CINCINNATI BELL INC
Form 10-Q
October 29, 2012

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-8519
CINCINNATI BELL INC.

Ohio	31-1056105
(State of Incorporation)	(I.R.S. Employer Identification No.)

221 East Fourth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip Code)
(513) 397-9900
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
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 x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

At September 30, 2012, there were 199,430,620 common shares outstanding.

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PART I. Financial Information

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue				
Services	$319.5	$314.2	$956.4	$940.4
Products	48.7	54.6	142.8	156.7
Total revenue	368.2	368.8	1,099.2	1,097.1
Costs and expenses				
Cost of services, excluding items below	123.4	120.1	365.4	345.6
Cost of products sold, excluding items below	48.9	54.5	144.4	157.2
Selling, general and administrative	72.2	66.5	199.6	197.7
Depreciation and amortization	55.4	49.1	160.2	146.3
Restructuring charges	0.9	—	3.0	—
Gain on sale or disposal of assets	(0.6)	(8.4)	(0.6)	(8.4)
Curtailment loss	—	—	—	4.2
Transaction costs	1.7	0.7	1.7	2.6
Asset impairments	0.3	—	13.3	1.6
Total operating costs and expenses	302.2	282.5	887.0	846.8
Operating income	66.0	86.3	212.2	250.3
Interest expense	55.2	53.3	163.3	161.2
Other expense, net	0.1	—	1.6	—
Income before income taxes	10.7	33.0	47.3	89.1
Income tax expense	6.8	15.4	26.3	40.1
Net income	3.9	17.6	21.0	49.0
Preferred stock dividends	2.6	2.6	7.8	7.8
Net income applicable to common shareowners	$1.3	$15.0	$13.2	$41.2
Basic earnings per common share	$0.01	$0.08	$0.07	$0.21
Diluted earnings per common share	$0.01	$0.07	$0.07	$0.21

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$3.9	$17.6	$21.0	$49.0
Other comprehensive income, net of tax:				
Foreign currency translation gain	0.1	—	0.1	—
Defined benefit pension and postretirement plans:				
Net gain arising from remeasurement during the period, net of tax of $0.9	—	—	—	1.4
Amortization of prior service benefits included in net income, net of tax of ($1.2), ($1.1), ($3.5), ($3.5)	(2.0)	(2.1)	(6.2)	(6.1)
Amortization of net actuarial loss included in net income, net of tax of $2.2, $1.9, $7.0, $5.7	4.2	3.4	12.5	9.9
Reclassification adjustment for curtailment loss included in net income, net of tax of $1.5	—	—	—	2.7
Other comprehensive income	2.3	1.3	6.4	7.9
Total comprehensive income	$6.2	$18.9	$27.4	$56.9

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

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except share amounts)
(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$7.7	$73.7
Receivables, less allowances of $13.1 and $11.6	193.8	179.4
Inventory, materials and supplies	26.0	23.8
Deferred income taxes, net	32.2	30.2
Prepaid expenses	13.8	11.2
Other current assets	11.9	2.7
Total current assets	285.4	321.0
Property, plant and equipment, net	1,510.4	1,400.5
Goodwill	290.6	290.6
Intangible assets, net	201.5	216.9
Deferred income taxes, net	392.6	423.5
Other noncurrent assets	71.8	62.2
Total assets	$2,752.3	$2,714.7
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$13.3	$13.0
Accounts payable	132.2	133.4
Unearned revenue and customer deposits	48.7	48.2
Accrued taxes	19.7	15.5
Accrued interest	58.5	45.6
Accrued payroll and benefits	47.1	52.6
Other current liabilities	34.1	48.1
Total current liabilities	353.6	356.4
Long-term debt, less current portion	2,561.9	2,520.6
Pension and postretirement benefit obligations	355.7	389.9
Other noncurrent liabilities	165.7	163.0
Total liabilities	3,436.9	3,429.9
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 $^{3}/_{4}$% Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2012 and December 31, 2011; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 199,922,339 and 196,322,649 shares issued; 199,430,620 and 195,721,796 shares outstanding at September 30, 2012 and December 31, 2011	2.0	2.0
Additional paid-in capital	2,587.5	2,584.6
Accumulated deficit	(3,199.0)	(3,220.0)
Accumulated other comprehensive loss	(202.5)	(208.9)
Common shares in treasury, at cost	(2.0)	(2.3)
Total shareowners' deficit	(684.6)	(715.2)

