plan for Outside Directors." The following description of the Director Equity Plan should be read in conjunction with, and is qualified in its entirety by reference to, the full text of the Director Equity Plan, which appears at the end of this proxy statement as Annex B.

The Director Equity Plan, if approved by our stockholders, will be the vehicle by which the Company may provide equity-based compensation to its Outside Directors, and the Outside Directors will not be eligible to receive equity-based awards under any other Company equity plan following the Annual Meeting. Accordingly, if the Director Equity Plan is not approved by the Company's stockholders at the Annual Meeting, the Existing RSU Plan will expire by its terms, and the Company will be unable to grant equity-based awards to its Outside Directors.

The Board believes that the approval of the Director Equity Plan is in the best interests of the Company and its stockholders because it will enable the Company to continue to compensate Outside Directors with equity-based awards, which will help to obtain and retain the services of qualified persons who are not employees to serve as directors and to encourage them to make a maximum contribution to the success of the Company. ***The Company is not seeking an increase in the number of shares available for awards under the Director Equity Plan. The number of shares available for awards under the Existing RSU Plan as of the date of this proxy statement (i.e., 981,281 shares, subject to adjustment under the Existing RSU Plan) will be the only source of shares available for awards under the Director Equity Plan.***

The stockholders of the Company last approved amendments to the Existing RSU Plan at the Company's 2009 Annual Meeting.

PURPOSE AND SUMMARY OF THE DIRECTOR EQUITY PLAN

Purpose of the Director Equity Plan

The purpose of the Director Equity Plan is to benefit and advance the interests of the Company and its subsidiaries by obtaining and retaining the services of qualified persons who are not employees of the Company or any of its subsidiaries to serve as directors, and to encourage them to make a maximum contribution to the success of the Company and its subsidiaries. Under the Director Equity Plan, directors of the Company who are not employees of the Company or any of its subsidiaries are Outside Directors.

Administration

The Director Equity Plan is administered by the members of the Board who are not Outside Directors.

Eligibility

Only Outside Directors are eligible to receive awards under the Director Equity Plan. The Company currently has 12 Outside Directors.

Class B Common Stock Available for Awards

Subject to adjustment as described below, the total number of shares of Class B Common Stock that may be subject to awards granted under the Director Equity Plan is, as of the date of this proxy statement, 981,281 (subject to adjustment under the Existing RSU Plan), plus any shares that are available to be regranted pursuant to Section 1.5 of the Director Equity Plan. ***The Company is not seeking stockholder approval to increase the number of shares available for issuance under the Director Equity Plan.***

Types of Awards Generally

The Director Equity Plan permits, at the discretion of the Board, awards to Outside Directors, of the types set forth below, in the number or value, and on such terms and conditions (including the vesting schedule, if any), as the Board may determine in accordance with the Director Equity Plan:

Restricted Stock Units.

Stock Options and Stock Appreciation Rights. The exercise price of each stock option and stock appreciation right cannot be less than 100% of the fair market value (on the grant date) of a share of Class B Common Stock and the term for any stock option or stock appreciation right will not go beyond the 10^{th} anniversary of the date of grant.

Other Stock-Based Awards. Other equity-based awards include, but are not limited to, restricted stock and performance shares.

Dividend Equivalents. The Board may provide that the recipient of certain awards may accrue dividend equivalents in the event the Company pays a regular cash dividend with respect to the shares of Class B Common Stock.

In addition, the Board may establish procedures pursuant to which the payment or settlement of an award may be deferred.

Adjustments

In the event of any merger, consolidation, stock-split, reverse stock-split, dividend (other than a regular cash dividend), distribution, combination, recapitalization, reclassification, reorganization, split-off, split-up or spin-off that changes the character or amount of the shares of the Company's Class B Common Stock or any other changes in the corporate structure, equity securities or capital structure of the Company, the Board will make such proportionate adjustments as it deems appropriate to the number and kind of securities subject to outstanding awards granted under the Director Equity Plan, the exercise price or purchase price of outstanding awards, and the maximum number and kind of securities available for issuance under the Director Equity Plan. The Board may, in its sole discretion, also make other adjustments as it deems appropriate in order to preserve, but not increase, the benefits or potential benefits under the Director Equity Plan.

