

CINCINNATI BELL INC
Form 10-K
February 26, 2018

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
x
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (par value \$0.01 per share)	New York Stock Exchange
6 3/4% Convertible Preferred Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting common shares owned by non-affiliates of the registrant was \$0.8 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2017, the last trading day of the registrant's most recently completed second fiscal quarter. The Company has no non-voting common shares.

At January 31, 2018, there were 42,394,151 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the Company's 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

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This report contains trademarks, service marks and registered marks of Cincinnati Bell Inc., as indicated.

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Part I

Item 1. Business

Overview and Strategy

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 U.S., Canada and Europe rely on the IT Services and Hardware segment for the sale and service of efficient, end-to-end communications and IT systems and solutions. During 2017, the Company expanded the geographic footprint of its IT Services and Hardware segment as a result of the acquisitions of SunTel Services ("SunTel") and OnX Holdings LLC ("OnX"), transforming the segment into a North American hybrid-cloud services provider.

Our goal is to continue the transformation of Cincinnati Bell from a legacy copper-based telecommunications company into a technology company with state of the art fiber assets servicing customers with data, video, voice and IT solutions to meet their evolving needs. To this end, we believe that by leveraging our past and future investments we have created a company with a healthy balance sheet, growing revenue, growing profitability and sustainable cash flows.

In an effort to achieve our objectives, we continue to focus on the following key initiatives:

- expand our fiber network; and
- grow our IT Services and Hardware segment

Expand our fiber network

We invested \$158.8 million of capital in strategic products of the Entertainment and Communications segment during 2017. Revenue from these high demand products totaled \$515.0 million, up 15% over the prior year, and more than offset the decline in our legacy products. The primary focus of our strategic investments is the expansion of our Fioptics suite of high-speed internet and video products, which are designed to compete directly with the cable Multiple System Operators, such as Charter Communications, serving the Company's operating territory. In 2017, we invested \$124.6 million in Fioptics as demand for the products remain strong. Year-over-year growth is outlined in the table below:

	2017	2016	2015
Fioptics revenue (in millions):	\$309.8	\$254.1	\$190.8
Fioptics subscribers (in thousands):			
High-speed internet	226.6	197.6	153.7
Video	146.5	137.6	114.4
Voice	105.9	96.2	77.4

During the year we passed an additional 38,800 addresses with Fioptics and, as of December 31, 2017, the Fioptics products are available to approximately 572,200 customer locations, or 70% of our operating territory. Our goal is to pass an additional 35,000 addresses during 2018.

The capital expenditures related to strategic products included an investment of \$34.2 million in fiber and IP-based core network technology. These expenditures position the Company to meet increased business and carrier demand within Greater Cincinnati and in contiguous markets in the Midwest region for high-bandwidth data transport products, such as metro-ethernet and VoIP. We continue to evolve and optimize network assets to support the migration of legacy products to new technology, and as of December 31, 2017, the Company has:

- increased the total number of commercial addresses with fiber-based services (referred to as a lit address) to 22,500 by connecting approximately 6,700 additional lit addresses in 2017;
- expanded the fiber network to span more than 10,900 route miles; and

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provided cell site back-haul services to approximately 70% of the 1,000 cell sites in-market, of which approximately 95% of these sites are lit with fiber.

As a result of our strategic investments, we have generated year-over-year Entertainment and Communications revenue growth each year since 2013. The Company's expanding fiber assets allow us to support the ever-increasing demand for data, video and internet devices with speed, agility and security. We believe our fiber investments are a long-term solution for our customers' bandwidth needs.

The Company's initiatives to expand our fiber network extend beyond the Greater Cincinnati area. In July 2017, the Company announced its plans to acquire Hawaiian Telcom Holdco, Inc. ("Hawaiian Telcom"). The pending acquisition of Hawaiian Telcom will add operational scale and expand the Company's fiber-centric footprint and commercial opportunity to Hawaii.

Grow our IT Services and Hardware Segment

Cincinnati Bell continues to grow the IT Services and Hardware segment by developing new products, as well as expanding its reach to new customers. During 2017, the Company completed the acquisitions of SunTel and OnX, which enabled us to extend our geographic footprint across the U.S., Canada and Europe, diversify our customer base, and expand our product portfolio. The Company continues to develop high-demand products for business customers through our investments in fiber and other success-based technology, such as unified communications and cloud services. Our ability to be innovative and to react to the changing technology demands of our customers is important to the growth of our IT Services and Hardware segment. Our telecom and IT hardware offerings provide a platform for buyer engagement, and an opportunity for bridging to higher value professional and managed services. As a company with a long history of managing customer network and technology needs, we combine the management of the network, whether owned by Cincinnati Bell or leased from other carriers out of territory, with integrated voice and IT offerings. We supply the architecture and integration intelligence, labor and hardware, as well as any combination of these services. These projects can be established based on hourly billing rates, service-level driven agreements or utility-based managed service models. Customers are attracted to our ability to combine our historic knowledge, unique assets and talented workforce in order to help them improve their operational efficiency, mitigate risk and reduce costs.

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Operations

As of December 31, 2017, the Company operated two segments: Entertainment and Communications and IT Services and Hardware. We generally classify our products and services into three distinct categories: Strategic, Legacy and Integration. The table below demonstrates how our products and services are categorized within the Entertainment and Communications and IT Services and Hardware segments:

Entertainment and Communications

	Strategic	Legacy	Integration
Data	Fioptics Internet DSL (1) (≥ 10 meg) Ethernet Private Line MPLS (2) SONET (3) Dedicated Internet Access Wavelength Audio Conferencing	DSL (< 10 meg) DS0 (5), DS1, DS3 TDM (6)	
Voice	Fioptics Voice VoIP (4)	Traditional Voice Long Distance Switched Access Digital Trunking	
Video	Fioptics Video Services and Other Wiring Projects	Advertising Directory Assistance	Maintenance Information Services Wireless Handsets and Accessories

(1) Digital Subscriber Line

(2) Multi-Protocol Label Switching

(3) Synchronous Optical Network

(4) Voice over Internet Protocol

(5) Digital Signal

(6) Time Division Multiplexing

IT Services and Hardware

	Strategic	Integration
Professional Services	Consulting Staff Augmentation Digital Application Solutions	Installation
Unified Communications	Voice Monitoring Managed IP Telephony Solutions	Maintenance
Cloud Services	Virtual Data Centers Storage Backup	
Management and Monitoring	Network Management/Monitoring Security	
Telecom & IT Hardware		Hardware Software Licenses

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Entertainment and Communications

The Entertainment and Communications segment provides products and services such as high-speed internet, data transport, local voice, long distance, VoIP, video and other services. CBT, a subsidiary of the Company, is the Incumbent Local Exchange Carrier ("ILEC") for a geography that covers a radius of approximately 25 miles around Cincinnati, Ohio, and includes parts of northern Kentucky and southeastern Indiana. CBT has operated in this territory for 145 years. The segment also provides voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, through the operations of Cincinnati Bell Extended Territories LLC ("CBET"), a Competitive Local Exchange Carrier ("CLEC") and subsidiary of CBT. The Entertainment and Communications segment also provides Long distance and VoIP services, primarily through CBTS Technology Solutions LLC ("CBTS TS"), which was formerly known as Cincinnati Bell Any Distance Inc. The key products and services provided by the Entertainment and Communications segment include the following:

Data

The Company's data products include high-speed internet access, data transport and interconnection services. Consumer demand for increased internet speeds is accelerating and more customers are opting for higher bandwidth solutions such as Fioptics. To address this demand, we are able to provide internet speeds of 30 megabits or more to approximately 70% of Greater Cincinnati, of which approximately 431,000 addresses are capable of receiving gigabit service.

As business customers migrate from legacy products and copper-based technology, our metro-ethernet product becomes the access method of choice due to its ability to support multiple applications on a single physical connection. The Company continues to build out fiber to multi-tenant units ("MTU's") in Greater Cincinnati to meet growing demand for these services. We are also expanding our metro-ethernet platform to deliver services across a wider geography to target business customers beyond our ILEC footprint. The Company's regional network connects Greater Cincinnati, Columbus, and Dayton, Ohio, as well as Indianapolis, Indiana; Chicago, Illinois; and Louisville, Kentucky.

Voice

Voice represents local service, including Fioptics voice lines. It also includes VoIP, long distance, digital trunking, switched access and other value-added services such as caller identification, voicemail, call waiting and call return. The Company's voice access lines continue to decrease as our customers have increasingly employed wireless technologies in lieu of wireline voice services ("wireless substitution"), or migrated to competitors.

Residential and business customers purchasing traditional long distance service can choose from a variety of long distance plans, which include unlimited long distance for a flat fee, purchase of minutes at a per-minute-of-use rate, or a fixed number of minutes for a flat fee. The Company's long distance lines and related minutes of use have continued to decline as a result of wireless substitution and the migration to VoIP technology. Our VoIP products provide access to widely disbursed communication platforms and access to our cloud based services and hosted unified communications products for customers ranging from small businesses to large enterprise customers.

Video

The Company launched Fioptics in 2009 and initially focused our fiber network investment on densely populated areas, such as apartments and condominiums. Since that time, Fioptics has been deployed over a much broader base and is now available to approximately 70% of Greater Cincinnati. As of December 31, 2017, we have 146,500 video subscribers. Our Fioptics customers enjoy access to over 400 entertainment channels including digital music, local, movie and sports programming with over 150 high-definition channels, parental controls, HD DVR and video On-Demand.

Services and Other

Services and other revenue consists of revenue generated from wiring projects for business customers, advertising, directory assistance, maintenance and information services.

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IT Services and Hardware

The IT Services and Hardware segment provides a full range of managed IT solutions, including managed infrastructure services, telephony and IT equipment sales, and professional IT staffing services. These services and products are provided through the Company's subsidiaries in various geographic areas throughout the U.S., Canada and Europe. By offering a full range of equipment and outsourced services in conjunction with the Company's fiber and copper networks, the IT Services and Hardware segment provides end-to-end IT and telecommunications infrastructure management designed to reduce cost and mitigate risk while optimizing performance for its customers. The key products and services provided by the IT Services and Hardware segment include the following:

Professional Services

The Company's professional services offerings consist of consulting, staffing, installation and project-based engagements, including engineering and installation of voice, connectivity and IT technologies, development of digital application solutions and staff augmentation by highly skilled and industry-certified technical resources. Engagements can be short-term IT implementation and project-based work as well as longer term staffing and permanent placement assignments. The Company utilizes a team of experienced recruiting and hiring personnel to provide its customers with a wide range of skilled IT professionals.

