CINCINNATI BELL INC
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2011

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

For the transition period from ______ to ______

Commission File Number 1-8519

CINCINNATI BELL INC.

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

221 East Fourth Street, Cincinnati, Ohio 45202

(Address of principal executive offices) (Zip Code)

(513) 397-9900

(Registrant s telephone number, including area code)

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

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

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

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

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

At April 30, 2011, there were 198,788,640 common shares outstanding.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenue		
Services	$ 311.4	$ 289.8
Products	49.4	33.9
Total revenue	360.8	323.7
Costs and expenses		
Cost of services, excluding items below	110.7	97.4
Cost of products sold, excluding items below	48.5	36.5
Selling, general and administrative	64.6	67.2
Depreciation and amortization	48.4	40.2
Acquisition costs and other	2.2	
Total operating costs and expenses	274.4	241.3
Operating income	86.4	82.4
Interest expense	54.5	37.1
Other income, net		(0.1)
Income before income taxes	31.9	45.4
Income tax expense	14.0	22.6
Net income	17.9	22.8
Preferred stock dividends	2.6	2.6
Net income applicable to common shareowners	$ 15.3	$ 20.2
Basic and diluted earnings per common share	$ 0.08	$ 0.10

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

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Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(Unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 84.0	$ 77.3
Receivables, less allowances of $12.4 and $14.0	165.6	184.2
Inventory, materials and supplies	21.4	20.9
Deferred income taxes, net	31.1	29.6
Prepaid expenses	12.4	10.0
Other current assets	4.2	0.9
Total current assets	318.7	322.9
Property, plant and equipment, net	1,274.3	1,264.4
Goodwill	341.7	341.7
Intangible assets, net	231.1	236.0
Deferred income taxes, net	406.0	422.2
Other noncurrent assets	64.4	66.4
Total assets	$ 2,636.2	$ 2,653.6
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	$ 16.3	$ 16.5
Accounts payable	87.5	110.2
Unearned revenue and customer deposits	49.1	48.1
Accrued taxes	13.5	13.5
Accrued interest	59.3	46.6
Accrued payroll and benefits	42.7	49.0
Other current liabilities	43.9	44.8
Total current liabilities	312.3	328.7
Long-term debt, less current portion	2,507.0	2,507.1
Pension and postretirement benefit obligations	319.9	333.1
Other noncurrent liabilities	147.4	152.5
Total liabilities	3,286.6	3,321.4
Shareowners deficit		
Preferred stock	129.4	129.4
Common shares	2.0	2.0
Additional paid-in capital	2,599.8	2,601.5

Accumulated deficit	(3,220.7)	(3,238.6)
Accumulated other comprehensive loss	(158.8)	(160.0)
Common shares in treasury, at cost	(2.1)	(2.1)
Total shareowners deficit	(650.4)	(667.8)
Total liabilities and shareowners deficit	$ 2,636.2	$ 2,653.6

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income	$ 17.9	$ 22.8
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	48.4	40.2
Provision for loss on receivables	3.1	4.1
Impairment loss	1.1	
Noncash portion of interest expense	2.5	0.9
Deferred income tax provision	13.9	20.4
Pension and other postretirement benefits	(11.2)	1.5
Other, net	0.8	0.1
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease in receivables	15.4	6.1
(Increase) decrease in inventory, materials, supplies, prepaids and other current assets	(6.8)	2.5
Decrease in accounts payable	(22.2)	(20.5)
Increase (decrease) in accrued and other current liabilities	8.5	(2.4)
Decrease (increase) in other long-term assets	0.1	(3.3)
Decrease in other long-term liabilities	(6.5)	(1.6)
Net cash provided by operating activities	65.0	70.8
Cash flows from investing activities		
Capital expenditures	(52.4)	(27.3)
Acquisitions, net of cash acquired		(0.4)
Other, net	0.1	0.1
Net cash used in investing activities	(52.3)	(27.6)
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of financing costs		603.3
Net decrease in corporate credit and receivables facilities		(85.9)
Repayment of debt	(3.0)	(2.9)
Dividends paid on preferred stock	(2.6)	(2.6)
Other, net	(0.4)	(1.3)
Net cash (used in) provided by financing activities	(6.0)	510.6
Net increase in cash and cash equivalents	6.7	553.8
Cash and cash equivalents at beginning of year	77.3	23.0
Cash and cash equivalents at end of period	$ 84.0	$ 576.8

