

CINCINNATI BELL INC
Form 10-Q
May 08, 2015

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

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

For the Quarterly Period Ended March 31, 2015

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

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

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 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

At April 30, 2015, there were 209,700,904 common shares outstanding.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

TABLE OF CONTENTS

PART I. Financial Information

Description	Page
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations (Unaudited) Three Months Ended March 31, 2015 and 2014</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three Months Ended March 31, 2015 and 2014</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets (Unaudited) March 31, 2015 and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
Item 4. <u>Controls and Procedures</u>	<u>40</u>
<u>PART II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	<u>41</u>
Item 1A. <u>Risk Factors</u>	<u>41</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
Item 3. <u>Default Upon Senior Securities</u>	<u>41</u>
Item 4. <u>Mine Safety Disclosure</u>	<u>41</u>
Item 5. <u>Other Information</u>	<u>41</u>
Item 6. <u>Exhibits</u>	<u>42</u>
<u>Signatures</u>	<u>43</u>

Table of Contents

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,		
	2015	2014	
Revenue			
Services	\$229.8	\$220.8	
Products	63.1	61.4	
Total revenue	292.9	282.2	
Costs and expenses			
Cost of services, excluding items below	113.6	97.2	
Cost of products sold, excluding items below	52.6	53.5	
Selling, general and administrative, excluding items below	52.2	49.3	
Depreciation and amortization	32.6	31.1	
Restructuring charges	3.4	—	
Loss on sale or disposal of assets, net	1.4	—	
Transaction costs	—	0.7	
Total operating costs and expenses	255.8	231.8	
Operating income	37.1	50.4	
Interest expense	32.7	38.8	
Loss (income) from CyrusOne equity method investment	3.1	(0.5)
Other expense (income), net	0.4	(0.3)
Income from continuing operations before income taxes	0.9	12.4	
Income tax expense	0.6	6.5	
Income from continuing operations	0.3	5.9	
Income from discontinued operations (net of tax)	48.9	1.1	
Net income	49.2	7.0	
Preferred stock dividends	2.6	2.6	
Net income applicable to common shareowners	\$46.6	\$4.4	
Basic and diluted net earnings per common share			
Basic and diluted (loss) earnings per common share from continuing operations	\$(0.01	) \$0.02
Basic and diluted earnings per common share from discontinued operations	\$0.23	\$—	
Basic and diluted net earnings per common share	\$0.22	\$0.02	

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$49.2	\$7.0
Other comprehensive income, net of tax:		
Foreign currency translation loss	(0.3) —
Defined benefit pension and postretirement plans:		
Amortization of prior service benefits, net of tax of (\$1.4), (\$1.4)	(2.4	) (2.4
Amortization of net actuarial loss, net of tax of \$2.3, \$2.4	4.1	4.2
Other comprehensive income	1.4	1.8
Total comprehensive income	\$50.6	\$8.8

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

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$13.4	\$57.9
Receivables, less allowances of \$11.6 and \$12.4	160.7	160.8
Receivable from CyrusOne	9.6	7.7
Inventory, materials and supplies	19.7	25.0
Deferred income taxes, net	104.3	68.9
Prepaid expenses	14.1	10.8
Other current assets	3.5	1.8
Other current assets from discontinued operations	0.4	4.7
Total current assets	325.7	337.6
Property, plant and equipment, net	845.7	815.4
Investment in CyrusOne	261.5	273.6
Goodwill	14.4	14.4
Intangible assets, net	0.4	0.5
Deferred income taxes, net	236.9	300.7
Other noncurrent assets	32.4	33.9
Noncurrent assets from discontinued operations	16.0	44.6
Total assets	\$1,733.0	\$1,820.7
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	\$12.6	\$11.6
Accounts payable	111.8	131.6
Payable to CyrusOne	1.3	0.4
Unearned revenue and customer deposits	30.8	30.4
Accrued taxes	10.2	9.9
Accrued interest	32.1	22.1
Accrued payroll and benefits	28.2	37.0
Other current liabilities	25.9	25.8
Other current liabilities from discontinued operations	26.5	142.0
Total current liabilities	279.4	410.8
Long-term debt, less current portion	1,748.8	1,689.4
Pension and postretirement benefit obligations	233.9	240.1
Other noncurrent liabilities	39.3	26.2
Noncurrent liabilities from discontinued operations	31.2	102.7
Total liabilities	2,332.6	2,469.2
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, 2015 and December 31, 2014; liquidation preference \$1,000 per share (\$50 per depositary share)	129.4	129.4
Common shares, \$.01 par value; 480,000,000 shares authorized; 209,840,204 and 209,571,138 shares issued; 209,565,134 and 209,296,068 shares outstanding at March	2.1	2.1

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31, 2015 and December 31, 2014