Total liabilities and shareowners’ deficit	$2,752.3	$2,714.7

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities		
Net income	$21.0	$49.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	160.2	146.3
Provision for loss on receivables	11.6	10.6
Asset impairments	13.3	1.6
Noncash portion of interest expense	5.8	5.7
Deferred income tax provision	25.8	39.9
Pension and other postretirement payments in excess of expense	(24.3)	(16.6)
Stock-based compensation	3.6	3.0
Gain on sale or disposal of assets	(0.6)	(8.4)
Other, net	(1.2)	(2.7)
Changes in operating assets and liabilities		
Increase in receivables	(26.1)	(6.5)
Increase in inventory, materials, supplies, prepaid expenses and other current assets	(13.4)	(6.4)
Decrease in accounts payable	(10.4)	(13.3)
(Decrease) increase in accrued and other current liabilities	(9.6)	4.5
Increase in other noncurrent assets	(4.2)	(1.7)
Increase (decrease) in other noncurrent liabilities	3.5	(6.5)
Net cash provided by operating activities	155.0	198.5
Cash flows from investing activities		
Capital expenditures	(242.9)	(167.0)
Proceeds from sale of assets	0.6	9.8
Increase in restricted cash	(11.1)	—
Release of restricted cash	0.7	—
Other, net	—	(0.3)
Net cash used in investing activities	(252.7)	(157.5)
Cash flows from financing activities		
Borrowing on receivables facilities, net	44.0	0.4
Repayment of debt	(11.3)	(9.0)
Debt issuance costs	—	(0.8)
Dividends paid on preferred stock	(7.8)	(7.8)
Common stock repurchase	(0.3)	(10.0)
Proceeds from exercise of options and warrants	8.1	0.1
Other, net	(1.0)	(0.5)
Net cash provided by (used in) financing activities	31.7	(27.6)
Net (decrease) increase in cash and cash equivalents	(66.0)	13.4
Cash and cash equivalents at beginning of period	73.7	77.3
Cash and cash equivalents at end of period	$7.7	$90.7
Noncash investing and financing transactions:		
Acquisition of property by assuming debt and other noncurrent liabilities	$7.8	$32.5

Acquisition of property on account	$37.9	$15.4

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

Description of Business — Cincinnati Bell Inc. and its consolidated subsidiaries (the “Company” or “we”) provide diversified telecommunications and technology services through businesses in four segments: Wireline, Wireless, Data Center Colocation, and IT Services and Hardware. On August 8, 2012, the Company filed an initial Registration Statement on Form S-11 to register the common shares of its wholly owned subsidiary, CyrusOne Inc., for a proposed initial public offering.

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

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

The Condensed Consolidated Balance Sheet as of December 31, 2011 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Company’s 2011 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results expected for the full year or any other interim period.

Use of Estimates — Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates. In the normal course of business, the Company is subject to various regulatory and tax proceedings, lawsuits, claims, and other matters. The Company believes adequate provision has been made for all such asserted and unasserted claims in accordance with U.S. GAAP. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance.

Recently Issued Accounting Standards — In July 2012, the Financial Accounting Standards Board (“FASB”) amended the guidance in Accounting Standards Codification (“ASC”) 350-30 on testing indefinite-lived intangibles assets, other than goodwill, for impairment. Under the revised guidance, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before performing quantitative tests. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not impaired, the entity would not need to perform the quantitative tests. This guidance will be effective for our annual impairment tests for the year ending December 31, 2013. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements; rather it may change management's approach to testing indefinite-lived intangible assets for impairment.

In December 2011, the FASB amended the guidance in ASC 210 related to disclosures about offsetting assets and liabilities. The amendments would require an entity to disclose information about financial instruments and derivative instruments that are either offset subject to ASC 210-20-45 or ASC 815-10-45, or subject to enforceable master netting arrangements or similar arrangements. We will be required to adopt this guidance beginning with our interim financial statements for the three months ending March 31, 2013. The adoption of this accounting standard is not expected to have a material impact on our financial statements.

In September 2011, the FASB amended the guidance in ASC 350-20 on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The Company adopted this guidance beginning with its interim financial statements for the three months ended March 31, 2012. The adoption of this accounting standard did not have a material impact on the Company's financial statements; but rather it may change the Company's approach for annual goodwill testing.

In June 2011, the FASB issued new guidance under ASC 220 regarding the presentation of comprehensive income in financial statements. An entity has the option to present the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The Company adopted this guidance beginning with its interim financial statements for the three months ended March 31, 2012. The adoption of this new standard did not have a material impact on the Company's financial statements, but rather it prescribes the presentation of other comprehensive income

in our financial statements. Separately, in December 2011, the FASB amended a portion of this guidance to defer proposed changes to the presentation of reclassification adjustments.
Income Taxes — The Company's income tax provision for interim periods is determined through the use of an estimated annual effective tax rate applied to year-to-date ordinary income, as well as the tax effects associated with discrete items.

2. Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2012	2011	2012	2011
Numerator:				
Net income	$3.9	$17.6	$21.0	$49.0
Preferred stock dividends	2.6	2.6	7.8	7.8
Income available to common shareholders - basic and diluted	$1.3	$15.0	$13.2	$41.2
Denominator:				
Weighted average common shares outstanding - basic	196.4	196.5	195.8	197.4
Warrants	5.6	1.2	3.9	0.5
Stock-based compensation arrangements	3.6	2.9	3.3	2.5
Weighted average common shares outstanding - diluted	205.6	200.6	203.0	200.4
Basic earnings per common share	$0.01	$0.08	$0.07	$0.21
Diluted earnings per common share	$0.01	$0.07	$0.07	$0.21

For the three and nine months ended September 30, 2012, awards under the Company's stock-based compensation plans for common shares of 4.4 million and 6.2 million, respectively, were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2011, awards for common shares of 11.2 million and 11.6 million, respectively, were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods, preferred stock convertible into 4.5 million common shares was excluded as the inclusion would have been anti-dilutive.

3. Long-Lived and Intangible Assets

During the second quarter of 2012, management identified impairment indicators for a customer relationship intangible and property and equipment primarily related to our GramTel acquisition, and a preliminary estimate of the impairment loss of $13.0 million was recognized in the Statement of Operations and the Data Center Colocation segment. During the third quarter, management completed its valuation process and recognized additional impairment losses of $0.3 million. Management estimated the fair value of the customer relationship intangible at $2.8 million resulting in an impairment loss of $1.5 million. The fair value of other long-lived assets, primarily leasehold improvements, was estimated at $2.4 million resulting in an impairment loss of $11.8 million. For the nine months ended September 30, 2012, impairment losses of $13.3 million were recognized in the Statement of Operations and Data Center Colocation segment.
In the nine months ended September 30, 2011, asset impairment losses of $1.6 million were recognized. In the first quarter of 2011, the Wireless segment had certain capital projects canceled or abandoned resulting in an asset impairment of $1.1 million, which represents the full carrying value of the canceled and abandoned projects. In the

second quarter of 2011, a $0.5 million asset impairment charge was recorded on certain properties held for sale in the Wireline segment which were impaired as their estimated fair value was lower than their carrying value.

4. Debt

The Company's debt consists of the following:

(dollars in millions)	September 30, 2012	December 31, 2011
Current portion of long-term debt:		
Capital lease obligations and other debt	$13.3	$13.0
Current portion of long-term debt	13.3	13.0
Long-term debt, less current portion:		
Receivables facility	44.0	—
7% Senior Notes due 2015*	249.7	250.4
8 1/4% Senior Notes due 2017	500.0	500.0
8 3/4% Senior Subordinated Notes due 2018	625.0	625.0
8 3/8% Senior Notes due 2020	775.0	775.0
7 1/4% Senior Notes due 2023	40.0	40.0
Various Cincinnati Bell Telephone notes	207.5	207.5
Capital lease obligations and other debt	128.2	131.4
	2,569.4	2,529.3
Net unamortized discount	(7.5)	(8.7)
Long-term debt, less current portion	2,561.9	2,520.6
Total debt	$2,575.2	$2,533.6

* The face amount of these notes has been adjusted for the unamortized called amounts received on terminated interest rate swaps.

As of September 30, 2012, the Company had no outstanding borrowings on its revolving credit facility, leaving $210.0 million available for borrowings. This revolving credit facility expires in June 2014.

As of September 30, 2012, the Company had $44.0 million of borrowings and $23.2 million of letters of credit outstanding under the accounts receivable securitization facility ("Receivables Facility"), leaving $30.4 million remaining on the available borrowings of $97.6 million. The Receivables Facility is subject to renewal every 364 days. On June 4, 2012, the Company amended its Receivables Facility to extend its term to June 3, 2013. In the event the Receivables Facility is not renewed, the Company has the ability to refinance any outstanding borrowings with borrowings under its revolving credit facility. The permitted borrowings vary depending on the level of eligible receivables and other factors. Under the Receivables Facility, certain subsidiaries, or originators, sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC ("CBF"). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company's other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF and, as such, are not available to creditors of other subsidiaries or the Company.

On October 1, 2012, the Company and CBF amended the Receivables Facility to remove CyrusOne Inc., a Delaware corporation, as an originator and to remove the CyrusOne receivables from the financing provided under the Receivables Facility.

5. Financial Instruments and Fair Value Measurements
Fair Value of Financial Instruments

The carrying values of the Company's financial instruments approximate the estimated fair values as of September 30, 2012 and December 31, 2011, except for the Company's debt and other financing arrangements.

