CINCINNATI BELL INC
Form 10-K
February 26, 2018

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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

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

221 East Fourth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip Code)
(513) 397-9900
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The aggregate market value of the voting common shares owned by non-affiliates of the registrant was $0.8 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2017, the last trading day of the registrant's most recently completed second fiscal quarter. The Company has no non-voting common shares.

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

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

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

Part I
Item 1. Business
Overview and Strategy
Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") provides integrated communications and IT solutions that keep residential and business customers connected with each other and with the world. Through its Entertainment and Communications segment, the Company provides high speed data, video, and voice solutions to consumers and businesses over an expanding fiber network and a legacy copper network. In addition, business customers across the U.S., Canada and Europe rely on the IT Services and Hardware segment for the sale and service of efficient, end-to-end communications and IT systems and solutions. During 2017, the Company expanded the geographic footprint of its IT Services and Hardware segment as a result of the acquisitions of SunTel Services ("SunTel") and OnX Holdings LLC ("OnX"), transforming the segment into a North American hybrid-cloud services provider.

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

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

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

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

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

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

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

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

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

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

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

Grow our IT Services and Hardware Segment

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

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

Entertainment and Communications

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

(1) Digital Subscriber Line
(2) Multi-Protocol Label Switching
(3) Synchronous Optical Network
(4) Voice over Internet Protocol
(5) Digital Signal
(6) Time Division Multiplexing

IT Services and Hardware

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

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Entertainment and Communications

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

Data

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

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

Voice

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

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

Video

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

Services and Other

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

IT Services and Hardware

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

Professional Services

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

Unified Communications

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

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

Cloud Services

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

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

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

Management & Monitoring

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

Telecom and IT Hardware

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

Sales and Distribution Channels

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

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

Suppliers and Product Supply Chain

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

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

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

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

Competition

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

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

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

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

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

Customers

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

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

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

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

Employees

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

Website Access and Other Information

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

Executive Officers

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

Business Segment Information

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

Item 1A. Risk Factors

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

Risk Factors Related to our Business and Operations

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

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

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

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

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

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

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

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

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

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

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

The Company generates a substantial portion of its revenues by delivering voice and data services over access lines. The Company's local telecommunications subsidiary, CBT, has experienced substantial access line losses over the past several years due to a number of factors, including wireless and broadband substitution and increased competition. The Company expects access line losses to continue into the foreseeable future. Failure to retain access lines without replacing such losses with an alternative source of revenue would adversely impact the Company's revenues, earnings and cash flow from operations.

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

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

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

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

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

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

The Company generates a substantial portion of its revenue by serving customers in Greater Cincinnati and Dayton, Ohio. An economic downturn or natural disaster occurring in this limited operating territory would have a disproportionate effect on the Company's business, financial condition, results of operations and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

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

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

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

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

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

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

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

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions or reduced capacity for customers.
We may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to our Indebtedness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Merger with Hawaiian Telcom

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Acquisition of OnX

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

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

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

Other Risk Factors

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

The market price of the Company's common stock has been volatile and could be subject to wide fluctuations in response to, among other things, the risk factors described in this report and other factors beyond the Company's control, such as volatility in equity markets and fluctuations in the valuation of companies perceived by investors to be comparable to the Company.
Equity markets have experienced price and volume fluctuations that have affected the Company's stock price and the market prices of equity securities of many other companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, may negatively affect the market price of the Company's stock.

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

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

The uncertain economic environment could have an adverse effect on the Company's business and financial liquidity. The Company's primary source of cash is customer collections. If economic conditions were to worsen, some customers may cancel services or have difficulty paying their accounts receivable. These conditions would result in lower revenues and increases in the allowance for doubtful accounts, which would negatively affect the results of operations. Furthermore, the sales cycle would be further lengthened if business customers slow spending or delay decision-making on the Company's products and services, which would adversely affect revenues. If competitors lower prices as a result of economic conditions, the Company would also experience pricing pressure. If the economies of the U.S. and the world deteriorate, this could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

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

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

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

Item 3. Legal Proceedings

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

(a) Market Information

The Company's common shares (symbol: CBB) are listed on the New York Stock Exchange. The Company filed an amendment to its Amended and Restated Articles of Incorporation to affect a one-for-five reverse split of its issued common stock ("the Reverse Split") effective 11:59 p.m. October 4, 2016. The following table shows the high and low closing sale prices during each quarter for the last two fiscal years after consideration of the Reverse Split:

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

(b) Holders

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

(c) Dividends

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

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(d) Stock Performance

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

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

(e) Issuer Purchases of Equity Securities

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

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

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

Item 6. Selected Financial Data

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

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

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

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

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

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

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

(b) Other operating costs and losses consist of restructuring and severance related charges (reversals), transaction-related compensation, curtailment and settlement loss (gain), loss (gain) on disposal of assets - net, impairment of assets and transaction and integration costs.

(c) Losses represent our equity method share of CyrusOne's losses from the date of the IPO through December 31, 2015. Effective January 1, 2016, our ownership in CyrusOne is no longer accounted for using the equity method.

(d) Total assets include current and noncurrent assets from discontinued operations.

(e) Total long-term obligations are comprised of long-term debt less current portion, deferred income tax liabilities, pension and postretirement benefit obligations, other noncurrent liabilities and noncurrent liabilities from discontinued operations. See Notes 7, 8, 10 and 16 to the consolidated financial statements for discussions related to 2017 and 2016.

(f) Capital expenditures include capital expenditures from discontinued operations.

(g) Operating data includes OnX results as of the date of acquisition in October 2017.

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

This Annual Report on Form 10-K and the documents incorporated by reference herein contain forward-looking statements regarding future events and results that are subject to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, are statements that could be deemed forward-looking statements. See "Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement" for further information on forward-looking statements.

Executive Summary

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

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

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

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

Consolidated Results of Operations
Revenue

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

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

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

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

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

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

Operating costs

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

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

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

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

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

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

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

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

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

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

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

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

In 2015, restructuring charges represented severance associated with employee separations, consulting fees related to a workforce optimization initiative, and lease abandonments.

Other operating costs

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

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

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

Non-operating expenses (income)

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

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

In 2017, the Company recognized a gain of $117.7 million on the sale of 2.8 million CyrusOne common shares. In 2016, the Company recognized a gain of $157.0 million on the sale of 4.1 million CyrusOne common shares. In 2015, the Company recognized a gain of $412.9 million on the sale of 20.3 million CyrusOne LP partnership units and a gain of $36.3 million on the sale of 1.4 million CyrusOne common shares. At December 31, 2017, we no longer own any shares of CyrusOne.
Dividends declared by CyrusOne in 2016 totaled $6.4 million and were included in Other (income) expense, net. For 2015, Other (income) expense, net includes the Company's share of CyrusOne's net loss recorded under the equity method of accounting totaling $5.1 million.

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

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

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

Effective March 31, 2015, we discontinued operating our wireless business as there were no subscribers remaining on the network. As a result, we no longer required the use of the spectrum being leased. Therefore, the $112.6 million gain on sale of wireless spectrum licenses, which had previously been deferred, was recognized during the three months ended March 31, 2015. On April 1, 2015, we transferred certain other wireless assets to the purchaser, including leases to certain wireless towers and related equipment and other assets, which resulted in a gain of $15.9 million in the second quarter of 2015. These gains were partially offset by operating losses as we continued to incur costs during the wind down of the wireless business.

Discussion of Operating Segment Results

The Company manages its business based upon product and service offerings. For the years ended December 31, 2017, 2016, and 2015, we operated two business segments: Entertainment and Communications and IT Services and Hardware. The closing of our wireless operations, effective March 31, 2015, represented a strategic shift in our business. Therefore, certain wireless assets, liabilities and results of operations are reported as discontinued operations in our financial statements. For further details of Discontinued Operations, see Note 1 and Note 16 of Notes to Consolidated Financial Statements.

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

Entertainment and Communications

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

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Entertainment and Communications, continued

(dollars in millions)	2017	2016	$ Change 2017 vs. 2016	% Change 2017 vs. 2016	2015	$ Change 2016 vs. 2015	% Change 2016 vs. 2015
Revenue:							
Data	$351.6	$344.8	$6.8	2 %	$322.8	$22.0	7 %
Voice	267.3	275.0	(7.7)	(3)%	291.9	(16.9)	(6)%
Video	149.2	125.7	23.5	19 %	96.6	29.1	30 %
Services and Other	21.8	23.3	(1.5)	(6)%	32.4	(9.1)	(28)%
Total revenue	789.9	768.8	21.1	3 %	743.7	25.1	3 %
Operating costs and expenses:							
Cost of services and products	379.3	359.5	19.8	6 %	331.5	28.0	8 %
Selling, general and administrative	138.7	141.6	(2.9)	(2)%	150.9	(9.3)	(6)%
Depreciation and amortization	174.7	168.6	6.1	4 %	129.2	39.4	30 %
Restructuring and severance charges	27.9	7.7	20.2	n/m	1.6	6.1	n/m
Other	4.0	0.8	3.2	n/m	0.6	0.2	33 %
Total operating costs and expenses	724.6	678.2	46.4	7 %	613.8	64.4	10 %
Operating income	$65.3	$90.6	$(25.3)	(28)%	$129.9	$(39.3)	(30)%
Operating margin	8.3 %	11.8 %		(3.5)	17.5 %		(5.7)
Capital expenditures	$196.4	$272.5	$(76.1)	(28)%	$269.5	$3.0	1 %
Metrics (in thousands):							
Fioptics units passed	572.2	533.4	38.8	7 %	432.0	101.4	23 %
Internet subscribers:							
DSL	82.1	105.6	(23.5)	(22)%	133.7	(28.1)	(21)%
Fioptics	226.6	197.6	29.0	15 %	153.7	43.9	29 %
Total internet subscribers	308.7	303.2	5.5	2 %	287.4	15.8	5 %
Fioptics video subscribers	146.5	137.6	8.9	6 %	114.4	23.2	20 %
Residential voice lines:							
Legacy	94.9	117.5	(22.6)	(19)%	146.4	(28.9)	(20)%
Fioptics	88.8	83.8	5.0	6 %	71.4	12.4	17 %
Total residential voice lines	183.7	201.3	(17.6)	(9)%	217.8	(16.5)	(8)%
Business voice lines:							
Legacy	167.1	190.7	(23.6)	(12)%	215.4	(24.7)	(11)%
VoIP*	166.0	131.7	34.3	26 %	89.5	42.2	47 %
Total business voice lines	333.1	322.4	10.7	3 %	304.9	17.5	6 %
Total voice lines	516.8	523.7	(6.9)	(1)%	522.7	1.0	0 %
Long distance lines:							
Residential	175.8	187.6	(11.8)	(6)%	199.4	(11.8)	(6)%
Business	117.8	129.7	(11.9)	(9)%	140.3	(10.6)	(8)%
Total long distance lines:	293.6	317.3	(23.7)	(7)%	339.7	(22.4)	(7)%

* VoIP lines include Fioptics voice lines

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Revenue

The following table illustrates our revenue by market: Consumer, Business and Carrier. Our products within each market have been classified as either Strategic, Legacy or Integration.

