CINCINNATI BELL INC
Form 10-Q
May 07, 2010
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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 March 31, 2010

¨ 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 ¨

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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

At April 30, 2010, there were 201,139,021 common shares outstanding.

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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 March 31, 2010	Three Months Ended March 31, 2009
Revenue		
Services	$ 289.8	$ 293.1
Products	33.9	32.4
Total revenue	323.7	325.5
Costs and expenses		
Cost of services, excluding items below	97.4	101.1
Cost of products sold, excluding items below	36.5	37.9
Selling, general and administrative	67.2	73.9
Depreciation and amortization	40.2	39.3
Restructuring gains, net		(7.0)
Total operating costs and expenses	241.3	245.2
Operating income	82.4	80.3
Interest expense	37.1	31.8
Other income, net	(0.1)	
Income before income taxes	45.4	48.5
Income tax expense	22.6	19.7
Net income	22.8	28.8
Preferred stock dividends	2.6	2.6
Net income applicable to common shareowners	$ 20.2	$ 26.2
Basic and diluted earnings per common share	$ 0.10	$ 0.12

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

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Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 576.8	$ 23.0
Receivables, less allowances of $16.4 and $17.2	148.8	159.9
Inventory, materials and supplies	23.2	23.7
Deferred income taxes, net	71.5	83.9
Prepaid expenses	26.7	29.0
Other current assets	1.7	1.5
Total current assets	848.7	321.0
Property, plant and equipment, net	1,115.3	1,123.3
Goodwill	72.2	71.9
Intangible assets, net	108.8	110.1
Deferred income taxes, net	385.0	393.6
Other noncurrent assets	59.6	44.4
Total assets	$ 2,589.6	$ 2,064.3
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	$ 586.4	$ 15.8
Accounts payable	84.4	106.2
Unearned revenue and customer deposits	46.0	46.6
Accrued taxes	17.4	14.8
Accrued interest	40.1	40.2
Accrued payroll and benefits	37.8	39.2
Deposit received for sale of wireless towers	6.9	25.6
Other current liabilities	33.0	35.4
Total current liabilities	852.0	323.8
Long-term debt, less current portion	1,934.1	1,963.3
Pension and postretirement benefit obligations	316.0	314.9
Other noncurrent liabilities	122.1	116.9
Total liabilities	3,224.2	2,718.9
Shareowners deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 3/4% Cumulative Convertible Preferred Stock issued and outstanding at March 31, 2010 and December 31, 2009; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 201,804,928 and 201,039,764 shares issued; 201,135,448 and 200,383,886 outstanding at March 31, 2010 and December 31, 2009	2.0	2.0
Additional paid-in capital	2,616.6	2,619.7

Accumulated deficit	(3,244.1)	(3,266.9)
Accumulated other comprehensive loss	(135.8)	(136.1)
Common shares in treasury, at cost: 669,480 and 655,878 shares at March 31, 2010 and December 31, 2009	(2.7)	(2.7)
Total shareowners deficit	(634.6)	(654.6)
Total liabilities and shareowners deficit	$ 2,589.6	$ 2,064.3

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities		
Net income	$ 22.8	$ 28.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	39.3	38.2
Amortization	0.9	1.1
Provision for loss on receivables	4.1	6.2
Noncash interest expense	0.9	1.9
Deferred income tax expense, including valuation allowance change	20.4	17.6
Pension and other postretirement expense in excess of (less than) payments	1.5	(3.1)
Other, net	0.1	0.4
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease in receivables	6.1	1.6
Decrease in inventory, materials, supplies, prepaids and other current assets	2.5	6.7
Decrease in accounts payable	(20.5)	(17.5)
Decrease in accrued and other current liabilities	(2.4)	(26.9)
Decrease (increase) in other long-term assets	(3.3)	1.8
Increase (decrease) in other long-term liabilities	(1.6)	1.7
Net cash provided by operating activities	70.8	58.5
Cash flows from investing activities		
Capital expenditures	(27.3)	(45.7)
Acquisitions of businesses	(0.4)	(3.4)
Other, net	0.1	0.6
Net cash used in investing activities	(27.6)	(48.5)
Cash flows from financing activities		
Issuance of long-term debt	616.2	
Increase (decrease) in corporate credit and receivables facilities, net	(85.9)	23.0
Repayment of debt	(2.9)	(2.3)
Debt issuance costs	(12.9)	
Preferred stock dividends	(2.6)	(2.6)
Common stock repurchase		(21.4)
Other, net	(1.3)	(0.6)
Net cash provided by (used in) financing activities	510.6	(3.9)
Net increase in cash and cash equivalents	553.8	6.1
Cash and cash equivalents at beginning of year	23.0	6.7