The carrying value and fair value of the Company's long-term debt and other financing arrangements are as follows:

	September 30, 2012		December 31, 2011	
(dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$2,575.2	$2,673.2	$2,533.6	$2,460.5
Other financing arrangements	49.2	48.5	47.9	47.2

The fair value of debt instruments was based on closing or estimated market prices of the Company's debt at September 30, 2012 and December 31, 2011, which is considered Level 2 of the fair value hierarchy. The fair value of other financing arrangements was calculated using a discounted cash flow model that incorporates current borrowing rates for obligations of similar duration, which is considered Level 3 of the fair value hierarchy.

Non-Recurring Fair Value Measurements
Certain long-lived assets, intangibles, and goodwill are required to be measured at fair value on a non-recurring basis subsequent to their initial measurement. These non-recurring fair value measurements generally occur when evidence of impairment has occurred.
As of June 30, 2012, the following assets were measured at fair value:

		Fair Value Measurements Using			
(dollars in millions)	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Customer relationship intangible	$2.8	$—	$—	$2.8	$(1.5)
Property	2.4	—	—	2.4	(11.8)
Impairment losses					$(13.3)

In the second quarter of 2012, the customer relationship intangible obtained in the GramTel acquisition was deemed impaired. The fair value of this asset was estimated at $2.8 million, resulting in an impairment loss of $1.5 million. The fair value of this asset was estimated by management with the assistance of a third-party valuation specialist. Management estimated the fair value using the income approach, which discounted the expected future earnings attributable to the acquired customer contracts, and includes estimates of future expenses, capital expenditures and an appropriate discount rate. This fair value measurement is considered a Level 3 measurement due to the significance of its unobservable inputs.
In addition, certain leasehold improvements at data centers acquired in the GramTel acquisition were deemed impaired. Prior to recognizing the impairment, these assets had a net book value of $14.2 million as of June, 30, 2012. The fair value of the assets was written down to the estimated fair value of $2.4 million, resulting in an impairment loss of $11.8 million. The fair value of these assets was estimated by management with the assistance of a third-party valuation specialist. Management estimated the fair value using an income approach. Projected discounted cash flows utilized under the income approach included estimates regarding future revenues and expenses, projected capital expenditures and an appropriate discount rate. This fair value measurement is considered a Level 3 measurement due to the significance of its unobservable inputs.

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6. Restructuring Charges

Restructuring liabilities have been established for employee separation obligations, lease abandonments and contract terminations. A summary of the activity in these liabilities is presented below:

(dollars in millions)	Employee Separation	Lease Abandonment	Contract Terminations	Total
Balance as of December 31, 2011	$14.2	$8.1	$1.7	$24.0
Charges	0.4	0.5	—	0.9
Utilizations	(1.7)	(1.3)	(1.3)	(4.3)
Balance as of March 31, 2012	12.9	7.3	0.4	20.6
Charges	0.9	0.3	—	1.2
Utilizations	(1.1)	(0.8)	(0.1)	(2.0)
Balance as of June 30, 2012	12.7	6.8	0.3	19.8
Charges	0.9	—	—	0.9
Utilizations	(2.7)	(0.8)	(0.1)	(3.6)
Balance as of September 30, 2012	$10.9	$6.0	$0.2	$17.1

For the three months ended March 31, 2012, a restructuring charge of $0.5 million was recognized for the remaining lease obligations associated with the exit of three retail stores. In addition, a restructuring charge of $0.4 million was recognized for severance associated with employee separation contracts.

For the three months ended June 30, 2012, a restructuring charge of $1.2 million was recognized for severance associated with employee separations and remaining lease obligations associated with the exit of an out-of-territory sales office.

For the three months ended September 30, 2012, a restructuring charge of $0.9 million was recognized for severance associated with separations of call center employees.

A summary of restructuring activity by business segment is presented below:

(dollars in millions)	Wireline	Wireless	Data Center Colocation	IT Services and Hardware	Corporate	Total
Balance as of December 31, 2011	$15.1	$0.7	$—	$2.5	$5.7	$24.0
Charges	—	0.5	—	—	0.4	0.9
Utilizations	(2.9)	(0.4)	—	(0.2)	(0.8)	(4.3)
Balance as of March 31, 2012	12.2	0.8	—	2.3	5.3	20.6
Charges	0.7	—	0.5	—	—	1.2
Utilizations	(1.4)	(0.3)	(0.1)	(0.2)	—	(2.0)
Balance as of June 30, 2012	11.5	0.5	0.4	2.1	5.3	19.8
Charges	0.9	—	—	—	—	0.9
Utilizations	(2.2)	—	(0.4)	(0.1)	(0.9)	(3.6)
Balance as of September 30, 2012	$10.2	$0.5	$—	$2.0	$4.4	$17.1

