

CINCINNATI BELL INC
Form 10-Q
August 08, 2018

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 June 30, 2018

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 No

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

At July 31, 2018, there were 50,157,168 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 and Six Months Ended June 30, 2018 and 2017</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited) Three and Six Months Ended June 30, 2018 and 2017</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets (Unaudited) June 30, 2018 and December 31, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Six Months Ended June 30, 2018 and 2017</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>27</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>44</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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$296.8	\$259.4	\$592.5	\$509.0
Costs and expenses				
Cost of services and products, excluding items below	152.3	128.9	301.7	253.0
Selling, general and administrative, excluding items below	66.1	53.8	134.5	109.1
Depreciation and amortization	50.9	47.0	102.1	92.8
Restructuring and severance related charges	4.6	3.6	4.9	29.2
Transaction and integration costs	2.7	1.7	4.9	2.3
Total operating costs and expenses	276.6	235.0	548.1	486.4
Operating income	20.2	24.4	44.4	22.6
Interest expense	31.8	18.1	62.6	36.1
Loss on extinguishment of debt	1.3	—	1.3	—
Other components of pension and postretirement benefit plans expense	3.2	3.2	6.5	6.4
Gain on sale of Investment in CyrusOne	—	—	—	(117.7)
Other income, net	(0.8)	(0.6)	(1.2)	(1.0)
(Loss) income before income taxes	(15.3)	3.7	(24.8)	98.8
Income tax (benefit) expense	(1.5)	1.4	(2.7)	35.9
Net (loss) income	(13.8)	2.3	(22.1)	62.9
Preferred stock dividends	2.6	2.6	5.2	5.2
Net (loss) income applicable to common shareowners	\$(16.4)	\$(0.3)	\$(27.3)	\$57.7
Basic net (loss) earnings per common share	\$(0.39)	\$(0.01)	\$(0.64)	\$1.37
Diluted net (loss) earnings per common share	\$(0.39)	\$(0.01)	\$(0.64)	\$1.36

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income	\$(13.8)	\$2.3	\$(22.1)	\$62.9
Other comprehensive (loss) income, net of tax:				
Unrealized gains on Investment in CyrusOne, net of tax of \$4.4	—	—	—	8.3
Reclassification adjustment for gain on sale of Investment in CyrusOne included in net income, net of tax of (\$41.3)	—	—	—	(76.4)
Foreign currency translation loss	(2.5)	—	(4.3)	—
Unrealized loss on cash flow hedge arising during the period, net of tax of (\$0.4), (\$0.4)	(1.5)	—	(1.5)	—
Defined benefit plans:				
Amortization of prior service benefits included in net income, net of tax of (\$0.2), (\$0.4), (\$0.4), (\$0.8)	(0.6)	(0.7)	(1.2)	(1.4)
Amortization of net actuarial loss included in net income, net of tax of \$1.2, \$2.0, \$2.4, \$4.0	4.1	3.6	8.2	7.1
Total other comprehensive (loss) income	(0.5)	2.9	1.2	(62.4)
Total comprehensive (loss) income	\$(14.3)	\$5.2	\$(20.9)	\$0.5

