

CINCINNATI BELL INC
Form 10-Q
August 06, 2009
[Table of Contents](#)

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 June 30, 2009

**“ 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.

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Ohio
(State of Incorporation)

31-1056105
(I.R.S. Employer Identification No.)

221 East Fourth Street, Cincinnati, Ohio 45202

(Address of principal executive offices) (Zip Code)

(513) 397-9900

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

At July 15, 2009, there were 211,958,561 common shares outstanding and 155,250 shares of 6³/₄% Cumulative Convertible Preferred Stock outstanding.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

TABLE OF CONTENTS

Description	Page
PART I. Financial Information	
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations (Unaudited)</u> <u>Three Months and Six Months Ended June 30, 2009 and 2008</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>June 30, 2009 and December 31, 2008</u>	2
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six Months Ended June 30, 2009 and 2008</u>	3
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	30
PART II. Other Information	
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	33

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue				
Services	\$ 294.3	\$ 300.0	\$ 587.4	\$ 597.2
Products	33.3	51.2	65.7	102.5
Total revenue	327.6	351.2	653.1	699.7
Costs and expenses				
Cost of services, excluding items below	101.8	106.3	202.9	212.8
Cost of products sold, excluding items below	37.3	53.7	75.2	106.0
Selling, general and administrative	70.8	72.2	144.7	142.3
Depreciation	40.5	36.4	78.7	72.5
Amortization	1.0	1.3	2.1	2.5
Restructuring charges (gains)	0.6	1.4	(6.4)	25.4
Asset impairment				1.2
Total operating costs and expenses	252.0	271.3	497.2	562.7
Operating income	75.6	79.9	155.9	137.0
Interest expense	31.3	34.8	63.1	71.1
Other expense (income)	0.3	(0.2)	0.3	(1.4)
Income before income taxes	44.0	45.3	92.5	67.3
Income tax expense	17.7	19.7	37.4	28.8
Net income	26.3	25.6	55.1	38.5
Preferred stock dividends	2.6	2.6	5.2	5.2
Net income applicable to common shareowners	\$ 23.7	\$ 23.0	\$ 49.9	\$ 33.3
Basic earnings per common share	\$ 0.11	\$ 0.10	\$ 0.23	\$ 0.14
Diluted earnings per common share	\$ 0.11	\$ 0.09	\$ 0.23	\$ 0.13
Weighted average common shares outstanding (in millions)				
Basic	213.8	240.9	219.0	244.0
Diluted	215.6	248.4	220.4	250.8

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

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 2.6	\$ 6.7
Receivables, less allowances of \$17.2 and \$18.0	149.7	164.9
Inventory, materials and supplies	32.1	28.9
Deferred income taxes, net	90.1	96.8
Prepaid expenses and other current assets	12.4	23.8
Total current assets	286.9	321.1
Property, plant and equipment, net	1,076.4	1,044.3
Goodwill	71.9	71.8
Intangible assets, net	123.8	126.0
Deferred income taxes, net	398.3	466.2
Other noncurrent assets	52.6	57.3
Total assets	\$ 2,009.9	\$ 2,086.7
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	\$ 12.5	\$ 10.2
Accounts payable	102.7	110.8
Unearned revenue and customer deposits	44.6	44.5
Accrued taxes	17.5	17.7
Accrued interest	44.2	45.9
Accrued payroll and benefits	41.8	49.7
Other current liabilities	43.5	45.0
Total current liabilities	306.8	323.8
Long-term debt, less current portion	1,916.5	1,950.5
Pension and postretirement benefit obligations	324.6	434.6
Other noncurrent liabilities	85.7	87.1
Total liabilities	2,633.6	2,796.0
Shareowners deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depository shares) of 6 ³ / ₄ % Cumulative Convertible Preferred Stock issued and outstanding at June 30, 2009 and December 31, 2008; liquidation preference \$1,000 per share (\$50 per depository share)	129.4	129.4
Common shares, \$.01 par value; 480,000,000 shares authorized; 212,632,279 and 228,496,896 shares issued; 211,958,561 and 227,881,835 outstanding at June 30, 2009 and December 31, 2008	2.1	2.3
Additional paid-in capital	2,658.6	2,695.3
Accumulated deficit	(3,301.4)	(3,356.5)

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Accumulated other comprehensive loss	(109.7)	(177.1)
Common shares in treasury, at cost: 673,718 and 615,061 shares at June 30, 2009 and December 31, 2008	(2.7)	(2.7)
Total shareowners' deficit	(623.7)	(709.3)
Total liabilities and shareowners' deficit	\$ 2,009.9	\$ 2,086.7

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

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 55.1	\$ 38.5
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	78.7	72.5
Amortization	2.1	2.5
Provision for loss on receivables	11.7	8.6
Noncash interest expense	3.4	2.4
Deferred income tax expense, including valuation allowance change	34.8	27.1
Pension and other postretirement expense in excess of (less than) payments	(3.5)	47.9
Other, net	2.6	2.5
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease (increase) in receivables	3.7	(12.6)
Decrease in inventory, materials, supplies, prepaids and other current assets	8.0	0.1
Decrease in accounts payable	(13.7)	(4.6)
Decrease in accrued and other current liabilities	(16.3)	(5.2)
Decrease in other long-term assets	2.1	1.4
Increase in other long-term liabilities	1.8	6.8
Net cash provided by operating activities	170.5	187.9
Cash flows from investing activities		
Capital expenditures	(94.2)	(103.2)
Acquisitions of businesses	(3.4)	(21.6)
Other, net	1.0	1.0
Net cash used in investing activities	(96.6)	(123.8)
Cash flows from financing activities		
Increase in receivables facility, net	14.0	
Increase (decrease) in corporate credit facility, net	(42.4)	31.0
Repayment of debt	(5.0)	(44.6)
Debt issuance costs	(4.4)	
Preferred stock dividends	(5.2)	(7.8)
Common stock repurchase	(34.4)	(47.0)
Other, net	(0.6)	(0.4)
Net cash used in financing activities	(78.0)	(68.8)
Net decrease in cash and cash equivalents	(4.1)	(4.7)
Cash and cash equivalents at beginning of year	6.7	26.1

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Cash and cash equivalents at end of period	\$ 2.6	\$ 21.4
--	--------	---------

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

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

The following represents a summary of the business and accounting policies of Cincinnati Bell Inc. and its consolidated subsidiaries (the Company). A more detailed presentation can be found in the Company's 2008 Annual Report on Form 10-K.

Description of Business The Company provides diversified telecommunications services through businesses in three segments: Wireline, Wireless and Technology Solutions. Refer to Note 8 for further discussion concerning the Company's segments.

Basis of Presentation The Condensed Consolidated Financial Statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows for each period presented. In accordance with Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, the Company evaluated subsequent events through August 5, 2009.

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 have been condensed or omitted pursuant to SEC rules and regulations.

The Condensed Consolidated Balance Sheet as of December 31, 2008 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's 2008 Annual Report on Form 10-K. Operating results for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results expected in the subsequent quarter or for the year ending December 31, 2009.

Recently Issued Accounting Standards FASB Staff Position (FSP) No. 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, was issued in December 2008. It expands the disclosures required by SFAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, to discuss the assumptions and risks used to compute the fair value of each category of plan assets. FSP No. 132(R)-1 becomes effective for fiscal years ending after December 15, 2009. Early adoption is permitted. As this statement relates to disclosure, it will not have a financial impact on the Company.

In June 2009, SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140, was issued. SFAS No. 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. The Company has not yet assessed the impact of this statement on the Company's financial statements.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

2. Earnings Per Common Share

Basic earnings per common share (EPS) is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if common stock equivalents were exercised or converted to common stock but only to the extent that they are considered dilutive to the Company's earnings. The impact from adopting FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, in 2009 on the calculations of basic and diluted EPS was immaterial. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the following periods:

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Net income	\$ 26.3	\$ 25.6	\$ 55.1	\$ 38.5
Preferred stock dividends	2.6	2.6	5.2	5.2
Numerator for basic and diluted EPS	\$ 23.7	\$ 23.0	\$ 49.9	\$ 33.3
Denominator:				
Denominator for basic EPS weighted average common shares outstanding	213.8	240.9	219.0	244.0
Warrants		5.3		5.0
Stock-based compensation arrangements	1.8	2.2	1.4	1.8
Denominator for diluted EPS	215.6	248.4	220.4	250.8
Basic earnings per common share	\$ 0.11	\$ 0.10	\$ 0.23	\$ 0.14
Diluted earnings per common share	\$ 0.11	\$ 0.09	\$ 0.23	\$ 0.13
Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	44.4	38.2	44.2	38.8

3. Comprehensive Income

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 26.3	\$ 25.6	\$ 55.1	\$ 38.5
Amortization and remeasurement of pension and postretirement liabilities, net of taxes	0.3	1.2	67.4	13.9
Comprehensive income	\$ 26.6	\$ 26.8	\$ 122.5	\$ 52.4

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

4. Debt

The Company's debt consists of the following:

(dollars in millions)	June 30, 2009	December 31, 2008
Current portion of long-term debt:		
Credit facility, Tranche B Term Loan	\$ 2.1	\$ 2.1
Capital lease obligations and other debt	10.4	8.1
Current portion of long-term debt	12.5	10.2
Long-term debt, less current portion:		
Credit facility, revolver	30.6	73.0
Credit facility, Tranche B Term Loan	203.8	204.9
7 ¹ / ₄ % Senior Notes due 2013	439.9	439.9
8 ³ / ₈ % Senior Subordinated Notes due 2014*	571.3	572.7
7% Senior Notes due 2015*	254.2	257.2
7 ¹ / ₄ % Senior Notes due 2023	50.0	50.0
Receivables Facility	89.0	75.0
Various Cincinnati Bell Telephone notes	230.0	230.0
Capital lease obligations and other debt	47.5	47.5
	1,916.3	1,950.2
Net unamortized premiums	0.2	0.3
Long-term debt, less current portion	1,916.5	1,950.5
Total debt	\$ 1,929.0	\$ 1,960.7

* The face amount of these notes has been adjusted for the fair value of interest rate swaps classified as fair value derivatives and the unamortized called amounts received on terminated interest rate swaps at June 30, 2009 and December 31, 2008.

