

CINCINNATI BELL INC
Form 10-Q
May 07, 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 March 31, 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 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 May 1, 2009, there were 214,842,033 common shares outstanding and 155,250 shares of 6 ³/₄% 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 Ended March 31, 2009 and 2008</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	
<u>March 31, 2009 and December 31, 2008</u>	2
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	
<u>Three Months Ended March 31, 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>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	26
PART II. Other Information	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 3. <u>Defaults Upon Senior Securities</u>	27
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	27
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	28
<u>Signatures</u>	29

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 March 31,	
	2009	2008
Revenue		
Services	\$ 293.1	\$ 297.2
Products	32.4	51.3
Total revenue	325.5	348.5
Costs and expenses		
Cost of services, excluding items below	101.1	106.5
Cost of products sold, excluding items below	37.9	52.3
Selling, general and administrative	73.9	70.1
Depreciation	38.2	36.1
Amortization	1.1	1.2
Restructuring charges (gains)	(7.0)	24.0
Asset impairment		1.2
Total operating costs and expenses	245.2	291.4
Operating income	80.3	57.1
Interest expense	31.8	36.3
Other income, net		(1.2)
Income before income taxes	48.5	22.0
Income tax expense	19.7	9.1
Net income	28.8	12.9
Preferred stock dividends	2.6	2.6
Net income applicable to common shareowners	\$ 26.2	\$ 10.3
Basic and diluted earnings per common share	\$ 0.12	\$ 0.04
Weighted average common shares outstanding (in millions)		
Basic	224.3	246.7
Diluted	225.2	252.8

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)

	March 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 12.8	\$ 6.7
Receivables, less allowances of \$17.4 and \$18.0	157.4	164.9
Inventory, materials and supplies	30.3	28.9
Deferred income taxes, net	91.3	96.8
Prepaid expenses and other current assets	15.2	23.8
Total current assets	307.0	321.1
Property, plant and equipment, net	1,058.5	1,044.3
Goodwill	71.9	71.8
Intangible assets, net	124.8	126.0
Deferred income taxes, net	414.4	466.2
Other noncurrent assets	53.1	57.3
Total assets	\$ 2,029.7	\$ 2,086.7
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	\$ 182.2	\$ 10.2
Accounts payable	93.0	110.8
Unearned revenue and customer deposits	45.6	44.5
Accrued taxes	18.2	17.7
Accrued interest	26.1	45.9
Accrued payroll and benefits	44.9	49.7
Other current liabilities	44.2	45.0
Total current liabilities	454.2	323.8
Long-term debt, less current portion	1,802.8	1,950.5
Pension and postretirement benefit obligations	325.5	434.6
Other noncurrent liabilities	85.6	87.1
Total liabilities	2,668.1	2,796.0
Shareowners deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 ³ / ₄ %		
Cumulative Convertible Preferred Stock issued and outstanding at March 31, 2009 and December 31, 2008; liquidation preference \$1,000 per share (\$50 per depositary share)	129.4	129.4
Common shares, \$.01 par value; 480,000,000 shares authorized; 217,030,097 and 228,496,896 shares issued; 216,357,898 and 227,881,835 outstanding at March 31, 2009 and December 31, 2008	2.2	2.3
Additional paid-in capital	2,670.4	2,695.3
Accumulated deficit	(3,327.7)	(3,356.5)
Accumulated other comprehensive loss	(110.0)	(177.1)

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Common shares in treasury, at cost: 672,199 and 615,061 shares at March 31, 2009 and December 31, 2008	(2.7)	(2.7)
Total shareowners' deficit	(638.4)	(709.3)
Total liabilities and shareowners' deficit	\$ 2,029.7	\$ 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)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 28.8	\$ 12.9
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	38.2	36.1
Amortization	1.1	1.2
Provision for loss on receivables	6.2	4.3
Noncash interest expense	1.9	1.2
Deferred income tax expense, including valuation allowance change	17.6	8.8
Pension and other postretirement expense in excess of (less than) payments	(3.1)	42.8
Other, net	0.4	1.4
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease in receivables	1.6	2.6
Decrease (increase) in inventory, materials, supplies, prepaids and other current assets	6.7	(0.3)
Decrease in accounts payable	(17.5)	(7.3)
Decrease in accrued and other current liabilities	(26.9)	(25.6)
Decrease in other long-term assets	1.8	3.0
Increase in other long-term liabilities	1.7	6.9
Net cash provided by operating activities	58.5	88.0
Cash flows from investing activities		
Capital expenditures	(45.7)	(60.7)
Acquisitions of businesses	(3.4)	(18.7)
Other, net	0.6	(0.7)
Net cash used in investing activities	(48.5)	(80.1)
Cash flows from financing activities		
Increase in corporate credit and receivables facilities, net	23.0	45.0
Repayment of debt	(2.3)	(40.0)
Preferred stock dividends	(2.6)	(2.6)
Common stock repurchase	(21.4)	(16.7)
Other, net	(0.6)	(0.4)
Net cash used in financing activities	(3.9)	(14.7)
Net increase (decrease) in cash and cash equivalents	6.1	(6.8)
Cash and cash equivalents at beginning of year	6.7	26.1
Cash and cash equivalents at end of period	\$ 12.8	\$ 19.3

