CINCINNATI BELL INC
Form 10-Q
November 04, 2011

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

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

For the Quarterly Period Ended September 30, 2011

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

For the transition period from to

Commission File Number 1-8519

CINCINNATI BELL INC.

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

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

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

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

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

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

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

At October 31, 2011, there were 195,786,914 common shares outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Services	$314.2	$308.4	$940.4	$892.3
Products	54.6	43.5	156.7	121.9
Total revenue	368.8	351.9	1,097.1	1,014.2
Costs and expenses				
Cost of services, excluding items below	120.1	107.8	345.6	304.7
Cost of products sold, excluding items below	54.5	45.0	157.2	128.0
Selling, general and administrative	66.5	68.3	197.7	202.7
Depreciation and amortization	49.1	48.2	146.3	129.7
Gain on sale of assets	(8.4)	—	(8.4)	—
Restructuring charges	—	—	—	5.2
Curtailment loss	—	—	4.2	—
Acquisition costs	0.7	—	2.6	9.1
Asset impairment	—	—	1.6	—
Total operating costs and expenses	282.5	269.3	846.8	779.4
Operating income	86.3	82.6	250.3	234.8
Interest expense	53.3	52.0	161.2	131.5
Loss on extinguishment of debt	—	—	—	10.4
Other expense, net	—	—	—	0.1
Income before income taxes	33.0	30.6	89.1	92.8
Income tax expense	15.4	16.1	40.1	45.9
Net income	17.6	14.5	49.0	46.9
Preferred stock dividends	2.6	2.6	7.8	7.8
Net income applicable to common shareowners	$15.0	$11.9	$41.2	$39.1
Basic earnings per common share	$0.08	$0.06	$0.21	$0.19
Diluted earnings per common share	$0.07	$0.06	$0.21	$0.19

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)
(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$90.7	$77.3
Receivables, less allowances of $12.4 and $14.0	178.6	184.2
Inventory, materials and supplies	23.8	20.9
Deferred income taxes, net	35.4	29.6
Prepaid expenses	11.7	10.0
Other current assets	6.5	0.9
Total current assets	346.7	322.9
Property, plant and equipment, net	1,338.5	1,264.4
Goodwill	340.9	341.7
Intangible assets, net	221.6	236.0
Deferred income taxes, net	371.9	422.2
Other noncurrent assets	64.2	66.4
Total assets	$2,683.8	$2,653.6
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$17.2	$16.5
Accounts payable	98.9	110.2
Unearned revenue and customer deposits	48.4	48.1
Accrued taxes	17.0	13.5
Accrued interest	58.5	46.6
Accrued payroll and benefits	45.7	49.0
Other current liabilities	38.3	44.8
Total current liabilities	324.0	328.7
Long-term debt, less current portion	2,508.8	2,507.1
Pension and postretirement benefit obligations	304.0	333.1
Other noncurrent liabilities	173.1	152.5
Total liabilities	3,309.9	3,321.4
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 3/4% Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2011 and December 31, 2010; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 196,290,915 and 198,354,851 shares issued; 195,777,340 and 197,841,276 outstanding at September 30, 2011 and December 31, 2010	2.0	2.0
Additional paid-in capital	2,586.3	2,601.5
Accumulated deficit	(3,189.6)	(3,238.6)
Accumulated other comprehensive loss	(152.1)	(160.0)
Common shares in treasury, at cost	(2.1)	(2.1)
Total shareowners' deficit	(626.1)	(667.8)