In June 2009, the Company amended its \$250 million Corporate revolving credit facility, which would have expired in February 2010. The amended Corporate credit facility has a \$210 million revolving line of credit and expires in August 2012. The Corporate revolving credit facility is funded by 11 different financial institutions, with no financial institution having more than 12% of the total facility. Borrowings under the revolving credit facility bear interest, at the Company's election, at a rate per annum equal to LIBOR or the base rate plus the applicable margin. The applicable margin is based on certain Company financial ratios and ranges between 3.00% to 3.50% for LIBOR rate advances and 2.00% to 2.50% for base rate advances. Base rate is the highest of the bank prime rate, the LIBOR rate plus one percent, or the federal funds rate plus one-half percent. Commitment fees for the unused amount of borrowings on the revolving line of credit range from 0.50% to 0.75% and letter of credit fees for outstanding letters of credit range from 3.00% to 3.50% based on certain Company financial ratios.

As of June 30, 2009, the Company had \$30.6 million outstanding borrowings under its revolving credit facility, and had outstanding letters of credit totaling \$26.1 million, leaving \$153.3 million in additional borrowing availability under its Corporate credit facility.

In March 2007, the Company and certain subsidiaries entered into an accounts receivable securitization facility (Receivables Facility), which permitted borrowings of up to \$80 million. Under the Receivables Facility, certain subsidiaries sell their respective trade receivables on a continuous basis to CB 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 parent company. In March 2009, the Company expanded the Receivables Facility to include an additional subsidiary, Cincinnati Bell Technology Solutions Inc. (CBTS),

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

and increased the maximum potential borrowing amount to \$115 million, depending on the level of eligible receivables and other factors. At June 30, 2009, the Company had \$89.0 million outstanding under this facility, which was the maximum borrowing permitted at that date. The Receivables Facility is subject to bank renewals in the first quarter of each year, and in any event expires in March 2012.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

5. Financial Instruments and Fair Value

SFAS No. 157 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value of financial instruments as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and

Level 3 - Unobservable inputs that reflect the Company's determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including the Company's own data.

At June 30, 2009 and December 31, 2008, the fair value of the Company's financial instruments that are required to be measured at fair value on a recurring basis are as follows:

(dollars in millions)	June 30, 2009	Level 1	Level 2	Level 3
Interest rate swap assets	\$ 8.4	\$	\$ 8.4	\$
Interest rate swap liabilities	3.8		3.8	

(dollars in millions)	December 31, 2008	Level 1	Level 2	Level 3
Interest rate swap assets	\$ 22.6	\$	\$ 22.6	\$
Interest rate swap liabilities	3.8		3.8	
Money market funds	3.1	3.1		

The Company is exposed to the impact of interest rate fluctuations on its indebtedness. The Company attempts to maintain an optimal balance of fixed rate and variable rate indebtedness in order to attain low overall borrowing costs over time while mitigating exposure to interest rate fluctuations. The Company uses derivative financial instruments to manage its balance of fixed rate and variable rate indebtedness. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

In 2004 and 2005, the Company entered into long-term interest rate swaps with notional amounts totaling \$450 million to change the fixed rate nature of a portion of the 7% Senior Notes due 2015 (7% Senior Notes) and the 8³/₈% Senior Subordinated Notes due 2014 (8³/₈% Subordinated Notes) to floating rate debt (long-term interest rate swaps). These long-term interest rate swaps qualify for fair value hedge accounting. In December 2008 and early 2009, certain counterparties exercised their right to call \$250 million of the notional amount of long-term interest rate swaps for the 8³/₈% Subordinated Notes, for which the Company received \$10.5 million in the first quarter of 2009 upon termination of the swaps. This amount is being amortized as a reduction to interest expense over the term of the 8³/₈% Subordinated Notes.

In both May and July 2008, the Company entered into six-month interest rate swap contracts with notional amounts totaling \$450 million each, which effectively fixed the floating interest rates for the second half of 2008 and the first half of 2009 on the long-term interest rate swaps. The Company did not designate these swaps as hedging instruments under SFAS No. 133, which results in the change in the fair value of these instruments being recognized in earnings during each period.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

The table below provides the fair values of the Company's derivative instruments:

(dollars in millions)	Assets (Liabilities)	
	June 30, 2009	December 31, 2008
Derivatives designated as fair value hedges		
Interest rate swaps	\$ 8.4	\$ 22.4
Derivatives not designated as fair value hedges		
Interest rate swaps	(3.8)	(3.6)

At June 30, 2009, the interest rate swap asset was included in Other noncurrent assets in the Condensed Consolidated Balance Sheet. At December 31, 2008, a derivative asset of \$8.4 million for the called swaps was included in Prepaid expenses and other current assets and a \$14.0 million derivative asset on the remaining long-term interest rate swaps was included in Other noncurrent assets in the Condensed Consolidated Balance Sheet. The liability recognized for the derivatives not designated as fair value hedges was included in Other current liabilities in the Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008.

The table below provides the amount of gains recognized in income for the Company's derivative instruments:

(dollars in millions)	Gain recognized for Six Months ended	
	June 30, 2009	June 30, 2008
Derivatives designated as fair value hedges		
Interest rate swaps	\$ 3.3	\$ 1.8
Derivatives not designated as fair value hedges		
Interest rate swaps		

Realized gains and losses from the long-term interest rate swaps are recognized as an adjustment to Interest expense in the Condensed Consolidated Statement of Operations. The realized gains and losses for the interest rate swaps not designated as hedging instruments are included in Other income, net in the Condensed Consolidated Statement of Operations.

The carrying value of the Company's financial instruments does not materially differ from the estimated fair values as of June 30, 2009 and December 31, 2008 except for the Company's debt. The carrying amounts of debt, excluding capital leases and unamortized premiums, at June 30, 2009 and December 31, 2008 were \$1,873.2 million and \$1,906.1 million, respectively. The estimated fair values at June 30, 2009 and December 31, 2008 were \$1,638 million and \$1,523 million, respectively. These fair values were estimated based on closing market prices of the Company's debt and of similar liabilities.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

6. Restructuring Charges**2009 Restructuring**

In the first quarter of 2009, the Company announced significant changes to its pension and postretirement plans. This resulted in a curtailment gain of \$7.6 million, which is included in Restructuring charges (gains) in the Condensed Consolidated Statement of Operations. See Note 7 for further information.

Prior Years Restructurings

Restructuring reserve (dollars in millions):	Balance December 31, 2008			Balance March 31, 2009			Balance June 30, 2009
	Expense	Utilizations		Expense	Utilizations		
2007-2008 plan	\$ 8.0	\$ (0.5)		\$ 7.5	\$ (2.3)		\$ 5.2
2001 plan	5.1	0.1	(0.3)	4.9	0.1	(0.3)	4.7

2007-2008 Restructuring

In the fourth quarter of 2007, the Company announced a restructuring plan to reduce costs and increase operational efficiencies. As a result, the Company incurred restructuring charges totaling \$37.5 million for the three months ended December 31, 2007, which consisted of \$22.9 million of employee separation benefits, \$8.2 million of special termination pension and postretirement benefits and a curtailment charge of \$6.4 million. For the six months ended June 30, 2008, the Company recorded an additional charge of \$25.3 million, which consisted of \$24.1 million of special termination benefits and a \$15.5 million curtailment charge, offset by a \$14.3 million reduction in the employee separation benefits. A further discussion of the charges follows:

Employee separation benefits In 2007, the Company determined a need to reduce its headcount over the next five years to conform its Wireline operations to the decreased access lines being served by the Company and, as a result, recorded severance liabilities of \$22.9 million. In the first quarter of 2008, 284 union employees accepted an early retirement, which included special termination pension benefits discussed below. These early retirements reduced the need for the severance liability by \$14.3 million.

Special termination benefits The Company offered and, by December 31, 2007, 105 management employees accepted early retirements, with special termination pension benefits totaling \$12 million, of which \$8.2 million had been earned and accrued at December 31, 2007. The Company offered and, by March 31, 2008, 284 union employees accepted early retirements, with special termination pension benefits totaling \$25 million, of which \$22.1 million had been earned and was accrued at March 31, 2008. Remaining special termination benefits for both union and management employees are subject to future service requirements as determined by the Company and are amortized to expense over the future service period. The Company recognized \$2.0 million of these amortized costs in the first six months of 2008 and \$1.0 million in the first six months of 2009.

Pension and postretirement curtailment charges Union terminations contemplated above represented approximately 11% of the plan future service years for both the pension and postretirement plans, resulting in a curtailment charge of \$15.5 million for the pension and postretirement plans in the first quarter of 2008.

At June 30, 2009 and December 31, 2008, \$1.5 million of the restructuring reserve was included in Other current liabilities and \$3.7 million and \$6.5 million was included in Other noncurrent liabilities, respectively, in the Condensed Consolidated Balance Sheets. The special termination benefits and curtailment charges are included in Accrued pension and postretirement benefits in the Condensed Consolidated Balance Sheet at June 30, 2009. For further information related to the special termination benefits and curtailments discussed above, see Note 7.

2001 Restructuring

In 2001, the Company adopted a restructuring plan which included initiatives to consolidate data centers, reduce the Company's expense structure, exit the network construction business, eliminate other non-strategic operations, and merge the digital subscriber line and certain dial-up internet operations into the Company's other operations. The Company completed the plan as of December 31, 2002, except for certain lease obligations, which are expected to continue through 2015.