	Year ended December 31,		
(dollars in millions)	2017	2016	2015
Revenue:			
Consumer			
Strategic			
Data	$125.8	$103.0	$72.7
Voice	24.4	21.7	19.7
Video	146.7	123.6	94.8
Services and other	1.6	3.4	3.7
	298.5	251.7	190.9
Legacy			
Data	34.9	44.2	49.5
Voice	66.3	73.8	86.1
Services and other	3.3	4.1	6.7
	104.5	122.1	142.3
Integration			
Services and other	0.7	3.9	7.7
Total consumer revenue	$403.7	$377.7	$340.9
Business			
Strategic			
Data	$100.5	$96.5	$89.6
Voice	63.3	51.7	42.5
Video	2.5	2.1	1.8
Services and other	2.0	2.5	3.2
	168.3	152.8	137.1
Legacy			
Data	17.1	20.3	23.2
Voice	97.9	111.5	123.6
Services and other	1.1	1.3	1.3
	116.1	133.1	148.1
Integration			
Services and other	1.5	1.8	2.6
Total business revenue	$285.9	$287.7	$287.8
Carrier			
Strategic			
Data	$42.8	$45.0	$37.7
Services and Other	5.4	—	—
	48.2	45.0	37.7
Legacy			
Data	30.5	35.8	50.1

Voice	15.4	16.3	20.0
Services and other	6.2	6.3	7.2
	52.1	58.4	77.3
Total carrier revenue	$100.3	$103.4	$115.0
Total Entertainment and Communications revenue	$789.9	$768.8	$743.7

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Consumer

Consumer market revenue has increased each of the previous two years due to Fioptics growth offsetting legacy access line and DSL subscriber losses. Our Fioptics internet subscriber base increased 14% and average revenue per user ("ARPU") was up 4% in 2017. During 2016, the Fioptics internet subscriber base increased 27% with ARPU growing 9%. Fioptics video subscribers increased 8% and 21% in 2017 and 2016, respectively, in addition to a 4% increase in ARPU in each year. Video ARPU growth rates increased in both 2017 and 2016 as a result of price increases. In 2017, price increases were partially offset by competition in the market putting pressure on prices. In 2016, price increases were partially offset by the popularity of MyTV, which was not the focus of our advertising campaign during 2017.

The Company continues to lose access and long distance lines as a result of, among other factors, customers electing to solely use wireless service in lieu of traditional local wireline service, or electing to move to other service providers. The Company also continues to experience DSL subscriber loss because of customers migrating to Fioptics, or an alternative internet provider, particularly in areas not upgraded to Fioptics.

Higher Integration revenue in 2015 is primarily due to $3.1 million of revenue generated through an agreement to sell Verizon wireless products and services at our retail locations. We discontinued the sale of Verizon handsets at our retail locations effective January 31, 2016.

Business

Business market revenue in 2017 is down slightly from the prior year as the growth in strategic revenue continues to partially offset declines by our legacy and integration products and services. Legacy data revenue from our business customers has decreased by $3.2 million in 2017, while strategic data revenue has increased by $4.0 million as customers migrate from our legacy product offerings to higher bandwidth fiber solutions. Voice revenue declined $2.0 million in 2017 and $2.9 million in 2016 as the growth in VoIP lines continues to mitigate legacy voice line loss and the migration of certain customers to national providers. In total, business voice lines increased 3% during 2017 in comparison to an increase of 6% in 2016. However, the revenue impact of the increase in voice lines was more than offset by the fact that VoIP lines have a lower ARPU than legacy access lines. In addition, service and other revenue has declined each year primarily due to lower maintenance and service center revenue.

Carrier

Overall Carrier revenue was down $3.1 million in 2017 compared to 2016. Carrier Data revenue declined by $7.5 million in 2017 compared to prior year as national carriers increased their focus on improving network efficiencies. Strategic services and other revenue offset this decline as it increased $5.4 million due to a one time project that was completed in the second quarter of 2017.

Data revenue declined by $7.0 million in 2016 compared to 2015 because we no longer provide backhaul services to our discontinued wireless operations effective March 31, 2015.

Voice revenue declines in 2017 and 2016 are primarily due to Federal Communications Commission ("FCC") mandated reductions of terminating switched access rates. Reductions have occurred over a six-year period and will conclude in 2018.

Operating costs and expenses

Cost of services and products has increased for the past two years primarily due to higher programming costs of $16.6 million and $17.9 million in 2017 and 2016, respectively. These increases are the result of the growing number of Fioptics video subscribers combined with rising programming rates. In addition to programming costs, growth in VoIP and MPLS revenue in both 2017 and 2016 led to higher costs of services and products. Network and materials costs increased in both 2017 and 2016 as we continue to build out our fiber investment. Furthermore, the amortization of the prior service benefit related to the postretirement plans produced a smaller benefit in 2017 as compared to 2016, causing an increase in cost of services and products. In 2016, the increase in costs of services and products can also be attributed to increased payroll related costs driven by increased headcount and overtime to support the growth of our fiber-based network.

SG&A expenses were down in 2017 compared to the prior year primarily due to lower payroll related charges. These decreases were partially offset by $1.7 million of increased advertising costs for Fioptics during 2017. SG&A

expenses were down in 2016 compared to 2015 primarily due to lower payroll related charges as well as a one-time charge related to our excess pension benefit plan totaling $3.8 million incurred during 2015. These decreases were partially offset by $1.5 million of increased advertising costs for Fioptics during 2016.

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Depreciation and amortization expenses were up in 2017 compared to the prior year primarily due to assets placed in service in connection with the expansion of our fiber network. Depreciation expense was up in 2016 compared to 2015 due to reducing the estimated useful life of certain set-top boxes, as well as the related software, as we upgraded customers to new technology in 2016. In addition, we reduced the useful life of our copper assets in the fourth quarter of 2015.

Restructuring and severance related charges in 2017 were primarily related to a voluntary severance program for certain bargained employees to reduce field and network costs associated with our legacy copper network. Restructuring and severance related charges in 2016 were primarily related to a voluntary severance program to reduce costs associated with our legacy copper network. Restructuring and severance related charges in 2015 were primarily related to employee severance as we identified opportunities to integrate the business markets within each of our segments.

Other operating costs and expenses includes a pension settlement charge of $4.0 million in 2017 as the lump sum payments to Cincinnati Bell Pension Plan participants exceeded the sum of the service cost and interest cost component of net pension cost for the year.

Capital Expenditures

(dollars in millions)	2017	2016	2015
Fioptics capital expenditures			
Construction	$53.8	$89.8	$86.5
Installation	55.1	68.7	50.2
Other	15.7	21.8	42.8
Total Fioptics	124.6	180.3	179.5
Other strategic	34.2	50.3	44.4
Other	37.6	41.9	45.6
Total capital expenditures	$196.4	$272.5	$269.5

Capital expenditures are incurred to expand our Fioptics product suite, upgrade and increase capacity for our networks, and to maintain our fiber and copper networks. During 2017, 2016 and 2015, we passed 38,800, 101,400 and 97,000 addresses with Fioptics, respectively. The decrease in construction costs in 2017 is a result of the Company passing fewer doors in 2017 relative to 2016 and 2015. Fioptics installation costs also decreased in 2017 as there were fewer activations due to fewer doors being passed. As of December 31, 2017, the Company is able to provide its Fioptics services to 572,200 residential and business addresses, or 70% of our operating territory. Fioptics installation costs increased in 2016 compared to 2015 due to increased Fioptics internet and video activations combined with upgrading set-top boxes and wireless modems. Other Fioptics related investments include costs to expand core network capacity and enhancements to the customer experience.

Other strategic capital expenditures are for success-based fiber builds for business and carrier projects, including related equipment, to provide ethernet and other data transport services.

IT Services and Hardware

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

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Form 10-K Part II Cincinnati Bell Inc.

(dollars in millions)	2017	2016	$ Change 2017 vs. 2016	% Change 2017 vs. 2016	2015	$ Change 2016 vs. 2015	% Change 2016 vs. 2015
Revenue:							
Professional Services	$114.6	$106.7	$7.9	7 %	$105.5	$1.2	1 %
Management and Monitoring	21.1	32.0	(10.9)	(34)%	31.0	1.0	3 %
Unified Communications	42.3	39.8	2.5	6 %	37.8	2.0	5 %
Cloud Services	53.5	46.5	7.0	15 %	30.9	15.6	50 %
Telecom and IT hardware	280.3	205.7	74.6	36 %	230.2	(24.5)	(11)%
Total revenue	511.8	430.7	81.1	19 %	435.4	(4.7)	(1)%
Operating costs and expenses:							
Cost of services and products	394.6	332.4	62.2	19 %	345.2	(12.8)	(4)%
Selling, general and administrative	83.7	58.0	25.7	44 %	54.0	4.0	7 %
Depreciation and amortization	18.1	13.5	4.6	34 %	12.3	1.2	10 %
Restructuring and severance related charges	4.8	3.3	1.5	45 %	2.8	0.5	18 %
Other	—	0.3	(0.3)	n/m	0.5	(0.2)	(40)%
Total operating costs and expenses	501.2	407.5	93.7	23 %	414.8	(7.3)	(2)%
Operating income	$10.6	$23.2	$(12.6)	(54)%	$20.6	$2.6	13 %
Operating margin	2.1 %	5.4 %		(3.3) pts	4.7 %		0.7 pts
Capital expenditures	$14.1	$13.7	$0.4	3 %	$14.0	$(0.3)	(2)%

Revenue

The following IT services and hardware products have been classified as either strategic or integration:

(dollars in millions)	Year Ended December 31, 2017	2016	2015
Strategic business revenue			
Professional services	$95.5	$89.2	$90.4
Management and monitoring	21.1	32.0	31.0
Unified communications	29.1	29.4	27.1
Cloud services	53.5	46.5	30.9
Total strategic business revenue	199.2	197.1	179.4
Integration business revenue			
Professional services	19.1	17.5	15.1
Unified communications	13.2	10.4	10.7
Telecom and IT hardware	280.3	205.7	230.2
Total integration business revenue	312.6	233.6	256.0
Total IT Services and Hardware revenue	$511.8	$430.7	$435.4

In 2017, the IT Services and Hardware segment acquired SunTel and OnX. These acquisitions contributed $172.8 million in revenue with significant contributions from Professional services in the amount of $29.6 million, Telecom and IT hardware in the amount of $132.7 million, and Cloud services in the amount of $6.8 million. These contributions helped to offset other declines experienced in these product categories as a result of reduced spending by our enterprise customers, resulting in net growth of Professional services revenue of $7.9 million and Telecom and IT hardware revenue of $74.6 million. Telecom and IT hardware revenue reflects the cyclical fluctuation in capital spending by our customers, which may be influenced by many factors, including the timing of customers' capital spend, the size of their capital budgets and general economic conditions. Fluctuations in Telecom and IT hardware revenue also impacts Professional services revenue as the sale of hardware typically drives associated revenue from professional services engagements.