Total liabilities and shareowners' deficit	$2,683.8	$2,653.6

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

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$49.0	$46.9
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	146.3	129.7
Loss on extinguishment of debt	—	10.4
Provision for loss on receivables	10.6	10.8
Impairment loss	1.6	—
Noncash portion of interest expense	5.7	5.8
Deferred income tax provision	39.9	42.4
Pension and other postretirement benefits	(16.6)	(6.1)
Gain on sale of assets	(8.4)	—
Other, net	0.3	1.4
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions		
Increase in receivables	(6.5)	(11.8)
(Increase) decrease in inventory, materials, supplies, prepaid expenses and other current assets	(6.4)	14.8
Decrease in accounts payable	(13.3)	(19.5)
Increase (decrease) in accrued and other current liabilities	4.5	(13.8)
Increase in other noncurrent assets	(1.7)	(2.4)
Decrease in other noncurrent liabilities	(6.5)	(4.0)
Net cash provided by operating activities	198.5	204.6
Cash flows from investing activities		
Capital expenditures	(167.0)	(101.2)
Acquisitions, net of cash acquired	—	(526.7)
Proceeds from sale of assets	9.8	—
Other, net	(0.3)	0.5
Net cash used in investing activities	(157.5)	(627.4)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	1,353.4
Increase (decrease) in corporate credit and receivables facilities	0.4	(85.9)
Repayment of debt	(9.0)	(791.6)
Debt issuance costs	(0.8)	(32.9)
Dividends paid on preferred stock	(7.8)	(7.8)
Common stock repurchase	(10.0)	—
Other, net	(0.4)	(1.2)
Net cash (used in) provided by financing activities	(27.6)	434.0
Net increase in cash and cash equivalents	13.4	11.2
Cash and cash equivalents at beginning of year	77.3	23.0
Cash and cash equivalents at end of period	$90.7	$34.2

Noncash investing and financing transactions:

Acquisition of property by assuming debt and other noncurrent liabilities	$32.5	$17.7
Acquisition of property on account	$15.4	$13.9

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

Description of Business — Cincinnati Bell Inc. and its consolidated subsidiaries (the “Company”) provide diversified telecommunications and technology services through businesses in four segments: Wireline, Wireless, Data Center Colocation, and IT Services and Hardware. In the fourth quarter of 2010, the Company realigned its reportable business segments to be consistent with changes to its management reporting. The segment formerly known as Technology Solutions was separated into the Data Center Colocation segment and the IT Services and Hardware segment. Prior year amounts have been reclassified to conform to the current segment reporting. See Note 11 for information on the Company’s reportable segments.

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

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

The Condensed Consolidated Balance Sheet as of December 31, 2010 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Company’s 2010 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results expected for the full year or any other interim period.

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

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

In September 2009, new accounting guidance under ASC Topic 605 related to revenue arrangements with multiple deliverables was issued. The guidance addresses the unit of accounting for arrangements involving multiple deliverables, how arrangement consideration should be allocated to the separate units of accounting and eliminates the criterion that objective and reliable evidence of fair value of any undelivered items must exist for the delivered item to be considered a separate unit of accounting. Effective January 1, 2011, the Company prospectively adopted this standard for revenue arrangements entered into or materially modified after the adoption date. The adoption of this accounting standard did not have a material impact on the Company’s financial statements.

In September 2009, new accounting guidance under ASC Topic 605 was issued regarding tangible products containing both software and non-software components that function together to deliver the product’s essential functionality. Effective January 1, 2011, the Company prospectively adopted this standard for revenue arrangements entered into or materially modified after the adoption date. The adoption of this accounting standard did not have a material impact on the Company’s financial statements.

Income Taxes — The Company’s income tax provision for interim periods is determined through the use of an estimated annual effective tax rate applied to year-to-date ordinary income, as well as the tax effects associated with discrete items.

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

2. Acquisition and Disposition

Acquisition of Cyrus Networks, LLC

On June 11, 2010, the Company purchased Cyrus Networks, LLC (“CyrusOne”), a data center operator based in Texas, for approximately $526 million, net of cash acquired. CyrusOne is the largest data center colocation provider in Texas, servicing primarily large businesses. CyrusOne is now a wholly-owned subsidiary of the Company. The purchase of CyrusOne has been accounted for as a business combination under the acquisition method. The purchase price allocation has been completed. Goodwill and intangible assets resulting from this acquisition were $269.9 million and $138.0 million, respectively.

The results of operations of CyrusOne were included in the consolidated results of operations beginning June 11, 2010, and are included in the Data Center Colocation segment. For the three and nine months ended September 30, 2011, CyrusOne contributed revenue of $24.7 million and $69.5 million, respectively, and operating income of $5.5 million and $18.0 million, respectively.

