

CINCINNATI BELL INC
Form 10-Q
November 06, 2009
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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, 2009

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

For the transition period from _____ to _____

Commission File Number 1-8519

CINCINNATI BELL INC.

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Ohio
(State of Incorporation)

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

221 East Fourth Street, Cincinnati, Ohio 45202

(Address of principal executive offices) (Zip Code)

(513) 397-9900

(Registrant's telephone number, including area code)

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

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

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

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

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

At October 30, 2009, there were 202,977,035 common shares outstanding and 155,250 shares of 6³/₄% Cumulative Convertible Preferred Stock outstanding.

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Cincinnati Bell Inc.

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Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue				
Services	\$ 291.3	\$ 301.8	\$ 878.7	\$ 899.0
Products	46.4	44.7	112.1	147.2
Total revenue	337.7	346.5	990.8	1,046.2
Costs and expenses				
Cost of services, excluding items below	102.0	108.8	304.9	321.6
Cost of products sold, excluding items below	50.9	46.0	126.1	152.0
Selling, general and administrative	64.7	71.5	209.4	213.8
Depreciation	40.2	37.6	118.9	110.1
Amortization	1.0	1.1	3.1	3.6
Restructuring charges (gains)	0.9	1.7	(5.5)	27.1
Loss on sale of asset and asset impairment	4.8		4.8	1.2
Total operating costs and expenses	264.5	266.7	761.7	829.4
Operating income	73.2	79.8	229.1	216.8
Interest expense	31.5	35.0	94.6	106.1
Other income, net	(7.7)	(1.0)	(7.4)	(2.4)
Income before income taxes	49.4	45.8	141.9	113.1
Income tax expense	21.7	19.2	59.1	48.0
Net income	27.7	26.6	82.8	65.1
Preferred stock dividends	2.6	2.6	7.8	7.8
Net income applicable to common shareowners	\$ 25.1	\$ 24.0	\$ 75.0	\$ 57.3
Basic earnings per common share	\$ 0.12	\$ 0.10	\$ 0.35	\$ 0.24
Diluted earnings per common share	\$ 0.12	\$ 0.10	\$ 0.34	\$ 0.23
Weighted average common shares outstanding (in millions)				
Basic	209.0	233.7	215.7	240.6
Diluted	213.2	239.2	218.1	247.0

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 37.5	\$ 6.7
Receivables, less allowances of \$16.5 and \$18.0	153.4	164.9
Inventory, materials and supplies	30.6	28.9
Deferred income taxes, net	86.1	96.8
Prepaid expenses and other current assets	11.4	23.8
Total current assets	319.0	321.1
Property, plant and equipment, net	1,086.7	1,044.3
Goodwill	71.9	71.8
Intangible assets, net	112.4	126.0
Deferred income taxes, net	377.5	466.2
Other noncurrent assets	43.7	57.3
Total assets	\$ 2,011.2	\$ 2,086.7
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	\$ 12.1	\$ 10.2
Accounts payable	115.4	110.8
Unearned revenue and customer deposits	43.6	44.5
Accrued taxes	13.9	17.7
Accrued interest	24.8	45.9
Accrued payroll and benefits	50.7	49.7
Other current liabilities	36.5	45.0
Total current liabilities	297.0	323.8
Long-term debt, less current portion	1,932.2	1,950.5
Pension and postretirement benefit obligations	311.9	434.6
Other noncurrent liabilities	84.1	87.1
Total liabilities	2,625.2	2,796.0
Shareowners deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depository shares) of 6 ³ / ₄ % Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2009 and December 31, 2008; liquidation preference \$1,000 per share (\$50 per depository share)	129.4	129.4
Common shares, \$.01 par value; 480,000,000 shares authorized; 205,152,557 and 228,496,896 shares issued; 204,497,810 and 227,881,835 outstanding at September 30, 2009 and December 31, 2008	2.1	2.3
Additional paid-in capital	2,633.3	2,695.3
Accumulated deficit	(3,273.7)	(3,356.5)