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

At June 30, 2009 and December 31, 2008, \$0.9 million and \$1.0 million, respectively, of the reserve balance was included in Other current liabilities in the Condensed Consolidated Balance Sheets. The reserve included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheets was \$3.8 million and \$4.1 million at June 30, 2009 and December 31, 2008, respectively.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

7. Pension and Postretirement Plans

In February 2009, the Company announced significant changes to its management pension plan and its postretirement plans. The Company announced that it will freeze pension benefits for certain management employees below 50 years of age and provide a 10-year transition period for those employees over the age of 50 after which the pension benefit will be frozen. Additionally, the Company announced it will phase out the retiree healthcare plans for all management employees and certain retirees in 10 years.

The significant changes announced caused a 90% decrease in the expected future service years for active participants in the management pension plan, which triggered a plan curtailment in the first quarter of 2009. The curtailment gain of \$7.6 million consisted of the acceleration of unrecognized prior service benefits. In addition, the Company determined that the significant changes to the postretirement plan benefits required remeasurement of these plans in the first quarter of 2009. The Company remeasured its management pension plan and its postretirement plans, using revised assumptions, including modified retiree benefit payment assumptions, revised discount rates and updated plan asset information. Discount rates used for the remeasurements were 6.5% for the management pension plan and 6.3% for the postretirement plans. Additionally, the Company determined that these benefit changes result in substantially all of the remaining participants in the management postretirement plan to be either fully eligible for benefits or retired. As such, the unrecognized prior service gain and unrecognized actuarial gains are amortized over the average life expectancy of the participants rather than the shorter service periods previously used. As a result of the remeasurement, the Company's pension and postretirement obligations were reduced by approximately \$112 million, deferred tax assets were reduced for the related tax effect by \$41 million, and equity was increased by \$71 million.

In 2008, as a result of the acceptance of special termination benefits by certain retirement eligible union employees (see Note 6), the Company determined that a curtailment charge associated with its union pension and postretirement plans was required due to the significant decrease in the expected future service years. The curtailment charge for the union pension plan and the union postretirement plan for the six months ended June 30, 2008, consisted of both an increase in the benefit obligation of \$2.2 million and \$12.5 million and the acceleration of unrecognized prior service cost of \$0.9 million and a benefit of \$0.1 million, respectively.

As a result of the new union labor agreement and curtailment in 2008, the Company remeasured its union pension and postretirement obligations using revised assumptions, including modified retiree benefit payment assumptions, a revised discount rate of 6.4%, and updated plan asset information. As a result of the remeasurement, the Company's pension and postretirement obligations were reduced by approximately \$17 million, deferred tax assets were reduced for the related tax effect by \$6 million, and equity was increased by \$11 million.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Pension and postretirement benefit costs are as follows:

(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
	Three Months Ended June 30,			
	2009	2008	2009	2008
Service cost	\$ 1.4	\$ 2.2	\$ 0.1	\$ 0.4
Interest cost on projected benefit obligation	7.3	7.3	2.6	4.5
Expected return on plan assets	(6.5)	(8.7)	(0.2)	(0.5)
Amortization of:				
Transition obligation				0.4
Prior service cost	0.2	0.2	(3.0)	(0.1)
Actuarial loss	2.2	0.7	1.1	0.9
Special termination benefit	0.4	1.1	0.1	0.2
	\$ 5.0	\$ 2.8	\$ 0.7	\$ 5.8

(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
	Six Months Ended June 30,			
	2009	2008	2009	2008
Service cost	\$ 3.0	\$ 4.5	\$ 0.3	\$ 1.0
Interest cost on projected benefit obligation	14.5	14.2	5.8	9.3
Expected return on plan assets	(13.0)	(17.5)	(0.4)	(1.0)
Amortization of:				
Transition obligation			0.1	1.3
Prior service cost	0.3	0.3	(5.0)	0.4
Actuarial loss	4.4	1.4	2.1	1.9
Special termination benefit	0.8	23.7	0.2	0.4
Curtailment (gain) charge	(7.6)	3.1		12.4
	\$ 2.4	\$ 29.7	\$ 3.1	\$ 25.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

8. Business Segment Information

The Company operates in the following three segments: Wireline, Wireless and Technology Solutions. The Wireline segment provides local voice, data, long-distance and other services to customers primarily in southwestern Ohio, northern Kentucky, and southeastern Indiana. The Wireless segment provides advanced, digital voice and data communications services and sales of related communications equipment to customers in the Greater Cincinnati and Dayton, Ohio operating areas. The Technology Solutions segment provides a range of fully managed and outsourced IT and telecommunications services and offers solutions that combine data center collocation services along with the sale, installation, and maintenance of major branded IT and telephony equipment.

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

The Company's business segment information is as follows:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue				
Wireline	\$ 193.7	\$ 202.5	\$ 389.3	\$ 405.1
Wireless	76.5	78.3	152.8	156.8
Technology Solutions	66.4	78.5	129.5	153.2
Intersegment	(9.0)	(8.1)	(18.5)	(15.4)
Total revenue	\$ 327.6	\$ 351.2	\$ 653.1	\$ 699.7
Intersegment revenue				
Wireline	\$ 6.4	\$ 6.4	\$ 12.6	\$ 12.3
Wireless	0.9	0.8	1.7	1.6
Technology Solutions	1.7	0.9	4.2	1.5
Total intersegment revenue	\$ 9.0	\$ 8.1	\$ 18.5	\$ 15.4
Operating income				
Wireline	\$ 67.3	\$ 70.2	\$ 142.2	\$ 116.9
Wireless	10.8	12.3	19.3	24.6
Technology Solutions	4.4	4.3	7.7	7.5
Corporate	(6.9)	(6.9)	(13.3)	(12.0)
Total operating income	\$ 75.6	\$ 79.9	\$ 155.9	\$ 137.0
Assets				
Wireline	\$ 712.3	\$ 694.3		
Wireless	363.1	377.2		
Technology Solutions	290.0	328.8		
Corporate and eliminations	644.5	686.4		
Total assets	\$ 2,009.9	\$ 2,086.7		

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

9. Stock-Based Compensation Plans

In the second quarter of 2009, the Company's shareholders amended the Cincinnati Bell Inc. 2007 Long Term Incentive Plan to increase the number of shares available for issuance by 10,000,000 common shares and to modify the limits on certain award types, including full value shares.

Stock options

The following table summarizes stock option activity for the six months ended June 30, 2009:

(in thousands, except per share amounts)	Shares	Weighted- Average Exercise Prices Per Share
Outstanding at January 1, 2009	22,770	\$ 9.34
Granted	1,918	1.47
Forfeited/expired	(3,195)	16.44
Outstanding at June 30, 2009	21,493	\$ 7.58
Vested and expected to vest at June 30, 2009	21,357	\$ 7.62
Exercisable at June 30, 2009	15,230	\$ 9.76

During the six months ended June 30, 2009, the Company granted stock options which vest over three years. The Company recognized compensation expense of \$1.9 million related to stock options for the three months ended June 30, 2009, \$2.5 million for the six months ended June 30, 2009, \$0.4 million for the three months ended June 30, 2008 and \$0.8 million for the six months ended June 30, 2008. As of June 30, 2009, there was \$2.7 million of unrecognized compensation expense related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of approximately two years. At June 30, 2009, the aggregate intrinsic value of stock options outstanding was approximately \$5.8 million.

The weighted-average fair values at the date of grant were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Six months Ended June 30,	
	2009	2008
Expected volatility	41.7%	31.3%
Risk-free interest rate	2.1%	2.8%
Expected holding period - years	5	5
Expected dividends	0.0%	0.0%
Weighted-average grant date fair value	\$ 0.99	\$ 1.24

The expected volatility assumption used in the Black-Scholes pricing model was based on historical volatility. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The expected holding period was estimated using the historical exercise behavior of employees and adjusted for abnormal activity. Expected dividends are based on the Company's history of paying dividends, as well as restrictions in place under the Company's debt covenants.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Performance-based awards

The following table summarizes performance-based award activity for the six months ended June 30, 2009:

(in thousands, except per share amounts)	Shares	Weighted- Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2009	2,307	\$ 4.20
Granted*	1,786	2.77
Vested	(838)	4.16
Forfeited	(25)	3.84
Non-vested at June 30, 2009	3,230	\$ 3.42

* Assumes the maximum number of awards that can be earned if the performance conditions are achieved.

Awards granted generally vest over three years and upon the achievement of certain performance-based objectives. The Company recognized expense for performance-based awards of \$1.5 million for the three months ended June 30, 2009, \$1.7 million for the six months ended June 30, 2009, \$1.3 million for the three months ended June 30, 2008 and \$2.6 million for the six months ended June 30, 2008. As of June 30, 2009, there was \$2.5 million of unrecognized compensation expense related to performance-based awards. This expense is expected to be recognized over a weighted-average period of approximately one year.