Unified Communications

The Company offers a complete portfolio of hosted solutions that include converged IP communications platforms of data, voice, video and mobility applications. We offer our customers expert management for all hardware and software components, including maintenance contracts and service level agreement ("SLA") based services. Fully hosted and managed, these voice platforms and applications can also be delivered as cloud services for a monthly utility fee.

The solutions offered include Unified Communications as a Service ("UCaaS") in a cloud environment. We provide hosted communications and solutions that deliver the efficiencies of next-generation VoIP services. Our conferencing solutions offer cloud-based audio, video, and web conferencing services accessible from any connected device. Our cloud call center application offering features speech-enabled Interactive Voice Response ("IVR"), call-back services, call analytics and surveys. The cloud call recording application features speech analytics, alerts and notification, and improved customer satisfaction and productivity. Additionally, we also manage the maintenance of a large base of local customers with traditional voice systems as well as converged VoIP systems.

Cloud Services

Virtual data center ("VDC") is a robust and scalable virtual infrastructure consisting of equipment, security, people and processes. This offering is provided in three different models - private cloud, dedicated cloud or public cloud - and provides customers with either a long-term or a short-term flexible solution that is fully managed by the Company and monitored around the clock from our Enterprise Network Operations Center ("ENOC").

Storage is a flexible, on-demand solution that enables businesses to eliminate capital expenditures and ongoing asset management with SLA-based services. The Company offers Tier I, Tier II and Tier III storage to meet its customers' availability, accessibility, protection, performance and capacity needs.

Backup is a scalable solution that allows businesses to eliminate capital outlay and ongoing equipment management with SLA-based services and includes virtual data center, hardware, software, monitoring and support.

Management & Monitoring

The Company provides SLA-based managed services utilizing our Enterprise Network Operations Center ("ENOC"). The ENOC includes highly certified engineers and operation experts that proactively monitor and manage our customers' technology environments and applications. Standalone monitoring services provide customers with scheduled and automatic checks of customers' servers, routers, switches, load balancers and firewalls. We also provide customers with advance trouble shooting, repair and changes of customers' servers, routers, switches, load balancers and other network devices from our ENOC. These services can be provided to customers with equipment provided by the Company, or customer-owned equipment, and do not have geographical constraints. Services can be purchased individually or bundled by combining multiple products, services, and assets into a utility or service model.

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Telecom and IT Hardware

The Company maintains premium resale relationships and certifications with a variety of branded technology vendors which allows it to competitively sell, architect and install a wide array of telecommunications and IT infrastructure equipment to meet the needs of its customers.

Sales and Distribution Channels

The Company's Entertainment and Communications segment utilizes a number of distribution channels to acquire customers. As of December 31, 2017, the Company operated eight retail stores in its operating territory to market and distribute our Fioptics suite of products. The Company works to locate retail stores in high traffic but affordable areas, with a distance between each store that considers optimal returns per store and customer convenience. The Company also offers fully-automated, end-to-end web-based sales of various other Company services and accessories. In addition, the Company utilizes a call center, as well as a door-to-door sales force, to target the sale of our consumer products to residents.

For both operating segments, we utilize a business-to-business sales force and a call center organization to reach business customers in our operating territory. Larger business customers are supported by sales account representatives and solution architects located in our branch offices across the U.S., Canada and Europe that understand the customer's technology needs and recommend Company offered solutions. Smaller business customers are supported through a telemarketing sales force, customer representatives and store locations.

Suppliers and Product Supply Chain

The Company generally subjects purchases to competitive bids and selects its vendors based on price, service level, delivery terms, quality of product and terms and conditions.

Entertainment and Communications' primary purchases are for video content, network equipment, software, fiber cable and contractors to maintain and support the growth of Fioptics. The Company maintains facilities and operations for storing cable and other equipment, product distribution and customer fulfillment.

IT Services and Hardware primarily purchases IT and telephony equipment that is either sold to a customer or used to provide service to the customer. The Company is a certified distributor of leading technology and software solutions including, but not limited to, Cisco, EMC, Avaya and Oracle. Most of this equipment is shipped directly to the customer from vendor locations, but the Company does maintain warehouse facilities for replacement parts and equipment testing and staging.

In addition, we have long-term commitments to outsource various services, such as certain information technology functions, cash remittance and accounts payable functions, call center operations and maintenance services.

Competition

The telecommunications industry is very competitive, and the Company competes against larger, well-capitalized national providers.

The Entertainment and Communications segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, as well as cable, broadband, and internet service providers. The Company has lost, and will likely continue to lose access lines as a portion of the customer base migrates to competitive wireline or wireless providers in lieu of the Company's services. Wireless providers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for the Company's local voice and long-distance services. The Company believes wireless substitution is the reason for the largest portion of the Company's access line and long-distance line losses.

Our strategic products also face intense competition from cable operators, other telecom companies and niche fiber companies. Many of our competitors have lower operating costs and access to resources that provide economies of scale that allow them to more aggressively price products, as well as provide products on a much broader scale given their expanded geographic operations. Our competitors continuously upgrade their service quality and offerings which could substantially erode the competitive advantage we currently have with our fiber-based products. These competitive factors could limit the Company's ability to grow revenue and cash flows despite the strategic initiatives implemented.

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The Fioptics video products also face competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, some without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices. Increased customer migration to these non-traditional entertainment products could result in increased Fioptics churn and decreased penetration for video; however, this trend could also drive increased demand for our high speed internet product.

The IT Services and Hardware segment competes against numerous information technology consulting, web-hosting, and computer system integration companies, many of which are larger in scope and well-financed. The Company believes that participants in this market must grow rapidly and achieve significant scale to compete effectively. Other competitors may consolidate with larger companies or acquire software application vendors or technology providers, enabling them to more effectively compete. This consolidation could affect prices and other competitive factors in ways that could impede the ability of these businesses to compete successfully in the market. In addition, as more customers work to manage cash flow and migrate to the public cloud, we will see declines in the demand for Telecom and IT hardware. However, this trend can provide an opportunity in the form of professional services as we have IT professionals that can develop the strategy to guide customers through this migration.

Customers

The following table demonstrates how the Company's revenue portfolio has changed over the past three years.

Percentage of revenue	2017	2016	2015	2017 vs		2016 vs	
				2016	2015	2016	2015
				Change		Change	
Strategic	55 %	54 %	46 %	1	pts	8	pts
Legacy	21 %	26 %	31 %	(5	)	(5)
Integration	24 %	20 %	23 %	4		(3)
Total	100%	100%	100%				

Percentage of revenue	2017	2016	2015	2017 vs		2016 vs	
				2016	2015	2016	2015
				Change		Change	
Consumer	31 %	32 %	29 %	(1	)	3	pts
Business	61 %	59 %	61 %	2		(2)
Carrier	8 %	9 %	10 %	(1	)	(1)
Total	100%	100%	100%				

For the 2017 year, the Company had no customers whose revenue comprised greater than 10% of the Company's annual revenue. The Company has sales with one customer, General Electric Company ("GE"), which contributed 12% of the Company's annual revenue in both 2016 and 2015.

Employees

At December 31, 2017, the Company had approximately 3,500 employees. Approximately 25% of its employees are covered by collective bargaining agreements with the Communications Workers of America ("CWA"), which is affiliated with the AFL-CIO. Effective dates for the collective bargaining agreements range through May 12, 2018.

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Website Access and Other Information

The Company was incorporated under the laws of Ohio in 1983 with its headquarters at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address <http://www.cincinnati-bell.com>). The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC") under the Exchange Act of 1934 (the "Exchange Act"). These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington D.C., 20549. Information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy statements, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is <http://www.sec.gov>. The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), proxy statements and other information, free of charge, at the Investor Relations section of its website.

Executive Officers

Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Annual Report on Form 10-K for information regarding executive officers of the registrant.

Business Segment Information

The amounts of revenue, intersegment revenue, operating income, expenditures for long-lived assets, and depreciation and amortization attributable to each of the Company's business segments for the years ended December 31, 2017, 2016, and 2015, and assets as of December 31, 2017 and 2016 are set forth in Note 15 to the consolidated financial statements.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating us. Our business, financial condition, liquidity or results of operations could be materially affected by any of these risks.

Risk Factors Related to our Business and Operations

The Company operates in highly competitive industries, and customers may not continue to purchase products or services, which would result in reduced revenue and loss of market share.

The telecommunications industry is very competitive and the Company competes against larger, well-capitalized national providers. Competitors may reduce pricing, create new bundled offerings, or develop new technologies, products or services. If the Company cannot continue to offer reliable, competitively priced, value-added services, or if the Company does not keep pace with technological advances, competitive forces could adversely affect it through a loss of market share or a decrease in revenue and profit margins. The Company has lost access lines, and will likely continue to lose them as part of the customer base migrates to competitors.

The Entertainment and Communications segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband and internet service providers. Wireless providers, particularly those that provide unlimited wireless voice and data plans with no additional fees for long distance, offer customers a substitution for the Company's services. The Company believes wireless substitution accounts for the largest portion of its access line losses. Also, cable competitors that have existing service relationships with CBT's customers offer substitution services, such as VoIP and long distance voice services in the Company's operating areas. As a result of wireless substitution and increased competition, CBT's legacy voice lines decreased by 15% and long distance subscribers decreased by 7% in 2017 compared to 2016.

Our strategic products also face intense competition from cable operators, other telecom companies and niche fiber companies. Many of our competitors have lower operating costs and access to resources that provide economies of

scale that enables them to more aggressively price products. In addition, they are able to provide products on a much broader scale given their expanded geography of operations. Our competitors are expected to continuously upgrade their service quality and offerings, which could substantially erode the competitive advantage we currently have with our fiber-based products. These competitive factors could limit the Company's ability to grow revenue and cash flows despite the strategic initiatives implemented.

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The Fioptics suite of products also faces competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, some without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices. Increased customer migration to these non-traditional entertainment products could result in increased Fioptics churn and decreased penetration. If the Company is unable to effectively implement strategies to attract and retain Fioptics video and high-speed internet subscribers, retain access lines and long distance subscribers, or replace such customers with other sources of revenue, the Company's Entertainment and Communications business will be adversely affected.

The IT Services and Hardware segment competes against numerous other information technology consulting, web-hosting, and computer system integration companies, many of which are large in scope and well-financed. This market is rapidly evolving and highly competitive. Other competitors may consolidate with larger companies or acquire software application vendors or technology providers, which may provide competitive advantages. The Company believes that many of the participants in this market must grow rapidly and achieve significant scale to compete effectively. This consolidation could affect prices and other competitive factors in ways that could impede our ability to compete successfully in the market. The competitive forces described above could have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

The Company may be unable to grow our revenues and cash flows despite the initiatives we have implemented.