Cash and cash equivalents at end of period	$ 576.8	$ 12.8

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

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 2009 Annual Report on Form 10-K.

Description of Business The Company provides diversified telecommunications and technology services through businesses in three segments: Wireline, Wireless and Technology Solutions. Beginning in 2010, the Company realigned its reportable business segments to be consistent with changes to its management reporting. Certain data center operations that were historically included in the Wireline segment have been reclassified to the Technology Solutions segment. Prior year amounts have been reclassified to conform to the current segment reporting. 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 May 6, 2010.

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, 2009 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 2009 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2010.

Recently Issued Accounting Standards In September 2009, new accounting guidance under ASC 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. 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 under ASC 605 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.

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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 potential common shares were exercised or converted to common stock but only to the extent that they are considered dilutive to the Company s earnings. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the following periods:

	Three Months Ended March 31,	
(in millions, except per share amounts)	**2010**	**2009**
Numerator:		
Net income	$ 22.8	$ 28.8
Preferred stock dividends	2.6	2.6
Numerator for basic and diluted EPS	$ 20.2	$ 26.2
Denominator:		
Denominator for basic EPS weighted average common shares outstanding	200.9	224.3
Warrants	1.0	
Stock-based compensation arrangements	2.8	0.9
Denominator for diluted EPS	204.7	225.2
Basic and diluted earnings per common share	$ 0.10	$ 0.12
Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	40.6	43.9

3. Comprehensive Income

	Three Months Ended March 31,	
(dollars in millions)	**2010**	**2009**
Net income	$ 22.8	$ 28.8
Amortization and remeasurement of pension and postretirement liabilities, net of taxes	0.3	67.1
Comprehensive income	$ 23.1	$ 95.9

4. Debt

The Company s debt consists of the following:

(dollars in millions)	March 31, 2010	December 31, 2009
Current portion of long-term debt:		
Credit facility, Tranche B Term Loan	2.1	2.1
Capital lease obligations and other debt	14.4	13.7
8 3/8 % Senior Subordinated Notes due 2014*	569.2	
Net unamortized premium	0.7	
Current portion of long-term debt	586.4	15.8
Long-term debt, less current portion:		
Credit facility, Tranche B Term Loan	202.2	202.8
8 3/8 % Senior Subordinated Notes due 2014*		569.8
7% Senior Notes due 2015*	252.0	252.3
8 1/4 % Senior Notes due 2017	500.0	500.0
8 3/4 % Senior Subordinated Notes due 2018	625.0	
7 1/4 % Senior Notes due 2023	40.0	40.0
Receivables Facility		85.9
Various Cincinnati Bell Telephone notes	207.5	207.5
Capital lease obligations and other debt	123.4	111.8
	1,950.1	1,970.1
Net unamortized discount	(16.0)	(6.8)
Long-term debt, less current portion	1,934.1	1,963.3
Total debt	$ 2,520.5	$ 1,979.1

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

As of March 31, 2010, the Company did not have any outstanding borrowings under its revolving credit facility, but had outstanding letters of credit totaling $24.8 million, leaving $185.2 million in additional borrowing availability.

The Company and certain subsidiaries entered into an accounts receivable securitization facility (Receivables Facility), which permits borrowings of up to $115 million, depending on the level of eligible receivables and other factors. 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. At March 31, 2010, the Company had no borrowings outstanding under the Receivables Facility and had $83.1 million in additional borrowing availability.

