

CINCINNATI BELL INC
Form 10-Q
November 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2016

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 1-8519
CINCINNATI BELL INC.

Ohio 31-1056105
(State of Incorporation) (I.R.S. Employer Identification No.)
221 East Fourth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip Code)
(513) 397-9900
(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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

At October 31, 2016, there were 42,025,063 common shares outstanding.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

TABLE OF CONTENTS

PART I. Financial Information

Description	Page
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations (Unaudited) Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets (Unaudited) September 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>52</u>
Item 4. <u>Controls and Procedures</u>	<u>52</u>
<u>PART II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	<u>53</u>
Item 1A. <u>Risk Factors</u>	<u>53</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
Item 3. <u>Default upon Senior Securities</u>	<u>54</u>
Item 4. <u>Mine Safety Disclosure</u>	<u>54</u>
Item 5. <u>Other Information</u>	<u>54</u>
Item 6. <u>Exhibits</u>	<u>55</u>
<u>Signatures</u>	<u>56</u>

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue				
Services	\$246.7	\$234.3	\$733.1	\$693.5
Products	65.7	65.5	167.4	185.0
Total revenue	312.4	299.8	900.5	878.5
Costs and expenses				
Cost of services, excluding items below	127.7	120.0	375.7	348.0
Cost of products sold, excluding items below	56.1	55.6	141.6	156.0
Selling, general and administrative, excluding items below	55.5	52.5	164.9	161.7
Depreciation and amortization	46.5	35.8	134.7	102.4
Other	1.1	(0.3)	1.1	7.4
Total operating costs and expenses	286.9	263.6	818.0	775.5
Operating income	25.5	36.2	82.5	103.0
Interest expense	17.9	21.5	58.1	82.2
Loss on extinguishment of debt, net	11.4	7.8	14.2	21.3
Gain on sale of CyrusOne investment	(33.3)	(117.7)	(151.9)	(412.9)
Other (income) expense, net	(0.1)	1.2	(1.2)	6.0
Income from continuing operations before income taxes	29.6	123.4	163.3	406.4
Income tax expense	10.8	44.1	59.9	146.1
Income from continuing operations	18.8	79.3	103.4	260.3
Income from discontinued operations, net of tax	—	1.0	—	60.8
Net income	18.8	80.3	103.4	321.1
Preferred stock dividends	2.6	2.6	7.8	7.8
Net income applicable to common shareowners	\$16.2	\$77.7	\$95.6	\$313.3
Basic net earnings per common share				
Basic earnings per common share from continuing operations	\$0.39	\$1.83	\$2.28	\$6.03
Basic earnings per common share from discontinued operations	\$—	\$0.02	\$—	\$1.45
Basic net earnings per common share	\$0.39	\$1.85	\$2.28	\$7.48
Diluted net earnings per common share				
Diluted earnings per common share from continuing operations	\$0.38	\$1.83	\$2.27	\$6.01
Diluted earnings per common share from discontinued operations	\$—	\$0.02	\$—	\$1.45
Diluted net earnings per common share	\$0.38	\$1.85	\$2.27	\$7.46

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$18.8	\$80.3	\$103.4	\$321.1
Other comprehensive income				
Foreign currency translation loss	—	(0.3)	(0.1)	(0.4)
Defined benefit pension and postretirement plans				
Net gain arising from remeasurement during the period, net of tax of \$0.6	—	—	—	1.1
Amortization of prior service benefits, net of tax of (\$1.2), (\$1.3), (\$3.9), (\$4.1)	(2.4)	(2.6)	(7.1)	(7.4)
Amortization of net actuarial loss, net of tax of \$2.1, \$2.3, \$6.4, \$8.5	3.8	4.3	11.6	15.3
Reclassification adjustment for curtailment loss included in net income, net of tax of \$0.1	—	—	—	0.2
Other comprehensive income	1.4	1.4	4.4	8.8
Total comprehensive income	\$20.2	\$81.7	\$107.8	\$329.9

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

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 8.5	\$ 7.4
Restricted cash	90.7	—
Receivables, less allowances of \$9.8 and \$12.4	172.2	157.1
Inventory, materials and supplies	23.0	20.6
Prepaid expenses	15.0	13.1
Other current assets	4.2	2.2
Total current assets	313.6	200.4
Property, plant and equipment, net	1,052.6	975.5
Investment in CyrusOne	21.0	55.5
Goodwill	14.3	14.3
Deferred income taxes, net	108.7	182.9
Other noncurrent assets	19.7	17.8
Total assets	\$ 1,529.9	\$ 1,446.4
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	\$ 98.8	\$ 13.8
Accounts payable	134.3	128.9
Unearned revenue and customer deposits	36.8	29.2
Accrued taxes	14.5	14.5
Accrued interest	8.3	11.2
Accrued payroll and benefits	35.9	31.2
Other current liabilities	25.3	25.0
Other current liabilities from discontinued operations	0.4	5.4
Total current liabilities	354.3	259.2
Long-term debt, less current portion	1,125.5	1,223.8
Pension and postretirement benefit obligations	214.0	225.0
Other noncurrent liabilities	30.9	36.6
Total liabilities	1,724.7	1,744.6
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 ³ / ₄ % Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2016 and December 31, 2015; liquidation preference \$1,000 per share (\$50 per depositary share)	129.4	129.4
Common shares, \$.01 par value; 96,000,000 shares authorized; 42,055,001 and 42,003,600 shares issued; 42,026,791 and 41,975,390 shares outstanding at September 30, 2016 and December 31, 2015	0.4	0.4
Additional paid-in capital	2,573.3	2,577.7
Accumulated deficit	(2,730.8	) (2,834.2)
Accumulated other comprehensive loss	(166.6	) (171.0)
Common shares in treasury, at cost	(0.5	) (0.5)
Total shareowners' deficit	(194.8	) (298.2)

Total liabilities and shareowners' deficit	\$ 1,529.9	\$ 1,446.4
--------------------------------------------	------------	------------

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

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$103.4	\$321.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	134.7	131.0
Loss on extinguishment of debt	14.2	21.3
Provision for loss on receivables	7.2	6.5
Gain on sale of CyrusOne investment	(151.9)	(412.9)
Noncash portion of interest expense	2.4	3.5
Deferred income tax provision	59.3	173.1
Pension and other postretirement payments in excess of expense	(3.9)	(9.9)
Stock-based compensation	4.8	3.1
Deferred gain on sale of wireless spectrum licenses - discontinued operations	—	(112.6)
Amortization of deferred gain - discontinued operations	—	(6.5)
Gain on transfer of lease obligations - discontinued operations	—	(15.9)
Other, net	(3.0)	3.3
Changes in operating assets and liabilities:		
Increase in receivables	(11.0)	(5.9)
Increase in inventory, materials, supplies, prepaid expenses and other current assets	(6.0)	(0.3)
(Decrease) increase in accounts payable	(3.9)	8.8
Decrease in accrued and other current liabilities	(3.9)	(19.8)
(Increase) decrease in other noncurrent assets	(2.1)	1.8
Increase in other noncurrent liabilities	1.4	5.0
Net cash provided by operating activities	141.7	94.7
Cash flows from investing activities		
Capital expenditures	(188.8)	(205.7)
Increase in restricted cash	(90.7)	—
Dividends received from CyrusOne	6.2	19.5
Proceeds from sale of assets	—	0.6
Proceeds from sale of CyrusOne investment	181.2	596.3
Other, net	(0.8)	(0.2)
Net cash (used in) provided by investing activities	(92.9)	410.5
Cash flows from financing activities		
Proceeds from issuance of long-term debt	425.0	—
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	5.9	(19.2)
Repayment of debt	(461.0)	(509.8)
Debt issuance costs	(8.4)	(0.4)
Dividends paid on preferred stock	(7.8)	(7.8)
Common stock repurchase	(4.8)	—
Other, net	3.4	(0.5)

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Net cash used in financing activities	(47.7)	(537.7)
Net increase (decrease) in cash and cash equivalents	1.1	(32.5)
Cash and cash equivalents at beginning of period	7.4	57.9
Cash and cash equivalents at end of period	\$8.5	\$25.4
Noncash investing and financing transactions:		
Accrual of CyrusOne dividends	\$1.2	\$2.7
Acquisition of property by assuming debt and other noncurrent liabilities	\$10.9	\$4.3
Acquisition of property on account	\$43.0	\$29.3

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

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

Description of Business — Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") provides diversified telecommunications and technology services. The Company generates a large portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this, or a portion of this, limited operating territory could have a disproportionate effect on our business, financial condition, results of operations and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

As of September 30, 2016, we operate our business through the following segments: Entertainment and Communications and IT Services and Hardware.

The company has 3,400 employees as of September 30, 2016, and approximately 30% of its employees are covered by a collective bargaining agreement with Communications Workers of America ("CWA") that will be in effect through May 12, 2018.

The Company has receivables with one large customer, General Electric Company ("GE"), that makes up 23% and 22% of the outstanding accounts receivable balance at September 30, 2016 and December 31, 2015, respectively. GE represented 12% of consolidated revenue for the three and nine months ended September 30, 2016 and 2015.