We must produce adequate revenues and cash flows that, when combined with cash on hand and funds available under our revolving credit facilities, will be sufficient to service our debt, fund our capital expenditures, pay our taxes, fund our pension and other employee benefit obligations and pay preferred dividends pursuant to our dividend policy. We have identified some potential areas of opportunity and implemented several growth initiatives, including increasing marketing promotions and related expenditures and launching new products and services with a focus on areas that are growing such as Fioptics, other fiber-based service offerings and IT solutions. We cannot be assured that these opportunities will be successful or that these initiatives will improve our financial position or our results of operations.

Failure to anticipate the need for and introduce new products and services or to compete with new technologies may compromise the Company's success in the telecommunications industry.

The Company's success depends, in part, on being able to anticipate the needs of current and future business, carrier and residential customers. The Company seeks to meet these needs through new product introductions, service quality and technological improvements. New products and services are important to the Company's success because its industry is technologically driven, such that new technologies can offer alternatives to the Company's existing services. The development of new technologies and products could accelerate the Company's loss of access lines or limit the growth from its strategic products, which would have a material adverse effect on the Company's revenue, results of operations, financial condition and cash flows.

The Company's access lines, which generate a significant portion of its cash flows and profits, are decreasing in number. If the Company continues to experience access line losses similar to the past several years, its revenues, earnings and cash flows from operations may be adversely impacted.

The Company generates a substantial portion of its revenues by delivering voice and data services over access lines. The Company's local telecommunications subsidiary, CBT, has experienced substantial access line losses over the past several years due to a number of factors, including wireless and broadband substitution and increased competition. The Company expects access line losses to continue into the foreseeable future. Failure to retain access

lines without replacing such losses with an alternative source of revenue would adversely impact the Company's revenues, earnings and cash flow from operations.

The Company has provided alternative sources of revenue by way of our strategic products; however, these products may generate lower profit margins than our traditional services. In addition, as a larger portion of our customer base has already migrated to these new product offerings, a decreased growth rate can be expected. Moreover, we cannot provide assurance that the revenues generated from our new offerings will offset revenue losses from the reduced sales of our legacy products or that our new strategic offerings will be as successful as anticipated.

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Negotiations with the providers of content for our video programming may not be successful, potentially resulting in our inability to carry certain programming channels, which could result in the loss of subscribers. In addition, due to the influence of some content providers, we may be forced to pay higher rates for some content, resulting in increased costs.

We must negotiate with the content owners of the programming that we carry. These content owners are the exclusive provider of the channels they offer. If we are unable to reach a mutually-agreed upon contract with a content owner, our existing agreements to carry this content may not be renewed, resulting in the blackout of these channels. The loss of content could result in our loss of customers who place a high value on the particular content that is lost. In addition, many content providers own multiple channels. As a result, we typically have to negotiate the pricing for multiple channels rather than one, and carry and pay for content that customers do not associate much value, in order to have access to other content that customers do associate value. Some of our competitors have materially larger scale than we do, and may, as a result, be better positioned than we are in such negotiations. As a result of these factors, the expense of content may continue to increase, and have a material adverse impact on the Company's results of operations and cash flows.

The Company's failure to meet performance standards under its agreements could result in customers terminating their relationships with the Company or customers being entitled to receive financial compensation, which would lead to reduced revenues and/or increased costs.

The Company's agreements with its customers contain various requirements regarding performance and levels of service. If the Company fails to provide the levels of service or performance required by its agreements, customers may be able to receive service credits to their accounts and other financial compensation, and also may be able to terminate their relationship with the Company. In order to provide these levels of services, the Company is required to protect against human error, natural disasters, equipment failure, power failure, sabotage and vandalism, and have disaster recovery plans available for disruption of services. The failure to address these or other events may result in a disruption of services. In addition, any inability to meet service level commitments, or other performance standards, could reduce the confidence of customers. Decreased customer confidence could impair the Company's ability to attract and retain customers, which could adversely affect the Company's ability to generate revenues and operating results.

The Company generates a substantial portion of its revenue by serving a limited geographic area.

The Company generates a substantial portion of its revenue by serving customers in Greater Cincinnati and Dayton, Ohio. An economic downturn or natural disaster occurring in this limited operating territory would have a disproportionate effect on the Company's 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.

A large customer accounts for a significant portion of the Company's revenues and accounts receivable. The loss or significant reduction in business from this customer would cause operating revenues to decline and could negatively impact profitability and cash flows.

During 2016 and 2015 GE contributed greater than 10% of consolidated revenue. As a result of this concentration, the Company's results of operations and financial condition could be materially affected if the Company lost this customer or if services purchased were significantly reduced. If GE were to default on its accounts receivable obligations, the Company would be exposed to potentially significant losses in excess of the provisions established. This would also negatively impact the available borrowing capacity under the accounts receivable securitization facility ("Receivables Facility").

Maintaining the Company's telecommunications networks requires significant capital expenditures, and the Company's inability or failure to maintain its telecommunications networks could have a material impact on its market share and ability to generate revenue.

Over the past several years, the Company has improved its wireline network through increased capital expenditures for fiber optic cable in areas of its operating network. The Company intends to continue its capital expenditures for fiber optic cable.

In order to provide appropriate levels of service to the Company's customers, the network infrastructure must be protected against damage from human error, natural disasters, unexpected equipment failure, power loss or telecommunications failures, terrorism, sabotage or other intentional acts of vandalism. The Company's networks may not address all of the problems that may be encountered in the event of a disaster or other unanticipated problems, which may result in disruption of service to customers.

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The Company may also incur significant additional capital expenditures as a result of unanticipated developments, regulatory changes and other events that impact the business.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions or reduced capacity for customers.

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions or reduced capacity for customers.

We may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our results of operations and financial condition.

We may be liable for the material that content providers distribute over our networks.

The law relating to the liability of private network operators for information carried on, stored or disseminated through their networks is still unsettled. As such, we could be exposed to legal claims relating to content disseminated on our networks. Claims could challenge the accuracy of materials on our network or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks or are required to defend ourselves against such claims, our financial results would be negatively affected.

Cyber attacks, including on our vendors, or other breaches of network or other information technology security, could have an adverse effect on our business.

Cyber attacks or other breaches of network or information technology security may cause equipment failures or disruptions to our operations. Our inability to operate our wireline networks as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers. In addition, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Cyber attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. While, to date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, have been material to our operations or financial condition, the preventative actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber attack in the future. The costs associated with a major cyber attack could include material incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. If we fail to prevent the theft of valuable information such as financial data, sensitive information about the Company and intellectual property, or if we fail to protect the privacy of customer and employee confidential data against breaches of network or information technology security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and result in significant disruptions to our operations.

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, other hostile acts and events beyond our control. Such events could cause significant damage to our infrastructure, resulting in

degradation or disruption of service to our customers. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate and our disaster recovery planning may not be sufficient for all eventualities. These events could also damage the infrastructure of suppliers that provide us with the equipment and services we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage could cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

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The regulation of the Company's businesses by federal and state authorities may, among other things, place the Company at a competitive disadvantage, restrict its ability to price its products and services, and threaten its operating licenses.

Several of the Company's subsidiaries are subject to regulatory oversight of varying degrees at both the state and federal levels, which may differ from the regulatory scrutiny faced by the Company's competitors. A significant portion of CBT's revenue is derived from pricing plans that are subject to regulatory review and approval. These regulated pricing plans limit the rates CBT charges for some services while the competition has typically been able to set rates for services with limited or no restriction. In the future, regulatory initiatives that would put CBT at a competitive disadvantage or mandate lower rates for its services would result in lower profitability and cash flows for the Company. In addition, different regulatory interpretations of existing regulations or guidelines may affect the Company's revenues and expenses in future periods.

At the federal level, CBT is subject to the Telecommunications Act of 1996 (the "1996 Act"), including the rules subsequently adopted by the Federal Communications Commission ("FCC") to implement the 1996 Act, which has impacted CBT's in-territory local exchange operations in the form of greater competition. At the state level, CBT conducts local exchange operations in portions of Ohio, Kentucky, and Indiana, and, consequently, is subject to regulation by the Public Utilities Commissions in those states. Various regulatory decisions or initiatives at the federal or state level may from time to time have a negative impact on CBT's ability to compete in its markets.

There are currently many regulatory actions under way and being contemplated by federal and state authorities regarding issues that could result in significant changes to the business conditions in the telecommunications industry. In addition, in connection with our Internet access offerings, we could become subject to laws and regulations as they are adopted or applied to the Internet. There is currently only limited regulation applicable to these services. As the significance of the Internet continues to grow, federal, state and local governments may pass laws and adopt rules and regulations or apply existing laws and regulations to the Internet (including Internet access services). Related matters are currently under consideration in both federal and state legislative and regulatory bodies. We cannot provide any assurances that changes in current or future regulations adopted by the FCC or state regulators, or other legislative, administrative, or judicial initiatives relating to the telecommunications industry, will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

From time to time, different regulatory agencies conduct audits to ensure that the Company is in compliance with the respective regulations. The Company could be subject to fines and penalties if found to be out of compliance with these regulations, and these fines and penalties could be material to the Company's financial condition.

The Company depends on a number of third-party providers, and the loss of, or problems with, one or more of these providers may impede the Company's growth or cause it to lose customers.

The Company depends on third-party providers to supply products and services. For example, many of the Company's information technology and call center functions are performed by third-party providers, and network equipment is purchased from and maintained by vendors. The loss of, or problems with, one or more of these third-party providers may result in an adverse effect on our ability to provide products and services to our customers and on our results of operations and financial condition.

A failure of back-office information technology systems could adversely affect the Company's results of operations and financial condition.

The efficient operation of the Company's business depends on back-office information technology systems. The Company relies on back-office information technology systems to effectively manage customer billing, business data, communications, supply chain, order entry and fulfillment and other business processes. A failure of the Company's information technology systems to perform as anticipated could disrupt the Company's business and result in a failure to collect accounts receivable, transaction errors, processing inefficiencies, and the loss of sales and customers, causing the Company's reputation and results of operations to suffer. In addition, information technology systems may be vulnerable to damage or interruption from circumstances beyond the Company's control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on the Company's business.

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If the Company fails to extend or renegotiate its collective bargaining agreements with its labor union when they expire, or if its unionized employees were to engage in a strike or other work stoppage, the Company's business and operating results could be materially harmed.