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

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.

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 month period ended March 31, 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 Statement of Financial Accounting Standards (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.

SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (GAAP), was issued in May 2008. SFAS No. 162 reorganizes the GAAP hierarchy to provide a consistent framework for determining the accounting principles that should be used when preparing U.S. GAAP financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The adoption of SFAS No. 162 is not expected to have any impact on the Company's consolidated results of operations and financial position.

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 calculation 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 March 31,	
	2009	2008
Numerator:		
Net income	\$ 28.8	\$ 12.9
Preferred stock dividends	2.6	2.6
 Numerator for basic and diluted EPS	 \$ 26.2	 \$ 10.3
Denominator:		
Denominator for basic EPS weighted average common shares outstanding	224.3	246.7
Warrants		4.6
Stock-based compensation arrangements	0.9	1.5
 Denominator for diluted EPS	 225.2	 252.8
 Basic and diluted earnings per common share	 \$ 0.12	 \$ 0.04
 Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	 43.9	 39.7

3. Comprehensive Income

(dollars in millions)	Three Months Ended March 31,	
	2009	2008
Net income	\$ 28.8	\$ 12.9
Amortization and remeasurement of pension and postretirement liabilities, net of taxes	67.1	12.7
 Comprehensive income	 \$ 95.9	 \$ 25.6

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

4. Debt

The Company's debt consists of the following:

(dollars in millions)	March 31, 2009	December 31, 2008
Current portion of long-term debt:		
Credit facility, revolver	\$ 75.0	\$
Receivables Facility	96.0	
Credit facility, Tranche B Term Loan	2.1	2.1
Capital lease obligations and other debt	9.1	8.1
Current portion of long-term debt	182.2	10.2
Long-term debt, less current portion:		
Credit facility, revolver		73.0
Credit facility, Tranche B Term Loan	204.4	204.9
7 ¹ / ₄ % Senior Notes due 2013	439.9	439.9
8 ³ / ₈ % Senior Subordinated Notes due 2014*	572.3	572.7
7% Senior Notes due 2015*	256.7	257.2
7 ¹ / ₄ % Senior Notes due 2023	50.0	50.0
Receivables Facility		75.0
Various Cincinnati Bell Telephone notes	230.0	230.0
Capital lease obligations and other debt	49.2	47.5
	1,802.5	1,950.2
Net unamortized premiums	0.3	0.3
Long-term debt, less current portion	1,802.8	1,950.5
Total debt	\$ 1,985.0	\$ 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 March 31, 2009 and December 31, 2008.

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), and increased the maximum potential borrowing amount to \$115 million, depending on the level of eligible receivables and other factors. At March 31, 2009, the Company had \$96.0 million outstanding under this facility, which was the maximum borrowing permitted at that date. The Receivables Facility is subject to annual bank renewals in February, and in any event expires in March 2012.

As of March 31, 2009, the Company had \$75.0 million outstanding borrowings under its revolving credit facility, and had outstanding letters of credit totaling \$25.6 million, leaving \$149.4 million in additional borrowing availability under its Corporate credit facility. This facility expires in February 2010.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

5. Financial Instruments

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 March 31, 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)	March 31, 2009	Level 1	Level 2	Level 3
Interest rate swap assets	\$ 11.5	\$	\$ 11.5	\$
Interest rate swap liabilities	3.9		3.9	

(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 8% Senior Subordinated Notes due 2014 (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)	March 31, 2009
Derivatives designated as fair value hedges	
Interest rate swap assets	\$ 11.5
Derivatives not designated as fair value hedges	
Interest rate swap liabilities	(3.9)
At March 31, 2009, the interest rate swap asset 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 Sheet as of March 31, 2009.	