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Accumulated other comprehensive loss	(102.5)	(177.1)
Common shares in treasury, at cost: 654,747 and 615,061 shares at September 30, 2009 and December 31, 2008	(2.6)	(2.7)
Total shareowners' deficit	(614.0)	(709.3)
Total liabilities and shareowners' deficit	\$ 2,011.2	\$ 2,086.7

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 82.8	\$ 65.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	118.9	110.1
Amortization	3.1	3.6
Gain on extinguishment of debt	(7.4)	(2.2)
Loss on sale of asset and asset impairment	4.8	1.2
Provision for loss on receivables	16.7	13.9
Noncash interest expense	3.0	3.7
Deferred income tax expense, including valuation allowance change	56.2	46.2
Pension and other postretirement expense in excess of (less than) payments	(4.8)	53.1
Other, net	4.4	2.6
Changes in operating assets and liabilities, net of effects of acquisitions		
Increase in receivables	(5.0)	(12.7)
Decrease (increase) in inventory, materials, supplies, prepaids and other current assets	10.1	(1.4)
Decrease in accounts payable	(3.0)	(1.8)
Decrease in accrued and other current liabilities	(37.1)	(22.6)
Decrease in other long-term assets	7.4	2.0
Increase in other long-term liabilities	0.2	5.5
Net cash provided by operating activities	250.3	266.3
Cash flows from investing activities		
Capital expenditures	(141.7)	(158.7)
Acquisitions of businesses	(3.4)	(21.6)
Proceeds from sales of wireless spectrum	5.8	
Other, net	0.8	1.0
Net cash used in investing activities	(138.5)	(179.3)
Cash flows from financing activities		
Increase in receivables facility, net	10.9	3.0
Increase in corporate credit facility, net	12.7	25.0
Repayment of debt	(32.4)	(57.4)
Debt issuance costs	(4.4)	
Preferred stock dividends	(7.8)	(7.8)
Common stock repurchase	(59.4)	(67.5)
Other, net	(0.6)	(0.4)
Net cash used in financing activities	(81.0)	(105.1)

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Net increase (decrease) in cash and cash equivalents	30.8	(18.1)
Cash and cash equivalents at beginning of year	6.7	26.1
Cash and cash equivalents at end of period	\$ 37.5	\$ 8.0

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**1. Description of Business and Accounting Policies**

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

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

Basis of Presentation The Condensed Consolidated Financial Statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows for each period presented. The Company has evaluated subsequent events through November 6, 2009.

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

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

Recently Issued Accounting Standards In December 2008, new accounting guidance was issued concerning disclosures about the assumptions and risks used to compute the fair value of pension and postretirement benefit plan assets. The guidance becomes effective for fiscal years ending after December 15, 2009. Early adoption is permitted. As this guidance relates to disclosure only, it will not have a financial impact on the Company.

In June 2009, new accounting guidance on accounting for transfers of financial assets was issued. The guidance eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures that will provide greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. Such guidance is effective for fiscal years beginning after November 15, 2009. The Company has not yet assessed the impact of this guidance on the Company's financial statements.

In September 2009, new accounting guidance 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. Such guidance is effective for fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company has not yet assessed the impact of this guidance on the Company's financial statements.

In September 2009, new accounting guidance was issued regarding tangible products containing both software and non-software components that function together to deliver the product's essential functionality. Such guidance is effective for fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company has not yet assessed the impact of this guidance on the Company's financial statements.

In September 2009, new accounting guidance on measuring fair value of certain alternative investments was issued. The guidance offers investors a practical expedient for measuring the fair value of investments that calculate net asset value per share. Such guidance is effective for the first reporting period, including interim periods, ending after December 15, 2009. Early adoption is permitted. The Company has not yet assessed the impact of this guidance on the Company's financial statements.