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)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$30.3	\$17.8
Restricted Cash	366.5	378.7
Receivables, less allowances of \$8.7 and \$10.4	241.3	239.8
Inventory, materials and supplies	31.9	44.3
Prepaid expenses	22.0	22.2
Other current assets	7.3	7.6
Total current assets	699.3	710.4
Property, plant and equipment, net	1,125.8	1,129.0
Goodwill	149.4	151.0
Intangible assets, net	124.7	132.3
Deferred income tax assets	14.2	12.2
Other noncurrent assets	52.7	52.7
Total assets	\$2,166.1	\$2,187.6
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	\$16.8	\$18.4
Accounts payable	205.1	185.6
Unearned revenue and customer deposits	40.3	36.3
Accrued taxes	17.5	21.2
Accrued interest	26.7	29.9
Accrued payroll and benefits	30.6	28.7
Other current liabilities	31.2	37.2
Total current liabilities	368.2	357.3
Long-term debt, less current portion	1,727.3	1,729.3
Pension and postretirement benefit obligations	168.6	177.5
Deferred income tax liabilities	11.4	11.2
Other noncurrent liabilities	34.0	30.2
Total liabilities	2,309.5	2,305.5
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depository shares) of 6 ³ / ₄ % Cumulative Convertible Preferred Stock issued and outstanding at June 30, 2018 and December 31, 2017; liquidation preference \$1,000 per share (\$50 per depository share)	129.4	129.4
Common shares, \$.01 par value; 96,000,000 shares authorized; 42,440,157 and 42,197,965 shares issued and outstanding at June 30, 2018 and December 31, 2017	0.4	0.4
Additional paid-in capital	2,561.0	2,565.6
Accumulated deficit	(2,661.7)	(2,639.6)
Accumulated other comprehensive loss	(172.5)	(173.7)
Total shareowners' deficit	(143.4)	(117.9)
Total liabilities and shareowners' deficit	\$2,166.1	\$2,187.6

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)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net (loss) income	\$(22.1)	\$62.9
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	102.1	92.8
Loss on extinguishment of debt	1.3	—
Gain on sale of Investment in CyrusOne	—	(117.7)
Provision for loss on receivables	2.6	3.5
Noncash portion of interest expense	2.1	1.1
Deferred income taxes	(3.8)	35.4
Pension and other postretirement payments less than expense	0.3	1.5
Stock-based compensation	2.6	3.9
Other, net	(1.4)	(3.0)
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in receivables	(2.8)	25.4
Decrease (increase) in inventory, materials, supplies, prepaid expenses and other current assets	10.6	(5.9)
Increase in accounts payable	3.0	9.9
(Decrease) increase in accrued and other current liabilities	(6.3)	9.0
Decrease in other noncurrent assets	1.8	0.3
(Decrease) increase in other noncurrent liabilities	(0.1)	3.8
Net cash provided by operating activities	89.9	122.9
Cash flows from investing activities		
Capital expenditures	(71.0)	(105.2)
Proceeds from sale of Investment in CyrusOne	—	140.7
Acquisitions of businesses	(2.8)	(9.6)
Other, net	—	0.4
Net cash (used in) provided by investing activities	(73.8)	26.3
Cash flows from financing activities		
Net decrease in corporate credit and receivables facilities with initial maturities less than 90 days	—	(89.5)
Repayment of debt	(5.9)	(4.2)
Debt issuance costs	(2.5)	(0.7)
Dividends paid on preferred stock	(5.2)	(5.2)
Other, net	(2.0)	(1.1)
Net cash used in financing activities	(15.6)	(100.7)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(0.2)	—
Net increase in cash, cash equivalents and restricted cash	0.3	48.5
Cash, cash equivalents and restricted cash at beginning of period	396.5	9.7
Cash, cash equivalents and restricted cash at end of period	\$396.8	\$58.2
Noncash investing and financing transactions:		
Acquisition of property by assuming debt and other noncurrent liabilities	\$6.1	\$6.9
Acquisition of property on account	\$28.3	\$24.8

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

4

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

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") provide 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.

The Company has receivables with General Electric Company that make up 10% of the outstanding accounts receivable balance as of June 30, 2018 and December 31, 2017. The Company also has receivables with Verizon Communications Inc. that make up 12% of the outstanding accounts receivable balance as of June 30, 2018. Revenue derived from foreign operations is approximately 6% of consolidated revenue for the three and six months ended June 30, 2018.

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.

Effective January 1, 2018, the Company adopted the requirements of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers and ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards. Certain prior period amounts reported in our condensed consolidated financial statements and notes thereto have been reclassified to conform to current period presentation, as a result of adopting the new standards.