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

(dollars in millions)	Three months ended March 31, 2009
Derivatives designated as fair value hedges	
Interest rate swaps	\$ 1.7
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.	

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	Expense	Utilizations	Balance March 31, 2009
2007-2008 plan	\$ 8.0	\$	\$ (0.5)	\$ 7.5
2001 plan	5.1	0.1	(0.3)	4.9

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 three months ended March 31, 2008, the Company recorded an additional charge of \$23.9 million, which consisted of \$22.8 million of special termination benefits and a \$15.5 million curtailment charge, offset by a \$14.4 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 offer, which included special termination pension benefits discussed below. These early retirements reduced the need for the severance liability by \$14.4 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 \$0.7 million of these amortized costs in the first quarter of 2008 and \$0.5 million in the first quarter 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 March 31, 2009 and December 31, 2008, \$3.8 million and \$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 Pension and postretirement benefit obligations in the Condensed Consolidated Balance Sheet at March 31, 2009. For further information related to the special termination benefits and curtailments discussed above, see Note 7 to the Condensed Consolidated Financial Statements.

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

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

lease obligations, which are expected to continue through 2015.

At March 31, 2009 and December 31, 2008, \$1.0 million 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 \$3.9 million and \$4.1 million at March 31, 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 three months ended March 31, 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.

Pension and postretirement benefit costs are as follows:

(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
	Three Months Ended March 31,		2009	
	2009	2008	2009	2008
Service cost	\$ 1.6	\$ 2.3	\$ 0.2	\$ 0.6
Interest cost on projected benefit obligation	7.2	6.9	3.2	4.8
Expected return on plan assets	(6.5)	(8.8)	(0.2)	(0.5)
Amortization of:				
Transition obligation			0.1	0.9
Prior service cost	0.1	0.1	(2.0)	0.5
Actuarial loss	2.2	0.7	1.0	1.0
Special termination benefit	0.4	22.6	0.1	0.2
Curtailment (gain) charge	(7.6)	3.1		12.4
	\$ (2.6)	\$ 26.9	\$ 2.4	\$ 19.9

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 March 31,	
	2009	2008
Revenue		
Wireline	\$ 195.6	\$ 202.6
Wireless	76.3	78.5
Technology Solutions	63.1	74.7
Intersegment	(9.5)	(7.3)
Total revenue	\$ 325.5	\$ 348.5
Intersegment revenue		
Wireline	\$ 6.2	\$ 5.9
Wireless	0.8	0.8
Technology Solutions	2.5	0.6
Total intersegment revenue	\$ 9.5	\$ 7.3
Operating income		
Wireline	\$ 74.9	\$ 46.7
Wireless	8.5	12.3
Technology Solutions	3.3	3.2
Corporate	(6.4)	(5.1)
Total operating income	\$ 80.3	\$ 57.1
Assets		
Wireline	\$ 699.2	\$ 694.3
Wireless	367.2	377.2
Technology Solutions	289.2	328.8
Corporate and eliminations	674.1	686.4
Total assets	\$ 2,029.7	\$ 2,086.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

**9. 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 months ended March 31, 2009 and 2008 and Condensed Consolidating Balance Sheets as of March 31, 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 March 31, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	\$	\$ 174.8	\$ 165.1	\$ (14.4)	\$ 325.5
Operating costs and expenses	6.1	104.0	149.5	(14.4)	245.2
Operating income (loss)	(6.1)	70.8	15.6		80.3
Interest expense	26.6	3.7	4.9	(3.4)	31.8
Other expense (income), net	(3.5)	1.0	(0.9)	3.4	
Income (loss) before income taxes	(29.2)	66.1	11.6		48.5
Income tax expense (benefit)	(8.7)	21.6	6.8		19.7
Equity in earnings of subsidiaries, net of tax	49.3			(49.3)	
Net income	28.8	44.5	4.8	(49.3)	28.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	\$ 26.2	\$ 44.5	\$ 4.8	\$ (49.3)	\$ 26.2