Transfer Restrictions

The rights of the recipient of awards granted under the Director Equity Plan are not transferable other than (i) by will or the laws of descent and distribution or (ii) upon prior notice to the Company, to (A) members of the recipient's immediate family or trusts whose beneficiaries are members of the recipient's immediate family, *provided* that any such transfer is made for estate and/or

Table of Contents

tax planning purposes without consideration being received, or (B) former spouses in transfers incident to a divorce. The Board may also permit other transferability, subject to any conditions and limitations that it imposes.

Amendment and Termination of the RSU Plan

The Board may at any time alter, amend, suspend or terminate the Director Equity Plan, in whole or in part. No amendment will be effective without stockholder approval if approval is required by law or under the rules of the principal stock exchange on which Class B Common Stock is then listed, and no alteration, amendment, suspension or termination may adversely affect the terms of any outstanding award without the consent of the affected recipient. A participant's consent will not be required, however if the Board determines that such alteration, amendment, suspension or termination of the Director Equity Plan is necessary or advisable to comply with any law, regulation, ruling, judicial decision or accounting standards or to ensure that awards are not subject to federal, state or local income tax prior to settlement.

Term of the Director Equity Plan

Unless earlier terminated by action of the Board, the Director Equity Plan will terminate on the date of the Company's 2025 Annual Meeting of Stockholders, and no awards may be granted on or after the date of such meeting. If the Director Equity Plan is not approved, the Existing RSU Plan will terminate on the date of the 2015 Annual Meeting of Stockholders.

U.S. Federal Income Tax Implications of Awards

The following is a brief description of the United States federal income tax consequences generally applicable to awards of restricted stock units, stock options, stock appreciation rights and restricted stock granted under the Director Equity Plan. This summary is not intended to (and does not) constitute tax advice to Outside Directors who receive awards and is not intended to be exhaustive. The summary also does not describe, among other things, state, local or foreign tax consequences. Outside Directors are advised to consult with their own independent tax advisors with respect to the tax consequences that, in light of their particular circumstances, might arise in connection with their receipt of awards under the Director Equity Plan, including any state, local or foreign tax consequences, and the effect, if any, on gift, estate and inheritance taxes.

Restricted Stock Units. An Outside Director who receives restricted stock units will not recognize ordinary income at grant. Outside Directors will be subject to taxation at the time any portion of a restricted stock unit award vests. Specifically, the Outside Director will recognize ordinary income equal to the fair market value of the Class B Common Stock received. Outside Directors may be subject to certain self-employment taxes when such ordinary income tax is recognized. An Outside Director's tax basis for purposes of determining any subsequent gain or loss from the sale of the Class B Common Stock will be equal to the fair market value on the vesting date of the Class B Common Stock received. Gain or loss resulting from any sale of Class B Common Stock delivered to an Outside Director will be treated as long- or short-term capital gain or loss depending on the length of the holding period.

Stock Options and Stock Appreciation Rights. An Outside Director who receives a stock option or stock appreciation right will not recognize ordinary income at grant. When the stock option or stock appreciation right is exercised, Outside Directors will recognize ordinary income equal to the amount that the fair market value of the Class B Common Stock acquired exceeds the exercise price. Outside Directors may be subject to certain self-employment taxes when ordinary income tax is recognized. An Outside Director's disposition of Class B Common Stock acquired upon the exercise of a stock option or stock appreciation right generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the Outside Director's tax basis in such Class B Common Stock. The tax basis in such Class B Common Stock is the exercise price plus any amount recognized as ordinary income in connection with the exercise of the stock option or stock appreciation right.