Management and monitoring revenue declined in 2017 compared to 2016 by $10.9 million as one our significant customers pursued cost cutting initiatives by in-sourcing IT professionals.

Cloud services revenue grew $7.0 million in 2017 compared to 2016 primarily due to the acquisition of OnX. Cloud services revenue grew $15.6 million in 2016 compared to 2015 due to a new end user support project as well as growth in the number of virtual machines within our current customer base.

Operating Costs and Expenses

Cost of services and products is primarily impacted by changes in Telecom and IT hardware sales and severance related charges. Costs of Telecom and IT hardware sales increased $60.9 million and decreased $21.8 million in 2017 and 2016, respectively, compared to the prior year. In addition, during 2017, increases in payroll related costs due to increases in professional services revenue were offset by decreases in payroll related costs associated with the restructuring. In 2016, there was an increase in payroll related costs related to headcount to support the growth of Cloud services.

Selling, general and administrative expenses increased by $25.7 million in 2017 as compared to 2016, primarily due to the acquisitions of SunTel and OnX. The increase in 2016 is related to increased payroll and headcount related costs incurred in order to support strategic revenue growth.

Depreciation and amortization expense increased $4.6 million in 2017 due to the increase in property, plant and equipment, as well as intangibles, as part of the SunTel and OnX acquisitions.

Restructuring and severance related charges incurred in 2017 related to the reorganization initiated by the Company to better align the segment for future growth. Restructuring and severance related charges in 2016 were primarily related to increased in-sourcing of IT professionals by our customers. In 2015, restructuring charges consisted of employee severance and project related costs for the integration of each segment's business markets and the discontinuation of our advanced cyber-security product offering in the first quarter of 2015. We also abandoned office space in Canada that is no longer in use.

Capital Expenditures

The variance in capital expenditures is driven by the nature of customer related projects and spending on equipment to support the growth of our strategic products.

Corporate

Corporate is comprised primarily of general and administrative costs that have not been allocated to the business segments. Corporate costs totaled $37.8 million in 2017, $20.8 million in 2016 and $22.5 million in 2015.

Corporate costs increased by $17.0 million in 2017 compared to 2016 primarily due to higher transaction and integration costs of $18.5 million. Corporate costs decreased by $1.7 million in 2016 compared to 2015, driven largely by lower transaction costs of $1.4 million.

Financial Condition, Liquidity, and Capital Resources

Capital Investment, Resources and Liquidity

Short-term view

Our primary source of cash is generated by operations. In 2017, 2016 and 2015, we generated $203.4 million, $173.1 million and $111.0 million, respectively, of cash flows from operations. In 2017, 2016 and 2015, proceeds from the monetization of our CyrusOne investment totaled $140.7 million, $189.7 million and $643.9 million, respectively. Dividends of $1.1 million, $7.4 million and $22.2 million were received from our investment in CyrusOne in 2017, 2016 and 2015, respectively.

Our primary uses of cash are capital expenditures and debt service. In 2017, 2016 and 2015, capital expenditures were $210.5 million, $286.4 million and $283.6 million, respectively. Capital expenditures decreased in 2017 compared to 2016 and 2015 primarily due to passing fewer addresses with Fioptics. Based on the continued demand for fiber-based products and IT solutions, we expect 2018 total capital expenditures to range between $190 million - $210 million. In 2017, 2016 and 2015, debt repayments were $403.0 million, $759.3 million and $531.7 million, respectively. In the fourth quarter of 2017, net proceeds totaling $577.0 million related to the issuance of the Tranche B Term Loan due 2024 were used to repay the remaining $315.8 million outstanding principal amount of the Tranche B Term Loan due 2020 and related accrued and unpaid interest. The remaining proceeds of the Tranche B Term Loan due 2024 were used to fund the purchase price, including $77.6 million for outstanding debt, and associated transaction costs of the acquisition of OnX that closed on October 2, 2017. Net proceeds received from the offering of $350 million 8% Senior Notes in the fourth quarter of 2017 will be utilized to finance in part the cash portion of the merger consideration for the proposed acquisition of Hawaiian Telcom expected to close in the second half of 2018.

Interest payments were $65.7 million, $71.1 million and $108.5 million in 2017, 2016 and 2015, respectively. Interest payments have declined each year as we have primarily used cash proceeds from the monetization of our CyrusOne investment and sale of wireless spectrum licenses in 2014 to repay debt. Our contractual debt maturities in 2018, including capital lease obligations, are $18.4 million and associated contractual interest payments are expected to be approximately $120 million.

To a lesser extent, cash is also used to fund our pension obligations, pay preferred stock dividends, and repurchase shares of common stock when the stock price offers an attractive valuation. Cash contributions to our qualified pension plans were $2.3 million, $3.1 million and $10.3 million in 2017, 2016 and 2015, respectively. Cash contributions for our qualified pension plans are expected to be approximately $4.0 million in 2018. Dividends paid on preferred stock were $10.4 million in each of 2017, 2016 and 2015. We do not currently pay dividends on our common shares, nor do we plan to pay dividends on such shares in 2018. In 2016, the Company repurchased 0.2 million common shares for $4.8 million, with no common shares repurchased in 2017 or 2015. As of December 31, 2017, management has authority to repurchase additional common shares with a value of up to $124.4 million under the most recent plan approved by the Board of Directors. This plan does not have a stated maturity date. Management may purchase additional shares in the future to the extent that the purchase is not limited by restrictions in the Credit Agreement, cash is available, and management believes the share price offers an attractive value.

As of December 31, 2017, we had $318.8 million of short-term liquidity, comprised of $17.8 million of cash and cash equivalents, $200.0 million of undrawn capacity on our Revolving Credit Facility and $101.0 million available under the Receivables Facility. The Company expects to use a portion of this liquidity to fund part of the cash consideration for the Hawaiian Telcom merger. The Receivables Facility permits maximum borrowings of up to $120.0 million and is subject to annual renewal. As of December 31, 2017, the Company had no borrowings and $6.3 million of letters of credit outstanding under the Receivables Facility on a borrowing capacity of $107.3 million. While we expect to continue to renew this facility, we would be required to use cash, our Revolving Credit Facility, or other sources to repay any outstanding balance on the Receivables Facility if it was not renewed.

The Company believes that its cash on hand, cash generated from operations and available funding under its credit facilities will be adequate to meet its cash requirements for the next 12 months.

Long-term view, including debt covenants

As of December 31, 2017, the Company had $1.7 billion of outstanding indebtedness and an accumulated deficit of $2.7 billion. In addition to the uses of cash described in the Short-term view section above, the Company has to satisfy its long-term debt obligations. The Company has no significant debt maturities until 2024. Contractual debt maturities, including capital leases, are $18.4 million in 2018, $18.0 million in 2019, $15.4 million in 2020, $12.5 million in 2021, $10.9 million in 2022 and $1,692.9 million thereafter. In addition, we have ongoing obligations to fund our qualified pension plans. Based on current legislation and current actuarial assumptions, we are required to make approximately $4.0 million in contributions to our qualified pension plans in 2018. Funding requirements for subsequent years are uncertain and will significantly depend on future actuarial assumption changes. It is also possible that we will use a portion of our cash flows generated from operations for common share repurchases or de-leveraging in the future, including discretionary, opportunistic repurchases of debt prior to the scheduled maturities.

In the fourth quarter of 2017, the Company entered into a new Credit Agreement (the "Credit Agreement") and terminated the existing Corporate Credit Agreement. The Credit Agreement provides for (i) a five-year $200 million senior secured revolving credit facility including both a letter of credit subfacility of up to $30 million and a swingline loan subfacility of up to $25 million) (the “Revolving Credit Facility”) and (ii) a seven-year $600 million senior secured term loan facility (the “Tranche B Term Loan due 2024”). The Revolving Credit Facility expires in October 2022 and the Tranche B Term Loan due 2024 expires in October 2024. Borrowings under the Revolving Credit Facility will be used to provide ongoing working capital as well as other general corporate cash flow needs of the Company. At December 31, 2017, there were no outstanding borrowings under the Revolving Credit Facility, leaving $200.0 million available.

The Credit Agreement has financial covenants that require the Company to maintain certain leverage and interest coverage ratios. As of December 31, 2017, these ratios and limitations include a maximum consolidated secured total leverage ratio of 3.50 to 1.00 and a minimum consolidated interest coverage ratio of 1.50 to 1.00. In addition, the Credit Agreement contains customary affirmative and negative covenants, but not limited to, restrictions on Company's ability to incur additional indebtedness, create liens, pay dividends, make certain investments, and prepay other indebtedness, sell, transfer, lease, or dispose of assets and enter into, or undertake, certain liquidations, mergers, consolidations or acquisitions.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds and grace periods), including, but not limited to, nonpayment of principal or interest, failure to perform or observe covenants, breaches of representations and warranties, cross-defaults with certain other indebtedness, certain bankruptcy-related events or proceedings, final monetary judgments or orders, ERISA defaults, invalidity of loan documents or guarantees, and certain change of control events. 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 the Credit Agreement, no additional borrowings under this facility would be available until the default was waived or cured.

The Tranche B Term Loan due 2024 is subject to the same affirmative and negative covenants and events of default as the Revolving Credit Facility, except that a breach of the financial covenants will not result in an event of default under the Tranche B Term Loan due 2024 unless and until the agent or a majority in interest of the lenders under the Revolving Credit Facility have terminated their commitments under the Revolving Credit Facility and accelerated the loans then outstanding under the Revolving Credit Facility in response to such breach in accordance with the terms and conditions of the Credit Agreement.

As of December 31, 2017, the Company was in compliance with the Credit Agreement covenants and ratios.

Indentures

The Company's Senior Notes are governed by indentures which 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. The Company is in compliance with all of its debt indentures as of December 31, 2017.

Management believes that cash on hand, operating cash flows, its Revolving Credit Facility and its Receivables Facility, and the expectation that the Company will continue to have access to capital markets to refinance debt and other obligations as they mature and come due, should allow the Company to meet its cash requirements for the foreseeable future.

Cash Flows

Cash flows from operating activities

Cash provided by operating activities during 2017 was $203.4 million, an increase of $30.3 million compared to 2016. The increase is primarily due to increased restructuring and severance related payments of $29.4 million and increased payments for transaction and integration costs of $16.1 million being more than offset by favorable changes in working capital as well as $13.0 million of operating cash flow generated by the OnX acquisition, which closed on October 2, 2017.