The Company is a party to collective bargaining agreements with its labor union, which represents approximately 25% of its employees. No assurance can be given that the Company will be able to successfully extend or renegotiate its collective bargaining agreements in the future. If the Company fails to extend or renegotiate its collective bargaining agreements, if disputes with its union arise, or if its unionized workers engage in a strike or a work stoppage, the Company could experience a significant disruption of operations or incur higher ongoing labor costs, either of which could have a material adverse effect on the business.

The loss of any of the senior management team or attrition among key sales associates could adversely affect the Company's business, financial condition, results of operations and cash flows.

The Company's success will continue to depend, to a significant extent, on its senior management team and key sales associates. Senior management has specific knowledge relating to the Company and the industry that would be difficult to replace. The loss of key sales associates could hinder the Company's ability to continue to benefit from long-standing relationships with customers. The Company cannot provide any assurance that it will be able to retain the current senior management team or key sales associates. The loss of any of these individuals could adversely affect the Company's business, financial condition, results of operations and cash flows.

Risks Related to our Indebtedness

The Company's debt could limit its ability to fund operations, raise additional capital, and fulfill its obligations, which, in turn, would have a material adverse effect on its businesses and prospects generally.

As of December 31, 2017, the Company and its subsidiaries had outstanding indebtedness of \$1,747.7 million, on which it incurred \$85.2 million of interest expense in 2017, and had a total shareowners' deficit of \$143.1 million. In October 2017, the Company entered into a new Credit Agreement. The Credit Agreement provides for (i) a five year \$200 million senior secured revolving credit facility including both a letter of credit subfacility of up to \$30 million and a swingline loan subfacility of up to \$25 million (the "Revolving Credit Facility") and (ii) a seven-year \$600 million senior secured term loan facility (the "Tranche B Term Loan due 2024"). At December 31, 2017, the Company and its subsidiaries had \$101.0 million of borrowing availability under its Receivables Facility and had the ability to borrow up to an additional \$200.0 million under the Revolving Credit Facility, subject to compliance with certain conditions.

The Company's debt has important consequences, including the following:

- the Company is required to use a substantial portion of its cash flow from operations to pay principal and interest on its debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements;
- there is a variable interest rate on a portion of its debt which will increase if the market interest rates increase;
- the Company's debt increases its vulnerability to adverse changes in the credit markets, which adverse changes could increase the Company's borrowing costs and limit the availability of financing;
- the Company's debt service obligations limit its flexibility to plan for, or react to, changes in its business and the industries in which it operates;
- the Company's level of debt and shareowners' deficit may restrict it from raising additional financing on satisfactory terms to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements; and

the Company's debt instruments contains limitations on the Company and require the Company to comply with specified financial ratios and other restrictive covenants. Failure to comply with these covenants, if not cured or waived, could limit availability to the cash required to fund the Company's operations and general obligations and could result in the Company's dissolution, bankruptcy, liquidation or reorganization.

The Company's creditors and preferred stockholders have claims that are superior to claims of the holders of the Company's common stock. Accordingly, in the event of the Company's dissolution, bankruptcy, liquidation, or reorganization, payment is first made on the claims of creditors of the Company and its subsidiaries, then preferred stockholders, and finally, if amounts are available, to holders of the Company's common stock.

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The Credit Agreement, the indenture governing the Company's notes due 2024, the indenture governing the Company's notes due 2025 and other indebtedness impose significant restrictions on the Company.

The Company's debt instruments impose, and the terms of any future debt may impose, operating and other restrictions on the Company. These restrictions affect, and in many respects limit or prohibit, among other things, the Company's ability to:

- incur additional indebtedness;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- guarantee indebtedness;
- declare or pay dividends or make other distributions to shareholders;
- repurchase equity interests;
- redeem debt that is junior in right of payment to such indebtedness;
- enter into agreements that restrict dividends or other payments from subsidiaries;
- issue or sell capital stock of certain of its subsidiaries;
- consolidate, merge, or transfer all or substantially all of its assets and the assets of its subsidiaries on a consolidated basis; and
- change its fiscal year

In addition, the Company's Credit Agreement and debt instruments include restrictive covenants that may materially limit the Company's ability to prepay debt and redeem preferred stock. The agreements governing the Credit Agreement also require the Company to achieve and maintain compliance with specified financial ratios.

The restrictions contained in the terms of the Credit Agreement and its other debt instruments could:

- limit the Company's ability to plan for or react to market conditions or meet capital needs or otherwise restrict the Company's activities or business plans; and
- adversely affect the Company's ability to finance its operations, strategic acquisitions, investments or alliances, other capital needs, or to engage in other business activities that would be in its interest.

A breach of any of the debt's restrictive covenants or the Company's inability to comply with the required financial ratios would result in a default under some or all of the debt agreements. During the occurrence and continuance of a default, lenders may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. Additionally, under the Credit Agreement, the lenders may elect not to provide loans under the Revolving Credit Facility until such default is cured or waived. The Company's debt instruments also contain cross-acceleration provisions, which generally cause each instrument to be subject to early repayment of outstanding principal and related interest upon a qualifying acceleration of any other debt instrument. Failure to comply with these covenants, if not cured or waived, would limit the cash available to the Company required to fund operations and its general obligations and could result in the Company's dissolution, bankruptcy, liquidation or reorganization.

The Company depends on its Revolving Credit Facility and Receivables Facility to provide for its short-term financing requirements in excess of amounts generated by operations, and the availability of those funds may be reduced or limited.

The Company depends on the Revolving Credit Facility and its Receivables Facility to provide for short-term financing requirements in excess of amounts generated by operations. The Revolving Credit Facility has a maturity date of October 2022. The Receivables Facility has a termination date of May 2019, and is subject to renewal every 364 days, with the next renewal occurring in May 2018.

The Company's ability to borrow under its Revolving Credit Facility is subject to the Company's compliance with covenants, including covenants requiring compliance with specified financial ratios. Failure to satisfy these covenants would constrain or prohibit its ability to borrow under these facilities.

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As of December 31, 2017, the Company had no outstanding borrowings under the Revolving Credit Facility, leaving \$200.0 million in additional borrowing availability under this facility. The \$200.0 million available under the Revolving Credit Facility is funded by various financial institutions. If one or more of these banks is not able to fulfill its funding obligations, the Company's financial condition could be adversely affected.

As of December 31, 2017, the Company had a total borrowing capacity of \$107.3 million on a maximum borrowing capacity of \$120.0 million on its Receivables Facility. At that date, there were no outstanding borrowings and \$6.3 million of outstanding letters of credit. The available borrowing capacity is calculated monthly based on the amount, and quality, of outstanding accounts receivable, and thus may be lower than the maximum borrowing limit. If the quality of the Company's accounts receivables deteriorates, this will negatively impact the available capacity under this facility. As of December 31, 2017, the Company had \$101.0 million of borrowing capacity remaining under its Receivables Facility.

The servicing of the Company's indebtedness is dependent on its ability to generate cash, which could be impacted by many factors beyond its control.

The Company's ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory, and other factors, many of which are beyond its control. The Company cannot provide assurance that its business will generate sufficient cash flow from operations, that additional sources of debt financing will be available, or that future borrowings will be available under its Revolving Credit Facility Credit or Receivables Facility, in each case, in amounts sufficient to enable the Company to service its indebtedness or to fund other liquidity needs. If the Company cannot service its indebtedness, it will have to take actions such as reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, selling assets, restructuring or refinancing indebtedness, or seeking additional equity capital, which may adversely affect its shareholders, debt holders and customers. The Company may not be able to negotiate remedies on commercially reasonable terms, or at all. In addition, the terms of existing or future debt instruments may restrict the Company from adopting any of these alternatives. The Company's inability to generate the necessary cash flows could result in its dissolution, bankruptcy, liquidation or reorganization.

The Company depends on the receipt of dividends or other intercompany transfers from its subsidiaries and investments.

Virtually all of the Company's operations are conducted through its subsidiaries and most of the Company's debt is held at the parent company. Certain of the Company's material subsidiaries are subject to regulatory authority which may potentially limit the ability of such subsidiaries to distribute funds or assets. If any of the Company's subsidiaries were to be prohibited from paying dividends or making distributions, the Company may not be able to make the scheduled interest and principal repayments on its debt. This failure would have a material adverse effect on the Company's liquidity and the trading price of the Company's common stock, preferred stock, and debt instruments, which could result in its dissolution, bankruptcy, liquidation or reorganization.

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Risks Relating to the Merger with Hawaiian Telcom

The merger (the “merger”) of Hawaiian Telcom Holdco, Inc. (“Hawaiian Telcom”) into a wholly owned subsidiary of the Company is subject to the receipt of clearances or approvals from various regulatory authorities, which may impose conditions that could have an adverse effect on the Company following the closing of the merger (the “combined company”) or, if not obtained, could prevent completion of the merger.

Before the merger may be completed, clearances or approvals must be obtained from various regulatory entities, including the FCC, and the Hawaii Public Utilities Commission. There can be no assurance that all of these required approvals and clearances will be obtained, or will be obtained on a timely basis. In deciding whether to grant regulatory clearances, the relevant governmental entities will consider, among other things, the effect of the merger on competition within their relevant jurisdiction. The terms and conditions of the approvals that are granted may impose requirements, limitations, incremental cost, or place restrictions on the conduct of the combined company’s business. The agreement and plan of merger dated July 9, 2017 (the “merger agreement”), among Hawaiian Telcom, the Company and Twin Acquisition Corp. may require the Company and Hawaiian Telcom to comply with conditions imposed by regulatory entities, and neither company is required to take any action with respect to obtaining regulatory approval that, individually or in the aggregate, would be reasonably likely to have a Material Adverse Effect on either Hawaiian Telcom or the Company. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the merger, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reduce the anticipated benefits of the merger. In addition, the Company cannot provide assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger.

The merger is subject to conditions, including certain conditions that may not be satisfied or completed on a timely basis, if at all. Any delay in completing the merger may reduce or eliminate the benefits expected.

In addition to the regulatory clearances and approvals, the merger is subject to certain other conditions beyond the control of the Company that may prevent, delay, or otherwise materially adversely affect completion of the merger. The Company cannot predict whether and when these other conditions will be satisfied. The requirements for satisfying such conditions could delay completion of the merger for a period of time, reducing or eliminating some or all anticipated benefits of the merger, or prevent completion of the merger from occurring at all.

The pendency of the merger could materially adversely affect the future business and operations of the Company and/or result in a loss of employees for the Company.

In connection with the pending merger, while it is not expected by the management of the Company, it is possible that some customers, suppliers and other persons with whom the Company has a business relationship may delay or defer certain business decisions, which could negatively impact revenues, earnings and cash flows of the Company, as well as the market prices of the Company’s common shares, regardless of whether the merger is completed. Similarly, current and prospective employees of the Company may experience uncertainty about their future roles within the combined company following completion of the merger, which may materially adversely affect the ability of the Company to attract and retain key employees.