Basis of Presentation — The Condensed Consolidated Financial Statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and, in the opinion of management, include all adjustments necessary for a fair presentation of the results of operations, other comprehensive income, financial position and cash flows for each period presented.

The adjustments referred to above are of a normal and recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to SEC rules and regulations for interim reporting.

The Condensed Consolidated Balance Sheet as of December 31, 2015 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results expected for the full year or any other interim period.

On October 4, 2016, the Company filed an amendment to its Amended and Restated Articles of Incorporation to affect a one-for-five reverse split of its issued common stock (the "Reverse Split") which had the effect of reducing the number of issued shares of common stock from 210,275,005 to 42,055,001, effective as of 11:59 pm on October 4, 2016. Any fractional shares of common stock resulting from the Reverse Split were settled in cash equal to the fraction of a share to which the holder was entitled. As a result of the Reverse Split, the Company reduced total par value from common stock by \$1.7 million and increased the additional paid-in capital by the same amount for the reporting periods.

All shares of common stock, stock options, the conversion rate of preferred stock and per share information presented in the consolidated financial statements have been adjusted to reflect the Reverse Split on a retroactive basis for all periods presented and all share information is rounded down to the nearest whole share after reflecting the Reverse Split.

The closing of our wireless operations in March 2015 represented a strategic shift in our business. Therefore, certain wireless assets, liabilities and results of operations are reported as discontinued operations in our financial statements. See Note 9 for all required disclosures.

Use of Estimates — Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates. In the normal course of business, the Company is subject to various regulatory and tax proceedings, lawsuits, claims and

other matters. The Company believes adequate provision has been made for all such asserted and unasserted claims in accordance with U.S. GAAP. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Restructuring Liability — As of September 30, 2016, restructuring liabilities have been established for lease abandonments and other charges. As of September 30, 2016 and December 31, 2015, \$0.1 million and \$0.9 million, respectively, of the restructuring liabilities were included in “Other current liabilities,” in the Condensed Consolidated Balance Sheets. As of September 30, 2016 and December 31, 2015, \$0.1 million and \$0.2 million, respectively were included in “Other noncurrent liabilities” in the Condensed Consolidated Balance Sheets.

Income Taxes — The Company’s income tax provision for interim periods is determined through the use of an estimated annual effective tax rate applied to year-to-date ordinary income, as well as the tax effects associated with discrete items. The Company expects its effective rate to exceed statutory rates primarily due to non-deductible expenses. In the third quarter of 2016, the Company reclassified \$12.3 million of Alternative Minimum Tax (“AMT”) refundable tax credits from non-current “Deferred income taxes, net” to “Receivables” as these credits are now expected to be utilized in the next twelve months. The accelerated utilization of the AMT refundable tax credits is due to an election under new tax legislation that will be made by the Company on the 2016 tax return.

Recently Issued Accounting Standards — In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, Statement of Cash Flow - Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice. The new standard is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company’s consolidated statement of cash flows and plans to adopt the standard effective January 1, 2018.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, which simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements. The new standard is effective for public entities for annual reporting periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company’s consolidated financial statements and plans to adopt the standard effective January 1, 2017.

In February 2016, the FASB issued ASU 2016-02, Leases, which represents a wholesale change to lease accounting. The standard introduces a lessee model that brings most leases on the balance sheet as well as aligning certain underlying principles of the new lessor model with those in Accounting Standards Codification (“ASC”) 606. The new standard is effective for public entities for fiscal years beginning after December 15, 2018, and lessees and lessors are required to use a modified retrospective transition method for existing leases. The Company is in the process of evaluating the impact of adoption of this ASU on the Company’s consolidated financial statements.

The FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in January 2016, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. The amended guidance requires entities to carry all investments in equity securities at fair value through net income unless the entity has elected the practicability exception to fair value measurement. This standard will be effective for the fiscal year ending December 31, 2018 and will require a cumulative-effect adjustment to beginning retained earnings on this date. The Company is in the process of evaluating the impact of adoption of this ASU on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in the financial statements. Specifically, this amendment requires that costs associated with the issuance of debt be presented on the balance sheet as a direct deduction from the related debt liability. The Company retrospectively adopted the amended standard effective January 1, 2016. The Condensed Consolidated Balance Sheet as of December 31, 2015 has been restated to reflect this change in accounting principle. Note issuance costs of \$8.0 million were reclassified from “Other noncurrent assets” to “Long-term debt, less current portion.” Note 3 has been updated to reflect the adjustment. On the effective date of ASU 2015-03, the Company made a one-time policy election to record costs incurred in connection with obtaining revolving credit agreements as an asset and to amortize these costs ratably over the term of the agreement. This accounting treatment is consistent with how deferred financing costs were accounted for prior to adoption of ASU 2015-03.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. In August 2015, ASU 2015-14 was issued deferring the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017 with an optional early application date for annual reporting periods beginning after December 15, 2016. The Company has elected to adopt the standard in the first quarter of the fiscal year ending December 31, 2018. In March 2016, the FASB issued ASU 2016-08, an update to ASU 2014-09, clarifying the implementation guidance on principal versus agent considerations. The Company is in the process of evaluating the impact of the standard for the IT Services and Hardware segment that is a reseller of Telecom and IT hardware. Under the current guidance, these equipment revenues are generally recorded on a gross basis. The Company is continuing to evaluate the impact of adoption of ASU 2014-09, as well as all subsequent amendments to this standard, on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective during the year had, or is expected to have, a material impact on the consolidated financial statements.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

2. Earnings Per Common Share

Basic earnings per common share (“EPS”) is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur upon the issuance of common shares for awards under stock-based compensation plans, the exercise of warrants or the conversion of preferred stock, but only to the extent that they are considered dilutive.

The following table shows the computation of basic and diluted EPS after consideration of the 1-for-5 reverse stock split that became effective 11:59 pm as of October 4, 2016:

(in millions, except per share amounts)	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Numerator:						
Net income	\$18.8	\$ —	\$18.8	\$79.3	\$ 1.0	\$80.3
Preferred stock dividends	2.6	—	2.6	2.6	—	2.6
Net income applicable to common shareowners - basic and diluted	\$16.2	\$ —	\$16.2	\$76.7	\$ 1.0	\$77.7
Denominator:						
Weighted average common shares outstanding - basic	42.0	42.0	42.0	41.9	41.9	41.9
Stock-based compensation arrangements	0.1	0.1	0.1	0.1	0.1	0.1
Weighted average common shares outstanding - diluted	42.1	42.1	42.1	42.0	42.0	42.0
Basic earnings per common share	\$0.39	\$ —	\$0.39	\$1.83	\$ 0.02	\$1.85
Diluted earnings per common share	\$0.38	\$ —	\$0.38	\$1.83	\$ 0.02	\$1.85

(in millions, except per share amounts)	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Numerator:						
Net income	\$103.4	\$ —	\$103.4	\$260.3	\$ 60.8	\$321.1
Preferred stock dividends	7.8	—	7.8	7.8	—	7.8
Net income applicable to common shareowners - basic and diluted	\$95.6	\$ —	\$95.6	\$252.5	\$ 60.8	\$313.3
Denominator:						
Weighted average common shares outstanding - basic	42.0	42.0	42.0	41.9	41.9	41.9
Stock-based compensation arrangements	0.1	0.1	0.1	0.1	0.1	0.1
Weighted average common shares outstanding - diluted	42.1	42.1	42.1	42.0	42.0	42.0
Basic earnings per common share	\$2.28	\$ —	\$2.28	\$6.03	\$ 1.45	\$7.48
Diluted earnings per common share	\$2.27	\$ —	\$2.27	\$6.01	\$ 1.45	\$7.46

For the three and nine months ended September 30, 2016, awards under the Company's stock-based compensation plans for common shares of 0.2 million and 0.4 million, respectively, were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2015, awards under the Company's stock-based compensation plans for common shares of 0.7 million were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods presented, preferred stock convertible into 0.9 million common shares was excluded as it was anti-dilutive.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

3. Debt

The Company's debt consists of the following:

(dollars in millions)	September 30, 2016	December 31, 2015
Current portion of long-term debt:		
Corporate Credit Agreement - Tranche B Term Loan	\$ 5.4	\$ 5.4
Capital lease obligations and other debt	8.8	8.4
8 3/8% Senior Notes due 2020	84.6	—
Current portion of long-term debt	98.8	13.8
Long-term debt, less current portion:		
Receivables Facility	23.5	17.6
Corporate Credit Agreement - Tranche B Term Loan	518.4	522.5
8 3/8% Senior Notes due 2020	—	478.5
7 1/4% Senior Notes due 2023	22.3	26.3
7% Senior Notes due 2024	425.0	—
Cincinnati Bell Telephone Notes	87.9	128.7
Capital lease obligations and other debt	62.8	59.9
	1,139.9	1,233.5
Net unamortized discount	(2.3)	(1.7)
Unamortized note issuance costs	(12.1)	(8.0)
Long-term debt, less current portion	1,125.5	1,223.8
Total debt	\$ 1,224.3	\$ 1,237.6

Corporate Credit Agreement

In the second quarter of 2016, the Company amended its Corporate Credit Agreement originally dated as of November 20, 2012. This amendment reduces the aggregate revolving commitments available under the revolving credit facility to \$150.0 million, modifies certain financial covenants and related definitions governing leverage ratios and capital expenditures, and extends the maturity date of the revolving credit facility to January 2020. As a result of the amendment, the Company recorded a \$1.7 million loss on extinguishment of debt in the second quarter of 2016. There were no outstanding borrowings on the Corporate Credit Agreement's revolving credit facility, leaving \$150.0 million available for borrowings as of September 30, 2016.