Time-based restricted awards

The following table summarizes time-based restricted award activity for the six months ended June 30, 2009:

(in thousands, except per share amounts)	Shares	Weighted- Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2009	303	\$ 4.82
Granted	101	2.77
Forfeited	(17)	4.86
Non-vested at June 30, 2009	387	\$ 3.56

Awards granted generally vest in one-third increments over a period of three years. The Company recognized expense related to time-based restricted awards of \$0.2 million for the three months ended June 30, 2009, \$0.4 million for the six months ended June 30, 2009, \$0.2 million for the three months ended June 30, 2008 and \$0.3 million for the six months ended June 30, 2008. As of June 30, 2009, there was \$1.0 million of unrecognized compensation expense related to these shares. This expense is expected to be recognized over a weighted-average period of approximately two years.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

**10. Supplemental Guarantor Information
Cincinnati Bell Telephone Notes**

Cincinnati Bell Telephone Company LLC (CBT), a wholly-owned subsidiary of Cincinnati Bell Inc. (the Parent Company or CBI), has \$230 million in notes outstanding that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company's subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company's debt service obligations.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three and six months ended June 30, 2009 and 2008 and Condensed Consolidating Balance Sheets as of June 30, 2009 and December 31, 2008 of (1) the Parent Company, as the guarantor (2) Cincinnati Bell Telephone Company LLC, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis:

Condensed Consolidating Statements of Operations

(dollars in millions)	Three Months Ended June 30, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	\$	\$ 172.7	\$ 168.6	\$ (13.7)	\$ 327.6
Operating costs and expenses	6.6	109.7	149.4	(13.7)	252.0
Operating income (loss)	(6.6)	63.0	19.2		75.6
Interest expense	26.0	3.6	4.9	(3.2)	31.3
Other expense (income), net	(3.2)	1.4	(1.1)	3.2	0.3
Income (loss) before income taxes	(29.4)	58.0	15.4		44.0
Income tax expense (benefit)	(11.2)	21.4	7.5		17.7
Equity in earnings of subsidiaries, net of tax	44.5			(44.5)	
Net income	26.3	36.6	7.9	(44.5)	26.3
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	\$ 23.7	\$ 36.6	\$ 7.9	\$ (44.5)	\$ 23.7

(dollars in millions)	Three Months Ended June 30, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	\$	\$ 180.8	\$ 183.0	\$ (12.6)	\$ 351.2
Operating costs and expenses	6.5	116.5	160.9	(12.6)	271.3
Operating income (loss)	(6.5)	64.3	22.1		79.9
Interest expense	29.9	3.8	6.5	(5.4)	34.8
Other expense (income), net	(5.4)	1.7	(1.9)	5.4	(0.2)
Income (loss) before income taxes	(31.0)	58.8	17.5		45.3
Income tax expense (benefit)	(7.0)	19.5	7.2		19.7
Equity in earnings of subsidiaries, net of tax	49.6			(49.6)	
Net income	25.6	39.3	10.3	(49.6)	25.6
Preferred stock dividends	2.6				2.6

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Net income applicable to common shareowners	\$ 23.0	\$ 39.3	\$ 10.3	\$ (49.6)	\$ 23.0
---	---------	---------	---------	-----------	---------

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

(dollars in millions)	Six Months Ended June 30, 2009					Total
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations		
Revenue	\$	\$ 347.5	\$ 333.6	\$ (28.0)		\$ 653.1
Operating costs and expenses		12.7	213.7	298.8	(28.0)	497.2
Operating income (loss)		(12.7)	133.8	34.8		155.9
Interest expense		52.7	7.3	9.6	(6.5)	63.1
Other expense (income), net		(6.8)	2.4	(1.8)	6.5	0.3
Income (loss) before income taxes		(58.6)	124.1	27.0		92.5
Income tax expense (benefit)		(19.9)	43.0	14.3		37.4
Equity in earnings of subsidiaries, net of tax		93.8			(93.8)	
Net income		55.1	81.1	12.7	(93.8)	55.1
Preferred stock dividends		5.2				5.2
Net income applicable to common shareowners	\$	\$ 49.9	\$ 81.1	\$ 12.7	\$ (93.8)	\$ 49.9

(dollars in millions)	Six Months Ended June 30, 2008					Total
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations		
Revenue	\$	\$ 362.1	\$ 362.2	\$ (24.6)		\$ 699.7
Operating costs and expenses		11.4	257.6	318.3	(24.6)	562.7
Operating income (loss)		(11.4)	104.5	43.9		137.0
Interest expense		61.8	7.4	12.5	(10.6)	71.1
Other expense (income), net		(12.2)	3.8	(3.6)	10.6	(1.4)
Income (loss) before income taxes		(61.0)	93.3	35.0		67.3
Income tax expense (benefit)		(16.0)	32.3	12.5		28.8
Equity in earnings of subsidiaries, net of tax		83.5			(83.5)	
Net income		38.5	61.0	22.5	(83.5)	38.5
Preferred stock dividends		5.2				5.2
Net income applicable to common shareowners	\$	\$ 33.3	\$ 61.0	\$ 22.5	\$ (83.5)	\$ 33.3

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of June 30, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	\$ 1.3	\$ 0.8	\$ 0.5	\$	\$ 2.6
Receivables, net	2.6		147.1		149.7
Other current assets	30.9	28.1	77.7	(2.1)	134.6
Total current assets	34.8	28.9	225.3	(2.1)	286.9
Property, plant and equipment, net	0.8	616.1	459.5		1,076.4
Goodwill and intangibles, net		2.9	192.8		195.7
Investments in and advances to subsidiaries	1,014.9			(1,014.9)	
Other noncurrent assets	309.0	13.0	201.1	(72.2)	450.9
Total assets	\$ 1,359.5	\$ 660.9	\$ 1,078.7	\$ (1,089.2)	\$ 2,009.9
Current portion of long-term debt	\$ 2.1	\$ 1.8	\$ 8.6	\$	\$ 12.5
Accounts payable	1.5	49.1	52.1		102.7
Other current liabilities	91.0	51.5	49.5	(0.4)	191.6
Total current liabilities	94.6	102.4	110.2	(0.4)	306.8
Long-term debt, less current portion	1,550.4	234.7	131.4		1,916.5
Other noncurrent liabilities	338.2	48.5	97.5	(73.9)	410.3
Intercompany payables		34.1	410.2	(444.3)	
Total liabilities	1,983.2	419.7	749.3	(518.6)	2,633.6
Shareowners' equity (deficit)	(623.7)	241.2	329.4	(570.6)	(623.7)
Total liabilities and shareowners' equity (deficit)	\$ 1,359.5	\$ 660.9	\$ 1,078.7	\$ (1,089.2)	\$ 2,009.9

(dollars in millions)	As of December 31, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	\$ 4.5	\$ 1.8	\$ 0.4	\$	\$ 6.7
Receivables, net	3.2		161.7		164.9
Other current assets	27.7	25.3	97.1	(0.6)	149.5
Total current assets	35.4	27.1	259.2	(0.6)	321.1
Property, plant and equipment, net	0.6	594.7	449.0		1,044.3
Goodwill and intangibles, net		3.0	194.8		197.8
Investments in and advances to subsidiaries	1,041.8			(1,041.8)	
Other noncurrent assets	358.4	13.9	214.2	(63.0)	523.5
Total assets	\$ 1,436.2	\$ 638.7	\$ 1,117.2	\$ (1,105.4)	\$ 2,086.7
Current portion of long-term debt	\$ 2.1	\$ 0.7	\$ 7.4	\$	\$ 10.2
Accounts payable	0.1	37.8	72.9		110.8
Other current liabilities	99.6	54.9	48.3		202.8

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Total current liabilities	101.8	93.4	128.6		323.8
Long-term debt, less current portion	1,598.4	235.0	117.1		1,950.5
Other noncurrent liabilities	445.3	46.5	93.5	(63.6)	521.7
Intercompany payables		22.5	447.9	(470.4)	
Total liabilities	2,145.5	397.4	787.1	(534.0)	2,796.0
Shareowners' equity (deficit)	(709.3)	241.3	330.1	(571.4)	(709.3)
Total liabilities and shareowners' equity (deficit)	\$ 1,436.2	\$ 638.7	\$ 1,117.2	\$ (1,105.4)	\$ 2,086.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Six Months Ended June 30, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (37.2)	\$ 132.3	\$ 75.4	\$	\$ 170.5
Capital expenditures	(0.3)	(62.6)	(31.3)		(94.2)
Acquisitions of businesses		(0.5)	(2.9)		(3.4)
Other investing activities	0.4	0.3	0.3		1.0
Cash flows used in investing activities	0.1	(62.8)	(33.9)		(96.6)
Funding between Parent and subsidiaries, net	121.9	(70.2)	(51.7)		
Increase (decrease) in corporate credit and receivables facilities, net	(42.4)		14.0		(28.4)
Repayment of debt	(1.1)	(0.3)	(3.6)		(5.0)
Common stock repurchase	(34.4)				(34.4)
Other financing activities	(10.1)		(0.1)		(10.2)
Cash flows provided by (used in) financing activities	33.9	(70.5)	(41.4)		(78.0)
Increase (decrease) in cash and cash equivalents	(3.2)	(1.0)	0.1		(4.1)
Beginning cash and cash equivalents	4.5	1.8	0.4		6.7
Ending cash and cash equivalents	\$ 1.3	\$ 0.8	\$ 0.5	\$	\$ 2.6

(dollars in millions)	Six Months Ended June 30, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by operating activities	\$	\$ 82.1	\$ 105.8	\$	\$ 187.9
Capital expenditures	(0.3)	(44.5)	(58.4)		(103.2)
Acquisitions of businesses		(2.3)	(19.3)		(21.6)
Other investing activities	0.1	0.3	0.6		1.0
Cash flows used in investing activities	(0.2)	(46.5)	(77.1)		(123.8)
Funding between Parent and subsidiaries, net	61.6	(36.2)	(25.4)		
Increase in corporate credit facility, net	31.0				31.0
Repayment of debt	(41.9)	(0.3)	(2.4)		(44.6)
Common stock repurchase	(47.0)				(47.0)
Other financing activities	(8.2)				(8.2)
Cash flows used in financing activities	(4.5)	(36.5)	(27.8)		(68.8)
Increase (decrease) in cash and cash equivalents	(4.7)	(0.9)	0.9		(4.7)
Beginning cash and cash equivalents	23.6	1.9	0.6		26.1

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Ending cash and cash equivalents	\$ 18.9	\$ 1.0	\$ 1.5	\$ 21.4
----------------------------------	---------	--------	--------	---------

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

7¹/₄% Senior Notes Due 2013, 7% Senior Notes Due 2015, and 8³/₈% Senior Subordinated Notes Due 2014