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2. Earnings Per Common Share

Basic earnings per common share (EPS) is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if common stock equivalents were exercised or converted to common stock but only to the extent that they are considered dilutive to the Company's earnings. The impact from adopting new accounting guidance related to participating securities in 2009 on the calculations of basic and diluted EPS was immaterial. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the following periods:

(in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income	\$ 27.7	\$ 26.6	\$ 82.8	\$ 65.1
Preferred stock dividends	2.6	2.6	7.8	7.8
Numerator for basic and diluted EPS	\$ 25.1	\$ 24.0	\$ 75.0	\$ 57.3
Denominator:				
Denominator for basic EPS weighted average common shares outstanding	209.0	233.7	215.7	240.6
Warrants	1.2	3.7	0.4	4.6
Stock-based compensation arrangements	3.0	1.8	2.0	1.8
Denominator for diluted EPS	213.2	239.2	218.1	247.0
Basic earnings per common share	\$ 0.12	\$ 0.10	\$ 0.35	\$ 0.24
Diluted earnings per common share	\$ 0.12	\$ 0.10	\$ 0.34	\$ 0.23
Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	41.0	40.0	43.1	39.1

3. Comprehensive Income

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 27.7	\$ 26.6	\$ 82.8	\$ 65.1
Amortization and remeasurement of pension and postretirement liabilities, net of taxes	7.2	1.2	74.6	15.1
Comprehensive income	\$ 34.9	\$ 27.8	\$ 157.4	\$ 80.2

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4. Debt

The Company's debt consists of the following:

(dollars in millions)	September 30, 2009	December 31, 2008
Current portion of long-term debt:		
Credit facility, Tranche B Term Loan	\$ 2.1	\$ 2.1
Capital lease obligations and other debt	10.0	8.1
Current portion of long-term debt	12.1	10.2
Long-term debt, less current portion:		
Credit facility, revolver	85.7	73.0
Credit facility, Tranche B Term Loan	203.3	204.9
7 ¹ / ₄ % Senior Notes due 2013	439.9	439.9
8 ³ / ₈ % Senior Subordinated Notes due 2014*	570.4	572.7
7% Senior Notes due 2015*	252.5	257.2
7 ¹ / ₄ % Senior Notes due 2023	40.0	50.0
Receivables Facility	85.9	75.0
Various Cincinnati Bell Telephone notes	207.5	230.0
Capital lease obligations and other debt	46.7	47.5
	1,931.9	1,950.2
Net unamortized premiums	0.3	0.3
Long-term debt, less current portion	1,932.2	1,950.5
Total debt	\$ 1,944.3	\$ 1,960.7

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

In the third quarter of 2009, the Company extinguished and retired \$10.0 million of 7¹/₄% Senior Notes due 2023 and \$22.5 million of Cincinnati Bell Telephone notes at an average discount of 24%, which resulted in a gain on extinguishment of debt of \$7.7 million. This gain is included in Other income, net on the Condensed Consolidated Statements of Operations.

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

As of September 30, 2009, the Company had \$85.7 million outstanding borrowings under its revolving credit facility, and had outstanding letters of credit totaling \$26.1 million, leaving \$98.2 million in additional borrowing availability under its Corporate credit facility.

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In March 2007, the Company and certain subsidiaries entered into an accounts receivable securitization facility (*Receivables Facility*), which permitted borrowings of up to \$80 million. Under the Receivables Facility, certain subsidiaries sell their respective trade receivables on a continuous basis to CB Funding LLC (*CBF*). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company's other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF, and as such are not available to creditors of other subsidiaries or the parent company. In March 2009, the Company expanded the Receivables Facility to include an additional subsidiary, Cincinnati Bell Technology Solutions Inc. (*CBTS*), and increased the maximum potential borrowing amount to \$115 million, depending on the level of eligible receivables and other factors. In July 2009, the Company amended the Receivables Facility to include a new subsidiary, eVolve Business Solutions LLC. At September 30, 2009, the Company had \$85.9 million of borrowings outstanding under the Receivables Facility, which was the maximum borrowing permitted at that date. The Receivables Facility is subject to bank renewals in the first quarter of each year, and in any event expires in March 2012. In the event the Receivables Facility is not renewed, the Company believes it would be able to refinance the borrowings under the Corporate revolving credit facility.