In March 2010, the Company issued $625 million of 8 $^{3}/_{4}$% Senior Subordinated Notes due 2018 (8$^{3}/_{4}$% Notes), which are fixed rate bonds to maturity. Concurrent with this issuance, an irrevocable call was issued to redeem the 8 $^{3}/_{8}$% Senior Subordinated Notes due 2014 plus accrued and unpaid interest and related call premium. As a result of the redemption in April 2010, the Company incurred a pre-tax loss on extinguishment of debt of $10.3 million, which was recognized in April 2010 and consists of the call premium and write-off of debt issuance costs offset by the recognition of the unamortized called amounts on terminated interest rate swaps and the debt premium.

Interest on the 8 3/4% Notes is payable semi-annually in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2010. The 8 3/4 % Notes are unsecured senior subordinated obligations ranking junior to all existing and future senior debt, ranking equally to all existing and future senior subordinated indebtedness, and ranking senior to all existing and future subordinated indebtedness. Each of the Company s current and future restricted subsidiaries (as defined in the Indenture) that is a guarantor under the Corporate credit facility is also a guarantor of the 8 3/4% Notes on an unsecured senior subordinated basis, with certain immaterial exceptions. The indenture governing the 8 3/4% 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 generally 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 3/4% Notes provides for customary events of default, including a cross-default provision for both 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 3/4% Notes for a redemption price of 104.375%, 102.188%, and 100.000% on or after March 15, 2014, 2015, and 2016, respectively. At any time prior to March 15, 2014, the Company may redeem all or part of the 8 3/4% 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 3/4 % Senior Notes or (b) the excess over the principal amount of the sum of the present values of (i) 104.375% of the face value of the 8 3/4% Notes, and (ii) interest payments due from the date of redemption to March 15, 2014, 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 March 15, 2013, the Company, may redeem up to a maximum of 35% of the aggregate principal amount of the 8 3/4% Notes with the net cash proceeds of one or more equity offerings by the Company, at a redemption price equal to 108.750% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date.

Sale of Wireless Towers

In December 2009, the Company sold 196 wireless towers for $99.9 million in cash and leased back a portion of the space on these towers for a term of 20 years. As of December 31, 2009, 48 of the 196 wireless towers sold were subject to purchase price contingencies and were accounted for in accordance with the deposit method. During the first quarter of 2010, contingencies on 35 of the sites were resolved with no change to the purchase price, and the Company recognized these sites as sold for accounting purposes. As a result, the Condensed Consolidated Balance Sheets reflects a reduction in the Deposit received for sale of wireless towers of approximately $18 million for the purchase price associated with these sites and a reduction in Property, plant and equipment, net of $9 million for the net book value of these sites. The Company also recognized an increase in Other noncurrent liabilities of $9 million resulting from the deferred gain on the sale, which will be amortized on a straight-line basis over the 20-year term of the leaseback of the space on the towers. In addition, the Company recorded a capital lease asset and liability of approximately $11 million related to these sites.

5. Financial Instruments and Fair Value

At March 31, 2010, the Company s financial instruments that are required to be measured at fair value were as follows:

(dollars in millions)	March 31, 2010	Level 1	Level 2	Level 3
Money market funds	$ 436.7	$ 436.7	$	$

At December 31, 2009, the Company s financial instruments that are required to be measured at fair value were inconsequential.

The carrying value of the Company s financial instruments does not materially differ from the estimated fair values as of March 31, 2010 and December 31, 2009, except for the Company s debt. The carrying amounts of debt, excluding capital leases and unamortized discount, at March 31, 2010 and December 31, 2009 were $2,398.1 million and $1,860.8 million, respectively. The estimated fair values at March 31, 2010 and December 31, 2009 were $2,360 million and $1,792 million, respectively. These fair values were estimated based on closing market prices of the Company s debt and of similar liabilities.