Cash provided by operating activities during 2016 was $173.1 million, an increase of $62.1 million compared to 2015. The increase is primarily due to $37.4 million of lower interest payments and a decline in pension and postretirement payments of $7.3 million. In addition, the Company's discontinued wireless operations used $28.0 million of cash in 2015, compared to $5.1 million used in 2016. These improvements to cash flow were partially offset by higher usage of working capital in 2016, primarily associated with the growth of our strategic products.

Cash flows from investing activities

Cash used by investing activities totaled $236.8 million in 2017, an increase of $141.3 million compared to the prior year, primarily due to the acquisitions of OnX and SunTel. In addition, during the first quarter of 2017, we sold our remaining 2.8 million shares of CyrusOne Inc. common stock for net proceeds totaling $140.7 million. In 2016, proceeds from the sale of our investment in CyrusOne totaled $189.7 million. These increases in cash used by investing activities were partially offset by a $75.9 million decrease in capital expenditures as a result of passing fewer doors with Fioptics in 2017 as compared to the prior year.

Cash used by investing activities totaled $95.5 million in 2016, compared to $383.2 million provided by investing activities in 2015. The decrease is primarily driven by the year-over-year decrease in proceeds received on the sale of the Company's CyrusOne investment. In addition, CyrusOne dividends classified as investing activities decreased by $20.1 million and capital expenditures increased by $2.8 million during 2016.

Other cash used by investing activities includes contributions to equity method investments totaling $0.9 million and $0.3 million in 2016 and 2015, respectively. In 2015, the contributions were more than offset by proceeds from the sale of assets totaling $1.0 million.

Cash flows from financing activities

Cash provided by financing activities was $420.2 million in 2017. In the fourth quarter of 2017, the Company terminated its existing Corporate Credit Agreement and entered into a new Credit Agreement (the "Credit Agreement") that provides for a seven-year $600 million Tranche B Term Loan due 2024 with proceeds totaling $593 million, net of discounts, and a $200 million Revolving Credit Facility. Also in the fourth quarter of 2017, CB Escrow Corp. (the “Issuer”), an Ohio corporation and wholly owned subsidiary of Cincinnati Bell Inc., closed the private offering of $350 million aggregate principal amount of 8% Senior Notes at par. The proceeds of the note issuance have been deposited into an escrow account pending closing of the proposed acquisition of Hawaiian Telcom. Debt repayments totaling $403.0 million were due to the repayment of the remaining $315.8 million outstanding principal amount of the Tranche B Term Loan due 2020, including the related accrued and unpaid interest, as well as $77.6 million paid for OnX outstanding debt at the time of acquisition. Debt issuance costs paid totaled $19.1 million for the year. In addition, the Company repaid $89.5 million on the Receivables Facility in 2017.

Cash used by financing activities were $75.3 million in 2016. The Company issued $625.0 million of 7% Senior Notes at a $10.0 million premium. Debt repayments totaling $759.3 million were primarily due to the repayment of $478.5 million of the outstanding 8 $^{3}/_{8}$% Senior Notes due 2020 at an average rate of 103.328%, $212.1 million of the outstanding Tranche B Term Loan, $40.8 million of the outstanding Cincinnati Bell Telephone Notes at an average rate of 92.232% and $4.0 million of the outstanding 7 $^{1}/_{4}$% Senior Notes due 2023 at an average rate of 100.750%. In 2016, the Company repurchased 0.2 million common shares for $4.8 million. Debt issuance costs totaled $11.1 million for the year. In addition, the Company borrowed $71.9 million on the Receivables Facility in 2016 and proceeds from the exercise of options totaled $3.8 million.

Cash used by financing activities were $544.7 million in 2015. Debt repayments totaling $531.7 million were primarily due to the redemption of $300.0 million of the outstanding 8 $^{3}/_{4}$% Senior Subordinated Notes due 2018 at 102.188%, $182.7 million of the outstanding 8 $^{3}/_{8}$% Senior Notes due 2020 at an average rate of 105.543%, $13.7 million of the outstanding 7 $^{1}/_{4}$% Notes due 2023 at 99.853% and $5.8 million of the outstanding CBT Notes at an average rate of 90.840%. In 2015, we repaid $1.6 million of the outstanding balances on the Revolving Credit Facility.

Dividends paid on preferred stock totaled $10.4 million in each of 2017, 2016 and 2015.

Future Operating Trends

Entertainment and Communications

We continue to generate year-over-year Entertainment and Communications revenue growth as demand for Fioptics and fiber-based products more than offsets revenue declines from our legacy products. During 2017, we invested $158.8 million in our strategic Entertainment and Communications products. Revenue from these products increased 15%, totaling $515.0 million for the year.

The Company's primary strategic product for residential customers is Fioptics, which as of December 31, 2017 is available to 572,200 residential and business addresses, or approximately 70% of Greater Cincinnati. In 2017, we invested $53.8 million to pass 38,800 addresses with Fioptics and capital expenditures related to customer installations totaled $55.1 million. In addition, we invested $15.7 million on various IT projects to allow us to operate more efficiently. Fioptics revenue totaled $309.8 million in 2017, up 22% compared to the prior year as demand for the product remains strong. Our Fioptics high-speed internet subscribers increased by 15% from a year ago, totaling 226,600 as of December 31, 2017. Fioptics video subscribers totaled 146,500 at year-end, up 6% from 2016.

During 2018, we expect continued competition for consumer data, voice and video services as the cable competitor in our market continues to target areas where we have copper. In 2018, we plan to invest between $95 million and $110 million for Fioptics, including construction, installation and value-added services. Our goal is to pass an additional 35,000 addresses during the year. We expect that consumer Fioptics revenue growth will continue to offset consumer legacy revenue declines.

For our business and carrier customers, strategic products include: high-speed internet and data transport, conferencing, as well as VoIP and other broadband services, including private line and MPLS. In 2017, we invested $34.2 million in capital expenditures for fiber builds, which bring measurable deal driven returns from our business customers. The Company connected approximately 6,700 commercial addresses with fiber based services in 2017 (also referred to as a lit address), increasing the total number of lit addresses to 22,500 (included in Fioptics addresses) expanding the fiber network to more than 10,900 route miles. We also provide cell site back-haul services to approximately 70% of the 1,000 cell sites in-market, of which approximately 95% of these sites are lit with fiber. We expect to continue to light additional commercial addresses and grow our share of cell site back-haul services to approximately 90% of the macro tower sites in our market over the next year.

Strategic revenue from business customers totaled $168.3 million (including $21.7 million from Fioptics), up 10% from a year ago. Total business revenue was consistent with the prior year, and we expect this trend to continue as we transition customers off the legacy copper network and onto fiber-based solutions. Strategic revenue from carrier customers totaled $48.2 million, up 7% compared to the prior year. Carrier voice and data revenue experienced declines in both 2017 and 2016 due to on-going FCC mandated switched access rate reductions in combination with national carriers increased focus on improving network efficiencies in our market. We expect similar trends to continue in 2018 as we position ourselves to be the preferred wholesale fiber infrastructure provider for small cell, 5G, and all other technologies.

In 2018, including our Fioptics capital expenditures, we expect to invest approximately $150 million to $170 million in our strategic products. We believe the growth in our strategic product revenue will continue to offset the decline from our legacy products, which include local voice, DSL, long distance and low-bandwidth data transport services. Revenue from legacy products totaled $272.7 million in 2017, down 13% compared to the prior year due to a 15%

loss of legacy voice lines and a 7% loss of long distance lines as wireless substitution continues. DSL subscribers also decreased 22% in 2017; however, total internet subscribers grew 2% as we migrated customers to our higher speed Fioptics product. We expect this trend to continue as we continue to expand our fiber network.

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In July 2017, the Company announced its plans to acquire Hawaiian Telcom through merger with a subsidiary of the Company. The merger with Hawaiian Telcom is an important step toward building scale and is expected to close in the second half of 2018. Upon completion, the acquisition will allow access to both Honolulu, a well-developed, fiber-rich city, and the growing neighbor islands. The acquisition will provide Hawaiian Telcom with expanded liquidity and capital flexibility to continue to expand its next generation fiber networks to enable growth and better serve its customer base statewide.

IT Services and Hardware

The Company's strategy for future growth is to diversify the geographies in which it operates. As a part of executing this strategy, in February 2017 the Company completed the acquisition of SunTel, a regional provider of network security, data connectivity, and unified communications solutions based in Troy, Michigan, and in October 2017 completed the acquisition of OnX, with locations throughout the U.S., Canada and Europe. The expectation is that these acquisitions will provide future growth opportunities in the IT Services and Hardware segment by providing additional geographies to operate within, and an expanded customer base in which to sell our products and services. In addition, the acquisitions can create synergies and opportunities for cost savings.

Revenue for strategic IT services was $199.2 million in 2017, down 1% due to cost cutting efforts by our largest customer, particularly in Professional Services and Management and Monitoring. These losses were partially offset by revenue contributions from our recent acquisitions of SunTel and OnX. We expect budget constraints by our customers in Greater Cincinnati will continue to put pressure on our revenue in the future, increasing the need to diversify into other territories. In addition, as more customers work to manage cash flow and migrate to the public cloud, we will see declines in the demand for Telecom and IT hardware. However, this trend can provide an opportunity in the form of professional services as we have IT professionals that can develop the strategy to guide customers through this migration.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2017:

	Payments due by Period				
(dollars in millions)	Total	< 1 Year	1-3 Years	3-5 Years	Thereafter
Long-term debt, excluding capital leases (1)	$1,685.2	$6.0	$12.0	$12.0	$ 1,655.2
Capital leases (2)	82.9	12.4	21.4	11.4	37.7
Interest payments on long-term debt and capital leases (3)	841.0	115.2	227.3	225.5	273.0
Non-cancellable operating lease obligations	41.4	7.0	10.7	5.4	18.3
Purchase obligations (4)	205.4	205.0	0.4	—	—
Pension and postretirement benefits obligations (5)	38.5	17.3	9.0	3.8	8.4
Unrecognized tax benefits (6)	22.2	—	—	—	22.2
Other liabilities (7)	34.5	19.7	4.5	0.9	9.4
Total	$2,951.1	$382.6	$285.3	$259.0	$ 2,024.2

(1) Excludes net unamortized discounts and premiums. In the event that the HCOM Acquisition has not occurred on or prior to January 9, 2019, the Issuer will be required to redeem all of the 8% Senior Notes at a redemption price equal to 100% of the initial issue price, plus accrued and unpaid interest to, but excluding, the redemption date. See Note 7 of the Notes to Consolidated Financial Statements.

(2) Includes capital lease obligations primarily related to vehicles and network equipment used in the deployment of our fiber network and wireless towers assumed from our discontinued operations.