Additional paid-in capital	2,581.2	2,582.9	
Accumulated deficit	(3,138.7) (3,187.9)
Accumulated other comprehensive loss	(172.5	) (173.9)
Common shares in treasury, at cost	(1.1	) (1.1)
Total shareowners' deficit	(599.6	) (648.5)
Total liabilities and shareowners' deficit	\$1,733.0	\$1,820.7	

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

3

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31,		
	2015	2014	
Cash flows from operating activities			
Net income	\$49.2	\$7.0	
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	61.2	46.9	
Provision for loss on receivables	2.1	2.4	
Loss (income) from CyrusOne equity method investment	3.1	(0.5))
Noncash portion of interest expense	1.4	1.7	
Deferred income tax provision	27.8	8.8	
Pension and other postretirement payments in excess of expense	(3.6)	(6.0))
Stock-based compensation	1.3	0.8	
Deferred gain on sale of Wireless spectrum licenses	(112.6)	—)
Amortization of deferred gain	(6.5)	(3.6))
Loss on sale or disposal of assets, net	1.4	—	
Excess tax benefit for share based payments	(0.2)	(0.1))
Other, net	2.4	(0.4))
Changes in operating assets and liabilities:			
Increase in receivables	(1.9)	(22.1))
Decrease (increase) in inventory, materials, supplies, prepaid expenses and other current assets	1.2	(4.0))
(Decrease) increase in accounts payable	(24.2)	19.0)
Increase (decrease) in accrued and other current liabilities	2.4	(10.2))
Decrease in other noncurrent assets	0.1	0.4	
Increase (decrease) in other noncurrent liabilities	1.7	(2.3))
Net cash provided by operating activities	6.3	37.8	
Cash flows from investing activities			
Capital expenditures	(57.9)	(34.3))
Dividends received from CyrusOne	6.0	7.1	
Proceeds from sale of assets	—	1.9	
Other, net	(0.1)	—)
Net cash used in investing activities	(52.0)	(25.3))
Cash flows from financing activities			
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	7.5	(4.1))
Repayment of debt	(3.3)	(5.2))
Dividends paid on preferred stock	(2.6)	(2.6))
Proceeds from exercise of options and warrants	—	0.6	
Excess tax benefit for share based payments	0.2	0.1	
Other, net	(0.6)	(1.7))
Net cash provided by (used in) financing activities	1.2	(12.9))
Net decrease in cash and cash equivalents	(44.5)	(0.4))
Cash and cash equivalents at beginning of period	57.9	4.6	
Cash and cash equivalents at end of period	\$13.4	\$4.2	

Noncash investing and financing transactions:

Accrual of CyrusOne dividends	\$9.0	\$9.3
Acquisition of property by assuming debt and other noncurrent liabilities	\$1.3	\$—
Acquisition of property on account	\$28.9	\$21.0

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

4

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") is a full-service regional provider of entertainment, data and voice communications services, a provider of managed and professional information technology services, and a reseller of information technology ("IT") and telephony equipment. In addition, enterprise customers across the United States rely on Cincinnati Bell Technology Solutions Inc. ("CBTS"), a wholly-owned subsidiary, for efficient, scalable communications systems and end-to-end IT solutions. As of March 31, 2015, we operate our business through the following segments:

Entertainment and Communications (formerly known as "Wireline") and IT Services and Hardware.

The Company has receivables with one Fortune 10 Industrial customer that makes up 25% and 26% of the outstanding accounts receivable balance at March 31, 2015 and December 31, 2014, respectively. This same customer represented 12% of consolidated revenue for the three months ended March 31, 2015 and 2014.

As of December 31, 2014, we operated three business segments: Entertainment and Communications, IT Services and Hardware and Wireless. 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. The agreement to sell our wireless spectrum license closed on September 30, 2014, for cash proceeds of \$194.4 million. Simultaneously, we entered into a separate agreement to use certain spectrum licenses for \$8.00 until we no longer provide wireless service. Effective March 31, 2015, all wireless subscribers have been migrated off our network and we ceased providing wireless services and operations. Certain wireless tower lease obligations and other assets were transferred to the acquiring company on April 1, 2015.

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne Inc. ("CyrusOne"), which owns and operates our former Data Center Colocation segment. CyrusOne conducts its data center business through CyrusOne LP, an operating partnership. As of March 31, 2015, we held approximately 1.9 million shares of CyrusOne's common stock and were a limited partner in CyrusOne LP, owning approximately 26.6 million of its partnership units. We effectively owned approximately 43% of CyrusOne through our ownership of its common stock and partnership units of CyrusOne LP. We account for our ownership in CyrusOne as an equity method investment. On April 7, 2015, we consummated the sale of 14.3 million operating partnership units of CyrusOne LP to CyrusOne, Inc. at a price of \$29.88 per unit for proceeds of \$426.0 million.