Employee separation costs consist of severance to be paid pursuant to the Company's written severance plan, certain management contracts and a voluntary termination program offered to certain Wireline call center employees. Severance payments are expected to be paid through 2013. Lease abandonment costs represent future minimum lease obligations, net of expected sublease income, for abandoned facilities. Lease payments on abandoned facilities will continue through 2018. Contract terminations consist of amounts due to distributors to terminate their contractual agreements and to telecommunication carriers to cancel circuits. All contract termination expenses are expected to be paid in 2012.

At September 30, 2012 and December 31, 2011, $7.6 million and $12.6 million, respectively, of the restructuring liabilities were included in “Other current liabilities,” and $9.5 million and $11.4 million, respectively, were included in “Other noncurrent liabilities,” in the Condensed Consolidated Balance Sheets.

7. Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit plans and a postretirement health and life insurance plan. A portion of these costs is capitalized as a component of internal labor costs incurred for network construction in the Wireline segment, historically averaging approximately 8%.

Effective January 1, 2012 and pursuant to a new labor agreement ratified in 2011, pension credits have been curtailed for certain bargained employees.

Pension and postretirement benefit costs are as follows:

	Three Months Ended September 30,			
	2012	2011	2012	2011
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$0.7	$1.2	$0.2	$0.1
Interest cost on projected benefit obligation	5.3	6.2	1.4	1.7
Expected return on plan assets	(6.6)	(7.4)	—	—
Amortization of:				
Prior service cost (benefit)	—	0.1	(3.2)	(3.3)
Actuarial loss	4.8	3.6	1.6	1.7
Benefit costs	$4.2	$3.7	$—	$0.2

	Nine Months Ended September 30,			
	2012	2011	2012	2011
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$2.0	$3.8	$0.4	$0.3
Interest cost on projected benefit obligation	16.0	18.6	4.2	5.3
Expected return on plan assets	(19.6)	(22.0)	—	—
Amortization of:				
Prior service cost (benefit)	0.1	0.3	(9.8)	(9.9)
Actuarial loss	14.5	10.7	5.0	4.9
Curtailment loss	—	4.2	—	—
Benefit costs	$13.0	$15.6	$(0.2)	$0.6

Contributions in 2012 to the Company's pension and postretirement plans are expected to be approximately $26 million and $22 million, respectively. For the nine months ended September 30, 2012, contributions to the pension plans were $22.5 million and contributions to the postretirement plan were $16.0 million.

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8. Stock-Based and Other Compensation Plans

The Company grants stock options, stock appreciation rights ("SARs"), performance-based awards, and time-based restricted shares, some of which are cash-payment awards, with the final award payment indexed to the percentage change in the Company's stock price from the date of grant.

The Company recognized stock-based compensation expense of $6.4 million and $11.2 million for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2011, the Company recognized stock-based compensation expense of $1.5 million and $5.2 million, respectively. As of September 30, 2012, there was $7.3 million of unrecognized compensation expense related to these awards. The remaining compensation expense for the stock options, SARs and restricted awards is expected to be recognized over a weighted-average period of approximately two years, and the remaining expense for performance-based awards will be recognized within approximately one year.

The Company also has deferred compensation plans for its Board of Directors and certain executives. Under these plans, participants can elect to invest their deferrals in the Company's common stock. At September 30, 2012 and 2011, the number of common shares deferred under these plans was 0.7 million and 0.8 million, respectively. As these awards can be settled in cash, the Company records compensation costs each period based on the change in the Company's stock price. The Company recognized an expense of $1.4 million and expense of $1.9 million for the three and nine months ended September 30, 2012, respectively. The Company recognized no expense for the three months ended September 30, 2011 and expense of $0.3 million for the nine months ended September 30, 2011.

In 2010, the Company's Board of Directors approved new long-term incentive programs for certain members of management. Payment is contingent upon the completion of a qualifying transaction and attainment of an increase in the equity value of the data center business, as defined in the plans. As of September 30, 2012, the Compensation Committee of the Company's Board of Directors has approved grants that could result in a maximum payout up to $90 million assuming the equity value created is $1.0 billion. For the quarter ended September 30, 2012, no compensation expense was recorded for these awards.

9. Share Repurchases

In 2010, the Board of Directors approved a plan for the repurchase of the Company's outstanding common stock in an amount up to $150.0 million. Prior to 2011, the Company repurchased and retired shares with a total cost of $10.0 million. In late 2011, the Company purchased 3.4 million shares at a cost of $10.8 million and retired 3.3 million shares. During the nine months ended September 30, 2012, the Company cash settled $0.3 million and retired the remaining 0.1 million shares. As of September 30, 2012, the Company has the authority to repurchase $129.2 million of its common stock.