(3) Assumes no early payment of debt in future periods. The interest rate applied on variable rate borrowings is the rate in effect as of December 31, 2017.

(4) Includes amounts under open purchase orders and open blanket purchase orders for purchases of network, IT and telephony equipment, and other goods; contractual obligations for services such as software maintenance and outsourced services; and other purchase commitments.

(5) Includes payments for postretirement benefits, qualified pension plans, non-qualified pension plan and other employee retirement agreements. Amounts for 2018 include approximately $10.5 million expected to be contributed for postretirement benefits. Although the Company expects to continue operating the plans past 2018, its contractual obligation related to postretirement obligations only extends through 2018. Amounts for 2018 through 2023 include approximately $10 million of estimated cash contributions to its qualified pension plans. Expected qualified pension plan contributions are based on current plan design, legislation and current actuarial assumptions. Any changes in plan design, legislation or actuarial assumptions may also affect the expected contribution amount.

(6) Includes the portion of liabilities related to unrecognized tax benefits. If the timing of payments cannot be reasonably estimated for unrecognized tax benefits, these liabilities are included in the "Thereafter" column of the table above.

(7) Includes contractual obligations primarily related to restructuring and employee severance reserves, asset removal obligations, long-term disability obligations, workers compensation liabilities, long-term incentive plan obligations and a deferred vendor rebate.

The contractual obligations table is presented as of December 31, 2017. The amount of these obligations can be expected to change over time as new contracts are initiated and existing contracts are completed, terminated, or modified.

Contingencies

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

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

Off-Balance Sheet Arrangements

Indemnifications

During the normal course of business, the Company makes certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. These include: (a) intellectual property indemnities to customers in connection with the use, sale, and/or license of products and services, (b) indemnities to customers in connection with losses incurred while performing services on their premises, (c) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct, (d) indemnities involving the representations and warranties in certain contracts, and (e) outstanding letters of credit which totaled $6.3 million as of December 31, 2017. In addition, the Company has made contractual commitments to several employees providing for payments upon the occurrence of certain prescribed events. The majority of these indemnities, commitments, and guarantees do not provide for any limitation on the maximum potential for future payments.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain accounting policies inherently have a greater reliance on the use of estimates, and, as such, have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are presented in Note 1 to the consolidated financial statements. Management views critical accounting policies to be those policies that are highly dependent on subjective or complex judgments, estimates or assumptions, and where changes in those estimates and assumptions could have a significant impact on the consolidated financial statements. We have discussed our most critical accounting policies, judgments and estimates with our Audit and Finance Committee.
The discussion below addresses major judgments used in:

- revenue recognition;
- business combinations;
- reviewing the carrying values of goodwill;
- reviewing the carrying values of long-lived assets;
- accounting for income taxes; and
- accounting for pension and postretirement expenses.

Revenue Recognition — The Company adheres to revenue recognition principles described in Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 605, "Revenue Recognition." Under ASC 605, revenue is recognized when there is persuasive evidence of a sale arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured.
With respect to arrangements with multiple deliverables, management determines whether more than one unit of accounting exists in an arrangement. To the extent that the deliverables are separable into multiple units of accounting, total consideration is allocated to the individual units of accounting based on their relative fair value, determined by the price of each deliverable when it is regularly sold on a stand-alone basis. Revenue is recognized for each unit of accounting as delivered, or as service is performed, depending on the nature of the deliverable comprising the unit of accounting.
Entertainment and Communications — Revenues from local telephone, special access, internet product and video services, which are billed monthly prior to performance of service, are not recognized upon billing or cash receipt but rather are deferred until the service is provided. Long distance, switched access and other usage based charges are billed monthly in arrears. Entertainment and Communications bills service revenue in regular monthly cycles, which are spread throughout the days of the month. As the last day of each billing cycle rarely coincides with the end of the reporting period for usage-based services such as long distance and switched access, we must estimate service revenues earned but not yet billed. These estimates are based upon historical usage, and we adjust these estimates during the period in which actual usage is determinable, typically in the following reporting period.
Pricing of local voice services is generally subject to oversight by both state and federal regulatory commissions. Such regulation also covers services, competition, and other public policy issues. Various regulatory rulings and interpretations could result in increases or decreases to revenue in future periods.
IT Services and Hardware — Revenue is generally recognized as the service is provided. Maintenance on telephony equipment is deferred and recognized ratably over the term of the underlying customer contract, generally one to three years.
Equipment revenue is recognized upon the completion of our contractual obligations, such as shipment, delivery, or customer acceptance. Installation service revenue is generally recognized when installation is complete. We sell equipment and installation services on both a combined and standalone basis.
The Company is a reseller of IT and telephony equipment. For these transactions, we consider the gross versus net revenue recording criteria of ASC 605. Based on this criteria, these equipment revenues and associated costs have generally been recorded on a gross basis rather than recording the revenues net of the associated costs. Vendor rebates

are earned on certain equipment sales. When the rebate is earned and the amount is determinable, we recognize the rebate as an offset to cost of products sold.

Business Combinations — In accounting for business combinations, we apply the accounting requirements of FASB ASC 805, “Business Combinations,” which requires the recording of net assets of acquired businesses at fair value. The Company utilizes management estimates and an independent third-party valuation firm to assist in determining the fair values of acquired assets and assumed liabilities. In developing estimates of the fair value of net assets, the Company analyzes a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets, and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets. The Company reports in its consolidated financial statements provisional amounts for the items for which accounting is incomplete. Goodwill is adjusted for any changes to provisional amounts made within the measurement period.

Reviewing the Carrying Values of Goodwill — The Company adheres to the guidance under ASC 350-20 in testing goodwill for impairment. Under this guidance, the Company has the option of performing a qualitative assessment for impairment prior to performing the quantitative tests. A qualitative analysis was performed in 2017 and a quantitative analysis was performed in 2016. The Company performs impairment testing of goodwill on an annual basis or when events or changes in circumstances indicate that an asset may be impaired. We perform our annual impairment tests in the fourth quarter when our five-year plan is updated.

Management estimates the fair value of each reporting unit using a combination of valuation methods, including both income-based and market-based methods. The income-based approach utilizes a discounted cash flow model using projected cash flows derived from the five-year plan, adjusted to reflect market participants' assumptions. Expected future cash flows are discounted at the weighted average cost of capital applying a market participant approach. The market-based approach utilizes earnings multiples from comparable publicly-traded companies. No goodwill impairment losses were recognized in 2017, 2016 or 2015.

Changes in certain assumptions could have a significant impact on the impairment tests for goodwill. The most critical assumptions are projected future growth rates, operating margins, capital expenditures, terminal values, and discount rate selection. These assumptions are subject to change as the Company's long-term plans and strategies are updated each year.

Reviewing the Carrying Values of Long-Lived Assets — Depreciation of our Entertainment and Communications telephone plant is determined on a straight-line basis using the group depreciation method. Depreciation of other property, except for leasehold improvements, is based on the straight-line method over the estimated economic useful life. Depreciation of leasehold improvements is based on a straight-line method over the lesser of the economic useful life or term of the lease, including option renewal periods if renewal of the lease is reasonably assured. Repair and maintenance expense items are charged to expense as incurred.

The useful lives of plant and equipment are estimated in order to determine the amount of depreciation expense to be recorded during any reporting period. The majority of Entertainment and Communications' plant and equipment is depreciated using the group method, which develops a depreciation rate annually based on the average useful life of a specific group of assets rather than for each individual asset as would be utilized under the unit method. Such estimated life of the group is based on historical experience with similar assets, as well as taking into account anticipated technological or other changes.

If technological changes were to occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation expense in future periods. Competition from new or more cost effective technologies could affect our ability to generate cash flow from our network-based services. This competition could ultimately result in an impairment of certain of our tangible or intangible assets and have a substantial impact on our future operating results. A one-year change in the useful life of these assets would increase or decrease annual depreciation expense by approximately $39.0 million.

In 2016, we reduced the estimated useful life of certain set-top boxes and the related software as we upgraded to new technology. In the fourth quarter of 2015, we reduced the estimated remaining useful life of our copper plant from 15 years to 7 years as customers are increasingly migrating to fiber-based service offerings from those previously provided by our copper network.

Management reviews the carrying value of long-lived assets when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the estimated future undiscounted cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition is less than its carrying amount. An impairment loss is measured as the amount by which the asset’s carrying value exceeds its estimated fair value. Long-lived intangible assets are amortized based on the estimated economic value generated by the asset in future years.

Accounting for Income Taxes — The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as various foreign, state and local jurisdictions. The Company's previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires. With a few exceptions, the Company is no longer subject to U.S. federal, state or local examinations for years prior to 2014.

The Company has net operating loss carryforwards at the federal, state, local and foreign levels. Federal tax loss carryforwards are available to offset taxable income in current and future periods. Approximately $130.0 million of these tax loss carryforwards will expire in 2023 and are not currently limited under U.S. tax laws. The ultimate realization of the deferred income tax assets depends upon our ability to generate future taxable income during the periods in which basis differences and other deductions become deductible and prior to the expiration of the net operating loss carryforwards. Based on current income levels and anticipated future reversal of existing temporary differences, management expects to fully utilize its federal net operating loss carryforwards within their expiration periods. However, realization of certain state, local and foreign net operating losses, as well as other deferred tax assets, is not certain.

A valuation allowance of $45.5 million and $54.4 million has been recognized as of December 31, 2017 and 2016, respectively. While the valuation allowance is primarily against state, local, and foreign net operating losses, it also includes $4.3 million of allowances against Texas margin credits which are unlikely to be realized before their expiration date.

As of December 31, 2017 and 2016, the liability for unrecognized tax benefits was $22.2 million and $31.4 million, respectively. As of December 31, 2017, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $22.0 million. Accrued interest related to unrecognized tax benefits is recognized in interest expense.

Accounting for Pension and Postretirement Expenses — In accounting for pension and postretirement expenses, we apply ASC 715, "Compensation — Retirement Benefits." A liability has been recognized on the Consolidated Balance Sheets for the unfunded status of the pension and postretirement plans. Actuarial gains (losses) and prior service costs (benefits) that arise during the period are recognized as a component of "Accumulated other comprehensive loss" on the Consolidated Balance Sheets.

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees, and one supplemental, nonqualified, unfunded plan for certain former senior executives. We also provide healthcare and group life insurance benefits for eligible retirees. The measurement date for our pension and postretirement obligations is as of December 31. When changes to the plans occur during interim periods, management reviews the changes and determines if a remeasurement is necessary.

No amendments to the plan were entered in 2017 and 2016. During the second quarter of 2015, the bargained pension plan was amended to eliminate all future pension credits and transition benefits. As a result, the Company recognized a curtailment loss of $0.3 million during 2015 and remeasured the associated pension obligation. This remeasurement resulted in a decrease of the pension liability by $1.7 million.