Restricted Stock. An Outside Director receiving an award of restricted stock will not recognize ordinary income at grant. Outside Directors will recognize ordinary income when the restricted stock vests, equal to the excess, if any, of the fair market value of the Class B Common Stock on the vesting date over any amount paid by the Outside Director in exchange for the Class B Common Stock. Outside Directors may be subject to certain self-employment taxes when such ordinary income tax is recognized. An Outside Director's tax basis for purposes of determining any subsequent gain or loss from the sale of the Class B Common Stock will be the amount paid for the Class B Common Stock plus any ordinary income recognized when the Class B Common Stock vests. Gain or loss resulting from any sale of Class B Common Stock held by an Outside Director will be treated as long- or short-term capital gain or loss depending on the length of the holding period.

Deduction. In the taxable year in which the Outside Director recognizes ordinary income on account of shares awarded to him or her, the Company will be entitled to a deduction equal to the amount of income recognized by the Outside Director.

PLAN BENEFITS

Only Outside Directors are eligible to receive awards under the Director Equity Plan. There are currently 12 Outside Directors who participate in the Director Equity Plan. The closing price of the CBS Corporation Class B Common Stock on March 31, 2015 was $60.63. Awards under the Director Equity Plan will be granted in the Board's discretion. As a result, the Company cannot estimate the number or type of awards that will be granted to participants under the Director Equity Plan. Restricted stock units awarded under the Existing RSU Plan for 2014 to Outside Directors are reported in the Outside Director Compensation During 2014 table. Also see "Director Compensation Description of Director Compensation" for a description of equity-based grants awarded to Outside Directors.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors recommends a vote "FOR" the approval of the amended and restated CBS Corporation 2005 RSU Plan for Outside Directors.

Table of Contents

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2014, concerning shares of the Company's Class B Common Stock authorized for issuance under equity compensation plans approved by the Company's stockholders. As of December 31, 2014, there were no equity awards outstanding or securities available for future issuance under equity compensation plans not previously approved by security holders. None of the shares of the Company's Class A Common Stock are authorized for issuance under the Company's equity compensation plans.

Plan Category(1)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (2)	22,272,711 (3)	$36.76	57,599,128 (4)
Equity compensations plans not approved by security holders			
Total:	22,272,711	$36.76	57,599,128

(1) This table does not include plans assumed by the Company pursuant to mergers with publicly traded companies if no awards were made under such plans after completion of the mergers. For this reason, this table does not include options for 42,912 shares in the aggregate, all of which were assumed in the mergers and remain outstanding as of December 31, 2014. The weighted-average exercise price of these options as of December 31, 2014 was $23.12.

(2) Equity compensation plans approved by the Company's security holders include the following: the Company's 2004 Long-Term Management Incentive Plan, the Company's 2009 Long-Term Incentive Plan, the Company's 2000 Stock Option Plan for Outside Directors and the Company's 2005 RSU Plan for Outside Directors.

(3) This amount includes 114,026 shares underlying PSUs and 375,767 shares underlying PRSUs, in each case granted under the Company's 2009 Long-Term Incentive Plan, which numbers of shares assume that target performance levels would be attained. If, however, maximum performance levels were attained (and 342,078 shares and 450,920 shares, respectively, were issued as a result), the amount shown would be increased by 228,052 shares and 75,153 shares, respectively (and the amount shown in column (c) would be reduced by an equal number of shares).

(4) This amount includes 31,266,374 shares of the Company's Class B Common Stock available for future awards other than options and stock appreciation rights under the Company's 2009 Long-Term Incentive Plan and 1,025,686 shares of the Company's Class B Common Stock available for future awards under the Company's 2000 Stock Option Plan for Outside Directors (which plan, by its terms, terminates on the date of the Annual Meeting) and 2005 RSU Plan for Outside Directors (which plan, by its terms, also terminates on the date of the Annual Meeting, unless Item 4 in this proxy statement is approved at the Annual Meeting).