The pursuit of the merger and the preparation for the integration may place a significant burden on the Company’s management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect the Company’s financial results.

In addition, the merger agreement restricts the Company, on the one hand, and Hawaiian Telcom, on the other, without the other party's consent, from making certain acquisitions and dispositions and taking other specified actions while the merger is pending. These restrictions may prevent the Company from pursuing attractive business opportunities and making other changes to its business prior to completion of the merger or termination of the merger agreement.

The Company's shareholders will be diluted by the merger.

The merger will dilute the ownership position of the Company's current shareholders. Cincinnati Bell will issue approximately 7.9 million of the Company's common shares to Hawaiian Telcom stockholders in the merger (including common shares of the Company to be issued in connection with outstanding Hawaiian Telcom equity awards). As a result of these issuances, the Company's current shareholders and Hawaiian Telcom's stockholders are expected to hold approximately 85% and 15%, respectively, of the Company's outstanding common shares immediately following completion of the merger.

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Risks Relating to the Combined Company upon Completion of the Merger with Hawaiian Telcom

If completed, the merger may not achieve its intended results, and the Company and Hawaiian Telcom may be unable to successfully integrate their operations.

The Company and Hawaiian Telcom entered into the merger agreement with the expectation that the merger will result in various benefits, including, among other things, expanding the Company's asset base and creating synergies and opportunities for cost savings. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the businesses of the Company and Hawaiian Telcom can be integrated in an efficient and effective manner.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the anticipated benefits of the merger. The combined company's results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur prior to the closing of the merger. The companies may have difficulty addressing possible differences in corporate cultures and management philosophies. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs, or a decrease in the amount of expected revenues, and could adversely affect the combined company's future business, financial condition, operating results and prospects.

The combined company is expected to incur expenses related to the integration of the Company and Hawaiian Telcom.

The combined company is expected to incur expenses in connection with the integration of the Company and Hawaiian Telcom. There are a number of back-office information technology systems, processes and policies that will need to be addressed during the integration. While the Company and Hawaiian Telcom have assumed that a certain level of expenses will be incurred, there are many factors beyond their control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These integration expenses likely will result in the combined company taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present.

The future results of the combined company will suffer if the combined company does not effectively manage its expanded operations following the merger.

Following the merger, the size of the business of the combined company will increase significantly beyond the current size of either the Company's or Hawaiian Telcom's business. The combined company's future success depends, in part, upon its ability to manage this expanded business, which could pose substantial challenges for management. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, cost savings, revenue enhancements and other benefits currently anticipated from the merger.

Uncertainties associated with the merger may cause a loss of management personnel and other key employees, which could adversely affect the future business and operations of the combined company.

The Company and Hawaiian Telcom are dependent on the experience and industry knowledge of their officers and other key employees to execute their business plans. The Company's success until the merger, and the combined

company's success after the merger, will depend in part upon the ability of the Company and Hawaiian Telcom to retain key management personnel and other key employees. Current and prospective employees of the Company and Hawaiian Telcom may experience uncertainty about their roles within the combined company following the merger, which may have an adverse effect on the ability of the Company and Hawaiian Telcom to attract or retain key management and other key personnel. Accordingly, no assurance can be given that the combined company will be able to attract or retain key management personnel and other key employees of the Company and Hawaiian Telcom to the same extent that the Company and Hawaiian Telcom have previously been able to attract or retain their own employees.

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The combined company will have substantial indebtedness following the merger and the credit ratings of the combined company or its subsidiaries may be different from what the companies currently expect.

The Company has obtained new credit facilities under the new Credit Agreement and through its wholly-owned subsidiary has issued senior unsecured notes (the proceeds of which have been deposited into an escrow account pending the closing of the merger) in order to provide funds to (i) refinance its existing credit facilities, (ii) finance in part the cash portion of the merger consideration for the merger with Hawaiian Telcom and fund the purchase price for the acquisition of OnX, (iii) refinance existing indebtedness of Hawaiian Telcom and (iv) pay other costs and expenses incurred in connection with the merger with Hawaiian Telcom, the OnX acquisition and related transactions. Following completion of the merger, the combined company will have substantial indebtedness and the credit ratings of the combined company and its subsidiaries may be different from what the companies currently expect.

This substantial indebtedness may adversely affect the business, financial condition and operating results of the combined company, including:

- making it more difficult for the combined company to satisfy its debt service obligations;
- requiring the combined company to dedicate a substantial portion of its cash flows to debt service obligations, thereby potentially reducing the availability of cash flows to pay cash dividends and to fund working capital, capital expenditures, acquisitions, investments and other general operating requirements;
- limiting the ability of the combined company to obtain additional financing to fund its working capital requirements, capital expenditures, acquisitions, investments, debt service obligations and other general operating requirements;
- restricting the combined company from making strategic acquisitions or taking advantage of favorable business opportunities;
- placing the combined company at a relative competitive disadvantage compared to competitors that have less debt;
- limiting flexibility to plan for, or react to, changes in the businesses and industries in which the combined company operates, which may adversely affect the combined company's operating results and ability to meet its debt service obligations;
- increasing the vulnerability of the combined company to adverse general economic and industry conditions, including changes in interest rates; and
- limiting the ability of the combined company to refinance its indebtedness or increasing the cost of such indebtedness.

If the combined company incurs additional indebtedness following the merger, the risks related to the substantial indebtedness of the combined company may intensify.

The merger may involve unexpected costs, unexpected liabilities or unexpected delays.

The Company currently expects to incur substantial costs and expenses relating directly to the merger, including debt financing and refinancing costs, fees and expenses payable to financial advisors, professional fees and expenses, insurance premium costs, fees and costs relating to regulatory filings and notices, SEC filing fees, printing and mailing costs and other transaction-related costs, fees and expenses. In addition, the merger and post-merger integration process may give rise to unexpected liabilities and costs, including costs associated with the defense and resolution of possible litigation or other claims, which may significantly increase the related costs and expenses incurred by the combined company.

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Risks Related to the Acquisition of OnX

The acquisition of OnX may not achieve its intended results, and the Company may be unable to successfully integrate OnX's operations.

The Company completed the acquisition of OnX in October 2017. The Company entered into the merger agreement with OnX with the expectation that the acquisition will result in various benefits, including, among other things, expanding the Company's asset base and creating synergies and opportunities for cost savings. Achieving the anticipated benefits of the acquisition of OnX is subject to a number of uncertainties, including whether the businesses of the Company and OnX can be integrated in an efficient and effective manner.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the Company's ability to achieve the anticipated benefits of the acquisition of OnX. The Company's results of operations could also be adversely affected by any issues attributable to either company's operations that arose or are based on events or actions that occurred prior to the closing of the acquisition. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the Company's future business, financial condition, operating results and prospects.

Other Risk Factors

The trading price of the Company's common stock may be volatile, and the value of an investment in the Company's common stock may decline.

The market price of the Company's common stock has been volatile and could be subject to wide fluctuations in response to, among other things, the risk factors described in this report and other factors beyond the Company's control, such as volatility in equity markets and fluctuations in the valuation of companies perceived by investors to be comparable to the Company.

Equity markets have experienced price and volume fluctuations that have affected the Company's stock price and the market prices of equity securities of many other companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, may negatively affect the market price of the Company's stock.

Companies that have experienced volatility in the market price of common shares have periodically been subject to securities class action litigation. The Company may be the target of this type of litigation in the future. Securities litigation could result in substantial costs and/or damages and divert management's attention from other business concerns.

The uncertain economic environment, including uncertainty in the U.S. and world securities markets, could impact the Company's business and financial condition.

The uncertain economic environment could have an adverse effect on the Company's business and financial liquidity. The Company's primary source of cash is customer collections. If economic conditions were to worsen, some customers may cancel services or have difficulty paying their accounts receivable. These conditions would result in lower revenues and increases in the allowance for doubtful accounts, which would negatively affect the results of operations. Furthermore, the sales cycle would be further lengthened if business customers slow spending or delay

decision-making on the Company's products and services, which would adversely affect revenues. If competitors lower prices as a result of economic conditions, the Company would also experience pricing pressure. If the economies of the U.S. and the world deteriorate, this could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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The Company's future cash flows could be adversely affected if it is unable to fully realize its deferred tax assets.

As of December 31, 2017, the Company had deferred tax assets of \$124.3 million, which are primarily composed of deferred tax assets associated with U.S. federal net operating loss carryforwards of \$39.3 million, state and local net operating loss carryforwards of \$48.0 million, and foreign net operating loss carryforwards of \$1.6 million. The Company has recorded valuation allowances against deferred tax assets related to certain state, local and foreign net operating losses and other deferred tax assets due to the uncertainty of the Company's ability to utilize the assets within the statutory expiration period. The use of the Company's deferred tax assets enables it to satisfy current and future tax liabilities without the use of the Company's cash resources. If the Company is unable for any reason to generate sufficient taxable income to fully realize its deferred tax assets, or if the use of its net operating loss carryforwards is limited by Internal Revenue Code Section 382 or similar state statute, the Company's net income, shareowners' deficit and future cash flows would be adversely affected.

Changes in tax laws and regulations, and actions by federal, state and local taxing authorities related to the interpretation and application of such tax laws and regulations, could have a negative impact on the Company's financial results and cash flows.

The Company calculates, collects and remits various federal, state, and local taxes, surcharges, and regulatory fees to numerous federal, state and local governmental authorities, including but not limited to federal Universal Service Fund contributions, sales tax, regulatory fees and use tax on purchases of goods and services used in our business. Tax laws are subject to change, and new interpretations of how various statutes and regulations should be adhered to are frequently issued. In many cases, the application of tax laws are uncertain and subject to differing interpretations, especially when evaluated against new technologies and telecommunications services, such as broadband internet access and cloud services. In the event that we have incorrectly calculated, assessed, or remitted amounts due to governmental authorities, or if revenue and taxing authorities disagree with positions we have taken, we could be subject to additional taxes, fines, penalties, or other adverse actions. In the event that federal, state, or local municipalities were to significantly increase taxes on good and services used to construct and maintain our network, operations, or provision of services, or seek to impose new taxes, there could be a material adverse impact on financial results.

The Company's interpretation of the Tax Cuts and Jobs Act of 2017 could change, and have an adverse impact on financial results.

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") signed into law on December 22, 2017 has resulted in significant changes to the U.S. Corporate income tax system. These changes include a federal statutory rate reduction from 35 percent to 21 percent, limitations on the deductibility of interest expense and executive compensation, and elimination of the corporate alternative minimum tax. The final transition impacts of the Tax Act may differ from the Company's current estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action taken to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts.