6. Restructuring Charges

Restructuring reserve (dollars in millions):	Balance December 31, 2009	Utilizations	Balance March 31, 2010
Employee separation obligations	$ 14.4	$ (5.1)	$ 9.3

Employee separation obligations resulted from the Company s 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. At March 31, 2010 and December 31, 2009, $2.3 million and $6.4 million of the restructuring reserve was included in Other current liabilities and $7.0 million and $8.0 million was included in Other noncurrent liabilities, respectively, in the Condensed Consolidated Balance Sheets.

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

7. Pension and Postretirement Plans

In the first quarter 2010, the Company recorded a charge of $3.9 million due to a law change that now requires application of federal income taxes against the retiree Medicare drug subsidies received by the Company. Previously, any Medicare drug subsidy received by the Company was not taxable. This charge is included in Income tax expense on the Condensed Consolidated Statements of Operations.

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.

Pension and postretirement benefit costs are as follows:

	Pension Benefits		Postretirement and Other Benefits	
	Three Months Ended March 31,			
(dollars in millions)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 1.3	$ 1.6	$ 0.1	$ 0.2
Interest cost on projected benefit obligation	6.7	7.2	2.0	3.2
Expected return on plan assets	(7.5)	(6.5)		(0.2)
Amortization of:				
Transition obligation				0.1
Prior service cost (benefit)	0.1	0.1	(3.3)	(2.0)
Actuarial loss	2.3	2.2	1.3	1.0
Special termination benefit		0.4		0.1
Curtailment gain		(7.6)		
Benefit costs	$ 2.9	$ (2.6)	$ 0.1	$ 2.4

8. Business Segment Information

The Company operates in 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.

Beginning in 2010, the Company realigned its reportable business segments to be consistent with changes to its management reporting. Certain data center operations that have been historically included in the Wireline segment have been reclassified to the Technology Solutions segment. 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.

The Company s business segment information is as follows:

	Three Months Ended March 31,	
(dollars in millions)	**2010**	**2009**
Revenue		
Wireline	$ 187.7	$ 193.5
Wireless	73.2	76.3
Technology Solutions	71.6	65.2
Intersegment	(8.8)	(9.5)
Total revenue	$ 323.7	$ 325.5
Intersegment revenue		
Wireline	$ 6.3	$ 6.2
Wireless	0.7	0.8
Technology Solutions	1.8	2.5
Total intersegment revenue	$ 8.8	$ 9.5
Operating income		
Wireline	$ 63.1	$ 73.8
Wireless	17.7	8.5
Technology Solutions	7.4	4.4
Corporate	(5.8)	(6.4)
Total operating income	$ 82.4	$ 80.3

	March 31, 2010	December 31, 2009
Assets		
Wireline	$ 729.1	$ 704.9
Wireless	380.5	383.4
Technology Solutions	310.5	302.8

Corporate and eliminations	1,169.5	673.2
Total assets	$ 2,589.6	$ 2,064.3

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9. Stock-Based Compensation Plans

Stock Options and Stock Appreciation Rights Awards

The following table summarizes stock option activity for the three months ended March 31, 2010:

(in thousands, except per share amounts)	Shares	Weighted-Average Exercise Prices Per Share
Outstanding at January 1, 2010	20,172	$ 7.15
Granted	1,069	2.91
Exercised	(52)	1.56
Forfeited/Expired	(747)	33.57
Outstanding at March 31, 2010	20,442	$ 5.98
Vested and expected to vest at March 31, 2010	20,339	$ 6.00
Exercisable at March 31, 2010	15,444	$ 7.14

The Company recognized compensation expense of $0.6 million related to stock options and stock appreciation rights awards for the three months ended March 31, 2010 and $1.0 million for the three months ended March 31, 2009. As of March 31, 2010, there was $2.9 million of unrecognized compensation expense related to these awards, which is expected to be recognized over a weighted-average period of approximately two years. At March 31, 2010, the aggregate intrinsic value of these outstanding awards was approximately $8.5 million.

For options granted in the first quarter of 2010, the weighted-average fair values at the date of grant were estimated using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	43.0%
Risk-free interest rate	2.3%
Expected holding period - years	5
Expected dividends	0.0%
Weighted-average grant date fair value	$ 1.18

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.