The Parent Company's 7¹/₄% Senior Notes due 2013, 7% Senior Notes due 2015, and 8³/₈% Senior Subordinated Notes due 2014 are guaranteed by the following subsidiaries: Cincinnati Bell Entertainment Inc. (f/k/a ZoomTown.com Inc.), Cincinnati Bell Complete Protection Inc., Cincinnati Bell Any Distance Inc., Cincinnati Bell Telecommunication Services LLC, Cincinnati Bell Wireless Company, Cincinnati Bell Wireless LLC, GramTel Inc. (f/k/a BCSIVA Inc.), BRCOM Inc., CBTS, Cincinnati Bell Shared Services LLC, CBTS Software LLC and IXC Internet Services Inc. The Parent Company owns directly or indirectly 100% of each guarantor and each guarantee is full and unconditional and joint and several. The Parent Company's subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company's debt service obligations.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three and six months ended June 30, 2009 and 2008 and the Condensed Consolidating Balance Sheets as of June 30, 2009 and December 31, 2008 of (1) the Parent Company, as the issuer (2) the guarantor subsidiaries on a combined basis, and (3) the non-guarantor subsidiaries on a combined basis:

Condensed Consolidating Statements of Operations

(dollars in millions)	Three Months Ended June 30, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 180.9	\$ 160.4	\$ (13.7)	\$ 327.6
Operating costs and expenses	6.6	163.7	95.4	(13.7)	252.0
Operating income (loss)	(6.6)	17.2	65.0		75.6
Interest expense	26.0	3.4	5.1	(3.2)	31.3
Other expense (income), net	(3.2)	0.8	(0.5)	3.2	0.3
Income (loss) before income taxes	(29.4)	13.0	60.4		44.0
Income tax expense (benefit)	(11.2)	6.4	22.5		17.7
Equity in earnings of subsidiaries, net of tax	44.5			(44.5)	
Net income	26.3	6.6	37.9	(44.5)	26.3
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	\$ 23.7	\$ 6.6	\$ 37.9	\$ (44.5)	\$ 23.7

(dollars in millions)	Three Months Ended June 30, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 195.8	\$ 168.0	\$ (12.6)	\$ 351.2
Operating costs and expenses	6.5	176.0	101.4	(12.6)	271.3
Operating income (loss)	(6.5)	19.8	66.6		79.9
Interest expense	29.9	5.4	4.9	(5.4)	34.8
Other expense (income), net	(5.4)	0.1	(0.3)	5.4	(0.2)
Income (loss) before income taxes	(31.0)	14.3	62.0		45.3
Income tax expense (benefit)	(7.0)	6.0	20.7		19.7
Equity in earnings of subsidiaries, net of tax	49.6			(49.6)	
Net income	25.6	8.3	41.3	(49.6)	25.6

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	\$ 23.0	\$ 8.3	\$ 41.3	\$ (49.6)	\$ 23.0

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

(dollars in millions)	Six Months Ended June 30, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 358.7	\$ 322.4	\$ (28.0)	\$ 653.1
Operating costs and expenses	12.7	326.7	185.8	(28.0)	497.2
Operating income (loss)	(12.7)	32.0	136.6		155.9
Interest expense	52.7	6.5	10.4	(6.5)	63.1
Other expense (income), net	(6.8)	(0.1)	0.7	6.5	0.3
Income (loss) before income taxes	(58.6)	25.6	125.5		92.5
Income tax expense (benefit)	(19.9)	13.2	44.1		37.4
Equity in earnings of subsidiaries, net of tax	93.8			(93.8)	
Net income	55.1	12.4	81.4	(93.8)	55.1
Preferred stock dividends	5.2				5.2
Net income applicable to common shareowners	\$ 49.9	\$ 12.4	\$ 81.4	\$ (93.8)	\$ 49.9

(dollars in millions)	Six Months Ended June 30, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 386.8	\$ 337.5	\$ (24.6)	\$ 699.7
Operating costs and expenses	11.4	354.3	221.6	(24.6)	562.7
Operating income (loss)	(11.4)	32.5	115.9		137.0
Interest expense	61.8	10.0	9.9	(10.6)	71.1
Other expense (income), net	(12.2)	0.5	(0.3)	10.6	(1.4)
Income (loss) before income taxes	(61.0)	22.0	106.3		67.3
Income tax expense (benefit)	(16.0)	7.7	37.1		28.8
Equity in earnings of subsidiaries, net of tax	83.5			(83.5)	
Net income	38.5	14.3	69.2	(83.5)	38.5
Preferred stock dividends	5.2				5.2
Net income applicable to common shareowners	\$ 33.3	\$ 14.3	\$ 69.2	\$ (83.5)	\$ 33.3

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of June 30, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	\$ 1.3	\$ 0.5	\$ 0.8	\$	\$ 2.6
Receivables, net	2.6	0.9	146.2		149.7
Other current assets	30.9	73.5	32.3	(2.1)	134.6
Total current assets	34.8	74.9	179.3	(2.1)	286.9
Property, plant and equipment, net	0.8	459.5	616.1		1,076.4
Goodwill and intangibles, net		192.8	2.9		195.7
Investments in and advances to subsidiaries	1,014.9			(1,014.9)	
Other noncurrent assets	309.0	203.1	11.0	(72.2)	450.9
Total assets	\$ 1,359.5	\$ 930.3	\$ 809.3	\$ (1,089.2)	\$ 2,009.9
Current portion of long-term debt	\$ 2.1	\$ 8.6	\$ 1.8	\$	\$ 12.5
Accounts payable	1.5	62.9	38.3		102.7
Other current liabilities	91.0	51.4	49.6	(0.4)	191.6
Total current liabilities	94.6	122.9	89.7	(0.4)	306.8
Long-term debt, less current portion	1,550.4	42.4	323.7		1,916.5
Other noncurrent liabilities	338.2	98.5	47.5	(73.9)	410.3
Intercompany payables		366.4	77.9	(444.3)	
Total liabilities	1,983.2	630.2	538.8	(518.6)	2,633.6
Shareowners' equity (deficit)	(623.7)	300.1	270.5	(570.6)	(623.7)
Total liabilities and shareowners' equity (deficit)	\$ 1,359.5	\$ 930.3	\$ 809.3	\$ (1,089.2)	\$ 2,009.9

(dollars in millions)	As of December 31, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	\$ 4.5	\$ 0.4	\$ 1.8	\$	\$ 6.7
Receivables, net	3.2	55.2	106.5		164.9
Other current assets	27.7	92.2	30.2	(0.6)	149.5
Total current assets	35.4	147.8	138.5	(0.6)	321.1
Property, plant and equipment, net	0.6	449.0	594.7		1,044.3
Goodwill and intangibles, net		194.8	3.0		197.8
Investments in and advances to subsidiaries	1,041.8			(1,041.8)	
Other noncurrent assets	358.4	215.5	12.6	(63.0)	523.5
Total assets	\$ 1,436.2	\$ 1,007.1	\$ 748.8	\$ (1,105.4)	\$ 2,086.7
Current portion of long-term debt	\$ 2.1	\$ 7.4	\$ 0.7	\$	\$ 10.2
Accounts payable	0.1	81.9	28.8		110.8
Other current liabilities	99.6	50.4	52.8		202.8

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Total current liabilities	101.8	139.7	82.3		323.8
Long-term debt, less current portion	1,598.4	42.1	310.0		1,950.5
Other noncurrent liabilities	445.3	94.1	45.9	(63.6)	521.7
Intercompany payables		429.1	41.3	(470.4)	
Total liabilities	2,145.5	705.0	479.5	(534.0)	2,796.0
Shareowners' equity (deficit)	(709.3)	302.1	269.3	(571.4)	(709.3)
Total liabilities and shareowners' equity (deficit)	\$ 1,436.2	\$ 1,007.1	\$ 748.8	\$ (1,105.4)	\$ 2,086.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Six Months Ended June 30, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (37.2)	\$ 114.3	\$ 93.4	\$	\$ 170.5
Capital expenditures	(0.3)	(31.3)	(62.6)		(94.2)
Acquisitions of businesses		(2.9)	(0.5)		(3.4)
Other investing activities	0.4	0.3	0.3		1.0
Cash flows used in investing activities	0.1	(33.9)	(62.8)		(96.6)
Funding between Parent and subsidiaries, net	121.9	(76.7)	(45.2)		
Increase (decrease) in corporate credit and receivables facilities, net	(42.4)		14.0		(28.4)
Repayment of debt	(1.1)	(3.6)	(0.3)		(5.0)
Common stock repurchase	(34.4)				(34.4)
Other financing activities	(10.1)		(0.1)		(10.2)
Cash flows provided by (used in) financing activities	33.9	(80.3)	(31.6)		(78.0)
Increase (decrease) in cash and cash equivalents	(3.2)	0.1	(1.0)		(4.1)
Beginning cash and cash equivalents	4.5	0.4	1.8		6.7
Ending cash and cash equivalents	\$ 1.3	\$ 0.5	\$ 0.8	\$	\$ 2.6

(dollars in millions)	Six Months Ended June 30, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by operating activities	\$	\$ 86.9	\$ 101.0	\$	\$ 187.9
Capital expenditures	(0.3)	(59.2)	(43.7)		(103.2)
Acquisitions of businesses		(19.3)	(2.3)		(21.6)
Other investing activities	0.1	0.6	0.3		1.0
Cash flows used in investing activities	(0.2)	(77.9)	(45.7)		(123.8)
Funding between Parent and subsidiaries, net	61.6	(5.8)	(55.8)		
Increase in corporate credit facility, net	31.0				31.0
Repayment of debt	(41.9)	(2.4)	(0.3)		(44.6)
Common stock repurchase	(47.0)				(47.0)
Other financing activities	(8.2)				(8.2)
Cash flows used in financing activities	(4.5)	(8.2)	(56.1)		(68.8)
Increase (decrease) in cash and cash equivalents	(4.7)	0.8	(0.8)		(4.7)
Beginning cash and cash equivalents	23.6	0.8	1.7		26.1
Ending cash and cash equivalents	\$ 18.9	\$ 1.6	\$ 0.9	\$	\$ 21.4

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information included in this Quarterly Report on Form 10-Q contains certain forward-looking statements that involve potential risks and uncertainties. The Company's future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein and those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date thereof.

The Company was initially incorporated under the laws of Ohio in 1983 and remains incorporated under the laws of Ohio. It has its principal executive offices at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address <http://www.cincinnati-bell.com>). The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports) on its website, free of charge, at the Investor Relations section as soon as practicable after they have been electronically filed.