	Three Months Ended March 31, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	\$	\$ 181.3	\$ 179.2	\$ (12.0)	\$ 348.5
Operating costs and expenses	4.9	141.1	157.4	(12.0)	291.4
Operating income (loss)	(4.9)	40.2	21.8		57.1
Interest expense	31.9	3.6	6.0	(5.2)	36.3
Other expense (income), net	(6.8)	2.1	(1.7)	5.2	(1.2)
Income (loss) before income taxes	(30.0)	34.5	17.5		22.0
Income tax expense (benefit)	(9.0)	12.8	5.3		9.1
Equity in earnings of subsidiaries, net of tax	33.9			(33.9)	
Net income	12.9	21.7	12.2	(33.9)	12.9
Preferred stock dividends	2.6				2.6

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Net income applicable to common shareowners	\$ 10.3	\$ 21.7	\$ 12.2	\$ (33.9)	\$ 10.3
---	---------	---------	---------	-----------	---------

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of March 31, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	\$ 11.7	\$ 0.8	\$ 0.3	\$	\$ 12.8
Receivables, net	1.3		156.1		157.4
Other current assets	23.5	28.4	85.6	(0.7)	136.8
Total current assets	36.5	29.2	242.0	(0.7)	307.0
Property, plant and equipment, net	0.7	600.0	457.8		1,058.5
Goodwill and intangibles, net		3.0	193.7		196.7
Investments in and advances to subsidiaries	1,022.7			(1,022.7)	
Other noncurrent assets	313.7	13.7	208.8	(68.7)	467.5
Total assets	\$ 1,373.6	\$ 645.9	\$ 1,102.3	\$ (1,092.1)	\$ 2,029.7
Current portion of long-term debt	\$ 77.1	\$ 0.7	\$ 104.4	\$	\$ 182.2
Accounts payable	1.3	46.4	45.3		93.0
Other current liabilities	71.8	58.1	49.1		179.0
Total current liabilities	150.2	105.2	198.8		454.2
Long-term debt, less current portion	1,524.0	234.8	44.0		1,802.8
Other noncurrent liabilities	337.8	46.7	96.0	(69.4)	411.1
Intercompany payables		4.7	433.9	(438.6)	
Total liabilities	2,012.0	391.4	772.7	(508.0)	2,668.1
Shareowners' equity (deficit)	(638.4)	254.5	329.6	(584.1)	(638.4)
Total liabilities and shareowners' equity (deficit)	\$ 1,373.6	\$ 645.9	\$ 1,102.3	\$ (1,092.1)	\$ 2,029.7

	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)	Three Months Ended March 31, 2009				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (38.7)	\$ 76.4	\$ 20.8	\$	\$ 58.5
Capital expenditures	(0.2)	(27.5)	(18.0)		(45.7)
Acquisition of businesses		(0.5)	(2.9)		(3.4)
Other investing activities	0.2	0.2	0.2		0.6
Cash flows used in investing activities		(27.8)	(20.7)		(48.5)
Funding between Parent and subsidiaries, net	69.0	(49.4)	(19.6)		
Increase in corporate credit and receivables facilities, net	2.0		21.0		23.0
Repayment of debt	(0.5)	(0.2)	(1.6)		(2.3)
Common stock repurchase	(21.4)				(21.4)
Other financing activities	(3.2)				(3.2)
Cash flows provided by (used in) financing activities	45.9	(49.6)	(0.2)		(3.9)
Increase (decrease) in cash and cash equivalents	7.2	(1.0)	(0.1)		6.1
Beginning cash and cash equivalents	4.5	1.8	0.4		6.7
Ending cash and cash equivalents	\$ 11.7	\$ 0.8	\$ 0.3	\$	\$ 12.8

	Three Months Ended March 31, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (10.3)	\$ 21.1	\$ 77.2	\$	\$ 88.0
Capital expenditures	(0.2)	(20.3)	(40.2)		(60.7)
Acquisition of businesses		(0.8)	(17.9)		(18.7)
Other investing activities	(0.3)	0.1	(0.5)		(0.7)
Cash flows used in investing activities	(0.5)	(21.0)	(58.6)		(80.1)
Funding between Parent and subsidiaries, net	16.7	0.6	(17.3)		
Increase in corporate credit facility, net	45.0				45.0
Repayment of debt	(39.0)	(0.1)	(0.9)		(40.0)
Common stock repurchase	(16.7)				(16.7)
Other financing activities	(3.0)				(3.0)
Cash flows provided by (used in) financing activities	3.0	0.5	(18.2)		(14.7)
Increase (decrease) in cash and cash equivalents	(7.8)	0.6	0.4		(6.8)
Beginning cash and cash equivalents	23.6	1.9	0.6		26.1
Ending cash and cash equivalents	\$ 15.8	\$ 2.5	\$ 1.0	\$	\$ 19.3