10. Business Segment Information

The Company operates in four segments: Wireline, Wireless, Data Center Colocation, and IT Services and Hardware. The Company's segments are strategic business units that offer distinct products and services and are aligned with its internal management structure and reporting.

The Wireline segment provides local voice, data, long distance, entertainment, voice over internet protocol ("VoIP"), and other services over its owned and other wireline networks. The Wireless segment provides advanced digital voice and data communications services and sales of related handset equipment to customers in the Greater Cincinnati and Dayton, Ohio operating areas. The Data Center Colocation segment provides data center colocation services primarily to large businesses. The Company owns or maintains 23 data centers in Texas, Ohio, Kentucky, Indiana, Illinois, England and Singapore. The IT Services and Hardware segment provides a range of fully managed and outsourced information technology ("IT") and telecommunications services along with the sale, installation, and maintenance of major branded IT and telephony equipment.

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

Selected financial data for the Company's business segment information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	2012	2011	2012	2011
Revenue				
Wireline	$182.3	$182.7	$548.4	$551.8
Wireless	59.5	68.1	185.0	209.2
Data Center Colocation	56.7	47.1	163.3	135.6
IT Services and Hardware	78.3	78.9	228.8	224.9
Intersegment	(8.6)	(8.0)	(26.3)	(24.4)
Total revenue	$368.2	$368.8	$1,099.2	$1,097.1
Intersegment revenue				
Wireline	$4.8	$5.8	$14.5	$17.4
Wireless	0.5	0.6	1.7	1.7
Data Center Colocation	1.5	0.5	4.7	1.6
IT Services and Hardware	1.8	1.1	5.4	3.7
Total intersegment revenue	$8.6	$8.0	$26.3	$24.4
Operating income				
Wireline	$50.9	$65.2	$162.8	$180.2
Wireless	12.6	11.6	43.5	43.1
Data Center Colocation	11.2	11.3	22.5	36.1
IT Services and Hardware	3.8	4.0	7.2	8.7
Corporate	(12.5)	(5.8)	(23.8)	(17.8)
Total operating income	$66.0	$86.3	$212.2	$250.3
Expenditures for long-lived assets				
Wireline	$27.8	$27.1	$77.5	$75.2
Wireless	4.2	4.9	12.4	10.6
Data Center Colocation	41.6	41.0	146.4	77.2
IT Services and Hardware	1.9	1.5	6.6	4.0
Total expenditures for long-lived assets	$75.5	$74.5	$242.9	$167.0
Depreciation and amortization				
Wireline	$26.6	$25.6	$78.9	$76.1
Wireless	8.1	8.0	24.0	25.1
Data Center Colocation	18.3	13.2	50.9	38.2
IT Services and Hardware	2.4	2.2	6.3	6.6
Corporate	—	0.1	0.1	0.3
Total depreciation and amortization	$55.4	$49.1	$160.2	$146.3

	September 30, 2012	December 31, 2011
Assets		
Wireline	$721.0	$713.6
Wireless	277.5	295.2
Data Center Colocation	1,089.0	964.0
IT Services and Hardware	44.2	36.6
Corporate and eliminations	620.6	705.3
Total assets	$2,752.3	$2,714.7

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11. Supplemental Guarantor Information

Cincinnati Bell Telephone Notes

Cincinnati Bell Telephone Company LLC ("CBT"), a wholly-owned subsidiary of Cincinnati Bell Inc. (the "Parent Company"), had $207.5 million in notes outstanding at September 30, 2012, that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company's subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company's debt service obligations. As of December 31, 2011, management completed a restructuring of certain of its legal entities. Cincinnati Bell Complete Protection Inc. was merged into Cincinnati Bell Inc. (the Parent and guarantor).

The following information sets forth the Condensed Consolidating Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2012 and 2011, Condensed Consolidating Balance Sheets as of September 30, 2012 and December 31, 2011, and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2012 and 2011, of (1) the Parent Company, as the guarantor, (2) CBT, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis. The condensed consolidating financial statements shown below have been retroactively restated to reflect the merger of Cincinnati Bell Complete Protection Inc. into Cincinnati Bell Inc. (the Parent and guarantor) for all periods.

