CINCINNATI BELL INC
Form 10-Q
August 04, 2016

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 June 30, 2016

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 July 31, 2016, there were 210,173,102 common shares outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue				
Services	$244.9	$229.4	$486.4	$459.2
Products	54.3	56.4	101.7	119.5
Total revenue	299.2	285.8	588.1	578.7
Costs and expenses				
Cost of services, excluding items below	124.8	114.4	248.0	228.0
Cost of products sold, excluding items below	46.0	47.8	85.5	100.4
Selling, general and administrative, excluding items below	56.2	57.0	109.4	109.2
Depreciation and amortization	44.8	34.0	88.2	66.6
Other	—	2.9	—	7.7
Total operating costs and expenses	271.8	256.1	531.1	511.9
Operating income	27.4	29.7	57.0	66.8
Interest expense	19.9	28.0	40.2	60.7
Loss on extinguishment of debt, net	5.2	13.5	2.8	13.5
Gain on sale of CyrusOne investment	(118.6)	(295.2)	(118.6)	(295.2)
Other (income) expense, net	(1.1)	1.3	(1.1)	4.8
Income from continuing operations before income taxes	122.0	282.1	133.7	283.0
Income tax expense	44.4	101.4	49.1	102.0
Income from continuing operations	77.6	180.7	84.6	181.0
Income from discontinued operations, net of tax	—	10.9	—	59.8
Net income	77.6	191.6	84.6	240.8
Preferred stock dividends	2.6	2.6	5.2	5.2
Net income applicable to common shareowners	$75.0	$189.0	$79.4	$235.6
Basic net earnings per common share				
Basic earnings per common share from continuing operations	$0.36	$0.85	$0.38	$0.84
Basic earnings per common share from discontinued operations	$—	$0.05	$—	$0.29
Basic net earnings per common share	$0.36	$0.90	$0.38	$1.13
Diluted net earnings per common share				
Diluted earnings per common share from continuing operations	$0.36	$0.84	$0.38	$0.84
Diluted earnings per common share from discontinued operations	$—	$0.05	$—	$0.28
Diluted net earnings per common share	$0.36	$0.89	$0.38	$1.12

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$77.6	$191.6	$84.6	$240.8
Other comprehensive income				
Foreign currency translation gain (loss)	—	0.2	(0.1)	(0.1)
Defined benefit pension and postretirement plans				
Net gain arising from remeasurement during the period, net of tax of $0.6	—	1.1	—	1.1
Amortization of prior service benefits, net of tax of ($1.3), ($1.4), ($2.7), ($2.8)	(2.4)	(2.4)	(4.7)	(4.8)
Amortization of net actuarial loss, net of tax of $2.2, $3.8, $4.3, $6.2	3.9	6.9	7.8	11.0
Reclassification adjustment for curtailment loss included in net income, net of tax of $0.1	—	0.2	—	0.2
Other comprehensive income	1.5	6.0	3.0	7.4
Total comprehensive income	$79.1	$197.6	$87.6	$248.2

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)

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$9.6	$ 7.4
Receivables, less allowances of $11.9 and $12.4	157.5	157.1
Inventory, materials and supplies	23.1	20.6
Prepaid expenses	15.7	13.1
Other current assets	3.0	2.2
Total current assets	208.9	200.4
Property, plant and equipment, net	1,021.7	975.5
Investment in CyrusOne	27.4	55.5
Goodwill	14.3	14.3
Deferred income taxes, net	132.5	182.9
Other noncurrent assets	18.4	17.8
Total assets	$1,423.2	$ 1,446.4
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$14.7	$ 13.8
Accounts payable	142.5	128.9
Unearned revenue and customer deposits	26.7	29.2
Accrued taxes	12.0	14.5
Accrued interest	8.0	11.2
Accrued payroll and benefits	27.9	31.2
Other current liabilities	24.5	25.0
Other current liabilities from discontinued operations	0.6	5.4
Total current liabilities	256.9	259.2
Long-term debt, less current portion	1,125.7	1,223.8
Pension and postretirement benefit obligations	217.5	225.0
Other noncurrent liabilities	40.1	36.6
Total liabilities	1,640.2	1,744.6
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 June 30, 2016 and December 31, 2015; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 209,277,290 and 210,017,999 shares issued; 209,136,240 and 209,876,949 shares outstanding at June 30, 2016 and December 31, 2015	2.1	2.1
Additional paid-in capital	2,569.6	2,576.0
Accumulated deficit	(2,749.6)	(2,834.2)
Accumulated other comprehensive loss	(168.0)	(171.0)
Common shares in treasury, at cost	(0.5)	(0.5)
Total shareowners' deficit	(217.0)	(298.2)
Total liabilities and shareowners' deficit	$1,423.2	$ 1,446.4