Subsequent Event

In October 2009, the Company issued \$500 million of 8 1/4% Senior Notes due 2017 (*8 1/4% Senior Notes*). The net proceeds of approximately \$482 million after debt issuance costs will be used to redeem the outstanding 7 1/4% Senior Notes due 2013 of \$439.9 million plus accrued and unpaid interest and related call premium, and for general corporate purposes including the repayment of other debt. The 8 1/4% Senior Notes are fixed rate bonds to maturity. As a result of redeeming the 7 1/4% Senior Notes due 2013, the Company expects to incur a loss on debt extinguishment of approximately \$18 million, which consists of the call premium and write-off of debt issuance costs.

Interest on the 8 1/4% Senior Notes is payable semi-annually in cash in arrears on April 15 and October 15 of each year, commencing April 15, 2010. The 8 1/4% Senior Notes are unsecured senior obligations ranking equally with all existing and future senior debt and ranking senior to all existing and future subordinated indebtedness. Each of the Company's current and future subsidiaries that is a guarantor under the Corporate credit facility is also a guarantor of the 8 1/4% Senior Notes on an unsecured senior basis, with certain immaterial exceptions. The indenture governing the 8 1/4% Senior Notes contains covenants including but not limited to the following: limitations on dividends to shareowners and other restricted payments; dividend and other payment restrictions affecting the Company's subsidiaries such that the subsidiaries are not permitted to enter into an agreement that would limit their ability to make dividend payments to the parent; issuance of indebtedness; asset dispositions; transactions with affiliates; liens; investments; issuances and sales of capital stock of subsidiaries; and redemption of debt that is junior in right of payment. The indenture governing the 8 1/4% Senior Notes provides for customary events of default, including a cross-default provision for nonpayment at final maturity or acceleration due to a default of any other existing debt instrument that exceeds \$35 million.

The Company may redeem the 8 1/4% Senior Notes for a redemption price of 104.125%, 102.063%, and 100.000% after October 15, 2013, 2014, and 2015, respectively. At any time prior to October 15, 2013, the Company may redeem all or part of the 8 1/4% Senior Notes at a redemption price equal to the sum of (1) 100% of the principal, plus (2) the greater of (a) 1% of the face value of the 8 1/4% Senior Notes or (b) the excess over the principal amount of the sum of the present values of (i) 104.125% of the face value of the 8 1/4% Senior Notes, and (ii) interest due from the date of redemption to October 15, 2013, in each case discounted to the redemption date on a semi-annual basis at the applicable U.S. Treasury rates plus one-half percent, plus (3) accrued and unpaid interest, if any, to the date of redemption. Prior to October 15, 2012, the Company may redeem up to a maximum of 35% of the aggregate principal amount of the 8 1/4% Senior Notes with the net cash proceeds of one or more equity offerings by the Company, at a redemption price equal to 108.250% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date.

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5. Financial Instruments and Fair Value

The following is the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value of financial instruments:

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

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

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

At September 30, 2009, the Company had no financial instruments that are required to be measured at fair value. At December 31, 2008, the fair value of the Company's financial instruments that are required to be measured at fair value on a recurring basis were as follows:

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

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

In 2004 and 2005, the Company entered into long-term interest rate swaps with notional amounts totaling \$450 million to change the fixed rate nature of a portion of the 7% Senior Notes due 2015 (7% Senior Notes) and the 8% Senior Subordinated Notes due 2014 (8% Subordinated Notes) to floating rate debt (long-term interest rate swaps). These long-term interest rate swaps qualified for fair value hedge accounting. In December 2008 and early 2009, certain counterparties exercised their right to call \$250 million of the notional amount of long-term interest rate swaps for the 8 3/8% Subordinated Notes, for which the Company received \$10.5 million in the first quarter of 2009 upon termination of the swaps. In the third quarter of 2009, the Company terminated the remaining long-term interest rate swaps and received \$6.5 million. These amounts received are being amortized as a reduction to interest expense over the terms of the 8 3/8% Subordinated Notes and 7% Senior Notes.

In both May and July 2008, the Company entered into six-month interest rate swap contracts with notional amounts totaling \$450 million each, which effectively fixed the floating interest rates for the second half of 2008 and the first half of 2009 on the long-term interest rate swaps. The Company did not designate these swaps as hedging instruments, which resulted in the change in the fair value of these instruments being recognized to earnings during each period that these instruments were outstanding.