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

7 1/4% Senior Notes Due 2013, 7% Senior Notes Due 2015, and 8 3/8% Senior Subordinated Notes Due 2014

The Parent Company's 7 1/4% Senior Notes due 2013, 7% Senior Notes due 2015, and 8 3/8% 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 months ended March 31, 2009 and 2008 and the Condensed Consolidating Balance Sheets as of March 31, 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 March 31, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 177.9	\$ 162.0	\$ (14.4)	\$ 325.5
Operating costs and expenses	6.1	163.1	90.4	(14.4)	245.2
Operating income (loss)	(6.1)	14.8	71.6		80.3
Interest expense	26.6	3.3	5.3	(3.4)	31.8
Other expense (income), net	(3.5)	(1.1)	1.2	3.4	
Income (loss) before income taxes	(29.2)	12.6	65.1		48.5
Income tax expense (benefit)	(8.7)	6.8	21.6		19.7
Equity in earnings of subsidiaries, net of tax	49.3			(49.3)	
Net income	28.8	5.8	43.5	(49.3)	28.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	\$ 26.2	\$ 5.8	\$ 43.5	\$ (49.3)	\$ 26.2

(dollars in millions)	Three Months Ended March 31, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	\$	\$ 191.0	\$ 169.5	\$ (12.0)	\$ 348.5
Operating costs and expenses	4.9	178.3	120.2	(12.0)	291.4
Operating income (loss)	(4.9)	12.7	49.3		57.1
Interest expense	31.9	4.6	5.0	(5.2)	36.3
Other expense (income), net	(6.8)	0.4		5.2	(1.2)
Income (loss) before income taxes	(30.0)	7.7	44.3		22.0
Income tax expense (benefit)	(9.0)	1.7	16.4		9.1
Equity in earnings of subsidiaries, net of tax	33.9			(33.9)	
Net income	12.9	6.0	27.9	(33.9)	12.9

Edgar Filing: CINCINNATI BELL INC - Form 10-Q

Preferred stock dividends	2.6					2.6
Net income applicable to common shareowners	\$ 10.3	\$ 6.0	\$ 27.9	\$ (33.9)	\$ 10.3	

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

	As of March 31, 2009				
(dollars in millions)	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	\$ 11.7	\$ 0.3	\$ 0.8	\$	\$ 12.8
Receivables, net	1.3	1.7	154.4		157.4
Other current assets	23.5	81.1	32.9	(0.7)	136.8
Total current assets	36.5	83.1	188.1	(0.7)	307.0
Property, plant and equipment, net	0.7	457.8	600.0		1,058.5
Goodwill and intangibles, net		193.7	3.0		196.7
Investments in and advances to subsidiaries	1,022.7			(1,022.7)	
Other noncurrent assets	313.7	210.5	12.0	(68.7)	467.5
Total assets	\$ 1,373.6	\$ 945.1	\$ 803.1	\$ (1,092.1)	\$ 2,029.7
Current portion of long-term debt	\$ 77.1	\$ 8.4	\$ 96.7	\$	\$ 182.2
Accounts payable	1.3	56.1	35.6		93.0
Other current liabilities	71.8	51.6	55.6		179.0
Total current liabilities	150.2	116.1	187.9		454.2
Long-term debt, less current portion	1,524.0	44.0	234.8		1,802.8
Other noncurrent liabilities	337.8	96.6	46.1	(69.4)	411.1
Intercompany payables		386.9	51.7	(438.6)	
Total liabilities	2,012.0	643.6	520.5	(508.0)	2,668.1
Shareowners' equity (deficit)	(638.4)	301.5	282.6	(584.1)	(638.4)
Total liabilities and shareowners' equity (deficit)	\$ 1,373.6	\$ 945.1	\$ 803.1	\$ (1,092.1)	\$ 2,029.7