A tentative agreement was reached on January 23, 2015 with the Communications Workers of America ("CWA") and was ratified by local members of the union on February 27, 2015. The new agreement will be in effect through May 12, 2018. Per the terms of the agreement, the remaining bargained pension plan credits will be frozen effective May 1, 2015 resulting in an actuarial remeasurement of the pension plan as of that date. The impact of the remeasurement will be recorded in second quarter of 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, 2014 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 2014 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results expected for the full year or any other interim period.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

The closing of our wireless operations represents a strategic shift in our business. Therefore, certain wireless assets, liabilities and results of operations will be reported as discontinued operations in our financial statements.

Accordingly, the Company has recast its prior period results to be comparable with the current discontinued operations presentation with the exception of the Condensed Consolidated Statements of Cash Flows. See Note 2 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.

Equity Method Investments — Effective January 24, 2013, the completion date of CyrusOne's IPO, our ownership in CyrusOne is accounted for as an equity method investment. From that date, we recognize our proportionate share of CyrusOne's net income or loss as non-operating income or expense in our Condensed Consolidated Statement of Operations. For the quarter ended March 31, 2015 and 2014, the Company received cash dividends from CyrusOne totaling \$6.0 million and \$7.1 million, respectively. Dividends from CyrusOne are recognized as a reduction of our investment.

During the second quarter of 2014, we invested a total of \$5.5 million in other entities, which are accounted for as equity method investments, and the carrying value has been recorded in "Other noncurrent assets" in the Condensed Consolidated Balance Sheets. The Company's proportionate share of their respective net income is recorded in "Other expense, net" in the Condensed Consolidated Statement of Operations.

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, including interest on securities originally issued to acquire its broadband business or securities subsequently issued to refinance those securities.

Recently Issued Accounting Standards — On January 9, 2015, the FASB issued Accounting Standard Update ("ASU") 2015-01, Income Statement-Extraordinary and Unusual Items. The updated standard will no longer allow for transactions that are unusual in nature and occur infrequently to be presented net-of-tax after income from continuing operations as an extraordinary item in the statements of operations. Under the new guidance, these transactions will be separately presented within income from continuing operations similar to current guidance for transactions that are unusual in nature or occur infrequently. The standard will be effective for us on January 1, 2016. The adoption of this pronouncement is not expected to have a material impact on our financial statements as there are no transactions presented as an extraordinary item.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which changes the presentation of debt issuance costs in the financial statements. The amendments in this update require companies to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset and to record amortization of the costs as interest expense. The standard will be effective on January 1, 2016 and will be applied retrospectively for prior periods. The Company estimates approximately \$10 million of debt issuance costs will be reclassified from "Other non-current assets" to "Long term debt, less current portion" on the Condensed Consolidated Balance Sheets on the date of adoption. The adoption is not expected to impact the Statement of Operations.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software, which amends ASC 350-40 to provide customers with guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. The standard will be effective on January 1, 2016 and can be adopted retrospectively or prospectively to arrangements entered into, or materially modified, after the effective 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 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update increased the threshold for a disposal to qualify as a discontinued operation and require new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The standard was effective for us on January 1, 2015 and the amended guidance has been applied to the discontinuation of our wireless operations. For a full discussion of discontinued operations and required disclosures reference Note 2.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

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. This standard will be effective for us in the first quarter of the fiscal year ending December 31, 2017. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard will be effective for us on January 1, 2016. The adoption of this pronouncement is not expected to have a material impact on our financial statements.

7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

2. 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 Net 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 will result in a gain of approximately \$16 million in the second quarter of 2015. As a result, we removed the following assets and liabilities in the second quarter of 2015.

(dollars in millions)	As of March 31, 2015
Property, plant and equipment, net	\$ 16.0
Current portion of long-term debt	0.5
Long-term debt, less current portion	24.6
Other non-current liabilities	6.6
Total liabilities	\$31.7

Table of Contents
Form 10-Q Part I

Cincinnati Bell Inc.

Wireless financial results for the three months ended March 31, 2015 and 2014 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	
	March 31,	
	2015	2014
Revenue	\$4.4	\$44.7
Costs and expenses		
Cost of products and services	12.0	19.8
Selling, general and administrative	1.3	6.2
Depreciation and amortization expense	28.6	15.8
Restructuring charges	6.4	—
Amortization of deferred gain	(6.5)	(3.6)
Total operating costs and expenses	41.8	38.2
Operating income (loss)	(37.4)	6.5
Interest (income) expense	(0.8)	1.5
Other expense	—	0.9
Gain on sale of wireless spectrum licenses	112.6	—
Income before income taxes	76.0	4.1
Income tax expense	27.1	3.0
Net income from discontinued operations	\$48.9	\$1.1