The measurement of our pension and postretirement projected benefit obligations involves significant assumptions and estimates. Each time we remeasure our projected benefit obligations, we reassess the significant assumptions and estimates. The actuarial assumptions attempt to anticipate future events and are used in calculating the expenses and liabilities related to these plans. The most significant of these numerous assumptions, which are reviewed annually, include the discount rate and healthcare cost trend rates.

Discount rate

A discount rate is used to measure the present value of projected benefit obligations. The discount rate for each plan is individually calculated based upon the timing of expected future benefit payments. Our discount rates are derived based upon a yield curve developed to reflect yields available on high-quality corporate bonds as of the measurement date. As of December 31, 2017 and 2016, the average discount rate used to value the pension plans was 3.60% and 4.00%, respectively, while the average discount rate used to value the postretirement plans was 3.60% and 4.00%, respectively. Higher rates of interest available on high-quality corporate bonds drove the decrease in the discount rates in 2017.

Expected rate of return

The expected long-term rate of return on plan assets, developed using the building block approach, is based on the mix of investments held directly by the plans and the current view of expected future returns, which is influenced by historical averages. The required use of an expected versus actual long-term rate of return on plan assets may result in recognized pension expense or income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns. As of December 31, 2017 and 2016, the estimated long-term rate of return on pension plan assets was 7.25% and 7.50%, respectively. The long-term rate of return on post-retirement plan assets was estimated to be zero in both periods as these plans have minimal assets with a low rate of return. Actual asset returns for the pension trusts were gains of 20% in 2017 and 9% in 2016. In our pension calculations, we utilized the market-related value of plan assets, which is a calculated asset value that recognizes changes in asset fair values in a systematic and consistent manner. Differences between actual and expected returns are recognized in the market-related value of plan assets over five years.

Healthcare cost trend

Our healthcare cost trend rate is developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. As of both December 31, 2017 and 2016, the healthcare cost trend rate used to measure the postretirement health benefit obligation was 6.5%. As of December 31, 2017, the healthcare cost trend rate is assumed to decrease gradually to 4.5% by the year 2022.

The actuarial assumptions used may differ materially from actual results due to the changing market and economic conditions and other changes. Revisions to and variations from these estimates would impact liabilities, equity, cash flow, costs of services and products and selling, general and administrative expenses.

The following table represents the sensitivity of changes in certain assumptions related to the pension and postretirement plans as of December 31, 2017:

		Pension Benefits		Postretirement and Other Benefits	
(dollars in millions)	% Point Change	(Decrease)/ Increase in Obligation	(Decrease)/ Increase in Expense	(Decrease)/ Increase in Obligation	(Decrease)/ Increase in Expense
Discount rate	+/- 0.5%	($28.1)/$28.1	($1.5)/$1.5	($4.3)/$4.7	($0.1)/$0.1
Expected return on assets	+/- 0.5%	n/a	$1.8/($1.8)	n/a	$0/($0)
Healthcare cost trend rate	+/- 1.0%	n/a	n/a	$3.2/($2.9)	$0.2/($0.1)

At December 31, 2017 and 2016, unrecognized actuarial net losses were $248.1 million and $277.9 million, respectively. The unrecognized net losses have been primarily generated by differences between assumed and actual rates of return on invested assets, changes in discount rates and healthcare costs. Because gains and losses reflect refinements in estimates, as well as real changes in economic values, and because some gains in one period may be offset by losses in another or vice versa, we are not required to recognize these gains and losses in the periods that they occur. Instead, if the gains and losses exceed a 10% corridor defined in the accounting literature, we amortize the excess over the average expected future working lifetime of active plan participants for the pension and bargained postretirement plans (approximately 8-12 years) and average life expectancy of retirees for the management postretirement plan (approximately 15 years).

Regulatory Matters and Competitive Trends

Federal - The Telecommunications Act of 1996 (the "1996 Act") was enacted with the goal of establishing a pro-competitive, deregulatory framework to promote competition and investment in advanced telecommunications facilities and services to all Americans. From 1996 to 2008, federal regulators considered a multitude of proceedings aimed at promoting competition and deregulation. Although the 1996 Act called for a deregulatory framework, the FCC continued to maintain significant regulatory restraints on the traditional ILECs while increasing opportunities for new competitive entrants and new services by applying minimal regulation. Since 2009 federal regulators have devoted considerable attention to initiatives aimed at promoting investment in, and adoption of, advanced telecommunications services, particularly broadband Internet access services. Simultaneously, the FCC has been adopting measures it believes would promote competition, protect consumers, reform universal service, and enhance public safety and national security. Since January 2017 the FCC has focused on eliminating burdensome and unnecessary regulations that impede broadband investment. We expect this trend to continue and we will monitor the changing regulatory environment for any potential impacts, particularly on the following proceedings.

Universal Service

The federal Universal Service Fund ("USF") is funded via an assessment on the interstate end-user revenue of all telecommunications carriers and interconnected VoIP providers. The assessment is used to support high cost, low income, rural healthcare, and schools and libraries programs.

In October 2011, the FCC adopted new rules aimed at controlling the size of the high-cost portion of the fund and transitioning it from supporting legacy circuit-switched networks to broadband. These rules capped the high-cost fund and established a framework for transitioning support to the new Connect America Fund ("CAF") to bring broadband to unserved areas. Phase I reforms froze existing high-cost support and provided a mechanism for distributing additional support for qualifying price cap companies. Under Phase II, $1.8 billion of annual support was made available to expand broadband in unserved areas served by price cap ILECs. In August 2015, price cap ILECs, which had the right of first refusal, accepted over $1.5 billion of the annual Phase II support which was available to them. Carriers accepting the Phase II support commitment have the funds available for a six-year period. CBT accepted approximately $2 million in annual Phase II support beginning in 2015 in exchange for a commitment to expand broadband to 6,339 Kentucky locations and 745 Ohio locations by the end of 2020. A separate funding mechanism for rate-of-return companies was finalized in 2016. In 2018, an auction will be held to award up to $2 billion in additional support over the next ten years for broadband deployment in unserved areas throughout 48 states. The funds will be distributed to companies participating in the auction that can deploy broadband at the lowest cost in the eligible unserved areas. The Company is evaluating whether it will participate in the auction.

During 2014, the FCC adopted two orders reforming the Schools and Libraries component of the Universal Service Fund. The first order adopted a plan for phasing out support for voice services and allotted $1 billion per year through 2016 for funding Wi-Fi and other services to provide connectivity within schools and libraries. The second order, adopted in late 2014, increased the cap on the Schools and Libraries fund to $3.9 billion per year. These decisions may have changed the mix of services schools and libraries purchase from the Company and the USF assessment on carriers to pay for the increased funding levels, however, because the assessments are generally fully passed on to consumers, any increased assessment is neutral for the Company.

During 2016, the FCC adopted a comprehensive reform of the Lifeline program, which included among other things classifying broadband as a Lifeline eligible service and phasing out support for voice service. Additional reforms adopted in 2017 were aimed at eliminating waste, fraud and abuse of the program and further changes are being considered to limit participation in the program to facilities-based providers. Although CBT remains a Lifeline provider, its Lifeline subscriber base has dropped to fewer than 3,000 due to stricter recertification requirements adopted in 2013 and customer migration to wireless Lifeline providers. The inclusion of broadband in the program has not changed CBT's downward enrollment trend and the Company expects the trend to continue.

Intercarrier Compensation

In October 2011, in conjunction with its reform of the USF high cost support program, the FCC adopted comprehensive reforms to the switched access and reciprocal compensation rules which govern the means by which carriers compensate one another for use of their networks. The end point of the reforms is a bill-and-keep system under which all per-minute intercarrier charges are eliminated.

Terminating switched access and reciprocal compensation rates are being phased out over a six-year period concluding in 2018 for CBT and other price cap carriers. The plan contains a mechanism that enables ILECs to recover some of the lost revenue from increased end-user charges. The transition and recovery mechanism for originating access and transport rates has not yet been established by the FCC. The impact of these reforms for the Company primarily falls on CBT and increases each year during the six-year transition to bill-and-keep. The Company's terminating switched access and reciprocal compensation revenue subject to these rules was estimated to be less than $7 million in total at the beginning of the transition and will be phased out to zero at the end of the transition. The potential to offset these losses via increased end-user charges primarily depends on competitive conditions in the ILEC operating area.

Special Access/Business Data Services

In 2005, the FCC opened a proceeding to review the current Special Access (aka Business Data Services or "BDS") pricing rules. Under the rules in effect at that time, special access services were subject to price cap regulation with no earnings cap, and ILECs had pricing flexibility in certain metropolitan statistical areas served by a sufficient number of competitors. During 2012, the FCC suspended the grant of any new pricing flexibility requests and issued a mandatory data request. Responses to the data request were provided in the first quarter of 2015.

In April 2017, the FCC adopted a Report and Order finding that the market for all packet-based services, Ethernet services, TDM services above the DS3 level, and DS1 and DS3 transport services is competitive in all geographic markets and should no longer be subject to price regulation. Price regulation of TDM services of DS3 or below terminating to end users depends upon the competitive status of the county in which the service is provided. The FCC designated counties as competitive or non-competitive for these TDM end user services based upon historical data submitted by providers and purchasers of BDS in response to a mandatory data request issued in 2012 and supplemented with cable broadband deployment data submitted by providers in the FCC's semi-annual broadband deployment report. Price regulation will be eliminated for these TDM end user services in competitive counties. In non-competitive counties price regulation will continue, although carriers are permitted to offer contract tariffs and volume and term discounts. The list of competitive and non-competitive counties released by the FCC in May 2017 designated all but two of the counties in the Company's ILEC territory as competitive. Nearly all of the Company's current special access revenue is derived from the competitive counties. The Company will continue to evaluate the impact to the business as these changes are implemented over the next several years.

IP Transition

In late 2013, the FCC opened a proceeding to explore how to transition from the legacy circuit-switched Time-division Multiplexing ("TDM") networks to Internet Protocol ("IP") networks. Examination of the myriad of technical, legal and policy issues surrounding the IP transition moved to the forefront during 2014, and during 2015 and 2016 the FCC adopted several orders imposing additional requirements on service providers seeking to transition their networks from copper to fiber. However, during the second quarter of 2017, the FCC opened several proceedings aimed at removing barriers to wireline and wireless broadband deployment and proposed reversing several of the additional requirements imposed in 2015 and 2016. Following this review, in November 2017 the FCC revised its rules to streamline the ILEC copper retirement process and the approval process for discontinuing legacy TDM service to speed the transition from legacy copper-based TDM services to IP services. It also reformed the pole attachment rules to make it easier for providers to attach equipment necessary for next-generation networks and is considering additional changes aimed at streamlining the pole attachment rules.