Table of Contents

OTHER MATTERS

In an effort to reduce the amount of paper mailed to stockholders' homes and to help lower the Company's printing and postage costs, stockholders who receive printed copies of the Company's proxy materials can elect to receive future copies of these documents electronically instead of by mail. We highly recommend that you consider electronic delivery of these documents. If you are interested in participating in this electronic delivery program, you should visit http://enroll.icsdelivery.com/cbs or select the "Sign up for Electronic Delivery" link on the "Investors My Shareowner Account Annual Meeting Materials" page of the Company's website at www.cbscorporation.com. You can always change your mind and resume receiving copies of these documents by mail by revisiting one of these websites and selecting "change/cancel existing enrollment form."

2016 ANNUAL MEETING OF STOCKHOLDERS

Stockholder proposals may be submitted for inclusion in the Company's proxy statement relating to the 2016 Annual Meeting of Stockholders after the 2015 Annual Meeting, but must be received no later than December 12, 2015 at the Company's principal executive offices at 51 West 52nd Street, New York, NY 10019, Attention: Angeline C. Straka, Secretary.

The Company's Amended and Restated Bylaws require advance written notice from any stockholder seeking to present any business or proposal, not for inclusion in next year's proxy statement but directly at the 2016 Annual Meeting of Stockholders, including nominations of persons for election to the Company's Board of Directors, which notice must be received at the Company's principal executive offices no earlier than the close of business on the 120th day, nor later than the close of business on the 90th day, prior to the first anniversary of the date of the immediately preceding annual meeting. Based upon the anniversary date of the 2015 Annual Meeting as currently scheduled, a stockholder must send advance written notice of such nominations or other business or proposals such that the notice is received at the Company's principal executive offices at 51 West 52nd Street, New York, NY 10019, Attention: Angeline C. Straka, Secretary, no earlier than the close of business on January 22, 2016, and no later than the close of business on February 21, 2016.

By order of the Board of Directors,

Angeline C. Straka
Secretary

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, including financial statements in the Form 10-K and schedules thereto, in lieu of a separate annual report, has been provided on CBS Corporation's website at www.cbscorporation.com and a printed copy has been sent to stockholders of record on March 31, 2015 who have requested that a copy be sent, along with this proxy statement. If you have requested, but have not received, a printed copy of the Form 10-K, the Company will provide a copy without charge (a reasonable fee will be charged for exhibits) upon receipt of a written request sent to Angeline C. Straka, Secretary, CBS Corporation, 51 West 52nd Street, New York, NY 10019.

Table of Contents

ANNEX A

CBS CORPORATION AND SUBSIDIARIES
Reconciliation of Non-GAAP Measures

(In millions; except for per share data)

Adjusted net earnings from continuing operations per diluted share ("Adjusted Diluted EPS")

The Company defines Adjusted Diluted EPS as diluted earnings per share ("EPS") from continuing operations excluding impairment and restructuring charges and loss on early extinguishment of debt, all of which are net of tax. Adjusted Diluted EPS is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company believes that presenting its financial results adjusted to exclude the impact of these items is relevant and useful for investors because it allows investors to view performance in a manner similar to the method used by the Company's management, provides a clearer perspective on the underlying performance of the Company, and makes it easier for investors, analysts and industry peers to compare the Company's operating performance to other companies in its industry.

Because Adjusted Diluted EPS is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, diluted EPS from continuing operations as an indicator of operating performance. Adjusted Diluted EPS, as the Company calculates it, may not be comparable to a similarly titled measure employed by other companies.

The following tables reconcile Adjusted Diluted EPS to diluted EPS from continuing operations, the most directly comparable amount reported under GAAP, for the twelve months ended December 31, 2014 and 2013.

Twelve Months Ended December 31,	**2014**	**2013**
Net earnings from continuing operations	$1,354	$1,738
Exclude:		
Loss on early extinguishment of debt (net of tax benefit of $133 million)	219	
Impairment charge (including tax provision of $22 million) (a)	74	
Restructuring charges (net of tax benefit of $10 million in 2014 and $8 million in 2013) (b)	16	12
Adjusted net earnings from continuing operations	$1,663	$1,750

Twelve Months Ended December 31,	**2014**	**2013**	**Increase: 2014 vs. 2013**
Diluted EPS from continuing operations	$2.41	$2.79	
Exclude:			
Loss on early extinguishment of debt	.39		
Impairment charge (a)	.13		
Restructuring charges (b)	.03	.02	
Adjusted Diluted EPS	$2.96	$2.80	6%
Diluted weighted average number of common shares outstanding	561	624	

(a) Reflects a noncash impairment charge to reduce goodwill at Local Broadcasting in connection with a radio station swap.