Wireless assets and liabilities presented as discontinued operations as of March 31, 2015 and December 31, 2014 are as follows:

(dollars in millions)	March 31, 2015	December 31, 2014
Current assets		
Prepaid rent - lease of spectrum license	\$—	\$3.2
Other current assets	0.4	1.5
Total current assets from discontinued operations	0.4	4.7
Property, plant and equipment	16.0	44.1
Other noncurrent assets	—	0.5
Total noncurrent assets from discontinued operations	16.0	44.6
Total assets from discontinued operations	\$16.4	\$49.3
Current liabilities		
Current portion of long-term debt	\$0.5	\$1.6
Accounts payable	2.8	5.0
Restructuring reserve	18.4	15.4
Deferred gain on sale of wireless spectrum licenses	—	112.6
Other current liabilities	4.8	7.4
Total current liabilities from discontinued operations	26.5	142.0
Long-term debt, less current portion	24.6	81.6
Deferred gain on sale of towers	6.6	13.1
Other noncurrent liabilities	—	8.0
Total noncurrent liabilities from discontinued operations	31.2	102.7
Total liabilities related to discontinued operations	\$57.7	\$244.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Certain capital lease and retirement obligations were reported as liabilities from discontinued operations as of December 31, 2014 as we continued to operate the wireless business at that time. The following capital lease and asset retirement obligations will be retained by the Company and have not been included in liabilities from discontinued operations at March 31, 2015:

	Continuing Operations As of March 31, 2015	Discontinued Operations As of December 31, 2014
(dollars in millions)		
Current portion of long-term debt	\$ 1.1	\$ 1.1
Long-term debt, less current portion	53.4	57.0
Other noncurrent liabilities	10.9	7.5
Total liabilities	\$65.4	\$65.6

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

	Three Months Ended March 31,	
(dollars in millions)	2015	2014
Depreciation and amortization	\$28.6	\$15.8
Amortization of deferred gain on sale of towers	(6.5	) (3.6
Non-cash spectrum lease	3.2	—
Deferred gain on sale of spectrum	(112.6) —
Restructuring payments	(3.4	) (0.3
Capital expenditures	—	(5.6

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

3. Investment in CyrusOne

On January 24, 2013, we completed the IPO of CyrusOne, our former Data Center Colocation segment. As of that date, we no longer controlled CyrusOne's operations. However, we continue to have significant influence over CyrusOne and account for this investment using the equity method.

Commencing January 17, 2014, we are permitted to exchange the partnership units of CyrusOne LP into cash or shares of common stock of CyrusOne, as determined by CyrusOne, on a one-for-one basis based upon the fair value of a share of CyrusOne common stock, subject to certain limitations which restricted the volume of shares we are permitted to sell. The registration statement filed by CyrusOne on March 24, 2014 became effective on April 4, 2014 and eliminated all prior limitations restricting the volume of shares we are allowed to sell.

As of March 31, 2015, we effectively owned 43% of CyrusOne, which was held in the form of 1.9 million shares of registered common stock of CyrusOne Inc. and 26.6 million economically equivalent partnership units in its underlying operating entity, CyrusOne LP. The fair value of this investment was \$886.7 million based on the quoted market price of CyrusOne's common stock, which is considered a Level 1 measurement in the fair value hierarchy. For the three months ended March 31, 2015, our equity method share of CyrusOne's net loss was \$3.1 million. For the three months ended March 31, 2014, our equity method share of CyrusOne's net income was \$0.5 million.

On April 7, 2015, we consummated the sale of 14.3 million operating partnership units of CyrusOne LP to CyrusOne, Inc. at a price of \$29.88 per unit. The sale generated proceeds of \$426.0 million and resulted in a gain of \$295.2 million which will be recognized in the second quarter of 2015. After completion of the sale, we effectively own 22% of CyrusOne, which is held in the form of 1.9 million shares of registered common stock of CyrusOne Inc. and 12.3 million economically equivalent partnership units in its underlying operating entity, CyrusOne LP.

Summarized financial information for CyrusOne is as follows:

(dollars in millions)	Three months ended	
	March 31, 2015	March 31, 2014
Revenue	\$85.7	\$77.5
Operating income	1.6	11.8
Net (loss) income	(7.2	) 0.7

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. These expense recoveries from CyrusOne are credited to the expense account in which they were initially recorded.

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

(dollars in millions)	Three months ended	
	March 31, 2015	March 31, 2014
Revenue:		
Services provided to CyrusOne	\$0.3	\$0.5
Operating costs and expenses:		
Charges for services provided by CyrusOne	2.5	2.3
Administrative services provided to CyrusOne	(0.1	) (0.1
Total operating costs and expenses	\$2.4	\$2.2

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Dividends of \$6.0 million were received in the first quarter of 2015. On February 18, 2015, CyrusOne declared dividends of \$0.315 per share payable on its common shares and CyrusOne LP partnership units. This dividend was paid on April 15, 2015.