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

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

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

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

(dollars in millions)	Gain recognized for Nine Months ended	
	September 30, 2009	September 30, 2008
Derivatives designated as fair value hedges		
Interest rate swaps	\$ 4.0	\$ 3.4
Derivatives not designated as fair value hedges		
Interest rate swaps		0.1

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

The carrying value of the Company's financial instruments does not materially differ from the estimated fair values as of September 30, 2009 and December 31, 2008 except for the Company's debt. The carrying amounts of debt, excluding capital leases and unamortized premiums, at September 30, 2009 and December 31, 2008 were \$1,888.6 million and \$1,906.1 million, respectively. The estimated fair values at September 30, 2009 and December 31, 2008 were \$1,803 million and \$1,523 million, respectively. These fair values were estimated based on closing market prices of the Company's debt and of similar liabilities.

6. Restructuring Charges**2009 Restructuring**

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

Prior Years Restructurings

Restructuring reserve (dollars in millions):	Balance December 31, 2008			Balance March 31, 2009			Balance June 30, 2009			Balance September 30, 2009
	Expense	Utilizations		Expense	Utilizations		Income	Utilizations		
2007-2008 plan	\$ 8.0	\$ (0.5)	\$ 7.5	\$ (2.3)	\$ 5.2	\$ (1.3)	\$ 3.9			
2001 plan	5.1	0.1	4.9	0.1	4.7	(0.1)	(0.2)		4.4	

In the fourth quarter of 2007, the Company announced a restructuring plan to reduce costs and increase operational efficiencies. As a result, the Company incurred restructuring charges totaling \$37.5 million for the three months ended December 31, 2007, which consisted of \$22.9 million of employee separation benefits, \$8.2 million of special termination pension and postretirement benefits and a curtailment charge of \$6.4 million. For the nine months ended September 30, 2008, the Company recorded an additional charge of \$26.9 million, which consisted of \$25.6 million of special termination benefits and a \$15.5 million curtailment charge, offset by a \$14.2 million reduction in the employee separation benefits. A further discussion of the charges follows:

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Employee separation benefits In 2007, the Company determined a need to reduce its headcount over the next five years to conform its Wireline operations to the decreased access lines being served by the Company and, as a result, recorded severance liabilities of \$22.9 million. In the first quarter of 2008, 284 union employees accepted an early retirement, which included special termination pension benefits discussed below. These early retirements reduced the need for the severance liability by \$14.2 million.

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Special termination benefits The Company offered and, by December 31, 2007, 105 management employees accepted early retirements, with special termination pension benefits totaling \$12 million, of which \$8.2 million had been earned and accrued at December 31, 2007. The Company offered and, by March 31, 2008, 284 union employees accepted early retirements, with special termination pension benefits totaling \$25 million, of which \$22.1 million had been earned and was accrued at March 31, 2008. Remaining special termination benefits for both union and management employees were subject to future service requirements as determined by the Company and were amortized to expense over the future service period. The Company recognized \$3.5 million of these amortized costs in the first nine months of 2008 and \$2.0 million in the first nine months of 2009.

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

At September 30, 2009 and December 31, 2008, \$1.0 million and \$1.5 million of the restructuring reserve was included in **Other current liabilities** and \$2.9 million and \$6.5 million was included in **Other noncurrent liabilities**, respectively, in the Condensed Consolidated Balance Sheets. The special termination benefits and curtailment charges are included in **Accrued pension and postretirement benefits** in the Condensed Consolidated Balance Sheet at September 30, 2009. For further information related to the special termination benefits and curtailments discussed above, see Note 7.

2001 Restructuring

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

At September 30, 2009 and December 31, 2008, \$0.7 million and \$1.0 million, respectively, of the reserve balance was included in **Other current liabilities** in the Condensed Consolidated Balance Sheets. The reserve included in **Other noncurrent liabilities** in the Condensed Consolidated Balance Sheets was \$3.7 million and \$4.1 million at September 30, 2009 and December 31, 2008, respectively.