(b)

For 2014, restructuring charges at Entertainment, Publishing, Local Broadcasting and Corporate were primarily for the reorganization and closure of certain business operations and other exit costs. For 2013, restructuring charges at Entertainment, Cable Networks, Publishing, Local Broadcasting and Corporate were primarily for the reorganization and closure of certain business operations.

Table of Contents

ANNEX B

CBS CORPORATION
2015 EQUITY PLAN FOR OUTSIDE DIRECTORS
(formerly known as the "CBS Corporation 2005 RSU Plan for Outside Directors")

ARTICLE I
GENERAL

Section 1.1 Purpose.

The purpose of the CBS Corporation 2015 Equity Plan for Outside Directors (formerly known as the CBS Corporation 2005 RSU Plan for Outside Directors), as amended from time to time (the "Plan"), is to benefit and advance the interests of CBS Corporation, a Delaware corporation (the "Company"), and its Subsidiaries (as defined below) by obtaining and retaining the services of qualified persons who are not employees of the Company or its Subsidiaries to serve as directors and to encourage them to make a maximum contribution to the success of the Company and its Subsidiaries.

Section 1.2 Definitions.

As used in the Plan, the following terms shall have the following meanings:

"Agreement" shall mean the written agreement and/or certificate or other documentation governing an Award under the Plan, which shall contain terms and conditions not inconsistent with the Plan and which shall incorporate the Plan by reference.

"Award" shall mean RSUs, stock options, stock appreciation rights, restricted stock, dividend equivalents or other equity-based or equity-related awards granted pursuant to Article II.

"Board" shall mean the Board of Directors of the Company.

"Class B Common Stock" shall mean the shares of Class B Common Stock, par value $0.001 per share, of the Company.

"Company" shall have the meaning set forth in Section 1.1.

"Dividend Equivalent" shall mean a right to receive a payment based upon the value of the regular cash dividend paid on a specified number of shares of Class B Common Stock. Unless otherwise set forth in an Agreement, payment in respect of Dividend Equivalents upon settlement shall be in shares of Class B Common Stock.

"Effective Date" shall mean the effective date of the Plan provided for in Article VI below.

"Fair Market Value" of a share of Class B Common Stock on a given date shall mean, unless otherwise determined by the Board, the closing price on such date on the New York Stock Exchange or other principal stock exchange on which the Class B Common Stock is then listed, as reported by *The Wall Street Journal* as the 4:00 p.m. (New York time) closing price or as reported by any other authoritative source selected by the Company.

"Outside Director" shall mean any member of the Board who is not an employee of the Company or any of its Subsidiaries.

"Participant" shall mean any Outside Director holding one or more outstanding Awards granted under the Plan.

"Plan" shall have the meaning set forth in Section 1.1.

"Prior Option Grants" shall mean the grants of stock options outstanding as of the date of the 2015 Annual Meeting of Stockholders awarded under the Stock Option Plan.

Table of Contents

"RSUs" shall have the meaning set forth in Section 2.1.

"Stock Option Plan" shall mean the amended and restated CBS Corporation 2000 Stock Option Plan for Outside Directors, which expired by its terms on the date of the 2015 Annual Meeting of Stockholders.

"Subsidiary" shall mean a corporation (or a partnership or other enterprise) in which the Company owns or controls, directly or indirectly, more than 50% of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power).

Section 1.3 Administration of the Plan.

The Plan shall be administered by the members of the Board who are not Outside Directors, and such Board members shall determine all questions of interpretation, administration and application of the Plan. Such Board members' determinations shall be final and binding in all matters relating to the Plan. The Board may authorize any officer of the Company to execute and deliver an Agreement on behalf of the Company to a Participant.