Condensed Consolidating Statements of Operations and Comprehensive Income

(dollars in millions)	Three Months Ended September 30, 2012				
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$160.8	$222.8	$(15.4)	$368.2
Operating costs and expenses	12.5	112.0	193.1	(15.4)	302.2
Operating (loss) income	(12.5)	48.8	29.7	—	66.0
Interest expense (income), net	41.1	(0.6)	14.7	—	55.2
Other (income) expense, net	(0.5)	0.6	—	—	0.1
(Loss) income before equity in earnings of subsidiaries and income taxes	(53.1)	48.8	15.0	—	10.7
Income tax (benefit) expense	(16.1)	18.1	4.8	—	6.8
Equity in earnings of subsidiaries, net of tax	40.9	—	—	(40.9)	—
Net income	3.9	30.7	10.2	(40.9)	3.9
Other comprehensive income	2.2	—	0.1	—	2.3
Total comprehensive income	$6.1	$30.7	$10.3	$(40.9)	$6.2
Net income	3.9	30.7	10.2	(40.9)	3.9
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	$1.3	$30.7	$10.2	$(40.9)	$1.3

	Three Months Ended September 30, 2011				
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$0.5	$164.0	$218.6	$(14.3)	$368.8
Operating costs and expenses	(2.5)	107.7	191.6	(14.3)	282.5
Operating income	3.0	56.3	27.0	—	86.3
Interest expense, net	46.7	0.6	6.0	—	53.3
Other (income) expense, net	(0.4)	1.8	(1.4)	—	—
(Loss) income before equity in earnings of subsidiaries and income taxes	(43.3)	53.9	22.4	—	33.0
Income tax (benefit) expense	(11.6)	17.9	9.1	—	15.4
Equity in earnings of subsidiaries, net of tax	49.3	—	—	(49.3)	—
Net income	17.6	36.0	13.3	(49.3)	17.6
Other comprehensive income	1.3	—	—	—	1.3
Total comprehensive income	$18.9	$36.0	$13.3	$(49.3)	$18.9
Net income	17.6	36.0	13.3	(49.3)	17.6
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	$15.0	$36.0	$13.3	$(49.3)	$15.0

Condensed Consolidating Statements of Operations and Comprehensive Income

(dollars in millions)	Nine Months Ended September 30, 2012 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$482.0	$663.6	$(46.4)	$1,099.2
Operating costs and expenses	23.6	324.8	585.0	(46.4)	887.0
Operating (loss) income	(23.6)	157.2	78.6	—	212.2
Interest expense (income), net	122.5	(0.8)	41.6	—	163.3
Other (income) expense, net	(1.2)	2.9	(0.1)	—	1.6
(Loss) income before equity in earnings of subsidiaries and income taxes	(144.9)	155.1	37.1	—	47.3
Income tax (benefit) expense	(45.9)	56.6	15.6	—	26.3
Equity in earnings of subsidiaries, net of tax	120.0	—	—	(120.0)	—
Net income	21.0	98.5	21.5	(120.0)	21.0
Other comprehensive income	6.3	—	0.1	—	6.4
Total comprehensive income	$27.3	$98.5	$21.6	$(120.0)	$27.4
Net income	21.0	98.5	21.5	(120.0)	21.0
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	$13.2	$98.5	$21.5	$(120.0)	$13.2

	Nine Months Ended September 30, 2011 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$3.4	$493.4	$643.0	$(42.7)	$1,097.1
Operating costs and expenses	12.6	323.2	553.7	(42.7)	846.8
Operating (loss) income	(9.2)	170.2	89.3	—	250.3
Interest expense, net	120.7	3.3	37.2	—	161.2
Other (income) expense, net	(1.3)	5.7	(4.4)	—	—
(Loss) income before equity in earnings of subsidiaries and income taxes	(128.6)	161.2	56.5	—	89.1
Income tax (benefit) expense	(40.2)	58.4	21.9	—	40.1
Equity in earnings of subsidiaries, net of tax	137.4	—	—	(137.4)	—
Net income	49.0	102.8	34.6	(137.4)	49.0
Other comprehensive income	7.9	—	—	—	7.9
Total comprehensive income	$56.9	$102.8	$34.6	$(137.4)	$56.9
Net income	49.0	102.8	34.6	(137.4)	49.0
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	$41.2	$102.8	$34.6	$(137.4)	$41.2