Accounts Receivable Securitization Facility

As of September 30, 2016, the Company had \$23.5 million of borrowings and \$6.3 million of letters of credit outstanding under the accounts receivable securitization facility ("Receivables Facility"), leaving \$90.2 million remaining availability on the total borrowing capacity of \$120.0 million. In the second quarter of 2016, the Company executed an amendment of its Receivables Facility, which replaced, amended and added certain provisions and definitions to increase the credit availability, renew the facility, which is subject to renewal every 364 days, until May 26, 2017, and extend the facility's termination date to May 27, 2019. In the event the Receivables Facility is not renewed, the Company has the ability to refinance any outstanding borrowings with borrowings under the Corporate Credit Agreement. Under the terms of the Receivables Facility, the Company could obtain up to \$120.0 million depending on the quantity and quality of accounts receivable. Under this agreement, certain subsidiaries, or originators, sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC ("CBF"). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company's other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF and, as such, are not available to creditors of the Company's other subsidiaries or the Company.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

7% Senior Notes due 2024

In the third quarter of 2016, the Company issued in a private offering \$425.0 million aggregate principal amount of 7% senior notes due 2024 ("2024 Notes") at par. The 2024 Notes are senior unsecured obligations of the Company, which rank equally in right of payment with all existing and future unsecured senior debt of the Company. The 2024 Notes will be effectively subordinated to all existing and future secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness. The 2024 Notes are guaranteed on a joint and several basis by certain of the Company's existing and future domestic subsidiaries. Each such guarantee is a senior unsecured obligation of the applicable guarantor, ranking equally with all existing and future unsecured senior debt of such guarantor and effectively subordinated to all existing and future secured indebtedness of such guarantor to the extent of the value of the assets securing that indebtedness. The 2024 Notes are structurally subordinated to all liabilities (including trade payables) of each subsidiary of the Company that does not guarantee the 2024 Notes.

The 2024 Notes bear interest at a rate of 7% per annum, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2017, to persons who are registered holders of the 2024 Notes on the immediately preceding January 1 and July 1, respectively.

The 2024 Notes will mature on July 15, 2024. However, prior to September 15, 2019, the Company may, at its option, redeem some or all of the 2024 Notes at a redemption price equal to 100% of the principal amount of the 2024 Notes, together with accrued and unpaid interest, if any, plus a "make-whole" premium. On or after September 15, 2019, the Company may, at its option, redeem some or all of the 2024 Notes at any time at declining redemption prices equal to (i) 105.250% beginning on September 15, 2019, (ii) 103.500% beginning on September 15, 2020, (iii) 101.750% beginning on September 15, 2021 and (iv) 100.000% beginning on September 15, 2022 and thereafter, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. In addition, before September 15, 2019, and subject to certain conditions, the Company may, at its option, redeem up to 40% of the aggregate principal amount of 2024 Notes with the net proceeds of certain equity offerings at 107.000% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption; provided that (i) at least 60% of the aggregate principal amount of 2024 Notes remains outstanding and (ii) the redemption occurs within 180 days of the closing of any such equity offering.

The indenture governing the 2024 Notes contains covenants including but not limited to the following: limitations on dividends to shareowners and other restricted payments; dividend and other payment restrictions affecting the Company's subsidiaries such that the subsidiaries are generally not permitted to enter into an agreement that would limit their ability to make dividend payments to the parent; issuance of indebtedness; asset dispositions; transactions with affiliates; liens; investments; issuances and sales of capital stock of subsidiaries; and redemption of debt that is junior in right of payment. The indenture governing the 2024 Notes provides for customary events of default, including a cross-default provision for both nonpayment at final maturity or acceleration due to a default of any other existing debt instrument that equals or exceeds \$35 million.

Debt Repayments

During the first quarter of 2016, the Company redeemed \$29.8 million of its outstanding 6.30% unsecured senior notes due 2028 (the "Cincinnati Bell Telephone Notes") at an average redemption price of 91.130% which resulted in a gain on extinguishment of debt of \$2.4 million.

During the second quarter of 2016, the Company repaid \$81.4 million of its outstanding 8 ³/₈ % Senior Notes due 2020 ("2020 Notes") at an average redemption price of 104.184% which resulted in a loss on extinguishment of debt of \$3.7 million. Additionally, the Company redeemed \$5.0 million of its Cincinnati Bell Telephone Notes at a redemption price of 94.875% which resulted in a gain on extinguishment of debt of \$0.2 million in the second quarter of 2016.

The 2024 Notes net proceeds of \$418.5 million, after fees and expenses, were used to purchase \$312.5 million aggregate principal amount of its 2020 Notes tendered in connection with an offer to purchase for cash any and all of the 2020 Notes at a redemption price of 103.250%, including payment of accrued and unpaid interest, which resulted in a loss on extinguishment of debt of \$11.5 million in the third quarter of 2016. Additionally, the Company notified

its trustee of its election to redeem the \$84.6 million remaining outstanding 2020 Notes at a redemption rate of 102.792%, including payment of accrued and unpaid interest thereon, on October 24, 2016. As a result, a loss on extinguishment of debt totaling approximately \$3 million will be recorded in the fourth quarter of 2016. Simultaneous with the delivery of such notice, the Company deposited \$90.7 million of funds in a restricted cash account with the trustee.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Also during the third quarter of 2016, the Company redeemed \$6.0 million of its Cincinnati Bell Telephone Notes at a redemption price of 95.500% which resulted in a gain on extinguishment of debt of \$0.2 million. Additionally, the Company repaid \$4.0 million of its 7 1/4 % Senior Notes due 2023 at a redemption price of 100.750% which resulted in a \$0.1 million loss on extinguishment of debt.

4. Financial Instruments and Fair Value Measurements

The carrying values of the Company's financial instruments approximate the estimated fair values as of September 30, 2016 and December 31, 2015, except for the Company's investment in CyrusOne and long-term debt. The carrying and fair values of these financial instruments are as follows:

(dollars in millions)	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment in CyrusOne	\$ 21.0	\$ 144.3	\$ 55.5	\$ 257.9
Long-term debt, including current portion*	1,165.1	1,182.3	1,178.0	1,155.6

*Excludes capital leases and note issuance costs.

The fair value of our investment in CyrusOne was based on the closing market price of CyrusOne's common stock on September 30, 2016 and December 31, 2015. This fair value measurement is considered Level 1 of the fair value hierarchy.

The fair value of our long-term debt was based on closing or estimated market prices of the Company's debt at September 30, 2016 and December 31, 2015, which is considered Level 2 of the fair value hierarchy.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

5. Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit plans and a postretirement health and life insurance plan. For the three and nine months ended September 30, 2016, approximately 10% of the costs were capitalized as a component of property, plant and equipment related to construction of our copper and fiber networks. For the three and nine months ended September 30, 2015, approximately 12% and 10%, respectively, of the costs were capitalized as a component of property, plant and equipment related to construction of our copper and fiber networks. During the second quarter of 2015, the bargained pension plan was amended to eliminate all future pension credits and transition benefits. As a result, we recognized a curtailment loss of \$0.3 million in the three months ended June 30, 2015 and remeasured the associated pension obligation. This remeasurement resulted in a decrease of our pension liability of \$1.7 million.

For the three and nine months ended September 30, 2016 and 2015, pension and postretirement benefit costs were as follows:

	Three Months Ended September 30,			
	2016	2015	2016	2015
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	\$—	\$—	\$ 0.1	\$ 0.1
Interest cost on projected benefit obligation	4.9	4.8	0.8	0.8
Expected return on plan assets	(6.9)	(7.3)	—	—
Amortization of:				
Prior service cost (benefit)	0.1	—	(3.7)	(3.9)
Actuarial loss	4.7	5.2	1.2	1.4
Total amortization	4.8	5.2	(2.5)	(2.5)
Pension / postretirement cost (benefit)	\$2.8	\$2.7	\$ (1.6)	\$ (1.6)
	Nine Months Ended September 30,			
	2016	2015	2016	2015
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	\$—	\$0.3	\$ 0.2	\$ 0.2
Interest cost on projected benefit obligation	14.5	14.3	2.5	2.5
Expected return on plan assets	(20.5)	(21.8)	—	—
Curtailment loss	—	0.3	—	—
Amortization of:				
Prior service cost (benefit)	0.1	0.1	(11.1)	(11.6)
Actuarial loss	14.3	19.7	3.7	4.1
Total amortization	14.4	19.8	(7.4)	(7.5)
Pension / postretirement cost (benefit)	\$8.4	\$12.9	\$ (4.7)	\$ (4.8)

Amortizations of prior service cost (benefit) and actuarial loss represent reclassifications from accumulated other comprehensive income.