In addition to the agreements noted above, the Company entered into a tax sharing agreement with CyrusOne. Under the terms of the agreement, CyrusOne will reimburse the Company for the Texas Margin Tax liability that CyrusOne would have incurred if they filed a Texas Margin Tax return separate from the consolidated filing. The agreement will remain in effect until the Texas Margin Tax return for the period ending December 31, 2014 is filed. As of March 31, 2015 and December 31, 2014, the receivable related to this agreement amounted to \$0.5 million and \$1.7 million, respectively. These balances are included in Receivable from CyrusOne.

At March 31, 2015 and December 31, 2014, amounts receivable from and payable to CyrusOne were as follows:

(dollars in millions)	March 31, 2015	December 31, 2014
Accounts receivable	\$0.6	\$1.7
Dividends receivable	9.0	6.0
Receivable from CyrusOne	\$9.6	\$7.7
Accounts payable	\$1.3	\$0.4
Payable to CyrusOne	\$1.3	\$0.4

4. Earnings Per Common Share

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

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

(in millions, except per share amounts)	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Numerator:						
Net income	\$0.3	\$ 48.9	\$49.2	\$5.9	\$ 1.1	\$7.0
Preferred stock dividends	2.6	—	2.6	2.6	—	2.6
Net income (loss) applicable to common shareowners - basic and diluted	\$(2.3)	\$ 48.9	\$46.6	\$3.3	\$ 1.1	\$4.4
Denominator:						
Weighted average common shares outstanding - basic	209.2	209.2	209.2	208.0	208.0	208.0
Stock-based compensation arrangements	—	—	—	1.0	1.0	1.0
Weighted average common shares outstanding - diluted	209.2	209.2	209.2	209.0	209.0	209.0
Basic and diluted earnings (loss) per common share	\$(0.01)	\$ 0.23	\$0.22	\$0.02	\$ —	\$0.02

For the three months ended March 31, 2015, the Company had a net loss available to common shareholders in continuing operations and, as a result, all common stock equivalents were excluded from the computation of diluted

EPS as their inclusion would have been anti-dilutive. For the three months ended March 31, 2014, awards under the Company's stock-based compensation plans for common shares of 3.9 million were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods presented, preferred stock convertible into 4.5 million common shares was excluded as it was anti-dilutive.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

5. Debt

The Company's debt (excluding debt related to discontinued operations) consists of the following:

(dollars in millions)	March 31, 2015	December 31, 2014
Current portion of long-term debt:		
Corporate Credit Agreement - Tranche B Term Loan	\$5.4	\$5.4
Capital lease obligations and other debt	7.2	6.2
Current portion of long-term debt	12.6	11.6
Long-term debt, less current portion:		
Corporate Credit Agreement	—	—
Receivables facility	26.7	19.2
8 3/4% Senior Subordinated Notes due 2018	300.0	300.0
Corporate Credit Agreement - Tranche B Term Loan	526.5	527.8
8 3/8% Senior Notes due 2020	661.2	661.2
7 1/4% Senior Notes due 2023	40.0	40.0
Various Cincinnati Bell Telephone notes	134.5	134.5
Capital lease obligations and other debt	62.9	9.9
	1,751.8	1,692.6
Net unamortized discount	(3.0	) (3.2
Long-term debt, less current portion	1,748.8	1,689.4
Total debt	\$1,761.4	\$1,701.0

There were no outstanding borrowings on the Corporate Credit Agreement's revolving credit facility, leaving \$150.0 million available for borrowings as of March 31, 2015. This revolving credit facility expires in July 2017.

The Company entered into an Incremental Assumption Agreement to the Company's existing Corporate Credit Agreement on April 6, 2015. Effective with the consummation of the sale of 14.3 million CyrusOne LP operating partnership units, the aggregate available borrowings on the Corporate Credit Agreement's revolving credit facility increased to \$175.0 million for the remainder of the term.

As of March 31, 2015, the Company had \$26.7 million of borrowings and \$6.3 million of letters of credit outstanding under the accounts receivable securitization facility ("Receivables Facility"), leaving \$69.0 million of remaining availability on the total borrowing capacity of \$102.0 million. The Receivables Facility will terminate June 2, 2016, unless terminated earlier pursuant to its terms. 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 Agreement, Cincinnati Bell Inc. could obtain up to \$120.0 million depending on the quantity and quality of accounts receivable. Under the Receivables Facility, certain subsidiaries, or originators, sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC ("CBF"). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company's other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF and, as such, are not available to creditors of other subsidiaries or the Company.