Noncash investing and financing transactions:		
Acquisition of property by assuming debt and other noncurrent liabilities	$ 4.5	$ 14.5
Acquisition of property on account	8.1	9.0

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

Description of Business Cincinnati Bell Inc. and its consolidated subsidiaries (the Company) provides diversified telecommunications and technology services through businesses in four segments: Wireline, Wireless, Data Center Colocation, and IT Services and Hardware. In the fourth quarter of 2010, the Company realigned its reportable business segments to be consistent with changes to its management reporting. The segment formerly known as Technology Solutions was separated into the Data Center Colocation segment and the IT Services and Hardware segment. Prior year amounts have been reclassified to conform to the current segment reporting. See Note 10 for information on the Company s reportable segments.

Approximately 35% of the Company s workforce is party to collective bargaining agreements, which expire on May 7, 2011. A dispute or failed renegotiation of the collective bargaining agreements could have a material adverse effect on the business.

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

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

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

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

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

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

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

2. Acquisition of Cyrus Networks, LLC

On June 11, 2010 (the Acquisition Date), the Company purchased Cyrus Networks, LLC (CyrusOne), a data center operator based in Texas, for approximately $526 million, net of cash acquired. CyrusOne is the largest data center colocation provider in Texas, servicing primarily large businesses. CyrusOne is now a wholly-owned subsidiary of the Company. The purchase of CyrusOne has been accounted for as a business combination under the acquisition method. The purchase price allocation has now been completed. Goodwill and intangible assets resulting from this acquisition were $269.6 million and $138.0 million, respectively.

The results of operations of CyrusOne were included in the consolidated results of operations beginning June 11, 2010, and are included in the Data Center Colocation segment. For the three months ended March 31, 2011, $22.1 million of revenue and $6.0 million of operating income is included in the consolidated results of operations.

2. Acquisition of Cyrus Networks, LLC, continued

The following unaudited pro forma consolidated results assume the acquisition of CyrusOne was completed as of the beginning of 2010:

(dollars in millions, except per share amounts)	Three Months Ended March 31, 2010
Revenue	$ 341.1
Net income	16.7
Earnings per share:	
Basic and diluted earnings per common share	$ 0.07

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

3. Earnings Per Common Share

Basic earnings per common share (EPS) is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur upon issuance of common shares for awards under our 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 the basic and diluted EPS:

(in millions, except per share amounts)	Three Months Ended March 31, 2011	2010
Numerator:		
Net income	$ 17.9	$ 22.8
Preferred stock dividends	2.6	2.6
Income available to common shareholders - basic and diluted	$ 15.3	$ 20.2
Denominator:		
Weighted average common shares outstanding - basic	197.8	200.9
Warrants		1.0
Stock-based compensation arrangements	2.0	2.8
Weighted average common shares outstanding - diluted	199.8	204.7
Basic and diluted earnings per common share	$ 0.08	$ 0.10

For the three months ended March 31, 2011 and 2010, awards under the Company s stock-based compensation plans for common shares of 12.6 million and 14.6 million, respectively, and preferred stock convertible into 4.5 million common shares for both periods, were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive. In addition, warrants to purchase 17.5 million common shares were excluded as they were anti-dilutive to the computation of diluted EPS for the three months ended March 31, 2011.