7. Pension and Postretirement Plans

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

The significant changes announced caused a 90% decrease in the expected future service years for active participants in the management pension plan, which triggered a plan curtailment. The curtailment gain of \$7.6 million consisted of the acceleration of unrecognized prior service benefits. In addition, the Company determined that the significant changes to the postretirement plan benefits required remeasurement of these plans in 2009. The Company remeasured its management pension plan and its postretirement plans, using revised assumptions, including modified retiree benefit payment assumptions, revised discount rates and updated plan asset information. Discount rates used for the remeasurements were 6.5% for the management pension plan and 6.3% for the postretirement plans. Additionally, the Company determined that these benefit changes result in substantially all of the remaining participants in the management postretirement plan to be either fully eligible for benefits or retired. As such, the unrecognized prior service gain and unrecognized actuarial gains are amortized over the average life expectancy of the participants rather than the shorter service periods previously used. As a result of the remeasurement, the Company's pension and postretirement obligations were reduced by approximately \$124 million, deferred tax assets were reduced for the related tax effect by \$45 million, and equity was increased by \$79 million.

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

unrecognized prior service cost of \$0.9 million and a benefit of \$0.1 million, respectively.

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

Pension and postretirement benefit costs are as follows:

(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
	Three Months Ended September 30,			
	2009	2008	2009	2008
Service cost	\$ 1.4	\$ 2.2	\$	\$ 0.4
Interest cost on projected benefit obligation	7.2	7.3	2.4	4.5
Expected return on plan assets	(6.5)	(8.7)	(0.3)	(0.4)
Amortization of:				
Transition obligation				0.3
Prior service cost (benefit)	0.2	0.1	(3.8)	
Actuarial loss	2.1	0.7	1.3	0.8
Special termination benefit	0.9	1.3	0.1	0.2
	\$ 5.3	\$ 2.9	\$ (0.3)	\$ 5.8

(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
	Nine Months Ended September 30,			
	2009	2008	2009	2008
Service cost	\$ 4.4	\$ 6.7	\$ 0.3	\$ 1.4
Interest cost on projected benefit obligation	21.7	21.5	8.2	13.8
Expected return on plan assets	(19.5)	(26.2)	(0.7)	(1.4)
Amortization of:				
Transition obligation			0.1	1.6
Prior service cost (benefit)	0.5	0.4	(8.8)	0.4
Actuarial loss	6.5	2.1	3.4	2.7
Special termination benefit	1.7	25.0	0.3	0.6
Curtailment (gain) charge	(7.6)	3.1		12.4
	\$ 7.7	\$ 32.6	\$ 2.8	\$ 31.5

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8. Business Segment Information

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

During the three months ended September 30, 2009, the Wireless segment sold its wireless spectrum for the Indianapolis, Indiana region for \$5.8 million. The loss on the sale of the spectrum of \$4.8 million is included in Loss on sale of asset and asset impairment in the Condensed Consolidated Statement of Operations.

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

The Company's business segment information is as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue				
Wireline	\$ 190.9	\$ 200.6	\$ 580.2	\$ 605.7
Wireless	77.7	80.8	230.5	237.6
Technology Solutions	78.4	73.3	207.9	226.5
Intersegment	(9.3)	(8.2)	(27.8)	(23.6)
Total revenue	\$ 337.7	\$ 346.5	\$ 990.8	\$ 1,046.2
Intersegment revenue				
Wireline	\$ 6.4	\$ 6.6	\$ 19.0	\$ 18.9
Wireless	0.8	0.8	2.5	2.4
Technology Solutions	2.1	0.8	6.3	2.3
Total intersegment revenue	\$ 9.3	\$ 8.2	\$ 27.8	\$ 23.6
Operating income				
Wireline	\$ 65.5	\$ 65.6	\$ 207.7	\$ 182.5
Wireless	4.4	11.7	23.7	36.3
Technology Solutions	6.7	5.8	14.4	13.3
Corporate	(3.4)	(3.3)	(16.7)	(15.3)
Total operating income	\$ 73.2	\$ 79.8	\$ 229.1	\$ 216.8
Assets				
Wireline	\$ 721.5	\$ 694.3		
Wireless	345.3	377.2		
Technology Solutions	291.0	328.8		