On April 7, 2015, the Company notified its trustee of its election to redeem \$300.0 million of the outstanding 8 3/4% Senior Subordinated Notes due 2018, at a redemption rate of 102.188% on May 7, 2015. As a result, a loss on extinguishment of debt of approximately \$10 million will be recorded in the second quarter of 2015.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

6. Financial Instruments and Fair Value Measurements

The carrying values of the Company's financial instruments approximate the estimated fair values as of March 31, 2015 and December 31, 2014, except for the Company's investment in CyrusOne and long-term debt. The carrying and fair values of these financial instruments are as follows:

(dollars in millions)	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment in CyrusOne	\$261.5	\$886.7	\$273.6	\$785.0
Long-term debt, including current portion*	1,692.4	1,745.2	1,686.1	1,717.4

*Excludes capital leases.

The fair value of our investment in CyrusOne was based on the closing market price of CyrusOne's common stock on March 31, 2015 and December 31, 2014. 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 March 31, 2015 and December 31, 2014, which is considered Level 2 of the fair value hierarchy.

7. Restructuring Charges

As of March 31, 2015, restructuring liabilities have been established for employee separations, lease abandonments and contract terminations. A summary of the activity in our restructuring liabilities is presented below:

(dollars in millions)	Employee Separation	Lease Abandonment	Other	Total
Balance as of December 31, 2014	\$3.0	\$1.8	\$0.1	\$4.9
Charges	2.2	—	1.2	3.4
Utilizations	(3.1	) (0.2	) (1.2	) (4.5
Balance as of March 31, 2015	\$2.1	\$1.6	\$0.1	\$3.8

The Company made severance payments during the three months ended March 31, 2015 pursuant to its written severance plan. In the first quarter of 2015, employee separation charges were associated with discontinuing our cyber-security product offering and integrating each of our segments' business markets. Lease abandonment costs represent future minimum lease obligations, net of expected sublease income, for abandoned facilities. Lease payments on abandoned facilities will continue through 2019. Other represents project related expenses as we continue to identify opportunities to integrate the business markets within our Entertainment and Communications and IT Services & Hardware segment.

A summary of restructuring activity by business segment is presented below:

(dollars in millions)	Entertainment and Communications	IT Services and Hardware	Corporate	Total
Balance as of December 31, 2014	\$3.9	\$0.3	\$0.7	\$4.9
Charges	0.8	2.2	0.4	3.4
Utilizations	(3.2	) (0.8	) (0.5	) (4.5
Balance as of March 31, 2015	\$1.5	\$1.7	\$0.6	\$3.8

At March 31, 2015 and December 31, 2014, \$3.5 million and \$4.9 million, respectively, of the restructuring liabilities were included in "Other current liabilities," and \$0.3 million was included in "Other noncurrent liabilities" in the Condensed Consolidated Balance Sheets as of March 31, 2015.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

8. Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit plans and a postretirement health and life insurance plan. For the three months ended March 31, 2015 and 2014, approximately 10% of the costs were capitalized as a component of property, plant and equipment related to construction of our network.

For the three months ended March 31, 2015 and 2014, pension and postretirement benefit costs were as follows:

(dollars in millions)	Three Months Ended March 31,			
	2015	2014	2015	2014
	Pension Benefits		Postretirement and Other Benefits	
Service cost	\$—	\$0.3	\$0.1	\$0.1
Interest cost on projected benefit obligation	4.6	4.5	0.8	0.9
Expected return on plan assets	(7.2	) (6.8) —	—
Amortization of:				
Prior service cost (benefit)	0.1	—	(3.9	) (3.8
Actuarial loss	5.1	5.3	1.4	1.3
Total amortization	5.2	5.3	(2.5	) (2.5
Benefit costs (benefits)	\$2.6	\$3.3	\$(1.6	) \$(1.5

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

Contributions in 2015 to the Company's pension and postretirement plans are expected to be approximately \$25 million. For the three months ended March 31, 2015, contributions to the pension plans were \$2.6 million and net contributions to the postretirement plan were \$2.0 million.

Table of Contents

9. 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 months ended March 31, 2015, the Company recognized stock-based compensation expense of \$2.0 million, inclusive of \$0.4 million of mark-to-market expense on awards indexed to the Company's stock price. For the three months ended March 31, 2014, the Company recognized stock-based compensation expense of \$0.9 million, inclusive of a \$0.2 million mark-to-market gain on awards indexed to the Company's stock price. As of March 31, 2015, there was \$15.7 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 two years.

The Company also has deferred compensation plans for its Board of Directors and certain executives. Under these plans, participants can elect to invest their deferrals in the Company’s common stock. At March 31, 2015 and 2014, the number of common shares deferred under these plans was 0.4 million and 0.6 million, respectively. 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 months ended March 31, 2015, the Company recognized expense of \$0.1 million. For the three months ended March 31, 2014, the Company recognized nominal expense.