	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)	Three Months Ended March 31, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (38.7)	\$ 69.8	\$ 27.4	\$	\$ 58.5
Capital expenditures	(0.2)	(18.0)	(27.5)		(45.7)
Acquisition of businesses		(2.9)	(0.5)		(3.4)
Other investing activities	0.2	0.2	0.2		0.6
Cash flows used in investing activities		(20.7)	(27.8)		(48.5)
Funding between Parent and subsidiaries, net	69.0	(47.6)	(21.4)		
Increase in corporate credit and receivables facilities, net	2.0		21.0		23.0
Repayment of debt	(0.5)	(1.6)	(0.2)		(2.3)
Common stock repurchase	(21.4)				(21.4)
Other financing activities	(3.2)				(3.2)
Cash flows provided by (used in) financing activities	45.9	(49.2)	(0.6)		(3.9)
Increase (decrease) in cash and cash equivalents	7.2	(0.1)	(1.0)		6.1
Beginning cash and cash equivalents	4.5	0.4	1.8		6.7
Ending cash and cash equivalents	\$ 11.7	\$ 0.3	\$ 0.8	\$	\$ 12.8

(dollars in millions)	Three Months Ended March 31, 2008				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by (used in) operating activities	\$ (10.3)	\$ 60.1	\$ 38.2	\$	\$ 88.0
Capital expenditures	(0.2)	(40.5)	(20.0)		(60.7)
Acquisition of businesses		(17.9)	(0.8)		(18.7)
Other investing activities	(0.3)	(0.5)	0.1		(0.7)
Cash flows used in investing activities	(0.5)	(58.9)	(20.7)		(80.1)
Funding between Parent and subsidiaries, net	16.7	0.1	(16.8)		
Increase in corporate credit facility, net	45.0				45.0
Repayment of debt	(39.0)	(0.9)	(0.1)		(40.0)
Common stock repurchase	(16.7)				(16.7)
Other financing activities	(3.0)				(3.0)
Cash flows provided by (used in) financing activities	3.0	(0.8)	(16.9)		(14.7)
Increase (decrease) in cash and cash equivalents	(7.8)	0.4	0.6		(6.8)
Beginning cash and cash equivalents	23.6	0.8	1.7		26.1
Ending cash and cash equivalents	\$ 15.8	\$ 1.2	\$ 2.3	\$	\$ 19.3

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 months ended March 31, 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 \$325.5 million for the first quarter of 2009, a decrease of \$23.0 million compared to the first quarter of 2008. The decrease was primarily due to the following:

\$11.6 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;

\$7.0 million lower revenues in the Wireline segment primarily due to lower voice revenue; and

\$2.2 million lower revenues in the Wireless segment primarily due to lower equipment and prepaid service revenue.

Operating income for the first quarter of 2009 was \$80.3 million, an increase of \$23.2 million compared to the same period in 2008. The increase was primarily due to the following:

\$28.2 million increase in Wireline segment operating income primarily due to lower restructuring costs; and

\$3.8 million decrease in Wireless segment operating income due primarily to increased handset subsidy costs, lower prepaid service revenue and higher bad debt expense.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Interest expense was \$31.8 million for the first quarter of 2009 as compared to \$36.3 million for the first quarter of 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 first quarter of 2009 was \$19.7 million compared to \$9.1 million for the first quarter of 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 2009 to be approximately \$7 million.

In order to partially mitigate the impact of the challenging economic environment, the Company announced in May 2009, it will reduce headcount by approximately 7%, suspend Company contributions to the 401K plan for salaried and non-represented employees for the remainder of the year and reduce other discretionary expenses as part of the Company's overall cost management efforts. The Company intends to have these cost reduction initiatives implemented by the end of the second quarter 2009.

Discussion of Operating Segment Results**WIRELINE**

(dollars in millions)	Three Months Ended March 31,			
	2009	2008	\$ Change	% Change
Revenue:				
Voice - local service	\$ 90.2	\$ 101.0	\$ (10.8)	(11)%
Data	70.2	67.6	2.6	4%
Long distance and VoIP	24.0	24.3	(0.3)	(1)%
Other	11.2	9.7	1.5	15%
Total revenue	195.6	202.6	(7.0)	(3)%
Operating costs and expenses:				
Cost of services and products	63.1	67.5	(4.4)	(7)%
Selling, general and administrative	39.3	38.9	0.4	1%
Depreciation	25.1	24.9	0.2	1%
Amortization	0.3	0.2	0.1	50%
Restructuring charges (gains)	(7.1)	23.2	(30.3)	n/m
Asset impairment		1.2	(1.2)	n/m