On January 1, 2018, the Company changed the composition of its operating segments to align more closely with the Company's broader strategy and how it manages business operations. With the exception of consumer long distance revenue, this strategy groups Competitive Local Exchange Carrier ("CLEC") revenue, which was previously included as part of the Entertainment and Communications segment, as part of the IT Services and Hardware segment in order to consolidate all company-wide VoIP sales. Accordingly, the Company recast the previously reported 2017 segment disclosures. See Note 11 for further disclosures.

The Condensed Consolidated Balance Sheet as of December 31, 2017 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 2017 Annual Report on Form 10-K. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results expected for the full year or any other interim period.

Business Combinations — In accounting for business combinations, we apply the accounting requirements of ASC 805, "Business Combinations," which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, management analyzes a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets, and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets. In addition, any

contingent consideration is presented at fair value at the date of acquisition, and transaction costs are expensed as incurred. See Note 4 for disclosures related to mergers and acquisitions.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

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.

Investment in CyrusOne — In the first quarter of 2017, the Company sold its remaining 2.8 million shares of CyrusOne Inc. common stock for net proceeds totaling \$140.7 million that resulted in a realized gain of \$117.7 million. As of March 31, 2017, we no longer had an investment in CyrusOne Inc.

Income and Operating Taxes

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.

During 2017, the Company re-classed \$14.9 million of Alternative Minimum Tax ("AMT") refundable tax credits from "Deferred income taxes, net" to "Receivables" as these credits were expected to be utilized during 2018.

Acceleration of the AMT refundable tax credits was the result of the Company's decision to make an election on its 2017 federal income tax return to claim the credits in lieu of claiming bonus depreciation. The Company received the \$14.9 million of payments during the second quarter of 2018. In addition, new tax legislation enacted in 2017 repealed AMT for corporate tax payers. The balance of any remaining AMT credits will be refunded over the next 5 years beginning with the return filed in 2019. In the first quarter of 2018, the Company re-classed \$0.7 million from "Deferred income taxes, net" to "Receivables" as it expects to receive this portion of the remaining AMT credits in 2019.

The Company filed our 2017 federal income tax return during the quarter ended June 30, 2018 and confirms that the accounting for the income tax effects of the Tax Cuts and Jobs Act signed into law on December 22, 2017 is now complete.

Operating taxes — The Company elected to record certain operating taxes such as property, sales, use, and gross receipts taxes including telecommunications surcharges as expenses, primarily within cost of services and products. These taxes are not included in income tax expense because the amounts to be paid are not dependent on our level of income. Liabilities for audit exposures are established based on management's assessment of the probability of payment. The provision for such liabilities is recognized as either property, plant and equipment, operating tax expense, or depreciation expense depending on the nature of the audit exposure. Upon resolution of an audit, any remaining liability not paid is released against the account in which it was originally recorded. Certain telecommunication taxes and surcharges that are collected from customers are also recorded as revenue; however, with the adoption of ASC 606, revenue associated with these charges is excluded from the transaction price. This approach is consistent with how these taxes were previously recorded under ASC Topic 605.

Derivative Financial Instruments — The Company accounts for derivative financial instruments by recognizing derivative instruments as either assets or liabilities in the Condensed Consolidated Balance Sheets at fair value and recognizing the resulting gains or losses as adjustments to the Condensed Consolidated Statements of Operations or "Accumulated Other Comprehensive Income (Loss)". The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of "Accumulated Other Comprehensive Income (Loss)" in stockholder's equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

Derivatives that do not qualify as hedges are adjusted to fair value through earnings in the current period.