Table of Contents

10. Shareowners' Deficit

Accumulated Other Comprehensive Loss

For the three months ended March 31, 2015, 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, 2014	\$(173.6)	\$(0.3)	\$(173.9)
Reclassifications, net	1.7	(a) (0.3)	1.4
Balance as of March 31, 2015	\$(171.9)	\$(0.6)	\$(172.5)

(a) These reclassifications are included in the components of net periodic pension and postretirement benefit costs (see Note 8 for additional details). The components of net periodic pension and postretirement benefit cost are reported within "Cost of services", "Cost of products sold", and "Selling, general and administrative" expenses on the Condensed Consolidated Statements of Operations.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

11. Business Segment Information

The Company's segments are strategic business units that offer distinct products and services and are aligned with its internal management structure and reporting. The Entertainment and Communications segment provides products and services such as data transport, high-speed internet, entertainment, local voice, long distance, voice over internet protocol (VoIP), and other services. The IT Services and Hardware segment provides a range of fully managed and outsourced IT and telecommunications services along with the sale, installation, and maintenance of major branded IT and telephony equipment.

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

Selected financial data for the Company's business segment information is as follows:

(dollars in millions)	Three Months Ended	
	March 31,	
	2015	2014
Revenue		
Entertainment and Communications	\$188.1	\$183.6
IT Services and Hardware	107.6	101.9
Intersegment	(2.8)	(3.3)
Total revenue	\$292.9	\$282.2
Intersegment revenue		
Entertainment and Communications	\$0.3	\$0.2
IT Services and Hardware	2.5	3.1
Total intersegment revenue	\$2.8	\$3.3
Operating income		
Entertainment and Communications	\$41.3	\$51.8
IT Services and Hardware	1.1	5.4
Corporate	(5.3)	(6.8)
Total operating income	\$37.1	\$50.4
Expenditures for long-lived assets		
Entertainment and Communications	\$54.0	\$26.2
IT Services and Hardware	3.9	2.5
Total expenditures for long-lived assets	\$57.9	\$28.7
Depreciation and amortization		
Entertainment and Communications	\$29.5	\$28.1
IT Services and Hardware	3.1	2.8
Corporate	—	0.2
Total depreciation and amortization	\$32.6	\$31.1
	March 31,	December 31,
	2015	2014
Assets		
Entertainment and Communications	\$861.4	\$833.2
IT Services and Hardware	58.9	61.4
Total assets from discontinued operations	16.4	49.3
Corporate and eliminations	796.3	876.8
Total assets	\$1,733.0	\$1,820.7

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

12. Supplemental Guarantor Information

Cincinnati Bell Telephone Notes

As of March 31, 2015, Cincinnati Bell Telephone Company LLC (“CBT”), a wholly-owned subsidiary of Cincinnati Bell Inc. (the “Parent Company”), had \$134.5 million in notes outstanding 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. During the first quarter of 2015, certain entities issued dividends to the Parent Company which impacted equity and intercompany accounts on the balance sheets of certain non-guarantor entities.

The following information sets forth the Condensed Consolidating Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014, Condensed Consolidating Balance Sheets as of March 31, 2015 and December 31, 2014, and Condensed Consolidating Statements of Cash Flows for the three months ended March 31, 2015 and 2014 of (1) the Parent Company, as the guarantor, (2) CBT, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis.

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three Months Ended March 31, 2015

(dollars in millions)	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	\$—	\$167.6	\$135.0	\$ (9.7)	\$292.9
Operating costs and expenses	5.3	128.9	131.3	(9.7)	255.8
Operating income (loss)	(5.3)	38.7	3.7	—	37.1
Interest expense (income), net	33.9	(0.8)	(0.4)	—	32.7
Other expense (income), net	(0.4)	1.9	2.0	—	3.5
Income (loss) before equity in earnings of subsidiaries and income taxes	(38.8)	37.6	2.1	—	0.9
Income tax expense (benefit)	(14.1)	13.8	0.9	—	0.6
Equity in earnings of subsidiaries, net of tax	73.9	—	—	(73.9)	—
Income (loss) from continuing operations	49.2	23.8	1.2	(73.9)	0.3
Income (loss) from discontinued operations	—	—	48.9	—	48.9
Net income (loss)	49.2	23.8	50.1	(73.9)	49.2
Other comprehensive income (loss)	1.7	—	(0.3)	—	1.4
Total comprehensive income (loss)	\$50.9	\$23.8	\$49.8	\$ (73.9)	\$50.6
Net income (loss)	49.2	23.8	50.1	(73.9)	49.2
Preferred stock dividends	2.6	—	—	—	2.6
Net income (loss) applicable to common shareowners	\$46.6	\$23.8	\$50.1	\$ (73.9)	\$46.6