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)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities		
Net income	$84.6	$240.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	88.2	95.2
Loss on extinguishment of debt	2.8	13.5
Provision for loss on receivables	4.3	4.3
Gain on sale of CyrusOne investment	(118.6)	(295.2)
Noncash portion of interest expense	1.7	2.5
Deferred income tax provision	48.6	129.4
Pension and other postretirement payments in excess of expense	(2.8)	(8.4)
Stock-based compensation	3.5	2.1
Deferred gain on sale of wireless spectrum licenses - discontinued operations	—	(112.6)
Amortization of deferred gain - discontinued operations	—	(6.5)
Gain on transfer of lease obligations - discontinued operations	—	(15.9)
Other, net	(3.6)	5.3
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(5.5)	4.9
(Increase) decrease in inventory, materials, supplies, prepaid expenses and other current assets	(5.0)	0.4
Increase (decrease) increase in accounts payable	14.0	(17.0)
Decrease in accrued and other current liabilities	(17.0)	(13.0)
(Increase) decrease in other noncurrent assets	(0.6)	0.8
Increase in other noncurrent liabilities	3.5	2.1
Net cash provided by operating activities	98.1	32.7
Cash flows from investing activities		
Capital expenditures	(121.6)	(132.5)
Dividends received from CyrusOne	4.9	15.0
Proceeds from sale of CyrusOne investment	142.5	426.0
Other, net	(0.7)	(0.1)
Net cash provided by investing activities	25.1	308.4
Cash flows from financing activities		
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	15.4	(16.6)
Repayment of debt	(124.6)	(361.4)
Debt issuance costs	(1.9)	(0.4)
Dividends paid on preferred stock	(5.2)	(5.2)
Common stock repurchase	(4.6)	—
Other, net	(0.1)	(0.6)
Net cash used in financing activities	(121.0)	(384.2)
Net increase (decrease) in cash and cash equivalents	2.2	(43.1)
Cash and cash equivalents at beginning of period	7.4	57.9
Cash and cash equivalents at end of period	$9.6	$14.8

Noncash investing and financing transactions:		
Accrual of CyrusOne dividends	$1.5	$4.5
Acquisition of property by assuming debt and other noncurrent liabilities	$10.1	$2.9
Acquisition of property on account	$34.2	$33.0

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 ("Cincinnati Bell", "we", "our", "us" or the "Company") provides diversified telecommunications and technology services. The Company generates a large portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this, or a portion of this, limited operating territory could have a disproportionate effect on our business, financial condition, results of operations and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

As of June 30, 2016, we operate our business through the following segments: Entertainment and Communications and IT Services and Hardware.

The company has 3,400 employees as of June 30, 2016, and approximately 30% of its employees are covered by a collective bargaining agreement with Communications Workers of America (“CWA”) that will be in effect through May 12, 2018.

The Company has receivables with one large customer, General Electric Company ("GE"), that makes up 22% of the outstanding accounts receivable balance at June 30, 2016 and December 31, 2015. GE represented 12% and 11% of consolidated revenue for the three and six months ended June 30, 2016, respectively, compared to 11% and 12% during the same periods in 2015.

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, other comprehensive income, 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, 2015 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 2015 Annual Report on Form 10-K. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results expected for the full year or any other interim period.

The closing of our wireless operations in March 2015 represented a strategic shift in our business. Therefore, certain wireless assets, liabilities and results of operations are reported as discontinued operations in our financial statements. See Note 9 for all required disclosures.

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.