4. Comprehensive Income

The Company s comprehensive income is shown below:

(dollars in millions)	Three Months Ended March 31, 2011	2010
Net income	$ 17.9	$ 22.8
Amortization of pension and postretirement costs, (net of tax benefit of $0.8 and $0.1)	1.2	0.3
Comprehensive income	$ 19.1	$ 23.1

5. Debt

The Company s debt consists of the following:

(dollars in millions)	March 31, 2011	December 31, 2010
Current portion of long-term debt:		
Capital lease obligations and other debt	$ 16.3	$ 16.5
Current portion of long-term debt	16.3	16.5
Long-term debt, less current portion:		
7% Senior Notes due 2015*	251.1	251.4
8 1/4% Senior Notes due 2017	500.0	500.0
8 3/4% Senior Subordinated Notes due 2018	625.0	625.0
8 3/8% Senior Notes due 2020	775.0	775.0
7 1/4% Senior Notes due 2023	40.0	40.0
Various Cincinnati Bell Telephone notes	207.5	207.5
Capital lease obligations and other debt	118.3	118.5
	2,516.9	2,517.4
Net unamortized discount	(9.9)	(10.3)
Long-term debt, less current portion	2,507.0	2,507.1
Total debt	$ 2,523.3	$ 2,523.6

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

As of March 31, 2011, the Company had no outstanding borrowings under its revolving credit facility and outstanding letters of credit totaling $23.1 million, leaving $186.9 million in additional borrowing availability under its $210.0 million revolving credit facility.

The permitted borrowings under the accounts receivable securitization facility (Receivables Facility) vary depending on the level of eligible receivables and other factors. Under the Receivables Facility, certain subsidiaries sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC (CBF). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company s other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF, and as such are not available to creditors of other subsidiaries or the parent company. At March 31, 2011, the Company had no borrowings outstanding under the Receivables Facility and had $98.3 million in borrowing availability.

6. Financial Instruments

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

(dollars in millions)	March 31, 2011 Carrying Value	March 31, 2011 Fair Value	December 31, 2010 Carrying Value	December 31, 2010 Fair Value
Long-term debt, including current portion	$ 2,523.3	$ 2,447.6	$ 2,523.6	$ 2,416.9

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

7. Restructuring Charges

The Company s restructuring activities consist of actions taken to reduce operating costs, integrate recently acquired businesses, and eliminate non-strategic operations. Restructuring liabilities have been established for employee separation obligations, lease abandonment, and conforming commission incentive programs.

A summary of the activity in these liabilities is presented below:

	Three Months Ended March 31, 2011			
(dollars in millions):	Employee Separation	Lease Abandonment	Other	Total
Beginning balance	$ 11.7	$ 7.2	$ 1.4	$ 20.3
Utilizations	(3.2)	(0.4)	(1.4)	(5.0)
Ending balance	$ 8.5	$ 6.8	$	$ 15.3

	Three Months Ended March 31, 2010			
(dollars in millions):	Employee Separation	Lease Abandonment	Other	Total
Beginning balance	$ 14.4	$ 4.4	$	$ 18.8
Utilizations	(5.1)	(0.2)		(5.3)
Ending balance	$ 9.3	$ 4.2	$	$ 13.5

The liability for employee separations shown in the table above also includes probable future separations to occur under the Company s written severance plan. Total employee separation payments made in the three months ended March 31, 2011 were $3.2 million and by segment were $2.5 million for Wireline, $0.1 million for Wireless, $0.5 million for IT Services and Hardware, with an additional $0.1 million attributable to corporate. Total employee separation payments for the three months ended March 31, 2010 were $5.1 million and were all associated with the Wireline segment.

Payments for lease abandonment totaled $0.4 million and $0.2 million for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2011, the corporate costs were nominal and payments for Wireline and Wireless segments were $0.3 million and $0.1 million, respectively. For the three months ended March 31, 2010, the activity is associated with corporate costs, which are unallocated to the segments.