Three Months Ended March 31, 2014

	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	Total
Revenue	\$—	\$163.3	\$128.9	\$ (10.0)	\$282.2
Operating costs and expenses	6.5	113.7	121.6	(10.0)	231.8
Operating income (loss)	(6.5)	49.6	7.3	—	50.4
Interest expense (income), net	36.7	(0.8)	2.9	—	38.8
Other expense (income), net	(0.3)	1.9	(2.4)	—	(0.8)
Income (loss) before equity in earnings of subsidiaries and income taxes	(42.9)	48.5	6.8	—	12.4
Income tax expense (benefit)	(13.2)	17.9	1.8	—	6.5
Equity in earnings of subsidiaries, net of tax	36.7	—	—	(36.7)	—
Income (loss) from continuing operations	7.0	30.6	5.0	(36.7)	5.9
Income (loss) from discontinued operations	—	—	1.1	—	1.1
Net income (loss)	7.0	30.6	6.1	(36.7)	7.0
Other comprehensive income (loss)	1.8	—	—	—	1.8
Total comprehensive income (loss)	\$8.8	\$30.6	\$6.1	\$ (36.7)	\$8.8
Net income (loss)	7.0	30.6	6.1	(36.7)	7.0
Preferred stock dividends	2.6	—	—	—	2.6
Net income (loss) applicable to common shareowners	\$4.4	\$30.6	\$6.1	\$ (36.7)	\$4.4

Table of Contents

Form 10-Q Part I

Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

(dollars in millions)	As of March 31, 2015				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	
Cash and cash equivalents	\$ 10.6	\$ 1.2	\$ 1.6	\$ —	\$ 13.4
Receivables, net	1.4	1.0	167.9	—	170.3
Other current assets	45.2	32.0	66.0	(1.6)	141.6
Other current assets from discontinued operations	—	—	0.4	—	0.4
Total current assets	57.2	34.2	235.9	(1.6)	325.7
Property, plant and equipment, net	0.3	793.5	51.9	—	845.7
Investment in CyrusOne	—	—	261.5	—	261.5
Goodwill and intangibles, net	—	2.2	12.6	—	14.8
Investments in and advances to subsidiaries	1,135.3	213.6	55.5	(1,404.4)	—
Other noncurrent assets	255.6	4.5	159.3	(150.1)	269.3
Other noncurrent assets from discontinued operations	—	—	16.0	—	16.0
Total assets	\$ 1,448.4	\$ 1,048.0	\$ 792.7	\$ (1,556.1)	\$ 1,733.0
Current portion of long-term debt	\$ 5.4	\$ 3.8	\$ 3.4	\$ —	\$ 12.6
Accounts payable	0.6	72.0	40.5	—	113.1
Other current liabilities	58.2	46.3	22.7	—	127.2
Other current liabilities from discontinued operations	—	—	26.5	—	26.5
Total current liabilities	64.2	122.1	93.1	—	279.4
Long-term debt, less current portion	1,524.9	141.4	82.5	—	1,748.8
Other noncurrent liabilities	247.3	165.8	11.8	(151.7)	273.2
Other noncurrent liabilities from discontinued operations	—	—	31.2	—	31.2
Intercompany payables	211.0	—	—	(211.0)	—
Total liabilities	2,047.4	429.3	218.6	(362.7)	2,332.6
Shareowners' (deficit) equity	(599.0)	618.7	574.1	(1,193.4)	(599.6)
Total liabilities and shareowners' equity (deficit)	\$ 1,448.4	\$ 1,048.0	\$ 792.7	\$ (1,556.1)	\$ 1,733.0

Table of Contents
Form 10-Q Part I

Cincinnati Bell Inc.

	As of December 31, 2014				Total
	Parent (Guarantor)	CBT (Issuer)	Other Non-guarantors	Eliminations	
Cash and cash equivalents	\$56.2	\$1.0	\$0.7	\$—	\$57.9
Receivables, net	2.6	1.0	164.9	—	168.5
Other current assets	4.7	29.3	73.7	(1.2)	106.5
Other current assets from discontinued operations	—	—	4.7	—	4.7
Total current assets	63.5	31.3	244.0	(1.2)	337.6
Property, plant and equipment, net	0.2	764.0	51.2	—	815.4
Investment in CyrusOne	—	—	273.6	—	273.6
Goodwill and intangibles, net	—	2.2	12.7	—	14.9
Investments in and advances to subsidiaries	1,061.2	230.8	250.0	(1,542.0)	—
Other noncurrent assets	294.2	4.9	190.5	(155.0)	334.6
Other noncurrent assets from discontinued operations	—	—	44.6	—	44.6
Total assets	\$1,419.1	\$1,033.2	\$1,066.6	\$(1,698.2)	\$1,820.7
Current portion of long-term debt	\$5.4	\$3.9	\$2.3	\$—	\$11.6
Accounts payable	1.0	73.8	57.2	—	