Based on current assumptions, management believes that the Company will not make any contributions to the qualified pension plan in 2016. Contributions to non-qualified pension plans in 2016 are expected to be approximately \$2 million. The Company expects to make cash payments of approximately \$10 million related to its postretirement health plans in 2016.

For the nine months ended September 30, 2016, contributions to the non-qualified pension plans were \$1.9 million and contributions to the postretirement plan were \$5.7 million.

Table of Contents

6. Stock-Based and Other Compensation Plans

The Company grants stock options, stock appreciation rights (“SARs”), long-term incentive plan performance-based awards, and time-based restricted shares, some of which are cash-settled awards with the final payment indexed to the percentage change in the Company’s stock price from the date of grant.

For the three and nine months ended September 30, 2016, the Company recognized stock-based compensation expense of \$1.1 million and \$6.5 million, respectively, inclusive of \$0.4 million of mark-to-market gain and \$1.0 million of mark-to-market expense on awards indexed to the Company's stock price. For the three and nine months ended September 30, 2015, the Company recognized stock-based compensation expense of \$0.1 million and \$3.4 million, respectively, inclusive of \$1.1 million and \$0.2 million of mark-to-market gains on awards indexed to the Company's stock price. As of September 30, 2016, there was \$10.9 million of unrecognized compensation expense related to these awards. The remaining compensation expense for the stock options, SARs and restricted awards is expected to be recognized over a weighted-average period of approximately two years, and the remaining expense for long-term incentive plan performance-based awards will be recognized within approximately one year.

The Company also has deferred compensation plans for its Board of Directors and certain executives. Under these plans, participants can elect to invest their deferrals in the Company’s common stock. In the fourth quarter of 2015, the executive deferred compensation plan was terminated. All amounts due under the executive deferred compensation plan will be distributed to plan participants during 2016. At both September 30, 2016 and 2015, the number of common shares deferred under these plans was 0.1 million. As these awards can be settled in cash, the Company records compensation costs each period based on the change in the Company’s stock price. For the three and nine months ended September 30, 2016, the Company recognized a benefit of \$0.2 million and expense of \$0.1 million, respectively, related to these awards. For the three months ended September 30, 2015, the Company recognized a benefit of \$0.2 million related to these awards. For the nine months ended September 30, 2015, the Company recognized nominal expense.

7. Shareowners' Deficit

Accumulated Other Comprehensive Loss

For the nine months ended September 30, 2016 and 2015, the changes in accumulated other comprehensive loss by component were as follows:

(dollars in millions)	Unrecognized Net Periodic Pension and Postretirement Benefit Cost	Foreign Currency Translation Loss	Total
Balance as of December 31, 2014	\$ (173.6)	\$ (0.3)	\$(173.9)
Reclassifications, net	8.1	(a)(0.4)	7.7
Remeasurement of benefit obligations	1.1	—	1.1
Balance as of September 30, 2015	\$ (164.4)	\$ (0.7)	\$(165.1)

(dollars in millions)	Unrecognized Net Periodic Pension and Postretirement Benefit Cost	Foreign Currency Translation Loss	Total
Balance as of December 31, 2015	\$ (170.3)	\$ (0.7)	\$(171.0)
Reclassifications, net	4.5	(a)(0.1)	4.4
Balance as of September 30, 2016	\$ (165.8)	\$ (0.8)	\$(166.6)

(a) These reclassifications are included in the components of net periodic pension and postretirement benefit costs (see Note 5 for additional details). The components of net periodic pension and postretirement benefit costs are reported within "Cost of services," "Cost of products sold," and "Selling, general and administrative" expenses on the Condensed Consolidated Statements of Operations.

Table of Contents

Share Repurchases

In 2010, the Board of Directors approved a plan for the repurchase of the Company's outstanding common stock in an amount up to \$150.0 million. During the second quarter of 2016, the Company repurchased and retired approximately 0.2 million shares of its common stock for \$4.6 million. In the third quarter of 2016, common share repurchases totaled \$0.2 million. In prior years, the Company repurchased and retired a total of 1.5 million shares at a total cost of \$20.8 million. As of September 30, 2016, the Company has the authority to repurchase its common stock with a value of up to \$124.4 million under the plan approved by its Board of Directors, subject to satisfaction of the requirements under its bond indentures and Corporate Credit Agreement.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

8. Investment in CyrusOne

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne Inc. ("CyrusOne"), which owns and operates our former Data Center Colocation business. CyrusOne conducts its data center business through CyrusOne LP, an operating partnership. Effective with the IPO, our 69% ownership was held in the form of 1.9 million shares of unregistered common stock of CyrusOne Inc. and 42.6 million economically equivalent partnership units in its underlying operating entity, CyrusOne LP. Therefore, effective January 24, 2013, we no longer included the accounts of CyrusOne in our consolidated financial statements and accounted for our ownership as an equity method investment as we no longer controlled the operations but maintained significant influence. From the date of the IPO, we recognized our proportionate share of CyrusOne's net income or loss as non-operating income or expense in our statement of operations through December 31, 2015. For the three and nine months ended September 30, 2015, our equity method share of CyrusOne's net loss was \$0.8 million and \$5.2 million, respectively.

Effective December 31, 2015, we exchanged our remaining 6.3 million operating partnership units in CyrusOne LP for an equal number of newly issued shares of common stock of CyrusOne Inc. As a result, we owned 6.9 million shares of CyrusOne's common shares and no longer had significant influence over the entity. Therefore, as of December 31, 2015, our ownership in CyrusOne is accounted for as a cost method investment, and we no longer record our pro-rata share of CyrusOne's financial results in our statement of operations. For the nine months ended September 30, 2016 and 2015, the Company received cash dividends from CyrusOne totaling \$6.2 million and \$19.5 million, respectively. Dividends from CyrusOne were recognized as a reduction of our investment.

In the second quarter of 2016, we sold 3.1 million shares of CyrusOne Inc. common stock for net proceeds totaling \$142.5 million that resulted in a gain of \$118.6 million. In the second quarter of 2015, we sold 14.3 million operating partnership units for net proceeds of \$426.0 million that resulted in a gain of \$295.2 million.

In the third quarter of 2016, we sold 0.8 million shares of CyrusOne Inc. common stock for net proceeds totaling \$38.7 million that resulted in a gain of \$33.3 million. In the third quarter of 2015, we sold 6.0 million operating partnership units of CyrusOne LP to CyrusOne, Inc. for proceeds of \$170.3 million that resulted in a gain of \$117.7 million. As of September 30, 2016, we held 3.0 million shares of CyrusOne Inc. common stock valued at \$144.3 million.

Subsequent to the end of the third quarter of 2016, we sold 0.2 million shares of CyrusOne Inc. common stock for net proceeds totaling approximately \$8 million that resulted in a gain of approximately \$7 million.

Transactions with CyrusOne

Revenues - The Company records revenue from CyrusOne under contractual service arrangements which include, among others, providing services such as fiber transport, network support, service calls, monitoring and management, storage and back-up, and IT systems support.

Operating Expenses - We lease data center and office space from CyrusOne at certain locations in the Cincinnati area under operating leases and are also billed for other services provided by CyrusOne under contractual service arrangements. In the normal course of business, the Company also provides certain administrative services to CyrusOne which are billed based on agreed-upon rates.

Revenues and operating costs and expenses from transactions with CyrusOne were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	2016	2015	2016	2015
Revenue:				
Services provided to CyrusOne	\$0.3	\$0.3	\$0.9	\$1.0
Operating costs and expenses:				
Charges for services provided by CyrusOne	2.4	2.6	7.6	7.6

Administrative services provided to CyrusOne	(0.1)	(0.1)	(0.2)	(0.3)
Total operating costs and expenses	\$2.3	\$2.5	\$7.4	\$7.3

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

At September 30, 2016 and December 31, 2015, amounts receivable from and payable to CyrusOne were as follows:

	September 30, 2016	December 31, 2015
(dollars in millions)		
Accounts receivable	\$ —	\$ 0.1
Dividends receivable	1.2	2.1
Receivable from CyrusOne	\$ 1.2	\$ 2.2
Payable to CyrusOne	\$ 1.4	\$ 1.5

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

9. Discontinued Operations

Cincinnati Bell Wireless LLC ("CBW"), our former Wireless segment, provided digital wireless voice and data communications services to customers in the Company's licensed service territory, which included Greater Cincinnati and Dayton, Ohio, and areas of northern Kentucky and southeastern Indiana. The Company's customers were also able to place and receive wireless calls nationally and internationally due to roaming agreements the Company had with other carriers.

In the second quarter of 2014, we entered into agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets. The agreement to sell our spectrum licenses closed on September 30, 2014 for cash proceeds of \$194.4 million. Prior to this date, the Company's digital wireless network utilized 50 MHz of licensed spectrum in the Cincinnati area and 40 MHz of licensed spectrum in the Dayton area, which had a carrying value of \$88.2 million. Simultaneous with the close of the spectrum sale, the Company entered into a separate agreement to use certain wireless spectrum licenses for \$8.00 until we no longer provided wireless service. We ceased providing wireless service effective March 31, 2015. The fair value of the lease, which is considered a Level 3 measurement based on other comparable transactions, totaled \$6.4 million and was recorded as a prepaid expense and amortized over a six month period ending March 31, 2015.