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Corporate and eliminations	653.4	686.4
Total assets	\$ 2,011.2	\$ 2,086.7

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9. Stock-Based Compensation Plans

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

Stock options

The following table summarizes stock option activity for the nine months ended September 30, 2009:

(in thousands, except per share amounts)	Shares	Weighted-Average Exercise Prices Per Share
Outstanding at January 1, 2009	22,770	\$ 9.34
Granted	1,918	1.47
Forfeited/expired	(4,300)	16.08
Outstanding at September 30, 2009	20,388	\$ 7.17
Vested and expected to vest at September 30, 2009	20,253	\$ 7.21
Exercisable at September 30, 2009	14,403	\$ 9.23

During the nine months ended September 30, 2009, the Company granted stock options which vest over three years. The Company recognized compensation expense of \$0.7 million related to stock options for the three months ended September 30, 2009, \$3.3 million for the nine months ended September 30, 2009, \$0.4 million for the three months ended September 30, 2008 and \$1.2 million for the nine months ended September 30, 2008. As of September 30, 2009, there was \$1.9 million of unrecognized compensation expense related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of approximately two years. At September 30, 2009, the aggregate intrinsic value of stock options outstanding was approximately \$8.8 million.

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

	Nine Months Ended September 30,	
	2009	2008
Expected volatility	41.7%	30.7%
Risk-free interest rate	2.1%	2.9%
Expected holding period - years	5	5
Expected dividends	0.0%	0.0%
Weighted-average grant date fair value	\$ 1.45	\$ 1.23

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

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Performance-based awards

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

(in thousands, except per share amounts)	Shares	Weighted- Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2009	2,307	\$ 4.20
Granted*	1,786	2.77
Vested	(838)	4.16
Forfeited	(48)	3.33
Non-vested at September 30, 2009	3,207	\$ 3.42

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

Awards granted generally vest over three years and upon the achievement of certain performance-based objectives. The Company recognized expense for performance-based awards of \$0.7 million for the three months ended September 30, 2009, \$2.4 million for the nine months ended September 30, 2009, \$0.8 million for the three months ended September 30, 2008 and \$3.4 million for the nine months ended September 30, 2008. As of September 30, 2009, there was \$1.7 million of unrecognized compensation expense related to performance-based awards. This expense is expected to be recognized over a weighted-average period of approximately one year.

Time-based restricted awards

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

(in thousands, except per share amounts)	Shares	Weighted- Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2009	303	\$ 4.82
Granted	101	2.77
Vested	(16)	4.70
Forfeited	(21)	4.86
Non-vested at September 30, 2009	367	\$ 4.26

Awards granted generally vest in one-third increments over a period of three years. The Company recognized expense related to time-based restricted awards of \$0.2 million for the three months ended September 30, 2009, \$0.6 million for the nine months ended September 30, 2009, \$0.2 million for the three months ended September 30, 2008 and \$0.5 million for the nine months ended September 30, 2008. As of September 30, 2009, there was \$0.8 million of unrecognized compensation expense related to these shares. This expense is expected to be recognized over a weighted-average period of approximately one year.

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

Cincinnati Bell Telephone Company LLC (CBT), a wholly-owned subsidiary of Cincinnati Bell Inc. (the Parent Company or CBI), has \$207.5 million in notes outstanding at September 30, 2009 that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company's subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company's debt service obligations.

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

Condensed Consolidating Statements of Operations

(dollars in millions)	Parent (Guarantor)	Three Months Ended September 30, 2009			Total
		CBT	Other (Non-guarantors)	Eliminations	
Revenue	\$	\$ 169.9	\$ 182.0	\$ (14.2)	\$ 337.7
Operating costs and expenses	3.5	107.4	167.8	(14.2)	264.5
Operating income (loss)	(3.5)	62.5	14.2		73.2
Interest expense	26.7	3.5	3.7	(2.4)	31.5
Other income, net	(4.9)	(3.9)	(1.3)	2.4	(7.7)
Income (loss) before income taxes	(25.3)	62.9	11.8		49.4
Income tax expense (benefit)	(2.2)				