Recently Issued Accounting Standards

In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), which improves financial reporting for non-employee share-based payments by making the guidance consistent with the accounting for employee share-based compensation. The ASU is effective for public entities for annual reporting periods beginning after December 15, 2018, and for interim periods with those fiscal years. Early adoption is permitted. The Company early adopted the guidance effective June 30, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows entities to elect to make a one-time reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The ASU is effective for public entities for annual reporting periods beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted. The Company early adopted this guidance effective December 31, 2017, resulting in a reclassification adjustment of \$32.2 million to "Accumulated deficit" from "Other comprehensive loss" on the Condensed Consolidated Balance Sheets. The amount of the reclassification is calculated on the basis of the difference between the historical and newly enacted tax rates on deferred taxes related to our pension and postretirement benefit plans.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the hedge accounting model to facilitate financial reporting that more closely reflects a company's risk management activities. The FASB's new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the update. The Company early adopted the guidance effective April 1, 2018.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation, which amends the scope of modification accounting for share-based payment arrangements. The ASU is effective for public business entities for annual periods beginning after December 15, 2017. The Company prospectively adopted the standard effective January 1, 2018 and has applied the amended guidance to any awards modified on or after this date.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU requires entities to disaggregate the current service cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement. The other components shall be presented elsewhere in the income statement and outside of income from operations, if such a subtotal is presented, on a retrospective basis as of the date of adoption. In addition, only the service cost component of net benefit cost is eligible for capitalization on a prospective basis. The ASU is effective for public business entities for annual periods beginning after December 15, 2017. The Company retrospectively adopted the standard effective January 1, 2018. The Company re-classed \$1.6 million of other components of net benefit cost from both "Cost of services and products" and "Selling, general and administrative," to a new line below Operating income, "Other components of pension and postretirement benefit plans expense," on the Condensed Consolidated Statements of Operations for the three months ended June 30, 2017. The Company re-classed \$3.3 million and \$3.1 million of other components of net benefit cost from "Cost of services and products" and "Selling, general and administrative," respectively, to a new line below Operating income, "Other components of pension and postretirement benefit plans expense," on the Condensed Consolidated Statements of Operations for the six months ended June 30, 2017.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow - Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice. The ASU is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material effect on the Company's Consolidated Statement of Cash Flows.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

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 aligns certain underlying principles of the new lessor model with those in ASC 606. The ASU is effective for public entities for fiscal years beginning after December 15, 2018. As issued, the standard requires lessors and lessees to use a modified retrospective transition method for existing leases. ASU 2016-02 was amended in January 2018 by the provisions of ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842," and in July 2018 by the provisions of ASU 2018-10, "Codification Improvements to Topic 842, Leases," and ASU 2018-11, "Targeted Improvements." We plan to adopt ASU 2016-02, as amended, effective January 1, 2019.

As of the second quarter of 2018 the Company has substantially completed procedures to identify the existing lease population to which the new standard is applicable. The Company is also in the process of implementing changes to accounting policies, processes, systems, and internal controls. The Company procured a third-party lease accounting software solution to facilitate the ongoing accounting and financial reporting requirements of the ASU. The new standard will result in increases to the assets and liabilities on the Company's consolidated balance sheets. The Company is currently evaluating the full impact of adopting the new standard.

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. The Company adopted the new standard and all subsequent amendments as of January 1, 2018. The Company utilized the full retrospective method; therefore, each prior reporting period presented was adjusted beginning with the issuance of the Company's 2018 interim financial statements.

The most significant impact of adopting the new standard is the change to the treatment of hardware revenue in the Infrastructure Solutions category from recording hardware revenue as a principal (gross) to recording revenue as an agent (net). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record hardware sales net of the related cost of products. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations focusing on a control model rather than a risk and reward model. As a result of adopting ASU 2014-09, revenue and cost of products for the three and six months ended June 30, 2017, decreased by \$34.6 million and \$63.2 million, respectively. Changes in accounting policies related to variable consideration or rebates did not have a material effect on the Company's financial statements. Fulfillment and acquisition costs that are now recorded as an asset and amortized on a monthly basis decreased expense for the three and six months ended June 30, 2017 by \$0.3 million and \$0.6 million, respectively, and increased basic earnings per share for the six months ended June 30, 2017 by \$0.01. Adoption of ASU 2014-09 did not result in a change to basic earnings per share for three months ended June 30, 2017. An incremental asset related to fulfillment and acquisition costs of \$32.3 million was recorded on the balance sheet as of December 31, 2017, with an offsetting reduction in "Accumulated deficit." As a result of the entry, total contract asset related to fulfillment and acquisition costs was \$32.4 million as of December 31, 2017. The impact of these adjustments resulted in a decrease of \$7.1 million to "Deferred income tax assets" as of December 31, 2017, with the offset to "Accumulated deficit." See Note 3 for additional disclosures as a result of adopting ASC Topic 606.