Restructuring Liability — As of June 30, 2016, restructuring liabilities have been established for employee separations, lease abandonments and other charges. As of June 30, 2016 and December 31, 2015, $0.2 million and $0.9 million, respectively, of the restructuring liabilities were included in “Other current liabilities,” in the Condensed Consolidated Balance Sheets. As of June 30, 2016 and December 31, 2015, $0.2 million was included in “Other noncurrent liabilities” in the Condensed Consolidated Balance Sheets.

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. The Company expects its effective rate to exceed statutory rates primarily due to non-deductible expenses.

Recently Issued Accounting Standards — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation, which simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements. The new standard is effective for public business entities for annual reporting periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements and plans to adopt the standard effective January 1, 2017.

In February 2016, the FASB issued ASU 2016-02, Leases, which represents a wholesale change to lease accounting. The standard introduces a lessee model that brings most leases on the balance sheet as well as aligning certain underlying principles of the new lessor model with those in Accounting Standards Codification ("ASC") 606. The new standard is effective for public business entities for fiscal years beginning after December 15, 2018, and lessees and lessors are required to use a modified retrospective transition method for existing leases. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

The FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, in January 2016, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. The amended guidance requires entities to carry all investments in equity securities at fair value through net income unless the entity has elected the practicability exception to fair value measurement. This standard will be effective for the fiscal year ending December 31, 2018 and will require a cumulative-effect adjustment to beginning retained earnings on this date. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in the financial statements. Specifically, this amendment requires that costs associated with the issuance of debt be presented on the balance sheet as a direct deduction from the related debt liability. The Company retrospectively adopted the amended standard effective January 1, 2016. The Condensed Consolidated Balance Sheet for the period ending December 31, 2015 has been restated to reflect this change in accounting principle. Note issuance costs of $8.0 million were reclassed from "Other noncurrent assets" to "Long-term debt, less current portion." Note 3 has been updated to reflect the adjustment. On the effective date of ASU 2015-03, the Company made a one-time policy election to record costs incurred in connection with obtaining revolving credit agreements as an asset and to amortize these costs ratably over the term of the agreement. This accounting treatment is consistent with how deferred financing costs were accounted for prior to adoption of ASU 2015-03.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. In August 2015, ASU 2015-14 was issued deferring the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017 with an optional early application date for annual reporting periods beginning after December 15, 2016. The Company has elected to adopt the standard in the first quarter of the fiscal year ending December 31, 2018. In March 2016, the FASB issued ASU 2016-08, an update to ASU 2014-09, clarifying the implementation guidance on principal versus agent considerations. The Company is in the process of evaluating the impact of the standard for the IT Services and Hardware segment that is a reseller of Telecom and IT hardware. Under the current guidance, these equipment revenues are generally recorded on a gross basis. The Company is continuing to evaluate the impact of adoption of ASU 2014-09, as well as all subsequent amendments to this standard, on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective during the year had, or is expected to have, a material impact on the consolidated 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 upon the issuance of common shares for awards under stock-based compensation plans, the exercise of warrants or the 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 June 30, 2016			Three Months Ended June 30, 2015		
(in millions, except per share amounts)	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Numerator:						
Net income	$77.6	$ —	$77.6	$180.7	$ 10.9	$191.6
Preferred stock dividends [1]	2.6	—	2.6	2.6	—	2.6
Net income applicable to common shareowners - basic and diluted	$75.0	$ —	$75.0	$178.1	$ 10.9	$189.0
Denominator:						
Weighted average common shares outstanding - basic	209.8	209.8	209.8	209.7	209.7	209.7
Stock-based compensation arrangements	0.6	0.6	0.6	0.4	0.4	0.4
Conversion of preferred shares	—	—	—	4.5	4.5	4.5
Weighted average common shares outstanding - diluted	210.4	210.4	210.4	214.6	214.6	214.6
Basic earnings per common share	$0.36	$ —	$0.36	$0.85	$ 0.05	$0.90
Diluted earnings per common share	$0.36	$ —	$0.36	$0.84	$ 0.05	$0.89

(1) Calculation of diluted earnings per common share for the three months ended June 30, 2015 excludes preferred stock dividends as the preferred shares are considered converted.