As of March 31, 2015, there were no subscribers remaining on the network and we no longer required the use of the spectrum being leased. Therefore, the \$112.6 million gain on the sale of the wireless spectrum licenses, which had been previously deferred, was recognized in Income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2015. On April 1, 2015, we transferred certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets, which resulted in a gain of \$15.9 million in the second quarter of 2015.

Wireless financial results for the three and nine months ended September 30, 2016 were nominal. Wireless financial results for the three and nine months ended September 30, 2015 reported as Income from discontinued operations, net of tax on the Condensed Consolidated Statements of Operations are as follows:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(dollars in millions)		
Revenue	\$ —	\$ 4.4
Costs and expenses		
Cost of products and services	—	12.0
Selling, general and administrative	—	2.2
Depreciation and amortization expense	—	28.6
Restructuring (reversals) charges	(2.1)	4.3
Amortization of deferred gain	—	(6.5)
Total operating costs and expenses	(2.1)	40.6
Operating income (loss)	2.1	(36.2)
Interest income	—	(1.7)
Other income	(0.1)	(0.2)
Gain on transfer of tower lease obligations and other assets	—	15.9
Gain on sale of wireless spectrum licenses	—	112.6
Income before income taxes	2.2	94.2
Income tax expense	1.2	33.4
Income from discontinued operations	\$ 1.0	\$ 60.8

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Wireless liabilities presented as discontinued operations as of September 30, 2016 and December 31, 2015 are as follows:

(dollars in millions)	September 30, December	
	2016	31, 2015
Current liabilities		
Restructuring liability	\$ 0.2	\$ 4.7
Other current liabilities	0.2	0.7
Total current liabilities from discontinued operations	\$ 0.4	\$ 5.4

17

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Following is selected operating and investing cash flow activity from discontinued operations included in the Condensed Consolidated Statements of Cash Flows:

	Nine Months Ended September 30, 201 0 15
(dollars in millions)	
Depreciation and amortization	\$—\$28.6
Amortization of deferred gain on sale of towers	— (6.5)
Non-cash spectrum lease	— 3.2
Deferred gain on sale of spectrum licenses	— (112.6)
Gain on transfer of tower lease obligations and other assets	— (15.9)
Restructuring payments	(4)2(11.2)

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

11. Supplemental Guarantor Information
Cincinnati Bell Telephone Notes

As of September 30, 2016, Cincinnati Bell Telephone Company LLC (“CBT”), a wholly-owned subsidiary of Cincinnati Bell Inc. (the “Parent Company”), had \$87.9 million in notes outstanding that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company’s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company’s debt service obligations. During the first nine months of 2016 and 2015, certain entities issued dividends to the Parent Company which impacted equity and intercompany accounts on the balance sheets of certain non-guarantor entities.

The following information sets forth the Condensed Consolidating Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015, Condensed Consolidating Balance Sheets as of September 30, 2016 and December 31, 2015, and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 of (1) the Parent Company, as the guarantor, (2) CBT, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

(dollars in millions)	Three Months Ended September 30, 2016				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	
Revenue	\$—	\$ 170.0	\$ 152.4	\$ (10.0)	) \$312.4
Operating costs and expenses	3.2	150.1	143.6	(10.0)	) 286.9
Operating income (loss)	(3.2)	) 19.9	8.8	—	25.5
Interest expense (income), net	23.0	1.0	(6.1)	) —	17.9
Other expense (income), net	11.3	1.0	(34.3)	) —	(22.0)
Income (loss) before equity in earnings of subsidiaries and income taxes	(37.5)	) 17.9	49.2	—	29.6
Income tax expense (benefit)	(13.3)	) 6.4	17.7	—	10.8
Equity in earnings of subsidiaries, net of tax	43.0	—	—	(43.0)) —
Net income	18.8	11.5	31.5	(43.0)	) 18.8
Other comprehensive income	1.4	—	—	—	1.4
Total comprehensive income	\$20.2	\$ 11.5	\$ 31.5	\$ (43.0)	) \$20.2
Net income	18.8	11.5	31.5	(43.0)	) 18.8
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	\$16.2	\$ 11.5	\$ 31.5	\$ (43.0)	) \$16.2
	Three Months Ended September 30, 2015				
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	\$—	\$ 164.5	\$ 144.8	\$ (9.5)	) \$299.8
Operating costs and expenses	2.4	135.9	134.8	(9.5)	) 263.6
Operating income (loss)	(2.4)	) 28.6	10.0	—	36.2
Interest expense (income), net	25.3	—	(3.8)	) —	21.5
Other expense (income), net	7.4	1.7	(117.8)	) —	(108.7)
Income (loss) before equity in earnings of subsidiaries and income taxes	(35.1)	) 26.9	131.6	—	123.4
Income tax expense (benefit)	(12.1)	) 10.1	46.1	—	44.1
Equity in earnings of subsidiaries, net of tax	103.3	—	—	(103.3)) —
Income from continuing operations	80.3	16.8	85.5	(103.3)	) 79.3
Income from discontinued operations, net of tax	—	—	1.0	—	1.0
Net income	80.3	16.8	86.5	(103.3)	) 80.3
Other comprehensive income (loss)	1.7	—	(0.3)	) —	1.4
Total comprehensive income	\$82.0	\$ 16.8	\$ 86.2	\$ (103.3)	) \$81.7
Net income	80.3	16.8	86.5	(103.3)	) 80.3
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	\$77.7	\$ 16.8	\$ 86.5	\$ (103.3)	) \$77.7

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of September 30, 2016			Eliminations	Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors		
Cash and cash equivalents	\$6.8	\$1.0	\$ 0.7	\$ —	\$8.5
Restricted cash	90.7	—	—	—	90.7
Receivables, net	14.6	0.5	157.1	—	172.2
Other current assets	1.8	22.6	17.8	—	42.2
Total current assets	113.9	24.1	175.6	—	313.6
Property, plant and equipment, net	0.4	998.2	54.0	—	1,052.6
Investment in CyrusOne	—	—	21.0	—	21.0
Goodwill	—	2.2	12.1	—	14.3
Investments in and advances to subsidiaries	815.1	—	859.6	(1,674.7)	—
Other noncurrent assets	181.4	1.9	85.4	(140.3)	128.4
Total assets	\$1,110.8	\$1,026.4	\$ 1,207.7	\$(1,815.0)	\$1,529.9
Current portion of long-term debt	\$90.0	\$6.0	\$ 2.8	\$ —	\$98.8
Accounts payable	—	87.4	46.9	—	134.3
Other current liabilities	37.7	56.2	26.9	—	120.8
Other current liabilities from discontinued operations	—	—	0.4	—	0.4
Total current liabilities	127.7	149.6	77.0	—	354.3
Long-term debt, less current portion	951.9	98.6	75.0	—	1,125.5
Other noncurrent liabilities	225.2	159.1	0.9	(140.3)	244.9
Intercompany payables	—	2.7	—	(2.7)	—
Total liabilities	1,304.8	410.0	152.9	(143.0)	1,724.7
Shareowners' (deficit) equity	(194.0)	616.4	1,054.8	(1,672.0)	(194.8)
Total liabilities and shareowners' equity (deficit)	\$1,110.8	\$1,026.4	\$ 1,207.7	\$(1,815.0)	\$1,529.9

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

	As of December 31, 2015				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	
Cash and cash equivalents	\$4.6	\$1.0	\$ 1.8	\$ —	\$7.4
Receivables, net	0.7	—	156.4	—	157.1
Other current assets	1.6	20.2	14.1	—	35.9
Total current assets	6.9	21.2	172.3	—	200.4
Property, plant and equipment, net	0.3	921.5	53.7	—	975.5
Investment in CyrusOne	—	—	55.5	—	55.5
Goodwill	—	2.2	12.1	—	14.3
Investments in and advances to subsidiaries	844.6	63.9	647.2	(1,555.7)	—
Other noncurrent assets	207.2	3.0	136.8	(146.3)	200.7
Total assets	\$1,059.0	\$1,011.8	\$ 1,077.6	\$(1,702.0)	\$1,446.4
Current portion of long-term debt	\$5.4	\$5.0	\$ 3.4	\$ —	\$13.8
Accounts payable	0.7	84.8	43.4	—	128.9
Other current liabilities	41.6	45.3	24.2	—	111.1
Other current liabilities from discontinued operations	—	—	5.4	—	5.4
Total current liabilities	47.7	135.1	76.4	—	259.2
Long-term debt, less current portion	1,018.6	134.3	70.9	—	1,223.8
Other noncurrent liabilities	235.5	168.3	4.0	(146.2)	261.6
Intercompany payables	54.7	—	—	(54.7)	—
Total liabilities	1,356.5	437.7	151.3	(200.9)	1,744.6
Shareowners' (deficit) equity	(297.5)	574.1	926.3	(1,501.1)	(298.2)
Total liabilities and shareowners' equity (deficit)	\$1,059.0	\$1,011.8	\$ 1,077.6	\$(1,702.0)	\$1,446.4