The following unaudited pro forma consolidated results for the nine months ended September 30, 2010 assume the acquisition of CyrusOne was completed as of the beginning of 2010:

(dollars in millions, except per share amounts)	
Revenue	$1,045.8
Net income	41.9
Basic and diluted earnings per common share	$0.17

These results include adjustments related to the purchase price allocation and financing of the acquisition, primarily to reduce revenue for the elimination of the unearned revenue liability in the opening balance sheet, to increase depreciation and amortization associated with the higher values of property, plant and equipment and identifiable intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, and to reflect the related income tax effect and change in tax status. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the annual reporting period indicated nor is it necessarily indicative of future operating results. The pro forma information does not include any (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

Disposition of Cincinnati Bell Complete Protection Inc. Assets

On August 1, 2011, the Company sold substantially all of the assets associated with its home security monitoring business for $11.5 million. The Company received cash proceeds of $9.8 million upon closing of this transaction and another $1.7 million of proceeds are held in escrow pending resolution of a purchase price contingency. The purchase price is subject to adjustment if the recurring monthly revenue of this business is less than $0.4 million in October 2011. The maximum reduction is limited to $1.7 million. The pre-tax gain recognized on the sale of these assets was $8.4 million. No liability has been recognized for the purchase price contingency as a loss is not deemed probable or estimable. This business was included within the Company's Wireline segment.

3. Earnings Per Common Share

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

The following table shows the computation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2011	2010	2011	2010
Numerator:				
Net income	$17.6	$14.5	$49.0	$46.9
Preferred stock dividends	2.6	2.6	7.8	7.8
Income available to common shareholders - basic and diluted	$15.0	$11.9	$41.2	$39.1
Denominator:				
Weighted average common shares outstanding - basic	196.5	201.2	197.4	201.0
Warrants	1.2	—	0.5	0.9
Stock-based compensation arrangements	2.9	3.0	2.5	3.0
Weighted average common shares outstanding - diluted	200.6	204.2	200.4	204.9
Basic earnings per common share	$0.08	$0.06	$0.21	$0.19
Diluted earnings per common share	$0.07	$0.06	$0.21	$0.19

For the three and nine month periods ended September 30, 2011, awards under the Company's stock-based compensation plans for common shares of 11.2 million and 11.6 million, respectively, were excluded from the computation of diluted EPS as their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2010, awards for common shares of 14.9 million and 14.6 million, respectively, were excluded as their inclusion would have been anti-dilutive. For all periods, preferred stock convertible into 4.5 million common shares was excluded as it was anti-dilutive.

4. Comprehensive Income

The Company's comprehensive income is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	2011	2010	2011	2010
Net income	$17.6	$14.5	$49.0	$46.9
Other comprehensive income, net of tax:				
Defined benefit pension and postretirement plans:				
Net gain arising during the period, net of tax of $0.9	—	—	1.4	—
Amortization of prior service benefits included in net income, net of tax of ($1.1), ($1.0), ($3.5), ($3.4)	(2.1)	(2.0)	(6.1)	(6.0)
Amortization of net loss included in net income, net of tax of $1.9, $1.4, $5.7, $4.0	3.4	2.3	9.9	6.9
Reclassification adjustment for curtailment loss included in net income, net of tax of $1.5	—	—	2.7	—
Other comprehensive income	1.3	0.3	7.9	0.9
Total comprehensive income	$18.9	$14.8	$56.9	$47.8

5. Debt
The Company’s debt consists of the following:

(dollars in millions)	September 30, 2011	December 31, 2010
Current portion of long-term debt:		
Capital lease obligations and other debt	$17.2	$16.5
Current portion of long-term debt	17.2	16.5
Long-term debt, less current portion:		
7% Senior Notes due 2015*	250.7	251.4
8 1/4% Senior Notes due 2017	500.0	500.0
8 3/4% Senior Subordinated Notes due 2018	625.0	625.0
8 3/8% Senior Notes due 2020	775.0	775.0
7 1/4% Senior Notes due 2023	40.0	40.0
Various Cincinnati Bell Telephone notes	207.5	207.5
Capital lease obligations and other debt	119.7	118.5
	2,517.9	2,517.4
Net unamortized discount	(9.1)	(10.3)
Long-term debt, less current portion	2,508.8	2,507.1
Total debt	$2,526.0	$2,523.6

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

In August 2011, the Company amended its accounts receivable securitization facility ("Receivables Facility") to remove the accounts receivable associated with its home security monitoring business and to remove its wholly-owned subsidiary, Cincinnati Bell Complete Protection Inc., as an originator. The August 2011 amendment had no impact on the facility limit. In June 2011, the Company amended its Receivables Facility which increased the facility limit to $105.0 million, removed certain provisions that were no longer applicable to the facility, extended the termination date of the facility to June 2014, added an additional purchaser, added a letter of credit subfacility, and added the Company's wholly-owned subsidiary Cyrus Networks, LLC as an originator.