Performance-Based Restricted Awards

The following table summarizes performance-based award activity for the three months ended March 31, 2010:

(in thousands, except per share amounts)	**Shares**	**Weighted-Average Grant Date Fair Value Per Share**
Non-vested as of January 1, 2010	4,218	$ 3.39
Granted*	590	2.91
Vested	(1,146)	3.58
Non-vested at March 31, 2010	3,662	$ 3.25

* 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 $0.5 million for the three months ended March 31, 2010 and $1.2 million for the three months ended March 31, 2009. As of March 31, 2010, there was $2.6 million of unrecognized compensation expense related to performance-based awards, which is expected to be recognized over a weighted-average period of approximately one year.

The Company has also granted cash-payment performance awards in 2010 and 2009 with a base award of $0.9 million and $1.3 million, respectively, with the final payments indexed to the percentage change in the Company s stock price from the date of grant. The expense recorded for these awards during the three months ended March 31, 2010 and 2009 was $0.1 million and $1.1 million, respectively. At March 31, 2010, there was $0.7 million of unrecognized compensation, which is expected to be recognized within one year.

Time-Based Restricted Awards

The following table summarizes time-based restricted award activity for the three months ended March 31, 2010:

(in thousands, except per share amounts)	**Shares**	**Weighted-Average Grant Date Fair Value Per Share**
Non-vested as of January 1, 2010	213	$ 3.85
Vested	(1)	4.91
Forfeited	(2)	4.91
Non-vested at March 31, 2010	210	$ 3.83

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 $0.1 million for the three months ended March 31, 2010 and $0.2 million for the three months ended March 31, 2009. As of March 31, 2010, there was $0.5 million of unrecognized compensation expense related to these shares, which is expected to be recognized over a weighted-average period of approximately one year.

Deferred Compensation Plans

The Company currently has deferred compensation plans for both the Board of Directors and certain executives of the Company. At March 31, 2010 and 2009, there were 0.9 million common shares deferred in these plans. 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 compensation expense of $0.1 million and $0.4 million for the three months ended March 31, 2010 and 2009, respectively.

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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), had $207.5 million in notes outstanding at March 31, 2010 that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company s debt service obligations.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2010 and 2009 and Condensed Consolidating Balance Sheets as of March 31, 2010 and December 31, 2009 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

	Three Months Ended March 31, 2010				
(dollars in millions)	**Parent (Guarantor)**	**CBT**	**Other (Non-guarantors)**	**Eliminations**	**Total**
Revenue	$	$ 169.6	$ 168.6	$ (14.5)	$ 323.7
Operating costs and expenses	5.7	106.1	144.0	(14.5)	241.3
Operating income (loss)	(5.7)	63.5	24.6		82.4
Interest expense	31.1	3.4	4.6	(2.0)	37.1
Other expense (income), net	(2.5)	1.7	(1.3)	2.0	(0.1)
Income (loss) before equity in earnings of subsidiaries and income taxes	(34.3)	58.4	21.3		45.4
Income tax expense (benefit)	(9.6)	24.3	7.9		22.6
Equity in earnings of subsidiaries, net of tax	47.5			(47.5)	
Net income	22.8	34.1	13.4	(47.5)	22.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 20.2	$ 34.1	$ 13.4	$ (47.5)	$ 20.2

	Three Months Ended March 31, 2009				
	Parent (Guarantor)	**CBT**	**Other (Non-guarantors)**	**Eliminations**	**Total**
Revenue	$	$ 174.8	$ 165.1	$ (14.4)	$ 325.5
Operating costs and expenses	6.1	104.0	149.5	(14.4)	245.2
Operating income (loss)	(6.1)	70.8	15.6		80.3
Interest expense	26.6	3.7	4.9	(3.4)	31.8
Other expense (income), net	(3.5)	1.0	(0.9)	3.4	
Income (loss) before equity in earnings of subsidiaries and income taxes	(29.2)	66.1	11.6		48.5
Income tax expense (benefit)	(8.7)	21.6	6.8		19.7