Broadband Internet Access/Net Neutrality

In an order adopted in 2005, the FCC provided wireline carriers the option of offering broadband Internet access as a non-regulated information service (comparable treatment to cable modem Internet access at that time) or as a regulated telecommunications service. In 2007, CBT elected the non-regulated information service designation for its broadband Internet access service. The FCC also ruled that wireless broadband service was a non-regulated information service, placing it on the same regulatory footing as other broadband services such as cable modem service and wireline DSL service.

In conjunction with the adoption of the 2005 wireline broadband Internet access order, the FCC adopted a policy statement intended to ensure that broadband networks are widely deployed, open, affordable, and accessible to all consumers. In April 2010, the D.C. Circuit Court of Appeals issued an opinion finding that an FCC enforcement action regarding Comcast's network management practices exceeded the FCC's authority, causing the FCC to reassess its approach to crafting net neutrality rules. In December 2010, the FCC adopted net neutrality rules that required broadband providers to publicly disclose network management practices, restricted them from blocking Internet content and applications, and prohibited fixed broadband providers from engaging in unreasonable discrimination in transmitting traffic. In January 2014, the D.C. Circuit Court of Appeals vacated the net neutrality order's anti-blocking and anti-discrimination requirements finding that they were akin to common carrier regulation. However, the Court upheld the transparency and disclosure requirements and found that the FCC has general authority under Section 706 of the Communications Act to promulgate rules to encourage broadband deployment. In response to the Court's decision, the FCC adopted new rules in February 2015 under which it reclassified broadband Internet access as a telecommunications service under Title II of the Communications Act. These new rules were appealed by numerous parties, but in June 2016 the D.C. Circuit Court of Appeals upheld the FCC's new rules in their entirety. In November 2016 the FCC adopted an order establishing broadband privacy and security requirements for Internet service

providers using its authority under Title II. The restrictive new privacy rules diverged from the Federal Trade Commission framework that had for years set the standard for protecting Internet users' privacy.
In March 2017, Congress adopted a resolution under the Congressional Review Act to invalidate the new broadband privacy and security rules approved by the FCC in November 2016. In December 2017, the FCC issued a Declaratory Ruling restoring the information service classification of broadband Internet access service that existed prior to 2015 and affirmed that broadband consumer protection authority resides with the Federal Trade Commission. An accompanying Report and Order requires that Internet service providers disclose information about their practices relative to blocking, throttling, paid prioritization, or affiliated prioritization. The impact of this decision is neutral for the Company.

State - CBT has operated under alternative regulation plans for its local services since 1994. These plans restrict the ability to increase the price of basic local service and related services but, in return, prevent CBT from being subject to an earnings cap. Under alternative regulation, price increases and enhanced flexibility for some services partially offset the effect of fixed pricing for basic local service and reduced pricing for other, primarily wholesale services.

In September 2010, the Ohio General Assembly enacted Substitute Senate Bill 162, which revised state policy concerning the provision of telecommunications service, repealed Ohio's existing alternative regulation legislation, and authorized pricing flexibility for ILEC basic local exchange service upon a competitive showing by the ILEC. In December 2010, CBT filed an application with the Public Utilities Commission of Ohio ("PUCO") under the new rules to receive pricing flexibility in its four Ohio exchanges that did not have pricing flexibility under alternative regulation. The application was approved in January 2011. Furthermore, the legislation provided cost savings and revenue opportunities resulting from revision of the PUCO's retail rules and service standards that were effective in January 2011. On June 30, 2015, state budget bill HB 64 was signed. HB 64 included provisions that could relieve ILECs from their carrier of last resort obligations, pending the outcome of the FCC’s IP Transition proceeding. As part of the provisions of HB 64, the PUCO is currently conducting a process that would assist in the identification of Basic Local Exchange Service ("BLES") customers that might not have a competitive alternative should the ILEC withdraw BLES as part of its transitioning from a circuit-switched TDM network to an IP Network. The new rules have the potential to provide CBT with substantial regulatory relief in Ohio in the future; however, there is no impact in the near-term.

CBT entered into its existing alternative regulation plan in Kentucky in July 2006 under terms established by the Kentucky General Assembly in House Bill No. 337. Under this plan, basic local exchange service prices were capped in exchange for earning freedom and pricing flexibility on other retail services. The caps on basic local exchange service prices expired in July 2011 providing CBT with flexibility to increase rates for basic local exchange service. In March 2015, the General Assembly passed HB 152, which removed the Public Service Commission's authority to regulate terms, conditions, rates or availability of any retail service in urban exchanges (greater than 15,000 Households) for a modifying utility. In March 2017, the General Assembly passed SB 10 which extended the same privileges as HB 152 to all exchanges.

Ohio, Kentucky and Indiana Cable Franchises

The states of Ohio and Indiana permit statewide video service authorization. The Company is now authorized by Ohio and Indiana to provide service in our self-described territory with only 10-day notification to the local government entity and other providers. The authorization can be amended to include additional territory upon notification to the state. A franchise agreement with each local franchising authority is required in Kentucky. The Company has agreements with fifty-two franchising authorities in Kentucky.

Recently Issued Accounting Standards

Refer to Note 2 of the consolidated financial statements for further information on recently issued accounting standards.

Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

This Form 10-K contains "forward-looking" statements, as defined in federal securities laws including the Private Securities Litigation Reform Act of 1995, which are based on our current expectations, estimates, forecasts and projections. Statements that are not historical facts, including statements about the beliefs, expectations and future plans and strategies of the Company, are forward-looking statements. Actual results may differ materially from those expressed in any forward-looking statements. The following important factors, among other things, could cause or contribute to actual results being materially and adversely different from those described or implied by such forward-looking statements including, but not limited to:

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

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

- failure to anticipate the need for and introduce new products and services or to compete with new technologies may compromise the Company’s success in the telecommunications industry;
- the Company’s access lines, which generate a significant portion of its cash flows and profits, are decreasing in number. If the Company continues to experience access line losses similar to the past several years, its revenues, earnings and cash flows from operations may be adversely impacted;

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

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

- the Company generates a substantial portion of its revenue by serving a limited geographic area;

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

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

- increases in broadband usage may cause network capacity limitations, resulting in service disruptions or reduced capacity for customers;

- we may be liable for the material that content providers distribute over our networks;

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

- natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and result in significant disruptions to our operations;

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

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

- a failure of back-office information technology systems could adversely affect the Company’s results of operations and financial condition;

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

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

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

- the Credit Agreement, the indenture governing the Company's notes due 2024, the indenture governing the Company's notes due 2025 and other indebtedness impose significant restrictions on the Company;
- the Company depends on its Credit Agreement and Receivables Facility to provide for its short-term financing requirements in excess of amounts generated by operations, and the availability of those funds may be reduced or limited;
- the servicing of the Company’s indebtedness is dependent on its ability to generate cash, which could be impacted by many factors beyond its control;
- the Company depends on the receipt of dividends or other intercompany transfers from its subsidiaries and investments;
- the merger (the “merger”) of Hawaiian Telcom Holdco, Inc. (“Hawaiian Telcom”) into a wholly owned subsidiary of the Company is subject to the receipt of clearances or approvals from various regulatory authorities, which may impose conditions that could have an adverse effect on the Company following the closing of the merger (the “combined company”) or, if not obtained, could prevent completion of the merger;
- the merger is subject to conditions, including certain conditions that may not be satisfied or completed on a timely basis, if at all, and any delay in completing the merger may reduce or eliminate the benefits expected;
- the pendency of the merger could materially adversely affect the future business and operations of the Company and/or result in a loss of employees for the Company;

- the Company’s shareholders will be diluted by the merger;
- if completed, the merger may not achieve its intended results, and the Company and Hawaiian Telcom may be unable to successfully integrate their operations;
- the combined company is expected to incur expenses related to the integration of the Company and Hawaiian Telcom;
- the future results of the combined company will suffer if the combined company does not effectively manage its expanded operations following the merger;
- uncertainties associated with the merger may cause a loss of management personnel and other key employees, which could adversely affect the future business and operations of the combined company;
- the combined company will have substantial indebtedness following the merger and the credit ratings of the combined company or its subsidiaries may be different from what the companies currently expect;
- the merger may involve unexpected costs, unexpected liabilities or unexpected delays;
- the acquisition of OnX may not achieve its intended results, and the Company may be unable to successfully integrate OnX's operations;
- the trading price of the Company's common stock may be volatile, and the value of an investment in the Company's common stock may decline;
- the uncertain economic environment, including uncertainty in the U.S. and world securities markets, could impact the Company's business and financial condition;
- the Company’s future cash flows could be adversely affected if it is unable to fully realize its deferred tax assets;
- changes in tax laws and regulations, and actions by federal, state and local taxing authorities related to the interpretation and application of such tax laws and regulations, could have a negative impact on the Company's financial results and cash flows;
- the Company's interpretation of the Tax Cuts and Jobs Act of 2017 could change, and have an adverse impact on financial results;
- adverse changes in the value of assets or obligations associated with the Company’s employee benefit plans could negatively impact shareowners’ deficit and liquidity;
- third parties may claim that the Company is infringing upon their intellectual property, and the Company could suffer significant litigation or licensing expenses or be prevented from selling products;
- third parties may infringe upon the Company’s intellectual property, and the Company may expend significant resources enforcing its rights or suffer competitive injury;
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we could be subject to a significant amount of litigation, which could require us to pay significant damages or settlements; and

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

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company does not undertake any obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company has exposure to interest rate risk, primarily in the form of variable-rate borrowings from its Credit Agreement and Receivables Facility, as well as changes in current rates compared to that of its fixed rate debt. The Company's management periodically employs derivative financial instruments to manage exposure to interest rate risk. At December 31, 2017 and 2016, the Company held no derivative financial instruments. As of December 31, 2017, the Company had variable-rate borrowings of $600.0 million under the Tranche B Term Loan due 2024, no borrowings under the Receivables Facility, and no borrowings under the Credit Agreement's Revolving Credit Facility. The interest on these debt arrangements varies with changes in the LIBOR rate. A hypothetical increase or decrease of one percentage point in the LIBOR rate would increase or decrease our annual interest expense on these variable-rate borrowings by $6.0 million, assuming no additional borrowings or repayments are made under these agreements.

The following table sets forth the face amounts, maturity dates, and average interest rates at December 31, 2017 for our fixed and variable-rate debt, excluding capital leases and other debt, and unamortized discounts:

(dollars in millions)	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Fixed-rate debt:	$—	$—	$—	$—	$—	$1,085.2	$1,085.2	$1,081.5
Weighted average interest rate on fixed-rate debt	—	—	—	—	—	7.3 %	7.3 %	
Variable-rate debt:	$6.0	$6.0	$6.0	$6.0	$6.0	$570.0	$600.0	$606.0
Average interest rate on variable-rate debt	5.1 %	5.1 %	5.1 %	5.1 %	5.1 %	5.1 %	5.1 %	

At December 31, 2016, the carrying value and fair value of fixed-rate debt was $735.2 million and $772.0 million, respectively.