The Receivables Facility is subject to renewal every 364 days. In the event the Receivables Facility is not renewed, the Company believes it would be able to refinance any outstanding borrowings with borrowings under the revolving credit facility. The permitted borrowings vary depending on the level of eligible receivables and other factors. Under the Receivables Facility, certain subsidiaries, or originators, sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC ("CBF"). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company’s other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF, and as such are not available to creditors of other subsidiaries or the parent company. At September 30, 2011, the Company had $24.7 million of letters of credit outstanding under the Receivables Facility, leaving $80.3 million remaining on the available borrowings of $105.0 million.

As of September 30, 2011, the Company had no outstanding borrowings on its revolving credit facility, leaving $210.0 million available for borrowings.

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6. Financial Instruments
The carrying values of the Company's financial instruments do not materially differ from the estimated fair values as of September 30, 2011 and December 31, 2010, except for the Company's debt.

The carrying value and fair value of the Company’s long-term debt are as follows:

	September 30, 2011		December 31, 2010	
(dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$2,526.0	$2,349.6	$2,523.6	$2,416.9

The fair value of debt instruments was based on closing or estimated market prices of the Company’s debt at September 30, 2011 and December 31, 2010.

7. Restructuring Charges
The Company’s restructuring activities consist of actions taken to reduce operating costs, integrate recently acquired businesses, and eliminate non-strategic operations. Restructuring liabilities have been established for employee separation obligations, lease abandonment, and conforming commission incentive programs.
A summary of the activity in these liabilities is presented below:

(dollars in millions):	Employee Separation	Lease Abandonment	Other	Total
Beginning balance (December 31, 2010)	$11.7	$7.2	$1.4	$20.3
Utilizations	(3.2)	(0.4)	(1.4)	(5.0)
First quarter balance (March 31, 2011)	$8.5	$6.8	$—	$15.3
Utilizations	(1.1)	(0.5)	—	(1.6)
Second quarter balance (June 30, 2011)	$7.4	$6.3	$—	$13.7
Utilizations	(0.2)	(0.4)	—	$(0.6)
Ending balance (September 30, 2011)	$7.2	$5.9	$—	$13.1

The liability for employee separations shown in the table above includes future separations based on the Company's written plans.
As of September 30, 2011 and December 31, 2010, the employee separation liability by segment was as follows:

(dollars in millions):	September 30, 2011	December 31, 2010
Wireline	$5.9	$9.4
Wireless	0.7	0.8
Data Center Colocation	—	—
IT Services and Hardware	0.6	1.3
Corporate	—	0.2
	$7.2	$11.7

In 2010, as a result of decreased Wireline headcount over the past several years, a lease abandonment charge was recorded, representing future lease costs, net of sublease income, on office space abandoned by the Company. The lease obligations are expected to continue through 2015 and the liability remaining as of September 30, 2011 is $2.6 million.
In 2001, the Company adopted a restructuring plan that included initiatives to eliminate non-strategic operations and merge internet operations in the Company's other operations. The Company completed the plan prior to 2003, except for certain lease obligations, which are expected to continue through 2015 and for which a $3.2 million liability remains as of September 30, 2011. These obligations are considered liabilities of the Corporate segment.

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At December 31, 2010, other restructuring costs consisted of $1.4 million to conform the Company's commission incentive program for the Data Center Colocation segment. All payments under this program were completed as of March 31, 2011.

At September 30, 2011 and December 31, 2010, $6.2 million and $9.3 million, respectively, of the restructuring liabilities were included in "Other current liabilities," and $6.9 million and $11.0 million, respectively, were included in "Other noncurrent liabilities," in the Condensed Consolidated Balance Sheets.

8. Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit plans and a postretirement health and life insurance plan. A portion of these costs is capitalized as a component of internal labor costs incurred for network construction in the Wireline segment, historically averaging about 9%.