Equity in earnings of subsidiaries, net of tax	49.3			(49.3)	
Net income	28.8	44.5	4.8	(49.3)	28.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 26.2	$ 44.5	$ 4.8	$ (49.3)	$ 26.2

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of March 31, 2010 Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	$ 533.3	$ 33.6	$ 9.9	$	$ 576.8
Receivables, net			148.8		148.8
Other current assets	37.7	21.7	64.0	(0.3)	123.1
Total current assets	571.0	55.3	222.7	(0.3)	848.7
Property, plant and equipment, net	0.7	624.8	489.8		1,115.3
Goodwill and intangibles, net		2.7	178.3		181.0
Investments in and advances to subsidiaries	1,044.9	17.3		(1,062.2)	
Other noncurrent assets	343.7	10.8	185.1	(95.0)	444.6
Total assets	$ 1,960.3	$ 710.9	$ 1,075.9	$ (1,157.5)	$ 2,589.6
Current portion of long-term debt	$ 572.0	$ 1.4	$ 13.0	$	$ 586.4
Accounts payable	0.5	41.7	42.2		84.4
Other current liabilities	65.7	57.3	58.7	(0.5)	181.2
Total current liabilities	638.2	100.4	113.9	(0.5)	852.0
Long-term debt, less current portion	1,603.6	214.2	116.3		1,934.1
Other noncurrent liabilities	328.4	91.5	113.0	(94.8)	438.1
Intercompany payables	24.7		307.7	(332.4)	
Total liabilities	2,594.9	406.1	650.9	(427.7)	3,224.2
Shareowners equity (deficit)	(634.6)	304.8	425.0	(729.8)	(634.6)
Total liabilities and shareowners equity (deficit)	$ 1,960.3	$ 710.9	$ 1,075.9	$ (1,157.5)	$ 2,589.6

	As of December 31, 2009 Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	$ 20.1	$ 2.1	$ 0.8	$	$ 23.0
Receivables, net			159.9		159.9
Other current assets	47.8	22.0	69.0	(0.7)	138.1
Total current assets	67.9	24.1	229.7	(0.7)	321.0
Property, plant and equipment, net	0.8	629.6	492.9		1,123.3
Goodwill and intangibles, net		2.8	179.2		182.0
Investments in and advances to subsidiaries	912.4	10.1		(922.5)	
Other noncurrent assets	329.7	10.9	186.8	(89.4)	438.0
Total assets	$ 1,310.8	$ 677.5	$ 1,088.6	$ (1,012.6)	$ 2,064.3
Current portion of long-term debt	$ 2.1	$ 1.3	$ 12.4	$	$ 15.8
Accounts payable	0.4	44.8	61.0		106.2

Other current liabilities	67.8	56.0	78.1	(0.1)	201.8
Total current liabilities	70.3	102.1	151.5	(0.1)	323.8
Long-term debt, less current portion	1,558.4	214.5	190.4		1,963.3
Other noncurrent liabilities	328.5	90.2	103.1	(90.0)	431.8
Intercompany payables	8.2		298.9	(307.1)	
Total liabilities	1,965.4	406.8	743.9	(397.2)	2,718.9
Shareowners equity (deficit)	(654.6)	270.7	344.7	(615.4)	(654.6)
Total liabilities and shareowners equity (deficit)	$ 1,310.8	$ 677.5	$ 1,088.6	$ (1,012.6)	$ 2,064.3

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

	Three Months Ended March 31, 2010				
(dollars in millions)	**Parent (Guarantor)**	**CBT**	**Other (Non-guarantors)**	**Eliminations**	**Total**
Cash flows provided by (used in) operating activities	$ (17.2)	$ 57.8	$ 30.2	$	$ 70.8
Capital expenditures		(18.7)	(8.6)		(27.3)
Acquisitions of businesses		(0.1)	(0.3)		(0.4)
Other investing activities		0.1			0.1
Cash flows used in investing activities		(18.7)	(8.9)		(27.6)
Funding between Parent and subsidiaries, net	(68.5)	(7.2)	75.7		
Issuance of long-term debt	616.2				616.2
Decrease in receivables facility, net			(85.9)		(85.9)
Repayment of debt	(0.5)	(0.4)	(2.0)		(2.9)
Debt issuance costs	(12.9)				(12.9)
Other financing activities	(3.9)				(3.9)
Cash flows provided by (used in) financing activities	530.4	(7.6)	(12.2)		510.6
Increase in cash and cash equivalents	513.2	31.5	9.1		553.8
Beginning cash and cash equivalents	20.1	2.1	0.8		23.0
Ending cash and cash equivalents	$ 533.3	$ 33.6	$ 9.9	$	$ 576.8