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Nine Months Ended September 30, 2016				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Elimination	
Cash flows provided by (used in) operating activities	\$(41.9)	\$145.3	\$ 38.3	\$ —	\$ 141.7
Capital expenditures	(0.2)	(169.6)	(19.0)	—	(188.8)
Increase in restricted cash	(90.7)	—	—	—	(90.7)
Dividends received from CyrusOne	—	—	6.2	—	6.2
Proceeds from sale of CyrusOne	—	—	181.2	—	181.2
Distributions received from subsidiaries	9.0	—	—	(9.0)	—
Funding between Parent and subsidiaries, net	135.0	—	(197.4)	62.4	—
Other investing activities	(0.8)	—	—	—	(0.8)
Cash flows provided by (used in) investing activities	52.3	(169.6)	(29.0)	53.4	(92.9)
Funding between Parent and subsidiaries, net	—	66.6	(4.2)	(62.4)	—
Distributions paid to Parent	—	—	(9.0)	9.0	—
Proceeds from issuance of long-term debt	425.0	—	—	—	425.0
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	—	—	5.9	—	5.9
Repayment of debt	(415.9)	(42.3)	(2.8)	—	(461.0)
Debt issuance costs	(8.1)	—	(0.3)	—	(8.4)
Common stock repurchase	(4.8)	—	—	—	(4.8)
Other financing activities	(4.4)	—	—	—	(4.4)
Cash flows provided by (used in) financing activities	(8.2)	24.3	(10.4)	(53.4)	(47.7)
Increase (decrease) in cash and cash equivalents	2.2	—	(1.1)	—	1.1
Beginning cash and cash equivalents	4.6	1.0	1.8	—	7.4
Ending cash and cash equivalents	\$6.8	\$1.0	\$ 0.7	\$ —	\$8.5

	Nine Months Ended September 30, 2015				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Elimination	
Cash flows provided by (used in) operating activities	\$(13.5)	\$162.2	\$ (54.0)	\$ —	\$ 94.7
Capital expenditures	(0.1)	(187.4)	(18.2)	—	(205.7)
Dividends received from CyrusOne	—	—	19.5	—	19.5
Proceeds from sale of CyrusOne	—	—	596.3	—	596.3
Proceeds from sale of assets	—	0.1	0.5	—	0.6
Distributions received from subsidiaries	8.7	—	—	(8.7)	—
Funding between Parent and subsidiaries, net	—	29.3	(528.7)	499.4	—
Other investing activities	(0.2)	—	—	—	(0.2)
Cash flows provided by (used in) investing activities	8.4	(158.0)	69.4	490.7	410.5
Funding between Parent and subsidiaries, net	482.9	—	16.5	(499.4)	—
Distributions paid to Parent	—	—	(8.7)	8.7	—
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	—	—	(19.2)	—	(19.2)
Repayment of debt	(503.4)	(3.7)	(2.7)	—	(509.8)
Debt issuance costs	(0.2)	—	(0.2)	—	(0.4)
Other financing activities	(8.3)	—	—	—	(8.3)
Cash flows provided by (used in) financing activities	(29.0)	(3.7)	(14.3)	(490.7)	(537.7)
Increase (decrease) in cash and cash equivalents	(34.1)	0.5	1.1	—	(32.5)

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Beginning cash and cash equivalents	56.2	1.0	0.7	—	57.9
Ending cash and cash equivalents	\$22.1	\$1.5	\$ 1.8	\$ —	\$25.4

25

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Supplemental Guarantor Information - 8 ³/₈% Senior Notes due 2020 and 7% Senior Notes due 2024

As of September 30, 2016, the Parent Company's 8³/₈% Senior Notes due 2020 (the "2020 Notes") and 7% Senior Notes due 2024 (the "2024 Notes") are guaranteed by the following subsidiaries: Cincinnati Bell Entertainment Inc., Cincinnati Bell Any Distance Inc., Cincinnati Bell Telecommunications Services LLC, Cincinnati Bell Wireless LLC, CBTS Software LLC, Cincinnati Bell Technology Solutions Inc., Cincinnati Bell Any Distance of Virginia LLC, eVolve Business Solutions LLC, Data Center Investments Inc., and Data Centers South Inc. During the first nine months of 2016 and 2015, certain entities issued dividends to the Parent Company which impacted equity and intercompany accounts on the balance sheets of certain non-guarantor entities.

The Parent Company owns directly or indirectly 100% of each guarantor, and each guarantee is full and unconditional and joint and several. In certain customary circumstances, a subsidiary may be released from its guarantee obligation. These circumstances are defined as follows:

- upon the sale of all of the capital stock of a subsidiary,
- if the Company designates the subsidiary as an unrestricted subsidiary under the terms of the indentures, or
- if the subsidiary is released as a guarantor from the Company's Corporate Credit Agreement.

The Parent Company's subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company's debt service obligations. The following information sets forth the Condensed Consolidating Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015, Condensed Consolidating Balance Sheets as of September 30, 2016 and December 31, 2015, and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 of (1) the Parent Company, as the issuer, (2) the guarantor subsidiaries on a combined basis, and (3) the non-guarantor subsidiaries on a combined basis.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

(dollars in millions)	Three Months Ended September 30, 2016				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$—	\$ 175.9	\$ 146.5	\$ (10.0)	\$ 312.4
Operating costs and expenses	3.2	158.9	134.8	(10.0)	286.9
Operating income (loss)	(3.2)	17.0	11.7	—	25.5
Interest expense (income), net	23.0	(6.6)	1.5	—	17.9
Other expense (income), net	11.3	(29.4)	(3.9)	—	(22.0)
Income (loss) before equity in earnings of subsidiaries and income taxes	(37.5)	53.0	14.1	—	29.6
Income tax expense (benefit)	(13.3)	19.0	5.1	—	10.8
Equity in earnings of subsidiaries, net of tax	43.0	—	—	(43.0)	—
Net income	18.8	34.0	9.0	(43.0)	18.8
Other comprehensive income	1.4	—	—	—	1.4
Total comprehensive income	\$20.2	\$ 34.0	\$ 9.0	\$ (43.0)	\$ 20.2
Net income	18.8	34.0	9.0	(43.0)	18.8
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	\$16.2	\$ 34.0	\$ 9.0	\$ (43.0)	\$ 16.2

(dollars in millions)	Three Months Ended September 30, 2015				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$—	\$ 158.5	\$ 150.8	\$ (9.5)	\$ 299.8
Operating costs and expenses	2.4	148.0	122.7	(9.5)	263.6
Operating income (loss)	(2.4)	10.5	28.1	—	36.2
Interest expense (income), net	25.3	(4.2)	0.4	—	21.5
Other expense (income), net	7.4	(113.2)	(2.9)	—	(108.7)
Income (loss) before equity in earnings of subsidiaries and income taxes	(35.1)	127.9	30.6	—	123.4
Income tax expense (benefit)	(12.1)	44.7	11.5	—	44.1
Equity in earnings of subsidiaries, net of tax	103.3	—	—	(103.3)	—
Income from continuing operations	80.3	83.2	19.1	(103.3)	79.3
Income from discontinued operations, net of tax	—	1.0	—	—	1.0
Net income	80.3	84.2	19.1	(103.3)	80.3
Other comprehensive income (loss)	1.7	—	(0.3)	—	1.4
Total comprehensive income	\$82.0	\$ 84.2	\$ 18.8	\$ (103.3)	\$ 81.7
Net income	80.3	84.2	19.1	(103.3)	80.3
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	\$77.7	\$ 84.2	\$ 19.1	\$ (103.3)	\$ 77.7

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

(dollars in millions)	Nine Months Ended September 30, 2016				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$—	\$ 491.3	\$ 439.4	\$ (30.2)	\$900.5
Operating costs and expenses	15.3	440.1	392.8	(30.2)	818.0
Operating income (loss)	(15.3)	51.2	46.6	—	82.5
Interest expense (income), net	70.4	(16.7)	4.4	—	58.1
Other expense (income), net	16.0	(142.6)	(12.3)	—	(138.9)
Income (loss) before equity in earnings of subsidiaries and income taxes	(101.7)	210.5	54.5	—	163.3
Income tax expense (benefit)	(35.7)	76.1	19.5	—	59.9
Equity in earnings of subsidiaries, net of tax	169.4	—	—	(169.4)	—
Net income	103.4	134.4	35.0	(169.4)	103.4
Other comprehensive income (loss)	4.5	—	(0.1)	—	4.4
Total comprehensive income	\$107.9	\$ 134.4	\$ 34.9	\$ (169.4)	\$107.8
Net income	103.4	134.4	35.0	(169.4)	103.4
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	\$95.6	\$ 134.4	\$ 35.0	\$ (169.4)	\$95.6