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC under 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 may be obtained about the Public Reference Room 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>.

Critical Accounting Policies and Estimates

The preparation of Condensed Consolidated Financial Statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. In the Company's Annual Report on Form 10-K for the year ended December 31, 2008, the Company identified critical accounting policies that affect its more significant estimates and assumptions used in preparing its Condensed Consolidated Financial Statements. These critical accounting policies include revenue recognition, accounting for allowances for uncollectible accounts receivable, reviewing the carrying values of goodwill and indefinite-lived intangible assets, reviewing the carrying values of property, plant and equipment, accounting for business combinations, accounting for taxes, accounting for pension and postretirement expenses, and accounting for termination benefits.

Results of Operations

The financial results for the three and six months ended June 30, 2009 and 2008 referred to in this discussion should be read in conjunction with the Condensed Consolidated Statements of Operations in this Quarterly Report on Form 10-Q. Results for interim periods may not be indicative of the results for subsequent periods or the full year.

Consolidated Overview

Consolidated revenue totaled \$327.6 million for the second quarter of 2009, a decrease of \$23.6 million compared to the second quarter of 2008. The decrease was primarily due to the following:

\$12.1 million lower revenues in the Technology Solutions segment primarily due to lower telecom and IT equipment distribution revenue offset by increased data center and managed services revenue;

\$8.8 million lower revenues in the Wireline segment primarily due to lower voice revenue partially offset by higher data revenue; and

\$1.8 million lower revenues in the Wireless segment primarily due to lower equipment and postpaid service revenue.

For the six months ended June 30, 2009, consolidated revenue decreased \$46.6 million to \$653.1 million as compared to \$699.7 million for the same period in 2008. The decrease was primarily due to the following:

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

\$23.7 million lower revenues in the Technology Solutions segment primarily due to lower telecom and IT equipment distribution revenue offset by increased data center and managed services revenue;

\$15.8 million lower revenues in the Wireline segment primarily due to lower voice revenue partially offset by higher data revenue; and

\$4.0 million lower revenues in the Wireless segment primarily due to lower equipment and prepaid service revenue.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Operating income for the second quarter of 2009 was \$75.6 million, a decrease of \$4.3 million compared to the same period in 2008. The decrease was primarily due to the following:

\$2.9 million decrease in Wireline segment operating income primarily due to lower voice revenue partially offset by lower wages and benefit costs and lower costs related to third party service providers; and

\$1.5 million decrease in Wireless segment operating income due primarily to lower service revenue.

Operating income for the six months ended June 30, 2009 was \$155.9 million, an increase of \$18.9 million compared to the same period a year ago. This increase was primarily due to the following:

\$25.3 million increase in Wireline segment operating income primarily due to lower restructuring costs; and

\$5.3 million decrease in Wireless segment operating income due primarily to increased subsidy costs and lower service revenue.

Interest expense was \$31.3 million for the second quarter of 2009 and \$63.1 million for the six months ended June 30, 2009 as compared to \$34.8 million for the second quarter of 2008 and \$71.1 million for the six months ended June 30, 2008. The decrease compared to last year is primarily attributable to lower debt balances due to the purchase and extinguishment of a portion of the Company's corporate bonds in 2008 and lower short-term interest rates.

Income tax expense for the second quarter of 2009 was \$17.7 million compared to \$19.7 million for the second quarter of 2008 primarily due to lower pretax income and a lower effective income tax rate, related to the phase out of Ohio income tax. Income tax expense for the six months ended June 30, 2009 was \$37.4 million as compared to \$28.8 million for the same period in 2008 primarily due to higher pretax income.

The Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses, including interest on securities originally issued to acquire its broadband business (the Broadband Securities) or securities that the Company has subsequently issued to refinance the Broadband Securities. The Company estimates that its effective income tax rate will be approximately 41% for the full year 2009. However, the Company expects to use federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities in 2009. The Company expects income tax payments for the 2009 year to be approximately \$7 million.

Discussion of Operating Segment Results**WIRESLINE**

(dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	2008	Change	% Change	2009	2008	Change	% Change
Revenue:								
Voice - local service	\$ 87.6	\$ 98.9	\$ (11.3)	(11)%	\$ 177.8	\$ 199.9	\$ (22.1)	(11)%
Data	70.4	67.9	2.5	4%	140.6	135.5	5.1	4%
Long distance and VoIP	24.0	24.6	(0.6)	(2)%	48.0	48.9	(0.9)	(2)%
Other	11.7	11.1	0.6	5%	22.9	20.8	2.1	10%
Total revenue	193.7	202.5	(8.8)	(4)%	389.3	405.1	(15.8)	(4)%

Operating costs and expenses:

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Cost of services and products	62.9	66.4	(3.5)	(5)%	126.0	133.9	(7.9)	(6)%
Selling, general and administrative	37.1	39.6	(2.5)	(6)%	76.4	78.5	(2.1)	(3)%
Depreciation	25.6	24.8	0.8	3%	50.7	49.7	1.0	2%
Amortization	0.2	0.3	(0.1)	(33)%	0.5	0.5		0%
Restructuring charges (gains)	0.6	1.2	(0.6)	(50)%	(6.5)	24.4	(30.9)	n/m
Asset impairment				n/m		1.2	(1.2)	n/m
Total operating costs and expenses	126.4	132.3	(5.9)	(4)%	247.1	288.2	(41.1)	(14)%
Operating income	\$ 67.3	\$ 70.2	\$ (2.9)	(4)%	\$ 142.2	\$ 116.9	\$ 25.3	22%
Operating margin	34.7%	34.7%		0 pts	36.5%	28.9%		7.6 pts
Metric information:								
Local access lines (in thousands)	752.5	805.7	(53.2)	(7)%	752.5	805.7	(53.2)	(7)%
DSL subscribers (in thousands)	235.4	229.2	6.2	3%	235.4	229.2	6.2	3%
Long distance lines (in thousands)	522.9	536.3	(13.4)	(2)%	522.9	536.3	(13.4)	(2)%
Capital expenditures	\$ 37.3	\$ 25.5	\$ 11.8	46%	\$ 66.5	\$ 46.4	\$ 20.1	43%

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

The Wireline segment consists of the operations of Cincinnati Bell Telephone Company LLC, which operates as an incumbent local exchange carrier (ILEC) within the Company's traditional territory, Cincinnati Bell Extended Territories LLC, which operates as a competitive local exchange carrier (CLEC) in Dayton, Ohio and communities adjacent to the ILEC's northern borders, Cincinnati Bell Any Distance Inc. (CBAD), which provides long distance, audio conferencing, voice over internet protocol (VoIP) and broadband services including private line and multi protocol labeling switching, Cincinnati Bell Complete Protection Inc., which provides security monitoring services and related surveillance hardware, the Company's payphone business, and its entertainment operations, which currently offers television over coaxial cable and fiber optical cable in limited areas and DirecTV on a commission basis to the remainder of its operating territory.

Revenue

Voice local service revenue includes local service, value added services, switched access and information services. Voice revenue decreased for both the three and six months ended June 30, 2009 versus the same period in 2008 primarily as a result of a 7% decrease in access lines. Access lines within the segment's ILEC territory decreased by 61,400 or 8%, from 740,500 at June 30, 2008 to 679,100 at June 30, 2009. The access line loss resulted from several factors including customers electing to use wireless communication in lieu of the traditional local service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The Company has partially offset its access line loss in its ILEC territory by continuing to target voice services to residential and business customers in its CLEC territory. The Company had approximately 73,400 CLEC access lines at June 30, 2009, which is a 13% increase from June 30, 2008.

Data revenue consists of data transport, high-speed internet access (DSL), dial-up internet access, digital trunking, and local area network interconnection services. Data revenue increased \$2.5 million and \$5.1 million for the three and six months ended June 30, 2009 compared to the same periods a year ago, primarily due to increased data transport usage by third party users.

Long distance and VoIP revenue decreased \$0.6 million and \$0.9 million for the three and six months ended June 30, 2009 as compared to the same periods in 2008. The decrease was due to lower minutes of use for long-distance and audio conferencing, which caused a \$1.9 million and \$4.5 million decrease in revenue for the three and six months ended June 30, 2009, respectively. The revenue decrease from long distance and audio conferencing was partially offset by growth in revenue from VoIP and broadband services. The decrease in long distance lines was due to a 4% decline in residential lines partially offset by a 1% increase in business subscribers.

Costs and Expenses

Cost of services and products decreased by \$3.5 million and \$7.9 million for the three and six months ended June 30, 2009 as compared to the corresponding periods in 2008. The decrease in the second quarter was primarily driven by lower wages of \$1.7 million due to the Company's restructuring activities and the new union agreement signed in February 2008, and lower benefit costs due to the pension and postretirement plan changes announced in February 2009. The decrease in the six months ended June 30, 2009 was primarily due to \$4.2 million in lower wages and \$3.0 million in lower benefit costs as discussed above, lower operating taxes of \$1.1 million and other costs from operations including a \$0.7 million claim settlement. These decreases were offset by an increase in network costs of \$1.8 million primarily to support growth in CLEC and VoIP revenues.

Selling, general and administrative expenses decreased by \$2.5 million and \$2.1 million for the three and six months ended June 30, 2009, respectively, versus the comparable periods in 2008. The decrease for the three months ended June 30, 2009 consists of a \$1.6 million decrease in costs primarily resulting from lower negotiated rates with third party service providers and lower benefit costs primarily due to the pension and postretirement plan changes announced in February 2009. The decrease for the six months ended June 30, 2009 was primarily due to a \$1.9 million decrease in costs from third party service providers as discussed above, and a \$1.0 million decrease in benefit costs partially offset by an increase in bad debt expense.