In the second quarter of 2011, the Company ratified a new labor agreement with its employees who participate in the Communication Workers of America union, which curtails future pension service credits for certain employees effective January 1, 2012. As a result of this event, the Company remeasured its projected benefit obligation for its non-management pension plan. A curtailment loss of $4.2 million was recognized in the nine month period ended September 30, 2011.

Pension and postretirement benefit costs are as follows:

	Three Months Ended September 30,			
	2011	2010	2011	2010
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$1.2	$1.3	$0.1	$—
Interest cost on projected benefit obligation	6.2	6.7	1.7	2.0
Expected return on plan assets	(7.4)	(7.7)	—	—
Amortization of:				
Prior service cost (benefit)	0.1	0.2	(3.3)	(3.2)
Actuarial loss	3.6	2.4	1.7	1.3
Benefit costs	$3.7	$2.9	$0.2	$0.1

	Nine Months Ended September 30,			
	2011	2010	2011	2010
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$3.8	$3.9	$0.3	$0.2
Interest cost on projected benefit obligation	18.6	20.1	5.3	6.0
Expected return on plan assets	(22.0)	(22.7)	—	—
Amortization of:				
Prior service cost (benefit)	0.3	0.4	(9.9)	(9.8)
Actuarial loss	10.7	7.0	4.9	3.9
Curtailment loss	4.2	—	—	—
Benefit costs	$15.6	$8.7	$0.6	$0.3

Contributions in 2011 to the Company's pension and postretirement plans are expected to be approximately $20.1 million and $22.1 million, respectively. For the nine months ended September 30, 2011, contributions to the pension plans were $16.6 million and contributions to the postretirement plan were $18.3 million.

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9. Stock-Based Compensation Plans

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

The Company recognized stock-based compensation expense of $1.5 million and $5.2 million for the three and nine months ended September 30, 2011, respectively. For the three and nine months ended September 30, 2010, the Company recognized stock-based compensation expense of $1.7 million and $4.2 million, respectively. As of September 30, 2011, there was $5.8 million of unrecognized compensation expense related to these awards. The remaining compensation expense for the stock options, SARs and restricted awards is expected to be recognized over a weighted-average period of approximately two years, while the remaining expense for performance-based awards will be recognized within approximately one year.

The Company also has deferred compensation plans for its Board of Directors and certain executives. Under these plans, participants can elect to invest their deferrals in the Company's common stock. At September 30, 2011 and 2010, there were 0.8 million common shares deferred. As these awards can be settled in cash, the Company records compensation costs each period based on the change in the Company's stock price. The Company recognized no compensation expense for the three months ended September 30, 2011 and expense of $0.3 million for the nine months ended September 30, 2011. The Company recognized a gain of $0.3 million and $0.2 million for the three and nine month periods in the prior year, respectively.

10. Share Repurchase

In February 2010, the Board of Directors approved a plan for the repurchase of the Company's outstanding common stock in an amount up to $150.0 million. The Company repurchased and retired 4.0 million shares of its common stock for $10.0 million in the fourth quarter of 2010. During the third quarter of 2011, the Company repurchased and retired an additional 3.2 million shares of its common stock for $10.0 million, leaving $130.0 million remaining to repurchase under this plan.

11. Business Segment Information

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

The Wireline segment provides local voice, data, long-distance and other services to customers primarily in southwestern Ohio, northern Kentucky, and southeastern Indiana. The Wireless segment provides advanced digital voice and data communications services and sales of related communications equipment to customers in the Greater Cincinnati and Dayton, Ohio operating areas. The Data Center Colocation segment provides data center colocation services primarily to large businesses. The Company operates 19 data centers in Texas, Ohio, Kentucky, Indiana, Michigan, Illinois, and London, England. The IT Services and Hardware segment provides a range of fully managed and outsourced IT and telecommunications services along with the sale, installation, and maintenance of major branded IT and telephony equipment.

On June 11, 2010, the Company purchased CyrusOne, a data center operator based in Texas, for approximately $526 million, net of cash acquired. CyrusOne's post-acquisition financial results are included in the Data Center Colocation segment for the three and nine months ended September 30, 2011 and 2010.

In the fourth quarter of 2010, the Company realigned its reportable business segments to be consistent with changes to its management reporting. The segment formerly known as Technology Solutions was separated into the Data Center Colocation segment and the IT Services and Hardware segment. The changes to the Company's management reporting were made primarily as a result of the CyrusOne acquisition. Prior year amounts have been reclassified to conform to the current segment reporting.