Section 1.4 Eligible Persons.

Awards shall be granted only to Outside Directors.

Section 1.5 Class B Common Stock Subject to the Plan.

Subject to adjustment in accordance with the provisions of Article III hereof, the maximum number of shares of Class B Common Stock available for Awards made under the Plan on or after May 21, 2015, shall be [ ] shares plus any shares that are available to be regranted pursuant to this Section 1.5. The shares of Class B Common Stock shall be made available from authorized but unissued shares of Class B Common Stock or from shares of Class B Common Stock issued and held in the treasury of the Company. Shares of Class B Common Stock underlying Awards or Prior Option Grants that lapse, expire or are cancelled without being settled or exercised or are otherwise terminated may be regranted under the Plan. For the avoidance of doubt, the following will not again become available for issuance under the Plan: (i) any shares of Class B Common Stock withheld in respect of taxes, (ii) any shares tendered or withheld to pay the exercise price of stock options or stock appreciation rights and (iii) any shares repurchased by the Company on the open market using proceeds from the exercise of an Award.

ARTICLE II
RESTRICTED SHARE UNITS; STOCK OPTIONS AND
OTHER STOCK-BASED AWARDS

Section 2.1 Restricted Share Units ("RSUs").

(a) The Board may from time to time grant RSUs to Outside Directors on terms and conditions set forth in the Plan and on such other terms and conditions, including a vesting schedule, not inconsistent with the provisions of the Plan. Each RSU shall correspond to one share of Class B Common Stock.

(b) On the date on which RSUs vest, all restrictions contained in the Agreement covering such RSUs shall lapse as to such RSUs, and the RSUs shall be payable in shares of Class B Common Stock and shall be evidenced in such manner as the Board in its discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of one or more stock certificates; provided, however, that such certificates shall bear such legends as the Board, in its sole discretion, may determine to be necessary or advisable in order to comply with applicable law.

Table of Contents

Section 2.2 Stock Options and Stock Appreciation Rights.

The Board may from time to time grant stock options and/or stock appreciation rights to Outside Directors on terms and conditions set forth in the Plan and on such other terms and conditions, including a vesting schedule, not inconsistent with the provisions of the Plan. Stock options and stock appreciation rights shall have an exercise price established by the Board; provided, however that such exercise price shall not be less than 100% of the Fair Market Value of a share of Class B Common Stock on the date of grant. For each stock option or stock appreciation right granted, the Board shall specify the term during which the stock option or stock appreciation right may be exercised; provided however that no stock option or stock appreciation right shall have a term that goes beyond the 10th anniversary of the date of grant.

Section 2.3 Other Stock-Based Awards.

The Board may from time to time grant other forms of equity-based or equity-related awards, including, but not limited to restricted stock and performance shares to Outside Directors on terms and conditions set forth in the Plan and on such other terms and conditions, including a vesting schedule, not inconsistent with the provisions of the Plan.

Section 2.4 Dividend Equivalents.

The Board may from time to time provide that the recipient of an Award (other than a stock option or stock appreciation right and including any Award that has been deferred) may accrue Dividend Equivalents, either currently or on a deferred basis, with respect to the number of shares of Class B Common Stock covered by such Award, and the Board may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares of Class B Common Stock or otherwise reinvested and/or shall be subject to the same terms and conditions (including vesting and forfeiture provisions) as the related Award.

Section 2.5 Deferral of Awards.

The Board may from time to time establish procedures pursuant to which the payment of any Award may be deferred. The Company's obligation to pay deferred Awards shall be reflected on its books as a general, unsecured and unfunded obligation, and the rights of a Participant or his or her designated beneficiary to receive payments from the Company as a result of a deferral are solely those of a general, unsecured creditor. The Company shall not be required to create a trust or otherwise set aside assets in respect of its obligations hereunder, and a Participant or designated beneficiary shall have no interest whatsoever, vested or contingent, in any particular assets of the Company.