Adverse changes in the value of assets or obligations associated with the Company's employee benefit plans could negatively impact shareowners' deficit and liquidity.

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees, and one supplemental, nonqualified, unfunded plan for certain former executives. The Company also provides healthcare and group life insurance benefits for eligible retirees. The

Company's Consolidated Balance Sheets indirectly reflect the value of all plan assets and benefit obligations under these plans. The accounting for employee benefit plans is complex, as is the process of calculating the benefit obligations under the plans. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the Company's benefit obligations or a significant decrease of the asset values, without necessarily impacting the Company's net income. In addition, the Company's benefit obligations could increase significantly if it needs to unfavorably revise the assumptions used to calculate the obligations. These adverse changes could have a further significant negative impact on the Company's shareowners' deficit. In addition, with respect to the Company's pension plans, the Company expects to make approximately \$10 million of estimated aggregate cash contributions to its qualified pension plans for the years 2018 to 2023. Additionally, the Company's postretirement costs are adversely affected by increases in medical and prescription drug costs. Further, if there are adverse changes to plan assets or if medical and prescription drug costs increase significantly, the Company could be required to contribute additional material amounts of cash to the plans, or could accelerate the timing of required payments.

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Third parties may claim that the Company is infringing upon their intellectual property, and the Company could suffer significant litigation or licensing expenses or be prevented from selling products.

The Company may be unaware of intellectual property rights of others that may cover some of its technology, products or services. Any litigation growing out of third-party patents or other intellectual property claims could be costly and time-consuming and would divert the Company's management and key personnel from its business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Resolution of claims of intellectual property infringement might also require the Company to enter into costly license agreements. Likewise, the Company may not be able to obtain license agreements on acceptable terms. The Company also may be subject to significant damages or injunctions against the development and sale of certain of its products or services. Further, the Company often relies on licenses of third-party intellectual property for its businesses. The Company cannot ensure these licenses will be available in the future on favorable terms or at all.

Third parties may infringe upon the Company's intellectual property, and the Company may expend significant resources enforcing its rights or suffer competitive injury.

The Company's success depends in significant part on the competitive advantage it gains from its proprietary technology and other valuable intellectual property assets. The Company relies on a combination of patents, copyrights, trademarks and trade secrets protections, confidentiality provisions and licensing arrangements to establish and protect its intellectual property rights. If the Company fails to successfully enforce its intellectual property rights, its competitive position could suffer, which could harm its operating results.

The Company may also be required to spend significant resources to monitor and police its intellectual property rights. The Company may not be able to detect third-party infringements and its competitive position may be harmed before the Company does so. In addition, competitors may design around the Company's technology or develop competing technologies. Furthermore, some intellectual property rights are licensed to other companies, allowing them to compete with the Company using that intellectual property.

We could be subject to a significant amount of litigation, which could require us to pay significant damages or settlements.

Our business faces a substantial risk of litigation, including, from time to time, patent infringement lawsuits, antitrust class actions, securities class actions, wage and hour class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection processes. We may incur significant expenses in defending these lawsuits. In addition, we may be required to pay significant awards and settlements.

The Company could incur significant costs resulting from complying with, or potential violations of, environmental, health and human safety laws.

The Company's operations are subject to laws and regulations relating to the protection of the environment, health, and human safety, including those governing the management and disposal of, and exposure to, hazardous materials and the cleanup of contamination, and the emission of radio frequencies. While the Company believes its operations are in substantial compliance with environmental, health, and human safety laws and regulations, as an owner or operator of property, and in connection with the current and historical use of hazardous materials and other operations at its sites, the Company could incur significant costs resulting from complying with or violations of such laws, the imposition of cleanup obligations and third-party suits. For instance, a number of the Company's sites formerly contained underground storage tanks for the storage of used oil and fuel for back-up generators and vehicles.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2017, we owned or maintained properties throughout the U.S. and Canada. Principal office locations are in Cincinnati, Ohio.

Our properties include copper and fiber plants and associated equipment in our local operating market. Each of the Company's subsidiaries maintains some investment in furniture and office equipment, computer equipment and associated operating system software, application system software, leasehold improvements and other assets.

With regard to its local Entertainment and Communications operations, the Company owns substantially all of the central office switching stations and the land upon which they are situated. Some business and administrative offices are located in leased facilities, which are recorded as operating leases. The Company's out-of-territory network assets include a fiber network plant, internet protocol and circuit switches and integrated access terminal equipment. In addition, as of year-end, we lease eight Company-run retail locations.

With regard to the IT Services and Hardware operations, the majority of business and administrative offices are located in leased facilities, which are recorded as both capital and operating leases.

For additional information about the Company's properties, see Note 5 to the consolidated financial statements.

Item 3. Legal Proceedings

We are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations in the normal course of business. We believe that the liabilities accrued for legal contingencies in our consolidated financial statements, as prescribed by generally accepted accounting principles ("GAAP"), are adequate in light of those contingencies that are probable and able to be estimated. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations, and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our consolidated financial statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2017, cannot be reasonably determined.

Based on information currently available, consultation with counsel, available insurance coverage and established reserves, management believes the eventual outcome of all outstanding claims will not, individually or in the aggregate, have a material effect on the Company's financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

The Company's common shares (symbol: CBB) are listed on the New York Stock Exchange. 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") effective 11:59 p.m. October 4, 2016. The following table shows the high and low closing sale prices during each quarter for the last two fiscal years after consideration of the Reverse Split:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017 High	\$24.35	\$19.66	\$21.85	\$22.00
Low	\$17.60	\$16.40	\$16.60	\$18.75
2016 High	\$19.45	\$23.05	\$25.10	\$22.75
Low	\$14.50	\$18.00	\$19.55	\$17.90

(b) Holders

As of January 31, 2018, the Company had 5,895 holders of record of the 42,394,151 common shares outstanding and 155,250 shares outstanding of the 6 ³/₄% Cumulative Convertible Preferred Stock.

(c) Dividends

In both 2017 and 2016, the Company paid \$10.4 million of dividends on its 6 ³/₄% Cumulative Convertible Preferred Stock. In 2017 and 2016, the Company did not pay any dividends on its common stock and does not intend to pay any common stock dividends in 2018.

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(d) Stock Performance

The following graph compares Cincinnati Bell Inc.'s cumulative five-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the S&P Integrated Telecommunication Services index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from December 31, 2012 to December 31, 2017.

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Cincinnati Bell Inc.	\$100	\$65	\$58	\$66	\$82	\$76
S&P 500	\$100	\$132	\$151	\$153	\$171	\$208
S&P Integrated Telecommunication Services	\$100	\$111	\$114	\$117	\$146	\$145

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(e) Issuer Purchases of Equity Securities

The following table provides information regarding the Company's purchases of its common stock during the quarter ended December 31, 2017:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs *	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (in millions)*
10/1/2017 - 12/31/2017	—	\$ —	—	\$ 124.4

* In February 2010, the Board of Directors approved an additional plan for the repurchase of the Company's outstanding common stock in an amount up to \$150.0 million. This repurchase plan does not have a stated maturity.

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Item 6. Selected Financial Data

As further discussed in Note 16 to our consolidated financial statements, we ceased operations of our wireless business as of March 2015. As a result, wireless financial results are now presented as discontinued operations. Therefore, we have recast the financial information, except as noted, for all periods presented.

All shares of common stock and per share information presented in the following table have been adjusted to reflect the Reverse Split on a retroactive basis for all periods presented.

Accounting Standard Update ("ASU") 2015-03 Simplifying the Presentation of Debt Issuance Costs was adopted effective January 1, 2016. As a result, certain note issuance costs were reclassified from "Other noncurrent assets" to "Long-term debt, less current portion." All periods presented in the following table have been recast to present the impact of ASU 2015-03, respectively.

ASU 2016-09 Compensation - Stock Compensation was adopted effective January 1, 2017. As a result, cash flows related to excess tax benefits were reclassified from "Cash flows from operating activities" to "Cash flows from financing activities." All periods presented in the following table have been recast to present the impact of ASU 2016-09, respectively.

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The selected financial data should be read in conjunction with the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this document.

(dollars in millions, except per share amounts)	2017 (g)	2016	2015	2014	2013 (a)
Operating Data					
Revenue	\$1,288.5	\$1,185.8	\$1,167.8	\$1,161.5	\$1,073.4
Cost of services and products, selling, general and administrative, depreciation and amortization expense	1,195.2	1,079.8	1,031.3	979.5	877.6
Other operating costs and losses (b)	55.2	13.0	8.5	5.1	56.0
Operating income	38.1	93.0	128.0	176.9	139.8
Interest expense	85.2	75.7	103.1	145.9	176.0
Loss on extinguishment of debt, net	3.2	19.0	20.9	19.6	29.6
Loss from CyrusOne investment (c)	—	—	5.1	7.0	10.7
Gain on sale of CyrusOne investment	(117.7)	(157.0)	(449.2)	(192.8)	—
Income (loss) from continuing operations	35.1	101.8	290.8	117.7	(64.9)
Income (loss) from discontinued operations, net of tax	—	0.3	62.9	(42.1)	10.2
Net income (loss)	35.1	102.1	353.7	75.6	(54.7)
Basic earnings (loss) per common share from continuing operations	\$0.59	\$2.17	\$6.69	\$2.57	\$(1.83)
Basic earnings (loss) per common share from discontinued operations	\$—	\$0.01	\$1.50	\$(1.01)	\$0.25
Basic earnings (loss) per common share	\$0.59	\$2.18	\$8.19	\$1.56	\$(1.58)
Diluted earnings (loss) per common share from continuing operations	\$0.58	\$2.17	\$6.68	\$2.56	\$(1.83)
Diluted earnings (loss) per common share from discontinued operations	\$—	\$0.01	\$1.49	\$(1.00)	\$0.25
Diluted earnings (loss) per common share	\$0.58	\$2.18	\$8.17	\$1.56	\$(1.58)
Dividends declared per common share	\$—	\$—	\$—	\$—	\$—
Weighted-average common shares outstanding					
Basic	42.2	42.0	41.9	41.7	41.2
Diluted	42.4	42.1	42.0	41.9	41.2
Financial Position					
Property, plant and equipment, net	\$1,129.0	\$1,085.5	\$975.5	\$815.4	\$756.8
Total assets (d)	2,162.4	1,541.0	1,446.4	1,807.0	2,088.2
Total long-term obligations (e)	1,948.2	1,429.8	1,485.4	2,044.7	2,509.5
Other Data					
Cash flow provided by operating activities	\$203.4	\$173.1	\$111.0	\$175.3	\$79.3
Cash flow (used in) provided by investing activities	(236.8)	(95.5)	383.2	392.6	(185.4)
Cash flow (used in) provided by financing activities	420.2	(75.3)	(544.7)	(514.6)	87.1
Capital expenditures (f)	(210.5)	(286.4)	(283.6)	(182.3)	(196.9)

During 2013, CyrusOne results are included for the period January 1, 2013 through January 23, 2013. Effective (a) January 24, 2013, the date of the CyrusOne IPO, we no longer include CyrusOne's operating results in our consolidated financial statements. See Note 1 to the consolidated financial statements.