The restructuring gain for the six months ended June 30, 2009 resulted from a curtailment due to changes in the pension and postretirement plans announced in February 2009. Restructuring charges for the six months ended June 30, 2008 resulted from an early retirement option offered by the Company and accepted by certain eligible union employees during the first quarter of 2008. See Note 6 to the Condensed Consolidated Financial Statements for further information.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

WIRELESS

(dollars in millions, except for operating metrics)	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	2008	Change	% Change	2009	2008	Change	% Change
Revenue:								
Service	\$ 71.3	\$ 72.3	\$ (1.0)	(1)%	\$ 142.5	\$ 144.3	\$ (1.8)	(1)%
Equipment	5.2	6.0	(0.8)	(13)%	10.3	12.5	(2.2)	(18)%
Total revenue	76.5	78.3	(1.8)	(2)%	152.8	156.8	(4.0)	(3)%
Operating costs and expenses:								
Cost of services and products	39.2	40.6	(1.4)	(3)%	79.9	80.6	(0.7)	(1)%
Selling, general and administrative	16.2	16.8	(0.6)	(4)%	34.0	33.6	0.4	1%
Depreciation	9.9	8.1	1.8	22%	18.8	16.5	2.3	14%
Amortization	0.4	0.5	(0.1)	(20)%	0.8	1.1	(0.3)	(27)%
Restructuring charge				n/m		0.4	(0.4)	n/m
Total operating costs and expenses	65.7	66.0	(0.3)	0%	133.5	132.2	1.3	1%
Operating income	\$ 10.8	\$ 12.3	\$ (1.5)	(12)%	\$ 19.3	\$ 24.6	\$ (5.3)	(22)%
Operating margin	14.1%	15.7%		(1.6) pts	12.6%	15.7%		(3.1) pts
Metric information:								
Postpaid ARPU*	\$ 48.43	\$ 47.36	\$ 1.07	2%	\$ 48.18	\$ 47.39	\$ 0.79	2%
Prepaid ARPU*	\$ 28.00	\$ 25.75	\$ 2.25	9%	\$ 28.09	\$ 26.49	\$ 1.60	6%
Postpaid subscribers (in thousands)	391.6	409.9	(18.3)	(4)%	391.6	409.9	(18.3)	(4)%
Prepaid subscribers (in thousands)	152.2	165.1	(12.9)	(8)%	152.2	165.1	(12.9)	(8)%
Average postpaid churn	2.0%	1.7%		0.3 pts	2.1%	1.6%		0.5 pts
Capital expenditures	\$ 4.2	\$ 6.6	\$ (2.4)	(36)%	\$ 9.8	\$ 24.0	\$ (14.2)	(59)%

* The Company has presented certain information regarding monthly average revenue per user (ARPU) because the Company believes ARPU provides a useful measure of the operational performance of its Wireless segment. ARPU is calculated by dividing service revenue by the average subscriber base for the period.

Revenue

Service revenue decreased by \$1.0 million in the second quarter of 2009 as compared to the same period last year due to the following:

Postpaid service revenue decreased \$0.7 million due to a decrease in subscribers partially offset by an increase in ARPU. The increase in average churn is due to increased competition and Company-initiated disconnections of customers with credit problems. ARPU increased from \$47.36 for the three months ended June 30, 2008 to \$48.43 for the same period in 2009. The ARPU increase includes a 36% increase in data ARPU; and

Prepaid service revenue decreased \$0.3 million compared to the same period last year primarily due to a decrease in subscribers partially offset by an increase in ARPU of \$2.25. The decrease in the number of subscribers is due to increased competition and the Company focusing its marketing on higher usage rate plans. The change in marketing strategy resulted in fewer subscribers, but a higher ARPU.

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

For the six months ended June 30, 2009, service revenue decreased \$1.8 million compared to the same period in 2008 primarily due to a \$1.4 million decrease in prepaid revenue resulting from a decrease in subscribers partially offset by an increase in ARPU. Postpaid service revenue declined \$0.4 million during the six months ended June 30, 2009 compared to the same period in 2008 primarily from fewer subscribers partially offset by higher ARPU.

Equipment revenue for the three and six months ended June 30, 2009 decreased by \$0.8 million and \$2.2 million compared to the same periods in 2008 primarily due to lower handset revenue per unit to attract new customers and retain existing customers.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Costs and Expenses

Cost of services and products consists largely of network operation costs, interconnection expenses with other telecommunications providers, roaming expense (which is incurred for subscribers to use their handsets in the territories of other wireless service providers), and cost of handsets and accessories sold. These expenses decreased \$1.4 million during the second quarter of 2009 and \$0.7 million for the six months ended June 30, 2009 versus the prior year periods. The second quarter decrease was primarily attributable to a decrease in handset equipment costs. The decrease for the six months ended June 30, 2009 was primarily due to lower handset equipment costs of \$2.8 million and lower operating taxes. These decreases were partially offset by a \$3.1 million increase in handset subsidies to attract new customers and retain existing customers.

Selling, general and administrative expenses decreased \$0.6 million for the second quarter of 2009 primarily due to a decrease in distributor commissions resulting from lower activations of \$1.1 million as well as lower advertising and other costs partially offset by higher bad debt expense of \$1.1 million. Costs for the six months ended June 30, 2009 versus the prior year period increased \$0.4 million primarily due to an increase in bad debt expense of \$2.2 million partially offset by lower commissions.

TECHNOLOGY SOLUTIONS

(dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	2008	Change	% Change	2009	2008	Change	% Change
Revenue:								
Telecom and IT equipment distribution	\$ 33.1	\$ 50.1	\$ (17.0)	(34)%	\$ 64.2	\$ 99.8	\$ (35.6)	(36)%
Data center and managed services	28.4	24.9	3.5	14%	55.3	46.6	8.7	19%
Professional services	4.9	3.5	1.4	40%	10.0	6.8	3.2	47%
Total revenue	66.4	78.5	(12.1)	(15)%	129.5	153.2	(23.7)	(15)%
Operating costs and expenses:								
Cost of services and products	45.4	60.4	(15.0)	(25)%	89.4	118.3	(28.9)	(24)%
Selling, general and administrative	11.3	9.8	1.5	15%	22.6	19.9	2.7	14%
Depreciation	4.9	3.5	1.4	40%	9.0	6.3	2.7	43%
Amortization	0.4	0.4	0	0%	0.8	0.8	0	0%
Restructuring charge		0.1	(0.1)	n/m		0.4	(0.4)	n/m
Total operating costs and expenses	62.0	74.2	(12.2)	(16)%	121.8	145.7	(23.9)	(16)%
Operating income	\$ 4.4	\$ 4.3	\$ 0.1	2%	\$ 7.7	\$ 7.5	\$ 0.2	3%
Operating margin	6.6%	5.5%		1.1 pts	5.9%	4.9%		1.0 pts
Metric information:								
Raised floor (in square feet)	271,000	202,000	69,000	34%	271,000	202,000	69,000	34%
Utilization rate	81%	87%		(6) pts	81%	87%		(6) pts
Capital expenditures	\$ 6.9	\$ 10.4	\$ (3.5)	(34)%	\$ 17.6	\$ 32.6	\$ (15.0)	(46)%

The Technology Solutions segment consists of CBTS, CBTS Canada Inc., CBTS Software LLC, and GramTel Inc.

Revenue

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Revenue from telecom and IT equipment distribution represents the sale, installation and maintenance of major, branded IT and telephony equipment. Revenue decreased by \$17.0 million in the second quarter of 2009 and \$35.6 million for the six months ended June 30, 2009 as compared to the same periods a year ago, primarily due to lower telephony and IT equipment sales related to lower capital spending by business customers due to the decline in the economy.

Data center and managed services revenue consists of recurring collocation rents from customers residing in the Company's data centers, managed VoIP solutions, and IT services that include network management, electronic data storage, disaster recovery, and data security management. Revenue increased \$3.5 million for the second quarter of 2009 and \$8.7 million for the six months ended June 30, 2009 as compared to the same periods a year ago, primarily due to increased billable data center space.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Professional services revenue consists of long-term and short-term IT outsourcing and consulting engagements. Revenue for the three and six months ended June 30, 2009 increased by \$1.4 million and \$3.2 million, respectively, compared to the same periods in 2008. The Company continues to expand its team of recruiting and hiring personnel in order to focus on selling these outsourcing and consulting engagements.

Costs and Expenses

Cost of services and products decreased by \$15.0 million in the second quarter of 2009 and \$28.9 million for the six months ended June 30, 2009 as compared to the same periods in 2008. The decrease in the second quarter primarily resulted from a \$15.3 million decrease in cost of goods sold related to lower telecom and equipment distribution revenue. The decrease for the six months ended June 30, 2009 was primarily due to a \$31.3 million decrease in cost of goods sold related to lower telecom and equipment distribution revenue partially offset by higher payroll related costs due to growth in both data center and managed services and professional services revenues.

Selling, general and administrative expenses increased by \$1.5 million and \$2.7 million for the second quarter of 2009 and for the six months ended June 30, 2009, respectively, primarily due to an increase in payroll related costs to support the growing operations.

The increase in depreciation expense for the three and six months ended June 30, 2009 compared to the prior year periods was primarily due to capital expenditures associated with expanding data center capacity.

Financial Condition, Liquidity, and Capital Resources

As of June 30, 2009, the Company held \$2.6 million in cash and cash equivalents. The Company's primary sources of cash for the remainder of the year will be cash generated by operations and borrowings from the Corporate credit facility under which the Company had \$153.3 million of availability at June 30, 2009. In June 2009, the Company amended its Corporate credit facility, which would have expired in February 2010. The amended Corporate credit facility has a \$210 million revolving line of credit and expires in August 2012. The Company's cash flows from operating activities totaled \$403.9 million in 2008.

Uses of cash for the remainder of the year will include repayments and repurchases of debt and related interest, repurchases of common shares, dividends on preferred stock, capital expenditures, and working capital. In February 2008, the Company's Board of Directors authorized the repurchase of the Company's outstanding common stock in an amount up to \$150 million during the next two years. As of June 30, 2009, the Company has repurchased \$111.2 million of common stock, which leaves \$38.8 million available to repurchase common stock under the stock buyback program.