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
(in millions, except per share amounts)	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Numerator:						
Net income	$84.6	$ —	$84.6	$181.0	$ 59.8	$240.8
Preferred stock dividends	5.2	—	5.2	5.2	—	5.2
Net income applicable to common shareowners - basic and diluted	$79.4	$ —	$79.4	$175.8	$ 59.8	$235.6
Denominator:						
Weighted average common shares outstanding - basic	209.9	209.9	209.9	209.4	209.4	209.4
Stock-based compensation arrangements	0.5	0.5	0.5	0.7	0.7	0.7
Weighted average common shares outstanding - diluted	210.4	210.4	210.4	210.1	210.1	210.1
Basic earnings per common share	$0.38	$ —	$0.38	$0.84	$ 0.29	$1.13
Diluted earnings per common share	$0.38	$ —	$0.38	$0.84	$ 0.28	$1.12

For the three and six months ended June 30, 2016, awards under the Company's stock-based compensation plans for common shares of 2.2 million and 2.6 million, respectively, were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For the three and six months ended June 30, 2015, awards under the Company's stock-based compensation plans for common shares of 3.4 million and 3.7 million, respectively, were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods presented, with the exception of the three months ended June 30, 2015, preferred stock convertible into 4.5 million common shares was excluded as it was anti-dilutive.

3. Debt

The Company's debt consists of the following:

(dollars in millions)	June 30, 2016	December 31, 2015
Current portion of long-term debt:		
Corporate Credit Agreement - Tranche B Term Loan	$5.4	$ 5.4
Capital lease obligations and other debt	9.3	8.4
Current portion of long-term debt	14.7	13.8
Long-term debt, less current portion:		
Receivables Facility	33.0	17.6
Corporate Credit Agreement - Tranche B Term Loan	519.8	522.5
8 3/8% Senior Notes due 2020	397.1	478.5
7 1/4% Senior Notes due 2023	26.3	26.3
Cincinnati Bell Telephone Notes	93.9	128.7
Capital lease obligations and other debt	63.9	59.9
	1,134.0	1,233.5
Net unamortized discount	(1.7)	(1.7)
Unamortized note issuance costs	(6.6)	(8.0)
Long-term debt, less current portion	1,125.7	1,223.8
Total debt	$1,140.4	$ 1,237.6

In the second quarter of 2016, the Company amended its Corporate Credit Agreement originally dated as of November 20, 2012. This amendment reduces the aggregate revolving commitments available under the revolving credit facility to $150.0 million, modifies certain financial covenants and related definitions governing leverage ratios and capital expenditures, and extends the maturity date of the revolving credit facility to January 2020. As a result of the amendment, the Company recorded a $1.7 million loss on extinguishment of debt in the second quarter of 2016. There were no outstanding borrowings on the Corporate Credit Agreement's revolving credit facility, leaving $150.0 million available for borrowings as of June 30, 2016.

As of June 30, 2016, the Company had $33.0 million of borrowings and $6.3 million of letters of credit outstanding under the accounts receivable securitization facility ("Receivables Facility"), leaving $79.6 million remaining availability on the total borrowing capacity of $118.9 million. In the second quarter of 2016, the Company executed an amendment of its Receivables Facility, which replaced, amended and added certain provisions and definitions to increase the credit availability, renew the facility, which is subject to renewal every 364 days, until May 26, 2017, and extend the facility's termination date to May 27, 2019. In the event the Receivables Facility is not renewed, the Company has the ability to refinance any outstanding borrowings with borrowings under the Corporate Credit Agreement. Under the terms of the Receivables Facility, the Company could obtain up to $120.0 million depending on the quantity and quality of accounts receivable. Under this agreement, 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 the Company's other subsidiaries or the Company.

During the first quarter of 2016, the Company redeemed $29.8 million of its outstanding 6.30% unsecured senior notes due 2028 (the "Cincinnati Bell Telephone Notes") at an average redemption price of 91.130% which resulted in a gain on extinguishment of debt of $2.4 million.

During the second quarter of 2016, the Company repaid $81.4 million of its outstanding 8 $^{3}/_{8}$ % Senior Notes due 2020 at an average redemption price of 104.184% which resulted in a loss on extinguishment of debt of $3.7 million. Additionally, the Company redeemed $5.0 million of its Cincinnati Bell Telephone Notes at a redemption price of 94.875% which resulted in a gain on extinguishment of debt of $0.2 million in the second quarter of 2016.