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- (b) Other operating costs and losses consist of restructuring and severance related charges (reversals), transaction-related compensation, curtailment and settlement loss (gain), loss (gain) on disposal of assets - net, impairment of assets and transaction and integration costs.
- (c) Losses represent our equity method share of CyrusOne's losses from the date of the IPO through December 31, 2015. Effective January 1, 2016, our ownership in CyrusOne is no longer accounted for using the equity method.
- (d) Total assets include current and noncurrent assets from discontinued operations.
- (e) Total long-term obligations are comprised of long-term debt less current portion, deferred income tax liabilities, pension and postretirement benefit obligations, other noncurrent liabilities and noncurrent liabilities from discontinued operations. See Notes 7, 8, 10 and 16 to the consolidated financial statements for discussions related to 2017 and 2016.
- (f) Capital expenditures include capital expenditures from discontinued operations.
- (g) Operating data includes OnX results as of the date of acquisition in October 2017.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K 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. See "Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement" for further information on forward-looking statements.

Executive Summary

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

Consolidated revenue totaling \$1,288.5 million for the year ended December 31, 2017 increased \$102.7 million compared to the prior year as growth in strategic revenue, and revenue of \$172.8 million contributed from acquisitions in 2017, more than offset declines from legacy and integration products. Revenue from our strategic products totaled \$705.0 million in 2017, up 11% compared to 2016.

Operating income in 2017 was \$38.1 million, down \$54.9 million from the prior year due in large part to higher restructuring and severance related charges as the Company initiated reorganizations within both segments of the business resulting in headcount reductions. These reorganizations are intended to more appropriately align the Company for future growth and to reduce field and network costs within our legacy copper network. In addition, transaction and integration costs of \$18.5 million were incurred in 2017 relating to merger and acquisition activity. Depreciation expense increased in conjunction with the increase in property, plant, and equipment as a result of acquisitions, as well as the continued build out of our fiber network. Income from continuing operations totaled \$35.1 million for the year ended December 31, 2017, which included a \$117.7 million gain on the sale of a portion of our CyrusOne investment.

The Company sold 2.8 million CyrusOne Inc. common shares for cash totaling \$140 million during 2017. The cash generated from this transaction was used to pay down the Receivables Facility and partially fund the merger and acquisition activity that closed during 2017. In the fourth quarter of 2017, the Company issued the \$600.0 million Tranche B Term Loan due 2024. The proceeds of the debt were primarily used to repay the remaining \$315.8 million of outstanding principal of its Tranche B Term Loan, accrued and unpaid interest, and to fund the acquisition of OnX. Additionally in the fourth quarter of 2017, the Company issued \$350.0 million of 8% Senior Notes due 2025 at par. The offering of the 8% Senior Notes is part of the financing of the cash portion of the merger consideration for the

previously announced merger with Hawaiian Telcom by the Company (the “HCOM Acquisition”).

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Consolidated Results of Operations

Revenue

(dollars in millions)	2017	2016	\$		2015	\$		
			Change 2017 vs. 2016	% Change 2017 vs. 2016		Change 2016 vs. 2015	% Change 2016 vs. 2015	
Service revenue								
Entertainment and Communications	\$785.1	\$763.0	\$ 22.1	3 %	\$735.0	\$ 28.0	4 %	
IT Services and Hardware	221.0	215.7	5.3	2 %	198.0	17.7	9 %	
Total service revenue	\$1,006.1	\$978.7	\$ 27.4	3 %	\$933.0	\$ 45.7	5 %	

Entertainment and Communications revenue increased as the growth in Fioptics and other strategic services offset the declines in legacy revenue. Fioptics revenue totaled \$309.8 million, \$254.1 million and \$190.8 million for the years ended December 31, 2017, 2016 and 2015, respectively, up 22% in 2017 and up 33% in 2016 from the comparable prior year.

IT Services and Hardware revenue increased \$5.3 million in 2017 compared to 2016 as the contribution of \$40.1 million of revenue from the acquisitions of SunTel and OnX were able to offset losses related to decreases in billable headcount as a key customer pursued cost saving initiatives by in-sourcing IT professionals.

(dollars in millions)	2017	2016	\$		2015	\$		
			Change 2017 vs. 2016	% Change 2017 vs. 2016		Change 2016 vs. 2015	% Change 2016 vs. 2015	
Product revenue								
Entertainment and Communications	\$3.1	\$4.5	\$ (1.4)	(31)%	\$7.4	\$ (2.9)	(39)%	
IT Services and Hardware	279.3	202.6	76.7	38 %	227.4	(24.8)	(11)%	
Total product revenue	\$282.4	\$207.1	\$ 75.3	36 %	\$234.8	\$ (27.7)	(12)%	

Product revenue in Entertainment and Communications decreased by \$2.9 million in 2016 compared to 2015. In 2015, we sold Verizon wireless handsets and accessories at our retail locations generating revenue of \$3.1 million. In 2016 and 2017, the Entertainment and Communications segment is no longer selling Verizon wireless handsets at our retail locations.

Product revenue in IT Services and Hardware is primarily driven by the volume of Telecom and IT hardware sales, reflecting the cyclical fluctuation in capital spending by our enterprise customers. IT Services and Hardware revenue increased \$76.7 million in 2017 versus 2016. During 2017 the IT Services and Hardware segment acquired SunTel and OnX. These acquisitions contributed \$132.7 million of product revenue during 2017, offsetting declines experienced by customers cutting back on capital expenditures.

Operating costs

(dollars in millions)	2017	2016	\$		2015	\$		
			Change 2017 vs. 2016	% Change 2017 vs. 2016		Change 2016 vs. 2015	% Change 2016 vs. 2015	
Cost of services								
Entertainment and Communications	\$365.9	\$344.7	\$ 21.2	6 %	\$319.9	\$ 24.8	8 %	
IT Services and Hardware	166.2	161.7	4.5	3 %	152.6	9.1	6 %	
Total cost of services	\$532.1	\$506.4	\$ 25.7	5 %	\$472.5	\$ 33.9	7 %	

Cost of services increased in both periods due to growth in our strategic products. The increase in Entertainment and Communications costs primarily relate to programming costs associated with our growing Fioptics video subscriber base and rising programming rates. IT Services and Hardware costs primarily relate to the increase in professional services revenue.

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(dollars in millions)	2017	2016					
			\$	%		\$	%
			Change	Change		Change	Change
			2017 vs.	2017 vs.	2015	2016 vs.	2016 vs.
			2016	2016		2015	2015
Cost of products							
Entertainment and Communications	\$2.7	\$2.5	\$ 0.2	8 %	\$6.3	\$(3.8)	(60)%
IT Services and Hardware	226.5	170.0	56.5	33 %	191.8	(21.8)	(11)%
Total cost of products	\$229.2	\$172.5	\$ 56.7	33 %	\$198.1	\$(25.6)	(13)%

Cost of products are primarily impacted by changes in Telecom and IT hardware sales. Entertainment and Communications cost of products decreased from 2015 to 2016 primarily due to lower sales of Verizon handsets at our retail locations.

(dollars in millions)	2017	2016					
			\$	%		\$	%
			Change	Change		Change	Change
			2017 vs.	2017 vs.	2015	2016 vs.	2016 vs.
			2016	2016		2015	2015
Selling, general, and administrative							
Entertainment and Communications	\$138.5	\$141.5	\$(3.0)	(2)%	\$146.2	\$(4.7)	(3)%
IT Services and Hardware	83.7	57.5	26.2	46 %	53.5	4.0	7 %
Corporate	18.7	19.7	(1.0)	(5)%	19.4	0.3	2 %
Total selling, general and administrative	\$240.9	\$218.7	\$ 22.2	10 %	\$219.1	\$(0.4)	0 %

Entertainment and Communications selling, general, and administrative ("SG&A") expenses were down in 2017 versus 2016 due to lower payroll costs related to reduced headcount in addition to reductions in bad debt, reflecting changes to our credit policies. Entertainment and Communications SG&A costs were down in 2016 compared to 2015 due to a one-time pension charge of \$3.8 million incurred in the second quarter of 2015 related to our excess benefit plan. IT Services and Hardware SG&A costs were up in 2017 primarily due to incremental headcount associated with the acquisitions of SunTel and OnX in addition to incremental headcount at branch office locations to support the expansion of our national footprint. Corporate SG&A costs decreased in 2017 driven largely by additional stock-based compensation expense recorded in 2016 as a result of changes in our stock price.

(dollars in millions)	2017	2016					
			\$	%		\$	%
			Change	Change		Change	Change
			2017 vs.	2017 vs.	2015	2016 vs.	2016 vs.
			2016	2016		2015	2015
Depreciation and amortization expense							
Entertainment and Communications	\$174.7	\$168.6	\$ 6.1	4 %	\$129.2	\$ 39.4	30 %
IT Services and Hardware	18.1	13.5	4.6	34 %	12.3	1.2	10 %
Corporate	0.2	0.1	0.1	100 %	0.1	—	0 %
Total depreciation and amortization expense	\$193.0	\$182.2	\$ 10.8	6 %	\$141.6	\$ 40.6	29 %

The increase in Entertainment and Communications depreciation and amortization expense in 2017 versus 2016 is a result of expanding our fiber-based network. The increase in depreciation expense in 2016 versus 2015 is due to reducing the estimated useful life of certain set-top boxes, as well as the related software, as we upgraded customers to new technology. We also reduced the estimated useful life of our copper assets in the fourth quarter of 2015.

The increase in IT Services and Hardware depreciation and amortization expense in 2017 as compared to 2016 is primarily related to the amortization of intangible assets acquired as part of the SunTel and OnX acquisitions, as well as depreciation expense related to acquired property, plant and equipment.