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

At March 31, 2011 and December 31, 2010, $7.4 million and $9.3 million of the restructuring liabilities were included in Other current liabilities and $7.9 million and $11.0 million were included in Other noncurrent liabilities, respectively, in the Condensed Consolidated Balance Sheets.

8. Pension and Postretirement Plans

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

Pension and postretirement benefit costs are as follows:

	Three Months Ended March 31,			
	2011	2010	2011	2010
(dollars in millions)	Pension Benefits		Postretirement and Other Benefits	
Service cost	$ 1.3	$ 1.3	$ 0.1	$ 0.1
Interest cost on projected benefit obligation	6.2	6.7	1.8	2.0
Expected return on plan assets	(7.3)	(7.5)		
Amortization of:				
Prior service cost (benefit)	0.1	0.1	(3.3)	(3.3)
Actuarial loss	3.6	2.3	1.6	1.3
Benefit costs	$ 3.9	$ 2.9	$ 0.2	$ 0.1

Contributions in 2011 to the Company s pension and postretirement plans are expected to be approximately $20.1 million and $22.1 million, respectively. For the three months ended March 31, 2011, contributions to the pension plan were $9.8 million and contributions to the postretirement plan were $6.6 million.

9. Stock-Based Compensation Plans

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

The Company recognized stock-based compensation expense of $1.4 million and $1.3 million for the three months ended March 31, 2011 and March 31, 2010, respectively. As of March 31, 2011, there was $7.1 million of unrecognized compensation expense related to these awards. The remaining compensation for the stock options, SARs and restricted awards is expected to be recognized over a weighted-average period of approximately two years, while the remaining expense for performance-based awards will be recognized within approximately one year.

The Company also has deferred compensation plans for its Board of Directors and certain executives. Under these plans, participants can elect to invest their deferrals in the Company s common stock. At March 31, 2011 and 2010, there were 0.7 million and 0.9 million common shares deferred, 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. The Company recognized a gain of $0.1 million for the three months ended March 31, 2011 and expense of $0.1 million for the corresponding prior year period.

10. Business Segment Information

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

The Wireline segment provides local voice, data, long-distance and other services to customers primarily in southwestern Ohio, northern Kentucky, and southeastern Indiana. The Wireless segment provides advanced, digital voice and data communications services and sales of related communications equipment to customers in the Greater Cincinnati and Dayton, Ohio operating areas. The Data Center Colocation segment provides data center colocation services primarily to large businesses. The Company operates 17 data centers in Texas, Ohio, Kentucky, Indiana, Michigan, and Illinois. The IT Services and Hardware segment provides a range of fully managed and outsourced IT and telecommunications services along with the sale, installation, and maintenance of major branded IT and telephony equipment.

On June 11, 2010, the Company purchased CyrusOne, a data center operator based in Texas, for approximately $526 million, net of cash acquired. The CyrusOne financial results are included in the Data Center Colocation segment for the three months ended March 31, 2011.

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

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

10. Business Segment Information, continued

The Company s business segment information is as follows:

(dollars in millions)	Three Months Ended March 31, 2011	2010
Revenue		
Wireline	$ 183.9	$ 187.7
Wireless	71.4	73.2
Data Center Colocation	43.4	20.0
IT Services and Hardware	70.3	51.6
Intersegment	(8.2)	(8.8)
Total revenue	$ 360.8	$ 323.7
Intersegment revenue		
Wireline	$ 5.8	$ 6.3
Wireless	0.6	0.7
Data Center Colocation	0.6	0.5
IT Services and Hardware	1.2	1.3
Total intersegment revenue	$ 8.2	$ 8.8
Operating income		
Wireline	$ 59.6	$ 63.1
Wireless	16.3	17.7
Data Center Colocation	12.0	6.7
IT Services and Hardware	3.2	0.7
Corporate	(4.7)	(5.8)
Total operating income	$ 86.4	$ 82.4
Expenditures for long-lived assets		
Wireline	$ 25.5	$ 20.7
Wireless	4.8	2.2
Data Center Colocation	21.6	2.4
IT Services and Hardware	0.5	2.0
Total expenditure for long-lived assets	$ 52.4	$ 27.3
Depreciation and amortization		
Wireline	$ 25.4	$ 25.4
Wireless	8.7	9.0
Data Center Colocation	12.0	4.1
IT Services and Hardware	2.2	1.6
Corporate and eliminations	0.1	0.1
Total depreciation and amortization	$ 48.4	$ 40.2