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

The Company's business segment information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	2011	2010	2011	2010
Revenue				
Wireline	$182.7	$ 185.2	$551.8	$559.6
Wireless	68.1	72.8	209.2	219.7
Data Center Colocation	47.1	40.0	135.6	84.7
IT Services and Hardware	78.9	62.6	224.9	176.5
Intersegment	(8.0)	(8.7)	(24.4)	(26.3)
Total revenue	$368.8	$ 351.9	$1,097.1	$1,014.2
Intersegment revenue				
Wireline	$5.8	$ 5.9	$17.4	$18.4
Wireless	0.6	0.7	1.7	2.1
Data Center Colocation	0.5	0.4	1.6	1.3
IT Services and Hardware	1.1	1.7	3.7	4.5
Total intersegment revenue	$8.0	$ 8.7	$24.4	$26.3
Operating income				
Wireline	$65.2	$ 58.9	$180.2	$181.0
Wireless	11.6	15.7	43.1	52.2
Data Center Colocation	11.3	11.0	36.1	25.0
IT Services and Hardware	4.0	1.8	8.7	0.3
Corporate	(5.8)	(4.8)	(17.8)	(23.7)
Total operating income	$86.3	$ 82.6	$250.3	$234.8
Expenditures for long-lived assets				
Wireline	$27.1	$ 24.3	$75.2	$67.4
Wireless	4.9	1.1	10.6	5.5
Data Center Colocation	41.0	16.2	77.2	548.4
IT Services and Hardware	1.5	1.4	4.0	6.6
Total expenditures for long-lived assets	$74.5	$ 43.0	$167.0	$627.9
Depreciation and amortization				
Wireline	$25.6	$ 26.3	$76.1	$77.2
Wireless	8.0	8.1	25.1	25.4
Data Center Colocation	13.2	11.8	38.2	21.6
IT Services and Hardware	2.2	1.9	6.6	5.2
Corporate and eliminations	0.1	0.1	0.3	0.3
Total depreciation and amortization	$49.1	$ 48.2	$146.3	$129.7

	September 30, 2011	December 31, 2010
Assets		
Wireline	$701.1	$ 694.1
Wireless	347.2	359.3
Data Center Colocation	919.9	857.2
IT Services and Hardware	37.4	34.7
Corporate and eliminations	678.2	708.3
Total assets	$2,683.8	$ 2,653.6

12. Supplemental Guarantor Information

Cincinnati Bell Telephone Notes

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

The following information sets forth the Condensed Consolidating Statements of Operations for the three and nine months ended September 30, 2011 and 2010, Condensed Consolidating Balance Sheets as of September 30, 2011 and December 31, 2010, and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, of (1) the Parent Company, as the guarantor, (2) CBT, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis:

Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2011				
(dollars in millions)	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$164.0	$219.1	$(14.3)	$368.8
Operating costs and expenses	5.7	107.7	183.4	(14.3)	282.5
Operating income (loss)	(5.7)	56.3	35.7	—	86.3
Interest expense	47.6	3.6	6.0	(3.9)	53.3
Other income, net	(1.4)	(1.2)	(1.3)	3.9	—
Income (loss) before equity in earnings of subsidiaries and income taxes	(51.9)	53.9	31.0	—	33.0
Income tax expense (benefit)	(14.8)	17.9	12.3	—	15.4
Equity in earnings of subsidiaries, net of tax	54.7	—	—	(54.7)	—
Net income	17.6	36.0	18.7	(54.7)	17.6
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	$15.0	$36.0	$18.7	$(54.7)	$15.0

	Three Months Ended September 30, 2010				
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$166.0	$200.6	$(14.7)	$351.9
Operating costs and expenses	4.8	107.7	171.5	(14.7)	269.3
Operating income (loss)	(4.8)	58.3	29.1	—	82.6
Interest expense	45.4	1.8	13.2	(8.4)	52.0
Other expense (income), net	(8.9)	2.4	(1.9)	8.4	—
Income (loss) before equity in earnings of subsidiaries and income taxes	(41.3)	54.1	17.8	—	30.6
Income tax expense (benefit)	(10.9)	18.5	8.5	—	16.1
Equity in earnings of subsidiaries, net of tax	44.9	—	—	(44.9)	—
Net income	14.5	35.6	9.3	(44.9)	14.5
Preferred stock dividends	2.6	—	—	—	2.6
Net income applicable to common shareowners	$11.9	$35.6	$9.3	$(44.9)	$11.9