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(dollars in millions)	2017	2016	\$		2015	\$	
			Change	%		Change	%
			2017 vs.	2017 vs.		2016 vs.	2016 vs.
			2016	2016		2015	2015
Restructuring and severance related charges							
Entertainment and Communications	\$27.9	\$7.7	\$ 20.2	n/m	\$ 1.6	\$ 6.1	n/m
IT Services and Hardware	4.8	3.3	1.5	45 %	2.8	0.5	18 %
Corporate	—	0.9	(0.9)	n/m	1.6	(0.7)	(44)%
Total restructuring and severance related charges (reversals)	\$32.7	\$11.9	\$ 20.8	n/m	\$ 6.0	\$ 5.9	98 %

In 2017, restructuring and severance related charges were associated with the Company initiated reorganizations within both segments of the business that resulted in headcount reductions. The reorganizations are intended to more appropriately align the Company for future growth and reduce field and network costs within our legacy copper network.

In 2016, restructuring and severance related charges were associated with headcount reductions that resulted due to increased in-sourcing of IT professionals by a significant customer, as well as initiatives to reduce costs associated with our legacy copper network group, including a voluntary severance program for certain management employees. In 2015, restructuring charges represented severance associated with employee separations, consulting fees related to a workforce optimization initiative, and lease abandonments.

Other operating costs

(dollars in millions)	2017	2016	\$		2015	\$	
			Change	%		Change	%
			2017 vs.	2017 vs.		2016 vs.	2016 vs.
			2016	2016		2015	2015
Other operating costs							
Transaction and integration costs	\$18.5	\$—	\$ 18.5	100 %	\$ 1.4	\$(1.4)	n/m
Curtailment loss	—	—	—	n/m	0.3	(0.3)	n/m
Pension settlement charges	4.0	—	4.0	100 %	—	—	n/m
Loss on sale of disposal of assets, net	—	1.1	(1.1)	n/m	0.8	0.3	38 %
Total other operating costs	\$22.5	\$1.1	\$ 21.4	n/m	\$ 2.5	\$(1.4)	(56)%

Transaction and integration costs incurred in 2017, recorded in the Corporate segment, are due to the acquisition of SunTel in the first quarter of 2017, the acquisition of OnX that closed in the fourth quarter of 2017, and the pending merger agreement with Hawaiian Telcom. The merger with Hawaiian Telcom is expected to close in the second half of 2018. Transaction and integration costs incurred in 2015 primarily represent fees for exploring opportunities to increase the scale of our IT Services and Hardware Segment.

In 2017, the Company recorded a \$4.0 million pension settlement charge for the Cincinnati Bell Pension Plan ("CBPP") as the lump sum payments to CBPP plan participants exceeded the sum of the service cost and interest cost component of net pension cost for the year.

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Non-operating expenses (income)

(dollars in millions)	2017	2016	\$		2015	\$	
			Change	%		Change	%
			2017 vs.	2017 vs.		2016 vs.	2016 vs.
			2016	2016		2015	2015
Non-operating costs							
Interest expense	\$85.2	\$75.7	\$ 9.5	13 %	\$103.1	\$(27.4)	(27)%
Loss on extinguishment of debt, net	3.2	19.0	(15.8)	(83)%	20.9	(1.9)	(9)%
Gain on Sale of CyrusOne investment	(117.7)	(157.0)	39.3	(25)%	(449.2)	292.2	(65)%
Other expense (income), net	1.4	(7.6)	9.0	n/m	2.6	(10.2)	n/m
Income tax expense	30.9	61.1	(30.2)	(49)%	159.8	(98.7)	(62)%
Income (loss) from discontinued operations, net of tax	—	0.3	(0.3)	n/m	62.9	(62.6)	n/m

Interest expense increased in 2017 compared to 2016 due to the Company entering into the \$600.0 million Tranche B Term Loan 2024 and issuing \$350.0 million 8% Senior Notes in the fourth quarter of 2017. The Company repaid the remaining \$315.8 million Tranche B Term Loan due 2020 outstanding under its old Corporate Credit Agreement with the proceeds from the \$600.0 million Tranche B Term Loan due 2024. In addition, the increase in interest expense in 2017 is attributable to a full year of expense on the 7.0% Senior Notes due 2024 that were issued in the third quarter of 2016. Interest expense decreased in 2016 compared to 2015 due to the Company using proceeds from the sale of a portion of its CyrusOne investment to repay debt. During 2017, we increased our total debt by \$541.1 million. During 2016 and 2015, we reduced our total debt by \$31.0 million and \$449.7 million, respectively. Certain debt repayments in each period resulted in a loss on extinguishment of debt.

In 2017, the Company recognized a gain of \$117.7 million on the sale of 2.8 million CyrusOne common shares. In 2016, the Company recognized a gain of \$157.0 million on the sale of 4.1 million CyrusOne common shares. In 2015, the Company recognized a gain of \$412.9 million on the sale of 20.3 million CyrusOne LP partnership units and a gain of \$36.3 million on the sale of 1.4 million CyrusOne common shares. At December 31, 2017, we no longer own any shares of CyrusOne.

Dividends declared by CyrusOne in 2016 totaled \$6.4 million and were included in Other (income) expense, net. For 2015, Other (income) expense, net includes the Company's share of CyrusOne's net loss recorded under the equity method of accounting totaling \$5.1 million.

Income tax expense fluctuates accordingly based on changes in income from continuing operations before income taxes, as well as rate changes. The Company uses federal and state net operating loss carryforwards to defray payment of federal and state tax liabilities. The Company also had significant Alternative Minimum Tax ("AMT") refundable tax credit carryforwards available to offset future income tax liabilities. The Company made an election on the 2016 income tax return to claim the available portion of these credits in lieu of claiming bonus depreciation. As a result, the Company had cash income tax refunds (net of payments), totaling \$12.9 million in 2017. The company plans to make the same election to accelerate AMT refundable tax credits on the 2017 tax return and, as a result, reclassified \$14.8 million of AMT refundable tax credits from "Deferred income taxes, net" to "Receivables" as these credits are expected to be received during 2018.

In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates due to non-deductible expenses. Non-deductible expenses during 2017 were higher than in recent prior years due to \$10.4 million of non-deductible acquisition related expenses incurred during the year.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was signed in to law. The Tax Act significantly revised the U.S. Corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35 percent to 21 percent. In addition, effective January 1, 2018, there are limitations on the deductibility of interest and executive compensation and the corporate alternative minimum tax (AMT) is eliminated. As a result of the Tax Act, the Company recorded a tax expense of \$6.8 million due to a remeasurement of deferred tax assets and liabilities.

Effective March 31, 2015, we discontinued operating our wireless business as there were no subscribers remaining on the network. As a result, we no longer required the use of the spectrum being leased. Therefore, the \$112.6 million gain on sale of wireless spectrum licenses, which had previously been deferred, was recognized during the three months ended March 31, 2015. On April 1, 2015, we transferred certain other wireless assets to the purchaser, 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. These gains were partially offset by operating losses as we continued to incur costs during the wind down of the wireless business.

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Discussion of Operating Segment Results

The Company manages its business based upon product and service offerings. For the years ended December 31, 2017, 2016, and 2015, we operated two business segments: Entertainment and Communications and IT Services and Hardware. The closing of our wireless operations, effective March 31, 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. For further details of Discontinued Operations, see Note 1 and Note 16 of Notes to Consolidated Financial Statements.

Certain corporate administrative expenses have been allocated to our business segments based upon the nature of the expense and the relative size of the segment. Intercompany transactions between segments have been eliminated.

Entertainment and Communications

The Entertainment and Communications segment provides products and services such as data transport, high-speed internet, video, local voice, long distance, VoIP and other services. CBT, a subsidiary of the Company, is the ILEC for a geography that covers a radius of approximately 25 miles around Cincinnati, Ohio, and includes parts of northern Kentucky and southeastern Indiana. CBT has operated in this territory for over 140 years. Voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, are provided through the operations of CBET, a CLEC and subsidiary of CBT. The Entertainment and Communications segment provides Long distance and VoIP services primarily through CBTS Technology Solutions LLC, which was formerly known as Cincinnati Bell Any Distance Inc.

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Entertainment and Communications, continued

(dollars in millions)	2017	2016	\$			% Change			
			Change 2017 vs. 2016	Change 2017 vs. 2016	2015	Change 2016 vs. 2015	Change 2016 vs. 2015		
Revenue:									
Data	\$351.6	\$344.8	\$6.8	2	%	\$322.8	\$22.0	7	%
Voice	267.3	275.0	(7.7)	(3)	)%	291.9	(16.9)	(6))%
Video	149.2	125.7	23.5	19	%	96.6	29.1	30	%
Services and Other	21.8	23.3	(1.5)	(6)	)%	32.4	(9.1)	(28))%
Total revenue	789.9	768.8	21.1	3	%	743.7	25.1	3	%
Operating costs and expenses:									
Cost of services and products	379.3	359.5	19.8	6	%	331.5	28.0	8	%
Selling, general and administrative	138.7	141.6	(2.9)	(2)	)%	150.9	(9.3)	(6))%
Depreciation and amortization	174.7	168.6	6.1	4	%	129.2	39.4	30	%
Restructuring and severance charges	27.9	7.7	20.2	n/m		1.6	6.1	n/m	
Other	4.0	0.8	3.2	n/m		0.6	0.2	33	%
Total operating costs and expenses	724.6	678.2	46.4	7	%	613.8	64.4	10	%
Operating income	\$65.3	\$90.6	\$(25.3)	(28)	)%	\$129.9	\$(39.3)	(30))%
Operating margin	8.3	% 11.8	%	(3.5)		17.5	%	(5.7)	
Capital expenditures	\$196.4	\$272.5	\$(76.1)	(28)	)%	\$269.5	\$3.0	1	%
Metrics (in thousands):									
Fioptics units passed	572.2	533.4	38.8	7	%	432.0	101.4	23	%
Internet subscribers:									
DSL	82.1	105.6	(23.5)	(22)	)%	133.7	(28.1)	(21))%
Fioptics	226.6	197.6	29.0	15	%	153.7	43.9	29	%
Total internet subscribers	308.7	303.2	5.5	2	%	287.4	15.8	5	%
Fioptics video subscribers	146.5	137.6	8.9	6	%	114.4	23.2	20	%
Residential voice lines:									
Legacy	94.9	117.5	(22.6)	(19)	)%	146.4	(28.9)	(20))%
Fioptics	88.8	83.8	5.0	6	%	71.4	12.4	17	%
Total residential voice lines	183.7	201.3	(17.6)	(9)	)%	217.8	(16.5)	(8))%
Business voice lines:									
Legacy	167.1	190.7	(23.6)	(12)	)%	215.4	(24.7)	(11))%
VoIP*	166.0	131.7	34.3	26	%	89.5	42.2	47	%
Total business voice lines	333.1	322.4	10.7	3	%	304.9	17.5	6	%
Total voice lines	516.8	523.7							