	March 31, 2011	December 31, 2010
Assets		
Wireline	$ 696.4	$ 694.1
Wireless	353.6	359.3
Data Center Colocation	866.2	857.2
IT Services and Hardware	34.3	34.7
Corporate and eliminations	685.7	708.3
Total assets	$ 2,636.2	$ 2,653.6

11. Supplemental Guarantor Information
Cincinnati Bell Telephone Notes

Cincinnati Bell Telephone Company LLC (CBT), a wholly-owned subsidiary of Cincinnati Bell Inc. (the Parent Company or CBI), had $207.5 million in notes outstanding at March 31, 2011 that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company s debt service obligations.

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

Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2011				
(dollars in millions)	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	$	$ 163.8	$ 211.0	$ (14.0)	$ 360.8
Operating costs and expenses	6.0	104.7	177.7	(14.0)	274.4
Operating income (loss)	(6.0)	59.1	33.3		86.4
Interest expense	48.1	3.5	15.8	(12.9)	54.5
Other expense (income), net	(11.5)	0.3	(1.7)	12.9	
Income (loss) before equity in earnings of subsidiaries and income taxes	(42.6)	55.3	19.2		31.9
Income tax expense (benefit)	(13.3)	20.9	6.4		14.0
Equity in earnings of subsidiaries, net of tax	47.2			(47.2)	
Net income	17.9	34.4	12.8	(47.2)	17.9
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 15.3	$ 34.4	$ 12.8	$ (47.2)	$ 15.3

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

Net income	22.8	34.1	13.4	(47.5)	22.8
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 20.2	$ 34.1	$ 13.4	$ (47.5)	$ 20.2

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11. Supplemental Guarantor Information, continued
Cincinnati Bell Telephone Notes, continued

Condensed Consolidating Balance Sheets

	As of March 31, 2011				
(dollars in millions)	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	$ 78.3	$ 1.3	$ 4.4	$	$ 84.0
Receivables, net	2.0		163.6		165.6
Other current assets	4.2	28.2	55.7	(19.0)	69.1
Total current assets	84.5	29.5	223.7	(19.0)	318.7
Property, plant and equipment, net	0.3	622.2	651.8		1,274.3
Goodwill and intangibles, net		2.6	570.2		572.8
Investments in and advances to subsidiaries	1,688.6	179.3		(1,867.9)	
Other noncurrent assets	363.6	8.9	202.5	(104.6)	470.4
Total assets	$ 2,137.0	$ 842.5	$ 1,648.2	$ (1,991.5)	$ 2,636.2
Current portion of long-term debt	$	$ 2.2	$ 14.1	$	$ 16.3
Accounts payable	0.4	38.5	48.6		87.5
Other current liabilities	94.9	53.2	76.5	(16.1)	208.5
Total current liabilities	95.3	93.9	139.2	(16.1)	312.3
Long-term debt, less current portion	2,181.5	213.5	112.0		2,507.0
Other noncurrent liabilities	330.2	97.0	147.6	(107.5)	467.3
Intercompany payables	180.4		599.4	(779.8)	
Total liabilities	2,787.4	404.4	998.2	(903.4)	3,286.6
Shareowners equity (deficit)	(650.4)	438.1	650.0	(1,088.1)	(650.4)
Total liabilities and shareowners equity (deficit)	$ 2,137.0	$ 842.5	$ 1,648.2	$ (1,991.5)	$ 2,636.2

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