Condensed Consolidating Statements of Operations

(dollars in millions)	Nine Months Ended September 30, 2011 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$493.4	$646.4	$(42.7)	$1,097.1
Operating costs and expenses	18.7	323.2	547.6	(42.7)	846.8
Operating income (loss)	(18.7)	170.2	98.8	—	250.3
Interest expense	142.8	10.6	37.2	(29.4)	161.2
Other income, net	(23.5)	(1.6)	(4.3)	29.4	—
Income (loss) before equity in earnings of subsidiaries and income taxes	(138.0)	161.2	65.9	—	89.1
Income tax expense (benefit)	(43.7)	58.4	25.4	—	40.1
Equity in earnings of subsidiaries, net of tax	143.3	—	—	(143.3)	—
Net income	49.0	102.8	40.5	(143.3)	49.0
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	$41.2	$102.8	$40.5	$(143.3)	$41.2

	Nine Months Ended September 30, 2010 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	$—	$503.6	$554.2	$(43.6)	$1,014.2
Operating costs and expenses	23.9	323.2	475.9	(43.6)	779.4
Operating income (loss)	(23.9)	180.4	78.3	—	234.8
Interest expense	113.1	8.1	22.7	(12.4)	131.5
Other expense (income), net	(3.2)	6.0	(4.7)	12.4	10.5
Income (loss) before equity in earnings of subsidiaries and income taxes	(133.8)	166.3	60.3	—	92.8
Income tax expense (benefit)	(35.6)	65.1	16.4	—	45.9
Equity in earnings of subsidiaries, net of tax	145.1	—	—	(145.1)	—
Net income	46.9	101.2	43.9	(145.1)	46.9
Preferred stock dividends	7.8	—	—	—	7.8
Net income applicable to common shareowners	$39.1	$101.2	$43.9	$(145.1)	$39.1

Condensed Consolidating Balance Sheets

(dollars in millions)	As of September 30, 2011 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash and cash equivalents	$86.7	$1.6	$2.4	$—	$90.7
Receivables, net	2.0	—	176.6	—	178.6
Other current assets	4.7	28.5	46.4	(2.2)	77.4
Total current assets	93.4	30.1	225.4	(2.2)	346.7
Property, plant and equipment, net	0.2	630.1	708.2	—	1,338.5
Goodwill and intangibles, net	—	2.5	560.0	—	562.5
Investments in and advances to subsidiaries	1,775.0	262.8	—	(2,037.8)	—
Other noncurrent assets	354.3	8.1	221.4	(147.7)	436.1
Total assets	$2,222.9	$933.6	$1,715.0	$(2,187.7)	$2,683.8
Current portion of long-term debt	$—	$2.3	$14.9	$—	$17.2
Accounts payable	0.5	42.9	55.5	—	98.9
Other current liabilities	98.2	53.3	56.3	0.1	207.9
Total current liabilities	98.7	98.5	126.7	0.1	324.0
Long-term debt, less current portion	2,181.9	216.9	110.0	—	2,508.8
Other noncurrent liabilities	315.4	111.8	199.9	(150.0)	477.1
Intercompany payables	253.0	—	575.9	(828.9)	—
Total liabilities	2,849.0	427.2	1,012.5	(978.8)	3,309.9
Shareowners' equity (deficit)	(626.1)	506.4	702.5	(1,208.9)	(626.1)
Total liabilities and shareowners' equity (deficit)	$2,222.9	$933.6	$1,715.0	$(2,187.7)	$2,683.8

	As of December 31, 2010 Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Cash and cash equivalents	$69.8	$1.8	$5.7	$—	$77.3
Receivables, net	2.4	0.9	180.9	—	184.2
Other current assets	6.4	22.5	39.0	(6.5)	61.4
Total current assets	78.6	25.2	225.6	(6.5)	322.9
Property, plant and equipment, net	0.5	623.7	640.2	—	1,264.4
Goodwill and intangibles, net	—	2.6	575.1	—	577.7
Investments in and advances to subsidiaries	1,648.2				