Foreign Currency Risk

Due to the timing of the acquisition of OnX in the fourth quarter of 2017, the Company's foreign denominated transactions were deemed immaterial. OnX currently has business operations in Canada, the U.K. and India, and foreign currency risk might arise in the future. We do not currently employ forward contracts or other financial instruments to mitigate foreign currency risk.

Commodity Price Risk

Certain of our operating costs are subject to price fluctuations caused by the volatility of the underlying commodity prices, such as gas utilized primarily by our field operations group, and network and building materials, such as steel, fiber and copper, used in the construction of our networks.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Cincinnati Bell Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company’s internal control system is designed to produce reliable financial statements in conformity with accounting principles generally accepted in the United States.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on this assessment, management has concluded that, as of December 31, 2017, the Company’s internal control over financial reporting is effective based on those criteria. Management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of certain elements of internal controls over financial reporting of OnX Holdings LLC acquired on October 2, 2017, which is included in the consolidated financial statements of the Company for the year ended December 31, 2017. OnX Holdings LLC accounts for 17.0% of total assets and 11.6% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2017.

The effectiveness of the Company’s internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included herein.

February 26, 2018
/s/ Leigh R. Fox

Leigh R. Fox
Chief Executive Officer

/s/ Andrew R. Kaiser
Andrew R. Kaiser
Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Board of Directors of Cincinnati Bell Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Cincinnati Bell Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2017, of the Company and our report dated February 26, 2018, expressed an unqualified opinion on those financial statements.

As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at OnX Holdings LLC, which was acquired on October 2, 2017 and whose financial statements constitute 17.0% of total assets and 11.6% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at OnX Holdings LLC.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Cincinnati, Ohio

February 26, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Board of Directors of Cincinnati Bell Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cincinnati Bell Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, shareowners’ deficit and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Cincinnati, Ohio
February 26, 2018

We have served as the Company's auditor since 2005.

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Cincinnati Bell Inc.
CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except share amounts)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 17.8	$ 9.7
Restricted cash	378.7	—
Receivables, less allowances of $10.4 and $9.9	239.8	178.6
Inventory, materials and supplies	44.3	22.7
Prepaid expenses	22.2	15.0
Other current assets	7.6	3.9
Total current assets	710.4	229.9
Property, plant and equipment, net	1,129.0	1,085.5
Investment in CyrusOne	—	128.0
Goodwill	151.0	14.3
Intangible assets, net	132.3	—
Deferred income tax assets	19.3	64.5
Other noncurrent assets	20.4	18.8
Total assets	$ 2,162.4	$ 1,541.0
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$ 18.4	$ 7.5
Accounts payable	185.6	105.9
Unearned revenue and customer deposits	36.3	36.3
Accrued taxes	21.2	12.9
Accrued interest	29.9	12.7
Accrued payroll and benefits	28.7	25.7
Other current liabilities	37.2	31.9
Total current liabilities	357.3	232.9
Long-term debt, less current portion	1,729.3	1,199.1
Pension and postretirement benefit obligations	177.5	197.7
Deferred income tax liabilities	11.2	—
Other noncurrent liabilities	30.2	33.0
Total liabilities	2,305.5	1,662.7
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 December 31, 2017 and 2016; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 96,000,000 shares authorized; 42,197,965 and 42,056,237 shares issued and outstanding at December 31, 2017 and 2016, respectively	0.4	0.4
Additional paid-in capital	2,565.6	2,570.9
Accumulated deficit	(2,664.8)	(2,732.1)
Accumulated other comprehensive loss	(173.7)	(90.3)
Total shareowners' deficit	(143.1)	(121.7)
Total liabilities and shareowners' deficit	$ 2,162.4	$ 1,541.0

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

Cincinnati Bell Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share amounts)

	Year Ended December 31,		
	2017	2016	2015
Revenue			
Services	$1,006.1	$978.7	$933.0
Products	282.4	207.1	234.8
Total revenue	1,288.5	1,185.8	1,167.8
Costs and expenses			
Cost of services, excluding items below	532.1	506.4	472.5
Cost of products sold, excluding items below	229.2	172.5	198.1
Selling, general and administrative	240.9	218.7	219.1
Depreciation and amortization	193.0	182.2	141.6
Restructuring and severance related charges	32.7	11.9	6.0
Transaction and integration costs	18.5	—	1.4
Other	4.0	1.1	1.1
Total operating costs and expenses	1,250.4	1,092.8	1,039.8
Operating income	38.1	93.0	128.0
Interest expense	85.2	75.7	103.1
Loss on extinguishment of debt, net	3.2	19.0	20.9
Gain on sale of CyrusOne investment	(117.7)	(157.0)	(449.2)
Other expense (income), net	1.4	(7.6)	2.6
Income from continuing operations before income taxes	66.0	162.9	450.6
Income tax expense	30.9	61.1	159.8
Income from continuing operations	35.1	101.8	290.8
Income from discontinued operations, net of tax	—	0.3	62.9
Net income	35.1	102.1	353.7
Preferred stock dividends	10.4	10.4	10.4
Net income applicable to common shareowners	$24.7	$91.7	$343.3
Basic net earnings per common share			
Basic earnings per common share from continuing operations	$0.59	$2.17	$6.69
Basic earnings per common share from discontinued operations	$—	$0.01	$1.50
Basic net earnings per common share	$0.59	$2.18	$8.19
Diluted net earnings per common share			
Diluted earnings per common share from continuing operations	$0.58	$2.17	$6.68
Diluted earnings per common share from discontinued operations	$—	$0.01	$1.49
Diluted net earnings per common share	$0.58	$2.18	$8.17
Weighted-average common shares outstanding (millions)			
Basic	42.2	42.0	41.9
Diluted	42.4	42.1	42.0

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

Cincinnati Bell Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Year Ended December 31,		
	2017	2016	2015
Net income	$35.1	$102.1	$353.7
Other comprehensive income (loss), net of tax:			
Unrealized gains on Investment in CyrusOne, net of tax of $4.4, $36.9	8.3	68.1	—
Reclassification adjustment for gain on sale of Investment in CyrusOne included in net income, net of tax of ($41.3)	(76.4)	—	—
Foreign currency translation gain (loss)	0.2	(0.1)	(0.4)
Defined benefit plans:			
Net gain (loss) arising from remeasurement during the period, net of tax of $0.8, $3.6, ($3.4)	2.8	6.6	(6.6)
Amortization of prior service benefits included in net income, net of tax of ($1.6), ($5.2), ($5.5)	(2.9)	(9.4)	(9.8)
Amortization of net actuarial loss included in net income, net of tax of $7.9, $8.5, $10.8	14.3	15.5	19.5
Reclassification adjustment for pension settlement charges included in net income, net of tax of $1.5	2.5	—	—
Reclassification adjustment for curtailment loss included in net income, net of tax of $0.1	—	—	0.2
Total other comprehensive (loss) income, net of tax	(51.2)	80.7	2.9
Total comprehensive (loss) income	$(16.1)	$182.8	$356.6

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

Cincinnati Bell Inc.
CONSOLIDATED STATEMENTS OF SHAREOWNERS' DEFICIT
(in millions)

	6 3/4% Cumulative Convertible Preferred Shares		Common Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Shares		Total
	Shares	Amount	Shares	Amount				Shares	Amount	Total
Balance at December 31, 2014	3.1	$ 129.4	41.9	$ 0.4	$ 2,584.6	$ (3,187.9)	$ (173.9)	(0.1)	$ (1.1)	$ (648.5)
Net income	—	—	—	—	—	353.7	—	—	—	353.7
Other comprehensive income	—	—	—	—	—	—	2.9	—	—	2.9
Shares issued under employee plans	—	—	0.1	—	0.1	—	—	—	—	0.1
Shares purchased under employee plans and other	—	—	—	—	(0.7)	—	—	—	0.6	(0.1)
Stock-based compensation	—	—	—	—	4.1	—	—	—	—	4.1
Dividends on preferred stock	—	—	—	—	(10.4)	—	—	—	—	(10.4)
Balance at December 31, 2015	3.1	129.4	42.0	0.4	2,577.7	(2,834.2)	(171.0)	(0.1)	(0.5)	(298.2)
Net income	—	—	—	—	—	102.1	—	—	—	102.1
Other comprehensive income	—	—	—	—	—	—	80.7	—	—	80.7
	—	—	0.3	—	3.6	—	—	—	—	3.6

Shares issued under employee plans										
Shares purchased under employee plans and other		—	—	—	(0.3)	—	—	0.1	0.5	0.2
Stock-based compensation	—	—	—	—	5.1	—	—	—	—	5.1
Repurchase and retirement of shares		—	(0.2)	—	(4.8)	—	—	—	—	(4.8)
Dividends on preferred stock	—	—	—	—	(10.4)	—	—	—	—	(10.4)
Balance at December 31, 2016	3.1	129.4	42.1	0.4	2,570.9	(2,732.1)	(90.3)	—	—	(121.7)
Net income	—	—	—	—	—	35.1	—	—	—	35.1
Reclassification adjustment to accumulated deficit for stranded other comprehensive income taxes arising from tax reform (a)		—	—	—	—	32.2	(32.2)	—	—	—
Other comprehensive loss, excluding	—	—	—	—	—	—	(51.2)	—	—	(51.2)

reclassification adjustment to accumulated deficit for stranded other comprehensive income taxes arising from tax reform										
Shares issued under employee plans	—	—	0.1	—	0.5	—	—	—	—	0.5
Shares purchased under employee plans and other	—	—	—	—	(1.3)	—	—	—	—	(1.3)
Stock-based compensation	—	—	—	—	5.9	—	—	—	—	5.9
Dividends on preferred stock	—	—	—	—	(10.4)	—	—	—	—	(10.4)
Balance at December 31, 2017	3.1	$ 129.4	42.2	$ 0.4	$ 2,565.6	$ (2,664.8)	$ (173.7)	—	$ —	$ (143.1)

(a) Per ASU 2018-02, entities can elect to make a one-time reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from newly enacted corporate tax rates under the Tax Cuts and Jobs Act. The Company recorded a provisional amount in 2017.

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

Cincinnati Bell Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net income	$35.1	$102.1	$353.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	193.0	182.2	170.2
Loss on extinguishment of debt	3.2	19.0	20.9
Gain on sale of CyrusOne investment	(117.7)	(157.0)	(449.2)
Provision for loss on receivables	6.9	9.4	8.5
Noncash portion of interest expense	2.8	3.3	4.6
Deferred income taxes	30.5	59.4	184.5
Pension and other postretirement payments less than (in excess of) expense	6.4	(8.3)	(11.5)
Deferred gain on sale of wireless spectrum licenses - discontinued operations	—	—	(112.6)
Amortization of deferred gain - discontinued operations	—		