(dollars in millions)	Nine Months Ended September 30, 2015				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$—	\$ 462.1	\$ 445.3	\$ (28.9)	\$878.5
Operating costs and expenses	14.1	437.1	353.2	(28.9)	775.5
Operating income (loss)	(14.1)	25.0	92.1	—	103.0
Interest expense (income), net	87.6	(5.2)	(0.2)	—	82.2
Other expense (income), net	20.1	(398.0)	(7.7)	—	(385.6)
Income (loss) before equity in earnings of subsidiaries and income taxes	(121.8)	428.2	100.0	—	406.4
Income tax expense (benefit)	(41.8)	151.1	36.8	—	146.1
Equity in earnings of subsidiaries, net of tax	401.1	—	—	(401.1)	—
Income from continuing operations	321.1	277.1	63.2	(401.1)	260.3
Income from discontinued operations, net of tax	—	60.8	—	—	60.8
Net income	321.1	337.9	63.2	(401.1)	321.1
Other comprehensive income (loss)	9.2	—	(0.4)	—	8.8
Total comprehensive income	\$330.3	\$ 337.9	\$ 62.8	\$ (401.1)	\$329.9
Net income	321.1	337.9	63.2	(401.1)	321.1
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	\$313.3	\$ 337.9	\$ 63.2	\$ (401.1)	\$313.3

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of September 30, 2016				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	\$6.8	\$ 0.2	\$ 1.5	\$—	\$8.5
Restricted cash	90.7	—	—	—	90.7
Receivables, net	14.6	1.7	155.9	—	172.2
Other current assets	1.8	18.6	21.8	—	42.2
Total current assets	113.9	20.5	179.2	—	313.6
Property, plant and equipment, net	0.4	53.0	999.2	—	1,052.6
Investment in CyrusOne	—	21.0	—	—	21.0
Goodwill	—	12.1	2.2	—	14.3
Investments in and advances to subsidiaries	815.1	1,024.3	—	(1,839.4)	—
Other noncurrent assets	181.4	82.5	4.8	(140.3)	128.4
Total assets	\$1,110.8	\$ 1,213.4	\$ 1,185.4	\$(1,979.7)	\$1,529.9
Current portion of long-term debt	\$90.0	\$ 2.8	\$ 6.0	\$—	\$98.8
Accounts payable	—	63.7	70.6	—	134.3
Other current liabilities	37.7	37.4	45.7	—	120.8
Other current liabilities from discontinued operations	—	0.4	—	—	0.4
Total current liabilities	127.7	104.3	122.3	—	354.3
Long-term debt, less current portion	951.9	51.5	122.1	—	1,125.5
Other noncurrent liabilities	225.2	5.4	154.6	(140.3)	244.9
Intercompany payables	—	—	154.7	(154.7)	—
Total liabilities	1,304.8	161.2	553.7	(295.0)	1,724.7
Shareowners' (deficit) equity	(194.0)	1,052.2	631.7	(1,684.7)	(194.8)
Total liabilities and shareowners' equity (deficit)	\$1,110.8	\$ 1,213.4	\$ 1,185.4	\$(1,979.7)	\$1,529.9

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

	As of December 31, 2015				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	\$4.6	\$ 0.4	\$ 2.4	\$—	\$7.4
Receivables, net	0.7	2.8	153.6	—	157.1
Other current assets	1.6	15.6	18.7	—	35.9
Total current assets	6.9	18.8	174.7	—	200.4
Property, plant and equipment, net	0.3	53.4	921.8	—	975.5
Investment in CyrusOne	—	55.5	—	—	55.5
Goodwill	—	12.1	2.2	—	14.3
Investments in and advances to subsidiaries	844.6	830.4	4.3	(1,679.3)	—
Other noncurrent assets	207.2	133.4	6.3	(146.2)	200.7
Total assets	\$1,059.0	\$ 1,103.6	\$ 1,109.3	\$ (1,825.5)	\$1,446.4
Current portion of long-term debt	\$5.4	\$ 3.4	\$ 5.0	\$—	\$13.8
Accounts payable	0.7	95.6	32.6	—	128.9
Other current liabilities	41.6	26.8	42.7	—	111.1
Other current liabilities from discontinued operations	—	5.4	—	—	5.4
Total current liabilities	47.7	131.2	80.3	—	259.2
Long-term debt, less current portion	1,018.6	53.3	151.9	—	1,223.8
Other noncurrent liabilities	235.5	11.8	160.5	(146.2)	261.6
Intercompany payables	54.7	—	127.3	(182.0)	—
Total liabilities	1,356.5	196.3	520.0	(328.2)	1,744.6
Shareowners' (deficit) equity	(297.5)	907.3	589.3	(1,497.3)	(298.2)
Total liabilities and shareowners' equity (deficit)	\$1,059.0	\$ 1,103.6	\$ 1,109.3	\$ (1,825.5)	\$1,446.4

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Nine Months Ended September 30, 2016				
	Parent (Issuer)	Guarantors	Non-guarantors	Elimination	Total
Cash flows provided by (used in) operating activities	\$ (41.9)	\$ 17.5	\$ 166.1	\$ —	\$ 141.7
Capital expenditures	(0.2)	(19.0)	(169.6)	—	(188.8)
Increase in restricted cash	(90.7)	—	—	—	(90.7)
Dividends received from CyrusOne	—	6.2	—	—	6.2
Proceeds from sale of CyrusOne	—	181.2	—	—	181.2
Distributions received from subsidiaries	9.0	—	—	(9.0)	—
Funding between Parent and subsidiaries, net	135.0	(183.3)	—	48.3	—
Other investing activities	(0.8)	—	—	—	(0.8)
Cash flows provided by (used in) investing activities	52.3	(14.9)	(169.6)	39.3	(92.9)
Funding between Parent and subsidiaries, net	—	—	48.3	(48.3)	—
Distributions paid to Parent	—	—	(9.0)	9.0	—
Proceeds from issuance of long-term debt	425.0	—	—	—	425.0
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	—	—	5.9	—	5.9
Repayment of debt	(415.9)	(2.8)	(42.3)	—	(461.0)
Debt issuance costs	(8.1)	—	(0.3)	—	(8.4)
Common stock repurchase	(4.8)	—	—	—	(4.8)
Other financing activities	(4.4)	—	—	—	(4.4)
Cash flows provided by (used in) financing activities	(8.2)	(2.8)	2.6	(39.3)	(47.7)
Increase (decrease) in cash and cash equivalents	2.2	(0.2)	(0.9)	—	1.1
Beginning cash and cash equivalents	4.6	0.4	2.4	—	7.4
Ending cash and cash equivalents	\$ 6.8	\$ 0.2	\$ 1.5	\$ —	\$ 8.5

	Nine Months Ended September 30, 2015				
	Parent (Issuer)	Guarantors	Non-guarantors	Elimination	Total
Cash flows provided by (used in) operating activities	\$ (13.5)	\$ (35.0)	\$ 143.2	\$ —	\$ 94.7
Capital expenditures	(0.1)	(18.2)	(187.4)	—	(205.7)
Dividends received from CyrusOne	—	19.5	—	—	19.5
Proceeds from sale of CyrusOne	—	596.3	—	—	596.3
Proceeds from sale of assets	—	0.5	0.1	—	0.6
Distributions received from subsidiaries	8.7	—	—	(8.7)	—
Funding between Parent and subsidiaries, net	—	(560.3)	58.5	501.8	—
Other investing activities	(0.2)	—	—	—	(0.2)
Cash flows provided by (used in) investing activities	8.4	37.8	(128.8)	493.1	410.5
Funding between Parent and subsidiaries, net	482.9	—	18.9	(501.8)	—
Distributions paid to Parent	—	—	(8.7)	8.7	—
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	—	—	(19.2)	—	(19.2)
Repayment of debt	(503.4)	(2.7)	(3.7)	—	(509.8)
Debt issuance costs	(0.2)	—	(0.2)	—	(0.4)
Other financing activities	(8.3)	—	—	—	(8.3)
Cash flows provided by (used in) financing activities	(29.0)	(2.7)	(12.9)	(493.1)	(537.7)
Increase (decrease) in cash and cash equivalents	(34.1)	0.1	1.5	—	(32.5)

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Beginning cash and cash equivalents	56.2	0.2	1.5	—	57.9
Ending cash and cash equivalents	\$22.1	\$ 0.3	\$ 3.0	\$ —	\$25.4

31

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements regarding future events and results that are subject to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "predicts," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "endeavors" or variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of future financial performance, anticipated growth and trends in businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned these forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause actual results to differ materially and adversely from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q and, in particular, the risks discussed under the caption "Risk Factors" in Part II, Item 1A, and those discussed in other documents the Company filed with the Securities and Exchange Commission ("SEC"). Actual results may differ materially and adversely from those expressed in any forward-looking statements. The Company undertakes no obligation to revise or update any forward-looking statements for any reason.

Introduction

This Management's Discussion and Analysis section provides an overview of Cincinnati Bell Inc.'s financial condition as of September 30, 2016, and the results of operations for the three and nine months ended September 30, 2016 and 2015. This discussion should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and accompanying notes, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Results for interim periods may not be indicative of results for the full year or any other interim period.

Executive Summary

Segment results described in the Executive Summary and Consolidated Results of Operations sections are net of intercompany eliminations.

Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") provides integrated communications and IT solutions that keep residential and business customers connected with each other and with the world. Through its Entertainment and Communications segment, the Company provides high speed data, video, and voice solutions to consumers and businesses over an expanding fiber network and a legacy copper network. In addition, business customers across the United States rely on Cincinnati Bell Technology Solutions Inc. ("CBTS"), a wholly-owned subsidiary, reported as the IT Services and Hardware segment, for the sale and service of efficient, end-to-end communications and IT hardware and solutions.

Consolidated revenue totaling \$312.4 million and \$900.5 million for the three and nine months ended September 30, 2016, respectively, increased compared to the prior year primarily due to growth of our strategic products. For the three and nine months ended September 30, 2016, revenue from our strategic products totaled \$162.8 million and \$472.0 million, respectively, up 18% and 20% from the prior year comparable period. These increases were partially offset by declining legacy product sales.

Operating income was \$25.5 million and \$82.5 million for the three and nine months ended September 30, 2016, respectively, down from the prior year due in large part to increased depreciation expense associated with the impact of accelerating the construction of our fiber network and reducing the estimated useful life of certain set-top boxes and the related software as we upgrade customers to new technology. We also reduced the estimated useful life of our

copper assets in the fourth quarter of 2015. Net income totaled \$18.8 million and \$103.4 million for the three and nine months ended September 30, 2016, respectively, including the \$33.3 million gain recognized on the sale of 0.8 million CyrusOne Inc. common shares in the three months ended September 30, 2016. Proceeds from year to date sales of CyrusOne Inc. common shares totaling \$181.2 million, resulting in a gain of \$151.9 million, were primarily used to repay \$96.4 million of debt and repurchase 0.2 million of the Company's common shares.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

In the third quarter of 2016, the Company issued \$425.0 million aggregate principal amount of 7% senior notes due 2024 ("2024 Notes") at par. The net proceeds of \$418.5 million, after fees and expenses, were used to redeem \$312.5 million aggregate principal amount of its 8 ³/₈ % Senior Notes due 2020 ("2020 Notes") in the third quarter of 2016. Additionally, the Company notified its trustee of its election to redeem all of the remaining outstanding 2020 Notes at a redemption rate of 102.792%, including payment of accrued and unpaid interest thereon, on October 24, 2016.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Consolidated Results of Operations

Revenue

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Service revenue								
Entertainment and Communications	\$192.4	\$183.7	\$ 8.7	5 %	\$572.6	\$548.8	\$ 23.8	4 %
IT Services and Hardware	54.3	50.6	3.7	7 %	160.5	144.7	15.8	11 %
Total service revenue	\$246.7	\$234.3	\$ 12.4	5 %	\$733.1	\$693.5	\$ 39.6	6 %

Entertainment and Communications revenue increased as the growth in Fioptics and other strategic services offset the combined impact of legacy declines and no longer providing backhaul services to our discontinued wireless operations effective March 31, 2015. Fioptics revenue totaled \$65.3 million for the three months ended September 30, 2016 and \$185.5 million for the nine months then ended, up 32% and 35%, respectively, from both prior year comparable periods. IT Services and Hardware increased primarily due to demand for cloud services.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change

Product revenue

Entertainment and Communications	\$0.2	\$1.5	\$ (1.3)	(87)%	\$2.2	\$6.2	\$ (4.0)	(65)%
IT Services and Hardware	65.5	64.0	1.5	2 %	165.2	178.8	(13.6)	(8)%
Total product revenue	\$65.7	\$65.5	\$ 0.2	0 %	\$167.4	\$185.0	\$ (17.6)	(10)%

Product revenue is primarily driven by the volume of Telecom and IT hardware sales reflecting the cyclical fluctuation in capital spending by our enterprise customers in our IT Services and Hardware segment. In 2016, the Entertainment and Communications segment is no longer selling Verizon wireless handsets at our retail locations. The sale of Verizon handsets generated revenue of \$0.3 million and \$2.9 million in the three and nine months ended September 30, 2015, respectively.

Operating Costs

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Cost of services								
Entertainment and Communications	\$87.1	\$81.0	\$ 6.1	8 %	\$256.0	\$236.3	\$ 19.7	8 %
IT Services and Hardware	40.6	39.0	1.6	4 %	119.7	111.7	8.0	7 %
Total cost of services	\$127.7	\$120.0	\$ 7.7	6 %	\$375.7	\$348.0	\$ 27.7	8 %

Cost of services increased due to growth in our strategic products. Entertainment and Communications costs also increased due to programming costs associated with our growing Fioptics video subscriber base and higher programming rates.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change

Cost of products

Entertainment and Communications	\$0.7	\$1.7	\$ (1.0)	(59)%	\$1.6	\$5.3	\$ (3.7)	(70)%
IT Services and Hardware	55.4	53.9	1.5	3 %	140.0	150.7	(10.7)	(7)%
Total cost of products	\$56.1	\$55.6	\$ 0.5	1 %	\$141.6	\$156.0	\$ (14.4)	(9)%

Cost of products are primarily impacted by changes in Telecom and IT hardware sales. Entertainment and Communications cost of products was down as a result of no longer selling Verizon handsets at our retail locations.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Selling, general, and administrative								
Entertainment and Communications	\$37.1	\$37.4	\$ (0.3)	(1)%	\$107.1	\$109.9	\$ (2.8)	(3)%
IT Services and Hardware	15.1	13.5	1.6	12 %	42.5	40.0	2.5	6 %
Corporate	3.3	1.6	1.7	n/m	15.3	11.8	3.5	30 %
Total selling, general and administrative	\$55.5	\$52.5	\$ 3.0	6 %	\$164.9	\$161.7	\$ 3.2	2 %

Entertainment and Communications SG&A costs were down primarily due to lower payroll related costs partially offset by increased advertising costs to support the growth of Fioptics. Entertainment and Communications SG&A costs in the nine months ended September 30, 2015 also included one-time additional pension charges totaling \$3.8 million incurred in the second quarter. IT Services and Hardware SG&A costs were up for the three and nine months ended September 30, 2016 primarily related to increased payroll and headcount-related costs to support the growth for our strategic products. Corporate SG&A costs increased from a year ago driven largely by additional stock-based compensation expense from plans indexed to changes in our stock price.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Depreciation and amortization expense								
Entertainment and Communications	\$43.0	\$32.6	\$ 10.4	32 %	\$124.8	\$93.1	\$ 31.7	34 %
IT Services and Hardware	3.4	3.1	0.3	10 %	9.8	9.2	0.6	7 %
Corporate	0.1	0.1	\$ —	— %	0.1	0.1	—	— %
Total depreciation and amortization expense	\$46.5	\$35.8	\$ 10.7	30 %	\$134.7	\$102.4	\$ 32.3	32 %

The increase in depreciation and amortization expense is primarily due to an increase in Entertainment and Communications depreciation as a result of expanding our fiber-based network, reducing the estimated useful life of certain set-top boxes and the related software as we upgrade customers to new technology. We also reduced the estimated useful life of our copper assets in the fourth quarter of 2015.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Other operating costs								
Restructuring charges	\$—	\$0.3	\$ (0.3)	n/m	\$—	\$6.0	\$ (6.0)	n/m
Loss (gain) on sale or disposal of assets, net	1.1	(1.4)	2.5	n/m	1.1	0.3	0.8	n/m
Curtailement loss	—	—	—	n/m	—	0.3	(0.3)	n/m
Transaction Costs	—	0.8	\$ (0.8)	n/m	—	0.8	(0.8)	n/m
Total other	\$1.1	\$(0.3)	\$ 1.4	n/m	\$1.1	\$7.4	\$(6.3)	n/m

Restructuring charges incurred during the three and nine months ended September 30, 2015 were primarily related to employee severance, project costs associated with the on-going process of integrating each segment's business markets team and lease abandonments. Severance charges were also incurred as a result of discontinuing our cyber-security product offering.

In the third quarter of 2016, we recognized loss on disposal of assets no longer in use as a result of damage. In the first quarter of 2015, we recognized a \$1.4 million loss on the sale or disposal of our cyber-security assets as the acquiring company was in the process of securing financing and recovery of the related note was not probable. This process was

completed in the third quarter of 2015 and the loss was reversed. In the second quarter of 2015, the Entertainment and Communications segment recognized a \$0.3 million loss on disposal of software assets no longer in use.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

During the nine months ended September 30, 2015, the Company amended the bargained pension plan to eliminate all future pension service credits effective May 1, 2015. As a result, the Company remeasured its projected benefit obligation for this plan and recognized a curtailment loss of \$0.3 million in the second quarter of 2015.

Corporate incurred transaction costs of \$0.8 million in the third quarter of 2015 as we explored opportunities to increase the scale of our IT Services and Hardware Segment.

(dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Non-operating costs								
Interest expense	\$17.9	\$21.5	\$ (3.6)	(17)%	\$58.1	\$82.2	\$ (24.1)	(29)%
Loss on extinguishment of debt, net	11.4	7.8	3.6	46 %	14.2	21.3	(7.1)	(33)%
Gain on sale of CyrusOne investment	(33.3)	(117.7)	84.4	(72)%	(151.9)	(412.9)	261.0	