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

Ending cash and cash equivalents	$ 11.7	$ 0.8	$ 0.3	$	$ 12.8

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Form 10-Q Part I

Cincinnati Bell Inc.

8 3/4% Senior Subordinated Notes due 2018, 8 1 /4% Senior Notes due 2017, 7% Senior Notes Due 2015, and 8 3/8% Senior Subordinated Notes Due 2014

The Parent Company s 8 3/4% Senior Subordinated Notes due 2018, 8 1/4% Senior Notes due 2017, 7% Senior Notes due 2015, and 8 3/8% Senior Subordinated Notes due 2014 are guaranteed by the following subsidiaries: Cincinnati Bell Entertainment Inc., Cincinnati Bell Complete Protection Inc., Cincinnati Bell Any Distance Inc., Cincinnati Bell Telecommunication Services LLC, Cincinnati Bell Wireless Company, Cincinnati Bell Wireless LLC, GramTel Inc., BRCOM Inc., CBTS Software LLC, IXC Internet Services Inc., Cincinnati Bell Shared Services LLC, Cincinnati Bell Technology Solutions Inc., Cincinnati Bell Any Distance of Virginia LLC, and eVolve Business Solutions LLC. The Parent Company owns directly or indirectly 100% of each guarantor and each guarantee is full and unconditional and joint and several. The Parent Company s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company s debt service obligations.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2010 and 2009 and the Condensed Consolidating Balance Sheets as of March 31, 2010 and December 31, 2009 of (1) the Parent Company, as the issuer, (2) the guarantor subsidiaries on a combined basis, and (3) the non-guarantor subsidiaries on a combined basis:

Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2010				
(dollars in millions)	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	$	$ 183.0	$ 155.2	$ (14.5)	$ 323.7
Operating costs and expenses	5.7	158.2	91.9	(14.5)	241.3
Operating income (loss)	(5.7)	24.8	63.3		82.4
Interest expense	31.1	3.2	4.8	(2.0)	37.1
Other expense (income), net	(2.5)	1.9	(1.5)	2.0	(0.1)
Income (loss) before equity in earnings of subsidiaries and income taxes	(34.3)	19.7	60.0		45.4
Income tax expense (benefit)	(9.6)	7.2	25.0		22.6
Equity in earnings of subsidiaries, net of tax	47.5			(47.5)	
Net income	22.8	12.5	35.0	(47.5)	22.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 20.2	$ 12.5	$ 35.0	$ (47.5)	$ 20.2

	Three Months Ended March 31, 2009				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Revenue	$	$ 177.9	$ 162.0	$ (14.4)	$ 325.5
Operating costs and expenses	6.1	163.1	90.4	(14.4)	245.2
Operating income (loss)	(6.1)	14.8	71.6		80.3
Interest expense	26.6	3.3	5.3	(3.4)	31.8
Other expense (income), net	(3.5)	(1.1)	1.2	3.4	

Income (loss) before equity in earnings of subsidiaries and income taxes	(29.2)	12.6	65.1		48.5
Income tax expense (benefit)	(8.7)	6.8	21.6		19.7
Equity in earnings of subsidiaries, net of tax	49.3			(49.3)	
Net income	28.8	5.8	43.5	(49.3)	28.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 26.2	$ 5.8	$ 43.5	$ (49.3)	$ 26.2