4. Financial Instruments and Fair Value Measurements

The carrying values of the Company's financial instruments approximate the estimated fair values as of June 30, 2016 and December 31, 2015, except for the Company's investment in CyrusOne and long-term debt. The carrying and fair values of these financial instruments are as follows:

	June 30, 2016		December 31, 2015	
(dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment in CyrusOne	$ 27.4	$ 209.4	$ 55.5	$ 257.9
Long-term debt, including current portion*	1,074.2	1,081.5	1,178.0	1,155.6

*Excludes capital leases and note issuance costs.

The fair value of our investment in CyrusOne was based on the closing market price of CyrusOne's common stock on June 30, 2016 and December 31, 2015. This fair value measurement is considered Level 1 of the fair value hierarchy.

The fair value of our long-term debt was based on closing or estimated market prices of the Company’s debt at June 30, 2016 and December 31, 2015, which is considered Level 2 of the fair value hierarchy.

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5. Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit plans and a postretirement health and life insurance plan. For the three and six months ended June 30, 2016 and 2015, approximately 10% of the costs were capitalized as a component of property, plant and equipment related to construction of our copper and fiber networks. During the second quarter of 2015, the bargained pension plan was amended to eliminate all future pension credits and transition benefits. As a result, we recognized a curtailment loss of $0.3 million in the three months ended June 30, 2015 and remeasured the associated pension obligation. This remeasurement resulted in a decrease of our pension liability of $1.7 million.

For the three and six months ended June 30, 2016 and 2015, pension and postretirement benefit costs were as follows:

	Three Months Ended June 30,			
	2016	2015	2016	2015
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$—	$0.3	$ —	$ —
Interest cost on projected benefit obligation	4.8	4.9	0.9	0.9
Expected return on plan assets	(6.8)	(7.3)	—	—
Curtailment loss	—	0.3	—	—
Amortization of:				
Prior service cost (benefit)	—	—	(3.7)	(3.8)
Actuarial loss	4.8	9.4	1.3	1.3
Total amortization	4.8	9.4	(2.4)	(2.5)
Pension / postretirement cost (benefit)	$2.8	$7.6	$ (1.5)	$ (1.6)

	Six Months Ended June 30,			
	2016	2015	2016	2015
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$—	$0.3	$ 0.1	$ 0.1
Interest cost on projected benefit obligation	9.6	9.5	1.7	1.7
Expected return on plan assets	(13.6)	(14.5)	—	—
Curtailment loss	—	0.3	—	—
Amortization of:				
Prior service cost (benefit)	—	0.1	(7.4)	(7.7)
Actuarial loss	9.6	14.5	2.5	2.7
Total amortization	9.6	14.6	(4.9)	(5.0)
Pension / postretirement cost (benefit)	$5.6	$10.2	$ (3.1)	$ (3.2)

Amortizations of prior service cost (benefit) and actuarial loss represent reclassifications from accumulated other comprehensive income.

Based on current assumptions, management believes that the Company will not make any contributions to the qualified pension plan in 2016. Contributions to non-qualified pension plans in 2016 are expected to be approximately $2 million. Management expects to make cash payments of approximately $10 million related to its postretirement health plans in 2016.

For the six months ended June 30, 2016, contributions to the non-qualified pension plans were $1.2 million and contributions to the postretirement plan were $4.1 million.

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6. Stock-Based and Other Compensation Plans

The Company grants stock options, stock appreciation rights (“SARs”), long-term incentive plan performance-based awards, and time-based restricted shares, some of which are cash-settled awards with the final payment indexed to the percentage change in the Company’s stock price from the date of grant.

For the three and six months ended June 30, 2016, the Company recognized stock-based compensation expense of $3.5 million and $5.4 million, respectively, inclusive of $1.1 million and $1.4 million of mark-to-market expense on awards indexed to the Company's stock price. For the three and six months ended June 30, 2015, the Company recognized stock-based compensation expense of $1.3 million and $3.3 million, respectively, which reflected $0.5 million and $0.9 million of mark-to-market expense on awards indexed to the Company's stock price. As of June 30, 2016, there was $12.3 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, and the remaining expense for long-term incentive plan 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. In the fourth quarter of 2015, the executive deferred compensation plan was terminated. All amounts due under the executive deferred compensation plan will be distributed to plan participants during 2016. At both June 30, 2016 and 2015, the number of common shares deferred under these plans was 0.3 million. 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. For the three and six months ended June 30, 2016, the Company recognized expense related to these awards of $0.2 million and $0.3 million, respectively. For the three and six months ended June 30, 2015, the Company recognized expense related to these awards of $0.1 million and $0.2 million, respectively.