ARTICLE III
EFFECT OF CERTAIN CORPORATE CHANGES

In the event of any merger, consolidation, stock-split, reverse stock-split, dividend (other than a regular cash dividend), distribution, combination, recapitalization, reclassification, reorganization, split-off, split-up or spin-off that changes the character or amount of the shares of Class B Common Stock or any other changes in the corporate structure, equity securities or capital structure of the Company, the Board shall make such proportionate adjustments to (i) the number and kind of securities subject to any outstanding Awards, (ii) the exercise price or purchase price, if any, of any outstanding Award, and (iii) the maximum number and kind of securities available for issuance under the Plan referred to in Section 1.5, in each case, as it deems appropriate. The Board may, in its sole discretion, also make such other adjustments as it deems appropriate in order to preserve, but not increase, the benefits or potential benefits intended to be made available hereunder upon the occurrence of any of the foregoing events. The Board's determination as to what, if any, adjustments shall be made shall be final and binding on the Company and all Participants.

ARTICLE IV
MISCELLANEOUS

Section 4.1 No Right to Re-election.

Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any of its members for re-election by the Company's stockholders, nor confer upon any Participant the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

Section 4.2 Restriction on Transfer.

The rights of a Participant with respect to any Awards under the Plan shall not be transferable by the Participant to whom such Awards are granted, except (i) by will or the laws of descent and distribution, (ii) upon prior notice to the Company, for transfers to members of the Participant's immediate family or trusts whose beneficiaries are members of the Participant's immediate family, *provided* that such transfer is being made for estate and/or tax planning purposes without consideration being received therefor, (iii) upon prior notice to the Company, for transfers to a former spouse incident to a divorce, or (iv) for such other transfers as the Board may approve, subject to any conditions and limitations that it may, in its sole discretion, impose.

Section 4.3 Stockholder Rights.

No grant of an Award under the Plan shall entitle a Participant, a Participant's estate or a permitted transferee to any rights of a holder of shares of Class B Common Stock, except upon the delivery of shares to a Participant, the Participant's estate or the permitted transferee upon settlement of an Award.

Section 4.4 No Restriction on Right of Company to Effect Corporate Changes.

The Plan shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the shares of Class B Common Stock or the rights thereof or which are convertible into or exchangeable for shares of Class B Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

Section 4.5 Headings.

The headings of articles and sections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

Section 4.6 Governing Law.

The Plan and all rights hereunder shall be construed in accordance with and governed by the laws of the State of Delaware.

Table of Contents

ARTICLE V
AMENDMENT AND TERMINATION

The Board may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part, *provided, however*, that any amendment which under the requirements of applicable law or under the rules of the New York Stock Exchange or other principal stock exchange on which the shares of Class B Common Stock are then listed must be approved by the stockholders of the Company shall not be effective unless and until such stockholder approval has been obtained in compliance with such law or rule; and no alteration, amendment, suspension or termination of the Plan that would adversely affect a Participant's rights under the Plan with respect to any Award made prior to such action shall be effective as to such Participant unless he or she consents thereto, *provided*, *however*, that no such consent shall be required if the Board determines in its sole discretion that any such alteration, amendment, suspension or termination is necessary or advisable to comply with any law, regulation, ruling, judicial decision or accounting standards or to ensure that Awards are not subject to federal, state or local income tax prior to settlement.

ARTICLE VI
EFFECTIVE DATE AND TERM

Section 6.1 Effective Date.

The initial Effective Date of the Plan was May 26, 2005, the date on which stockholder approval was first obtained at the Company's 2005 Annual Meeting of Stockholders. The Plan has been amended and restated at various times since the Effective Date, most recently on May 21, 2015, subject to stockholder approval as required by the rules of the New York Stock Exchange.

Section 6.2 Term of the Plan.

Unless earlier terminated in accordance with Article V above, the Plan shall terminate on the date of the Company's 2025 Annual Meeting of Stockholders, and no further Awards may be granted hereunder on or after such date, provided that all Awards made under the Plan before its termination will remain in effect until such Awards have been satisfied or terminated in accordance with the terms and provisions of the Plan and the applicable Agreements.