Condensed Consolidating Balance Sheets

(dollars in millions)	As of September 30, 2012 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash and cash equivalents	$2.3	$1.3	$4.1	$—	$7.7
Receivables, net	1.2	—	192.6	—	193.8
Other current assets	7.0	37.9	42.2	(3.2)	83.9
Total current assets	10.5	39.2	238.9	(3.2)	285.4
Property, plant and equipment, net	0.1	634.8	875.5	—	1,510.4
Goodwill and intangibles, net	—	2.4	489.7	—	492.1
Investments in and advances to subsidiaries	1,913.1	344.1	—	(2,257.2)	—
Other noncurrent assets	379.3	6.9	240.2	(162.0)	464.4
Total assets	$2,303.0	$1,027.4	$1,844.3	$(2,422.4)	$2,752.3
Current portion of long-term debt	$—	$3.0	$10.3	$—	$13.3
Accounts payable	0.9	52.3	79.0	—	132.2
Other current liabilities	102.9	49.9	54.6	0.7	208.1
Total current liabilities	103.8	105.2	143.9	0.7	353.6
Long-term debt, less current portion	2,182.5	214.6	164.8	—	2,561.9
Other noncurrent liabilities	376.2	137.3	173.8	(165.9)	521.4
Intercompany payables	325.1	—	700.5	(1,025.6)	—
Total liabilities	2,987.6	457.1	1,183.0	(1,190.8)	3,436.9
Shareowners' (deficit) equity	(684.6)	570.3	661.3	(1,231.6)	(684.6)
Total liabilities and shareowners' equity (deficit)	$2,303.0	$1,027.4	$1,844.3	$(2,422.4)	$2,752.3

	As of December 31, 2011 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash and cash equivalents	$69.6	$1.4	$2.7	$—	$73.7
Receivables, net	2.0	—	177.4	—	179.4
Other current assets	5.8	31.8	31.7	(1.4)	67.9
Total current assets	77.4	33.2	211.8	(1.4)	321.0
Property, plant and equipment, net	0.1	642.5	757.9	—	1,400.5
Goodwill and intangibles, net	—	2.4	505.1	—	507.5
Investments in and advances to subsidiaries	1,731.4	237.3	—	(1,968.7)	—
Other noncurrent assets	387.9	7.6	234.0	(143.8)	485.7
Total assets	$2,196.8	$923.0	$1,708.8	$(2,113.9)	$2,714.7
Current portion of long-term debt	$—	$3.1	$9.9	$—	$13.0
Accounts payable	1.0	53.7	78.7	—	133.4
Other current liabilities	93.2	55.3	61.5	—	210.0
Total current liabilities	94.2	112.1	150.1	—	356.4
Long-term debt, less current portion	2,182.0	216.3	122.3	—	2,520.6
Other noncurrent liabilities	404.3	122.8	171.0	(145.2)	552.9
Intercompany payables	231.5	—	595.8	(827.3)	—
Total liabilities	2,912.0	451.2	1,039.2	(972.5)	3,429.9
Shareowners' (deficit) equity	(715.2)	471.8	669.6	(1,141.4)	(715.2)
Total liabilities and shareowners' equity (deficit)	$2,196.8	$923.0	$1,708.8	$(2,113.9)	$2,714.7

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Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Nine Months Ended September 30, 2012 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash flows (used in) provided by operating activities	$(69.1)	$169.7	$54.4	$—	$155.0
Capital expenditures	—	(73.6)	(169.3)	—	(242.9)
Proceeds from sale of assets	—	0.4	0.2	—	0.6
Other investing activities	—	—	(10.4)	—	(10.4)
Cash flows used in investing activities	—	(73.2)	(179.5)	—	(252.7)
Funding between Parent and subsidiaries, net	2.9	(94.3)	91.4	—	—
Increase in receivables facility, net	—	—	44.0	—	44.0
Repayment of debt	—	(2.3)	(9.0)	—	(11.3)
Common stock repurchase	(0.3)	—	—	—	(0.3)
Proceeds from exercise of options and warrants	8.1	—	—	—	8.1
Other financing activities	(8.9)	—	0.1	—	(8.8)
Cash flows provided by (used in) financing activities	1.8	(96.6)	126.5	—	31.7
(Decrease) increase in cash and cash equivalents	(67.3)	(0.1)	1.4	—	(66.0)
Beginning cash and cash equivalents	69.6	1.4	2.7	—	73.7
Ending cash and cash equivalents	$2.3	$1.3	$4.1	$—	$7.7

	Nine Months Ended September 30, 2011 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash flows (used in) provided by operating activities	$(97.5)	$188.7	$107.3	$—	$198.5
Capital expenditures	—	(70.5)	(96.5)	—	(167.0)
Proceeds from sale of assets	9.8	—	—	—	9.8
Other investing activities	(0.3)	—	—	—	(0.3)
Cash flows provided by (used in) investing activities	9.5	(70.5)	(96.5)	—	(157.5)
Funding between Parent and subsidiaries, net	123.9	(116.8)	(7.1)	—	—
Increase in receivables facility, net	—	—	0.4	—	0.4
Repayment of debt	—	(1.6)	(7.4)	—	