7. Shareowners' Deficit

Accumulated Other Comprehensive Loss

For the six months ended June 30, 2016, the changes in accumulated other comprehensive loss by component were as follows:

(dollars in millions)	Unrecognized Net Periodic Pension and Postretirement Benefit Cost		Foreign Currency Translation Loss	Total
Balance as of December 31, 2015	$ (170.3)		$ (0.7)	$(171.0)
Reclassifications, net	3.1	(a)	(0.1)	3.0
Balance as of June 30, 2016	$ (167.2)		$ (0.8)	$(168.0)

(a) These reclassifications are included in the components of net periodic pension and postretirement benefit costs (see Note 5 for additional details). The components of net periodic pension and postretirement benefit costs are reported within "Cost of services," "Cost of products sold," and "Selling, general and administrative" expenses on the Condensed Consolidated Statements of Operations.

Share Repurchases

In 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. During the second quarter of 2016, the Company repurchased and retired approximately 1.2 million shares of its common stock for $4.6 million. In prior years, the Company repurchased and retired a total of 7.4 million shares at a total cost of $20.8 million. As of June 30, 2016, the Company has the authority to repurchase its common stock with a value of up to $124.6 million under the plan approved by its Board of Directors, subject to satisfaction of the requirements under its bond indentures and Corporate Credit Agreement.

Reverse Stock Split

On August 2, 2016, our shareholders authorized the Board of Directors to effect, in its discretion, a reverse stock split of the outstanding and treasury Common Shares at a reverse stock split 1-for-5 ratio. The Board of Directors determined that October 5, 2016 would be the effective date for the reverse stock split.

8. Investment in CyrusOne

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne Inc. ("CyrusOne"), which owns and operates our former Data Center Colocation business. CyrusOne conducts its data center business through CyrusOne LP, an operating partnership. Effective with the IPO, our 69% ownership was held in the form of 1.9 million shares of unregistered common stock of CyrusOne Inc. and 42.6 million economically equivalent partnership units in its underlying operating entity, CyrusOne LP. Therefore, effective January 24, 2013, we no longer included the accounts of CyrusOne in our consolidated financial statements and accounted for our ownership as an equity method investment as we no longer controlled the operations but maintained significant influence. From the date of the IPO, we recognized our proportionate share of CyrusOne's net income or loss as non-operating income or expense in our statement of operations through December 31, 2015. For the three and six months ended June 30, 2015, our equity method share of CyrusOne's net loss was $1.3 million and $4.4 million, respectively.

Effective December 31, 2015, we exchanged our remaining 6.3 million operating partnership units in CyrusOne LP for an equal number of newly issued shares of common stock of CyrusOne Inc. As a result, we owned 6.9 million shares of CyrusOne's common shares and no longer have significant influence over the entity. Therefore, as of December 31, 2015, our ownership in CyrusOne is accounted for as a cost method investment, and we no longer record our pro-rata share of CyrusOne's financial results in our statement of operations. For the six months ended June 30, 2016 and 2015, the Company received cash dividends from CyrusOne totaling $4.9 million and $15.0 million, respectively. Dividends from CyrusOne were recognized as a reduction of our investment.

In the second quarter of 2016, we sold 3.1 million shares of CyrusOne Inc. common stock for net proceeds totaling $142.5 million that resulted in a gain of $118.6 million. In the second quarter of 2015, we sold 14.3 million operating partnership units for net proceeds of $426.0 million that resulted in a gain of $295.2 million. As of June 30, 2016, we held 3.8 million shares of CyrusOne's common shares valued at $209.4 million.

Subsequent to the end of the second quarter of 2016, we sold 0.3 million shares of CyrusOne Inc. common stock for net proceeds totaling approximately $19 million that resulted in a gain of approximately $17 million.

Transactions with CyrusOne

Revenues - The Company records revenue from CyrusOne under contractual service arrangements which include, among others, providing services such as fiber transport, network support, service calls, monitoring and management, storage and back-up, and IT systems support.