The Company believes the cash generated by its operations and borrowings from its Corporate credit facility and Receivables Facility will be sufficient to fund its primary uses of cash through the end of the year.

The Corporate credit facility financial covenants require that the Company maintain certain leverage ratios, interest coverage, and fixed charge ratios. The facility also contains certain covenants which, among other things, limit the Company's ability to incur additional debt or liens, pay dividends, repurchase Company common stock, sell, transfer, lease, or dispose of assets, and make investments or merge with another company. If the Company were to violate any of its covenants and were unable to obtain a waiver, it would be considered a default. If the Company were in default under its credit facility, no additional borrowings under the credit facility would be available until the default was waived or cured. The Company believes it is in compliance and will remain in compliance with its Corporate credit facility covenants.

Various issuances of the Company's public debt, which include the 7¼% Senior Notes due 2013, 8¾% Subordinated Notes, and the 7% Senior Notes, contain covenants that, among other things, limit the Company's ability to incur additional debt or liens, pay dividends or make other restricted payments, sell, transfer, lease, or dispose of assets and make investments or merge with another company. Restricted payments include common stock dividends, repurchase of common stock, and certain other public debt repayments. The Company believes it has sufficient ability under its public debt indentures to make its intended restricted payments in 2009. The Company believes it is in compliance and will remain in compliance with its public debt indentures.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Cash Flows

For the six months ended June 30, 2009, cash provided by operating activities totaled \$170.5 million, a decrease of \$17.4 million compared to the \$187.9 million provided by operating activities during the same period in 2008. The decrease was primarily due to a customer prepayment of \$21.5 million for data center services received in 2008. These decreases were partially offset by \$10.5 million received in the first quarter of 2009 related to the termination of certain interest rate swaps.

Cash flow utilized for investing activities decreased \$27.2 million to \$96.6 million during the six months ended June 30, 2009 as compared to \$123.8 million for the six months of 2008. In 2008, the Company paid \$21.6 million related to the acquisition of businesses, \$18.1 million of which related to the purchase of eGIX Inc. Capital expenditures were \$9.0 million lower for the six months ended June 30, 2009 versus last year.

Cash flow used in financing activities for the six months ended June 30, 2009 was \$78.0 million compared to \$68.8 million during the same period in 2008. For the six months ended June 30, 2009, the Company repurchased \$34.4 million of the Company's common stock as part of its two-year \$150 million common stock repurchase plan. Also, the Company paid \$4.4 million of debt issuance costs to amend and extend the term of the Corporate credit facility in the second quarter of 2009. Borrowings under the Corporate credit and receivables facilities decreased \$28.4 million in the six months ended June 30, 2009. During the six months ended June 30, 2008, the Company purchased and extinguished \$41.6 million of 8³/₈% Subordinated Notes and repurchased \$47.0 million of the Company's common stock as part of its two-year \$150 million common stock repurchase plan. In addition, borrowings under the Corporate credit facility increased by \$31.0 million. For the six months ended June 30, 2009, the Company paid preferred stock dividends of \$5.2 million compared to \$7.8 million in the prior year period. The 2008 preferred stock dividend payments were higher due to payment timing.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to the impact of interest rate fluctuations on its indebtedness. The Company attempts to maintain an optimal balance of fixed rate and variable rate indebtedness in order to attain low overall borrowing costs over time while mitigating exposure to interest rate fluctuations. The Company uses derivative financial instruments to manage its balance of fixed rate and variable rate indebtedness. In 2004 and 2005, the Company entered into long-term interest rate swaps with notional amounts totaling \$450 million to change the fixed rate nature of a portion of the 7% Senior Notes and the 8³/₈% Subordinated Notes to floating rate debt. These long-term interest rate swaps qualify for fair value hedge accounting. In December 2008 and early 2009, certain counterparties exercised their right to call \$250 million of the notional amount of long-term interest rate swaps for the 8³/₈% Subordinated Notes. As of June 30, 2009 and December 31, 2008, the fair value of these interest rate swap contracts was an asset of \$8.4 million and \$22.4 million, respectively, for which the Company's underlying hedged debt is adjusted by the same corresponding value in accordance with SFAS No. 133.

In both May 2008 and July 2008, the Company entered into six-month interest rate swap contracts with notional amounts totaling \$450 million each, which effectively fixed the floating interest rates for the second half of 2008 and first half of 2009 on the long-term interest rate swaps. The Company did not designate these swaps as hedging instruments under SFAS No. 133, which results in the change in the fair value of these instruments being recognized in Other income, net in the Condensed Consolidated Statements of Operations during each period. At June 30, 2009 and December 31, 2008, the fair value of these interest rate swap contracts was a liability of \$3.8 million and \$3.6 million, respectively.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for further information on the Company's hedging activities.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The term "disclosure controls and procedures" (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Cincinnati Bell Inc.'s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the report. Based on that evaluation, Cincinnati Bell Inc.'s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by the report, such controls and procedures were effective.

(b) Changes in internal controls over financial reporting.

The term "internal control over financial reporting" (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Cincinnati Bell Inc.'s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated any changes in the Company's internal control over financial reporting that occurred during the second quarter of 2009, and they have concluded that there was no change to Cincinnati Bell Inc.'s internal control over financial reporting in the second quarter of 2009 that has materially affected, or is reasonably likely to materially affect, Cincinnati Bell Inc.'s internal control over financial reporting.

Table of Contents

Form 10-Q Part II

Cincinnati Bell Inc.

PART II. OTHER INFORMATION**Item 1A. Risk Factors**

Other than the following, the Company believes there have been no other changes to its risk factors provided in its 2008 Annual Report on Form 10-K:

A health pandemic could severely affect the Company's operations.

As a result of any health pandemic, such as the H1N1 influenza virus, the Company could potentially experience a significant disruption in its operations due to staffing shortages as well as disruption of services and products provided by third-party providers. Any significant disruption in its operations could have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three month period ended June 30, 2009, the Company had no unregistered sales of equity securities.

The following table provides information regarding the Company's purchases of its common stock for the quarter ended June 30, 2009:

	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 the Plans or Programs (in millions) **
4/1/2009-4/30/2009	1,804,982	\$ 2.60	1,803,462	\$ 47.1
5/1/2009-5/31/2009	1,469,200	2.70	1,469,200	43.1
6/1/2009-6/30/2009	1,516,550	2.88	1,516,550	38.8
	4,790,732	\$ 2.72	4,789,212	

* The period 4/1/2009 - 4/30/2009 includes 1,520 shares purchased at market value for certain deferred compensation plans.

** In February 2008, the Company's Board of Directors approved the repurchase of the Company's outstanding common stock in an amount up to \$150 million during 2008 and 2009.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Information is incorporated herein by reference to Part II, Item 4, of the Company's Form 10-Q for the quarterly period ended March 31, 2009.

Item 5. Other Information

None.

Table of Contents

Form 10-Q Part II

Cincinnati Bell Inc.

Item 6. Exhibits

(a) Exhibits.

Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

Exhibit Number	DESCRIPTION
(10.1)	Fourth Amendment to Receivables Purchase Agreement, dated as of June 8, 2009, to the receivables purchase agreement, dated as of March 23, 2007, among Cincinnati Bell Funding LLC, as Seller, Cincinnati Bell Inc., as Servicer, the Purchaser and Purchaser Agents identified therein, and PNC Bank, National Association, as Administrator for each Purchaser Group. (Exhibit 99.1 to Current Report on Form 8-K, date of Report June 8, 2009, File No. 1-8519).
(10.2)	Fifth Amendment to Receivables Purchase Agreement, dated as of July 1, 2009, to the Receivables Purchase Agreement, dated as of March 23, 2007, among Cincinnati Bell Funding LLC, as Seller, Cincinnati Bell Inc., as Servicer, the Purchaser and Purchaser Agents identified therein, and PNC Bank, National Association, as Administrator for each Purchaser Group. (Exhibit 99.1 to Current Report on Form 8-K, date of Report July 1, 2009, File No. 1-8519).
(10.3)	Joinder and Second Amendment dated as of July 1, 2009 among eVolve Business Solutions LLC as a New Originator, the Originators identified therein, Cincinnati Bell Funding LLC, and Cincinnati Bell Inc. to Purchase and Sale Agreement dated as of March 23, 2007 among the Originators identified therein, Cincinnati Bell Funding LLC, and Cincinnati Bell Inc. (Exhibit 99.2 to Current Report on Form 8-K, date of Report July 1, 2009, File No. 1-8519).
(10.4)	The Fourth Amendment to Credit Agreement, dated as of June 25, 2009, among Cincinnati Bell Inc., as Borrower, the Guarantors signatories thereto, the Lenders party thereto, Bank of America, N.A., as Administrative Agent and an L/C Issuer, and PNC Bank, National Association, as Swingline Lender and an L/C Issuer. (Exhibit 10.1 to Current Report on Form 8-K, date of Report June 25, 2009, File No. 1-8519).
(10.5)	Amended and Restated Credit Agreement, dated as of June 25, 2009, among Cincinnati Bell Inc., as Borrower, the Guarantors signatories thereto, the Lenders party thereto, Bank of America, N.A., as Administrative Agent and an L/C Issuer, and PNC Bank, National Association, as Swingline Lender and an L/C Issuer. (Exhibit 10.2 to Current Report on Form 8-K, date of Report June 25, 2009, File No. 1-8519).
(31.1)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

The Company's reports on Form 10-K, 10-Q, and 8-K are available free of charge in the Investor Relations section of the Company's website: <http://www.cincinnati-bell.com>. The Company will furnish any other exhibit at cost.

Table of Contents

Form 10-Q Part II

Cincinnati Bell Inc.

SIGNATURES

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

Cincinnati Bell Inc.

Date: August 5, 2009

/s/ Gary Wojtaszek
Gary Wojtaszek
Chief Financial Officer

Date: August 5, 2009

/s/ Kurt Freyberger
Kurt Freyberger
Vice President and Controller