Other accounting standards that have been issued or proposed by the FASB or other standard-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

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 issuance of common shares for awards under stock-based compensation plans 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:

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Numerator:				
Net (loss) income	\$(13.8)	\$2.3	\$(22.1)	\$62.9
Preferred stock dividends	2.6	2.6	5.2	5.2
Net (loss) income applicable to common shareowners - basic and diluted	\$(16.4)	\$(0.3)	\$(27.3)	\$57.7
Denominator:				
Weighted average common shares outstanding - basic	42.4	42.2	42.4	42.1
Stock-based compensation arrangements	—	—	—	0.2
Weighted average common shares outstanding - diluted	42.4	42.2	42.4	42.3
Basic net (loss) earnings per common share	\$(0.39)	\$(0.01)	\$(0.64)	\$1.37
Diluted net (loss) earnings per common share	\$(0.39)	\$(0.01)	\$(0.64)	\$1.36

For the three and six months ended June 30, 2018, the Company had a net loss available to common shareholders 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 June 30, 2017, the Company had a net loss available to common shareholders 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 six months ended June 30, 2017, awards under the Company's stock-based compensation plans for common shares of 0.3 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 0.9 million common shares was excluded as it was anti-dilutive.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

3. Revenue

The Entertainment and Communications segment provides products and services to both consumer and enterprise customers that can be categorized as either Fioptics, Enterprise Fiber or Legacy. The products and services within these three categories can be further categorized as either Data, Voice, Video or Other. Fioptics and Legacy revenue include both consumer and enterprise customers. Enterprise Fiber revenue includes ethernet and dedicated internet access services that are provided to enterprise customers. Consumer customers have implied month-to-month contracts, while enterprise customers typically have contracts with a duration of one to five years and automatically renew on a month to month basis. Customers are invoiced on a monthly basis for services rendered. Contracts for projects that are included within the Other revenue stream are typically short in duration and less than one year.

The IT Services and Hardware segment provides a full range of Information Technology ("IT") solutions, including Communications, Cloud and Consulting services. IT Services and Hardware customers enter into contracts that have a typical duration of one to five years, with renewal options at the end of the term. Customers are invoiced on a monthly basis for services rendered. The IT Services and Hardware segment also provides enterprise customers with Infrastructure Solutions, which includes the sale of hardware and maintenance contracts. These contracts are typically satisfied in less than twelve months and revenue is recognized at a point in time.

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which was adopted on January 1, 2018, using the full retrospective method. See below for further discussion of the adoption, including the impact on our 2017 financial statements.

The Company has elected the practical expedient described in ASC 606-10-32-18 that allows an entity to not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects that the period of time between the transfer of a promised good or service to the customer and when the customer pays will be one year or less. Customers are typically billed immediately upon the rendering of services or the delivery of products. Payment terms for customers are between 30 and 180 days. In the instance that payment terms are greater than twelve months, the guidance in ASC 606-10-32-15 will be applied to determine the transaction price.