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of March 31, 2010 Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	$ 533.3	$ 9.9	$ 33.6	$	$ 576.8
Receivables, net		0.9	147.9		148.8
Other current assets	37.7	58.9	26.8	(0.3)	123.1
Total current assets	571.0	69.7	208.3	(0.3)	848.7
Property, plant and equipment, net	0.7	489.8	624.8		1,115.3
Goodwill and intangibles, net		178.3	2.7		181.0
Investments in and advances to subsidiaries	1,044.9		29.6	(1,074.5)	
Other noncurrent assets	343.7	187.2	8.7	(95.0)	444.6
Total assets	$ 1,960.3	$ 925.0	$ 874.1	$ (1,169.8)	$ 2,589.6
Current portion of long-term debt	$ 572.0	$ 13.0	$ 1.4	$	$ 586.4
Accounts payable	0.5	52.6	31.3		84.4
Other current liabilities	65.7	62.0	54.0	(0.5)	181.2
Total current liabilities	638.2	127.6	86.7	(0.5)	852.0
Long-term debt, less current portion	1,603.6	116.3	214.2		1,934.1
Other noncurrent liabilities	328.4	115.2	89.3	(94.8)	438.1
Intercompany payables	24.7	243.4	76.6	(344.7)	
Total liabilities	2,594.9	602.5	466.8	(440.0)	3,224.2
Shareowners equity (deficit)	(634.6)	322.5	407.3	(729.8)	(634.6)
Total liabilities and shareowners equity (deficit)	$ 1,960.3	$ 925.0	$ 874.1	$ (1,169.8)	$ 2,589.6

	As of December 31, 2009 Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	$ 20.1	$ 0.8	$ 2.1	$	$ 23.0
Receivables, net		0.9	159.0		159.9
Other current assets	47.8	64.1	26.9	(0.7)	138.1
Total current assets	67.9	65.8	188.0	(0.7)	321.0
Property, plant and equipment, net	0.8	492.9	629.6		1,123.3
Goodwill and intangibles, net		179.2	2.8		182.0
Investments in and advances to subsidiaries	912.4		21.9	(934.3)	
Other noncurrent assets	329.7	188.6	9.1	(89.4)	438.0
Total assets	$ 1,310.8	$ 926.5	$ 851.4	$ (1,024.4)	$ 2,064.3
Current portion of long-term debt	$ 2.1	$ 12.4	$ 1.3	$	$ 15.8
Accounts payable	0.4	73.0	32.8		106.2

Other current liabilities	67.8	81.0	53.1	(0.1)	201.8
Total current liabilities	70.3	166.4	87.2	(0.1)	323.8
Long-term debt, less current portion	1,558.4	104.5	300.4		1,963.3
Other noncurrent liabilities	328.5	104.4	88.9	(90.0)	431.8
Intercompany payables	8.2	241.3	69.4	(318.9)	
Total liabilities	1,965.4	616.6	545.9	(409.0)	2,718.9
Shareowners equity (deficit)	(654.6)	309.9	305.5	(615.4)	(654.6)
Total liabilities and shareowners equity (deficit)	$ 1,310.8	$ 926.5	$ 851.4	$ (1,024.4)	$ 2,064.3

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

	Three Months Ended March 31, 2010				
(dollars in millions)	**Parent (Issuer)**	**Guarantors**	**Non-guarantors**	**Eliminations**	**Total**
Cash flows provided by (used in) operating activities	$ (17.2)	$ 17.9	$ 70.1	$	$ 70.8
Capital expenditures		(8.6)	(18.7)		(27.3)
Acquisitions of businesses		(0.3)	(0.1)		(0.4)
Other investing activities			0.1		0.1
Cash flows used in investing activities		(8.9)	(18.7)		(27.6)
Funding between Parent and subsidiaries, net	(68.5)	2.1	66.4		
Issuance of long-term debt	616.2				616.2
Decrease in receivables facility, net			(85.9)		(85.9)
Repayment of debt	(0.5)	(2.0)	(0.4)		(2.9)
Debt issuance costs	(12.9)				(12.9)
Other financing activities	(3.9)				(3.9)
Cash flows provided by (used in) financing activities	530.4	0.1	(19.9)		510.6
Increase in cash and cash equivalents	513.2	9.1	31.5		553.8