Operating Expenses - We lease data center and office space from CyrusOne at certain locations in the Cincinnati area under operating leases and are also billed for other services provided by CyrusOne under contractual service arrangements. In the normal course of business, the Company also provides certain administrative services to CyrusOne which are billed based on agreed-upon rates.

Revenues and operating costs and expenses from transactions with CyrusOne were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in millions)	2016	2015	2016	2015
Revenue:				
Services provided to CyrusOne	$0.3	$0.4	$0.6	$0.7
Operating costs and expenses:				
Charges for services provided by CyrusOne	2.6	2.5	5.2	5.0
Administrative services provided to CyrusOne	—	(0.1)	(0.1)	(0.2)
Total operating costs and expenses	$2.6	$2.4	$5.1	$4.8

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At June 30, 2016 and December 31, 2015, amounts receivable from and payable to CyrusOne were as follows:

(dollars in millions)	June 30, 2016	December 31, 2015
Accounts receivable	$ 0.1	$ 0.1
Dividends receivable	1.5	2.1
Receivable from CyrusOne	$ 1.6	$ 2.2
Payable to CyrusOne	$ 2.4	$ 1.5

9. Discontinued Operations

Cincinnati Bell Wireless LLC ("CBW"), our former Wireless segment, provided digital wireless voice and data communications services to customers in the Company’s licensed service territory, which included Greater Cincinnati and Dayton, Ohio, and areas of northern Kentucky and southeastern Indiana. The Company’s customers were also able to place and receive wireless calls nationally and internationally due to roaming agreements the Company had with other carriers.

In the second quarter of 2014, we entered into agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets. The agreement to sell our spectrum licenses closed on September 30, 2014 for cash proceeds of $194.4 million. Prior to this date, the Company's digital wireless network utilized 50 MHz of licensed spectrum in the Cincinnati area and 40 MHz of licensed spectrum in the Dayton area, which had a carrying value of $88.2 million. Simultaneous with the close of the spectrum sale, the Company entered into a separate agreement to use certain wireless spectrum licenses for $8.00 until we no longer provided wireless service. We ceased providing wireless service effective March 31, 2015. The fair value of the lease, which is considered a Level 3 measurement based on other comparable transactions, totaled $6.4 million and was recorded as a prepaid expense and amortized over a six month period ending March 31, 2015.

As of March 31, 2015, there were no subscribers remaining on the network and we no longer required the use of the spectrum being leased. Therefore, the $112.6 million gain on the sale of the wireless spectrum licenses, which had been previously deferred, was recognized in Income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2015. On April 1, 2015, we transferred certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets, which resulted in a gain of $15.9 million in the second quarter of 2015.

Wireless financial results for the three and six months ended June 30, 2016 were nominal. Wireless financial results for the three and six months ended June 30, 2015 reported as Income from discontinued operations, net of tax on the Condensed Consolidated Statements of Operations are as follows:

(dollars in millions)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Revenue	$ —	$ 4.4
Costs and expenses		
Cost of products and services	—	12.0
Selling, general and administrative	0.9	2.2
Depreciation and amortization expense	—	28.6
Restructuring charges	—	6.4
Amortization of deferred gain	—	(6.5)
Total operating costs and expenses	0.9	42.7
Operating loss	(0.9)	(38.3)
Interest income	0.9	1.7
Other income	0.1	0.1
Gain on transfer of tower lease obligations and other assets	15.9	15.9
Gain on sale of wireless spectrum licenses	—	112.6
Income before income taxes	16.0	92.0
Income tax expense	5.1	32.2
Income from discontinued operations	$ 10.9	$ 59.8

Wireless liabilities presented as discontinued operations as of June 30, 2016 and December 31, 2015 are as follows:

(dollars in millions)	June 30, 2016	December 31, 2015
Current liabilities		
Restructuring liability	$ 0.3	$ 4.7
Other current liabilities	0.3	0.7
Total current liabilities from discontinued operations	$ 0.6	$ 5.4

Following is selected operating and investing cash flow activity from discontinued operations included in the Condensed Consolidated Statements of Cash Flows:

	Six Months Ended June 30,
(dollars in millions)	