Method of Adoption

The Company adopted ASC Topic 606 on January 1, 2018, using the full retrospective method. The comparative periods for 2018 and 2017 are reported in accordance with ASC Topic 606. The adoption of ASC Topic 606 primarily affected product revenue and cost of products on our Consolidated Financial Statements. Based on the Company's assessment of ASC Topic 606 as it relates to the sale of hardware within the Infrastructure Solutions category, the Company considers itself an agent (net) versus as a principal (gross). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record revenue associated with the sale of hardware net of the related cost of products. This conclusion is based on the Company not obtaining control of the inventory since in most cases the Company does not take possession of the inventory, does not have the ability to direct the product to anyone besides the purchasing customer, and does not integrate the hardware with any of our own goods or services. In situations where the Company does take possession, the Company assesses if we act as the principal or the agent. While the Company does perform installation services in certain cases, those services involve installing the hardware into the customer's existing technology. Installation is considered a separate performance obligation as it is capable of being distinct, and is distinct, within the context of the contract. The reduction to "Revenue" and "Cost of services and products" related to recording these contracts on a net basis is \$34.6 million and \$63.2 million for the three and six months ended June 30, 2017, respectively.

In addition to the changes discussed above as result of recognizing hardware revenue on a net basis, additional contract assets related to fulfillment costs and costs of acquisition of \$32.3 million were recorded to "Other noncurrent assets" as of December 31, 2017, with an offsetting reduction in "Accumulated deficit." As a result of the entry, total

contract assets related to fulfillment and acquisition costs were \$32.4 million as of December 31, 2017. Under the new standard, the Company defers all incremental sales incentives and other costs incurred in order to obtain a contract with a customer. The Company amortizes the contract asset related to both fulfillment costs and cost of acquisition over the period of time the services under the contract are expected to be delivered to the customer.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, or a series of distinct goods or services, and is the unit of account defined in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Contract modifications for changes to services provided are routine throughout the term of our contracts. In most instances, contract modifications are for the addition or reduction of services that are distinct, and price changes are based on the stand-alone selling price of the service and, as such, are accounted for on a prospective basis as a new contract.

Goods and services are sold individually, or a contract may include multiple goods or services. For contracts with multiple goods and services, the contract's transaction price is allocated to each performance obligation using the stand-alone selling price of each distinct good or service in the contract.

Certain customers of the Company may receive cash-based rebates based on volume of sales, which are accounted for as variable consideration. Potential rebates are considered at contract inception in our estimate of transaction price based on the forecasted volume of sales. Estimates are reassessed quarterly.

Performance obligations are either satisfied over time as services are performed or at a point in time. Substantially all of our service revenue is recognized over time. For services transferred over time, the Company has elected the practical expedient to recognize revenue based on amounts invoiced to the customer as the Company has concluded that the invoice amount directly corresponds with the value of services provided to the customer. Management considers this a faithful depiction of the transfer of control as services are provided evenly over the month and are substantially the same over the life of the contract. As the Company has elected the practical expedients detailed at ASC 606-10-50-13, revenue for unsatisfied performance obligations that will be billed in future periods has not been disclosed.

Entertainment and Communications

The Company has identified four distinct performance obligations in the Entertainment and Communications segment, namely Data, Voice, Video and Other. For each of the Data, Voice and Video services, service is delivered to the customer continuously and in a substantially similar manner for each period of the agreement, the customer takes full control over the services as the service is delivered, and as such Data, Voice and Video are identified to be a series of distinct services. Services provided by the Entertainment and Communications segment can be categorized into three main categories that include Fioptics, Enterprise Fiber and Legacy, each of which may include one or more of the aforementioned performance obligations. Data services include high-speed internet access, digital subscriber lines, ethernet, SONET (Synchronous Optical Network), dedicated internet access, wavelength and digital signal. Voice services include traditional and Fioptics voice lines, switched access, digital trunking and consumer long distance calling. Video services are offered through our fiber network to consumer and enterprise customers based on various standard plans with the opportunity to add premium channels. To receive video services, customers are required to use Cincinnati Bell set top boxes that are billed as part of the monthly recurring service. Set top boxes are not considered a separate performance obligation from video because the equipment is necessary for the service to operate and the customer has no alternative use for the equipment.

Services and products not included in Data, Voice or Video are included in Other revenue and are comprised of wire care, wire time and materials projects, and advertising. Transfer of control of these services and products is evaluated on an individual project basis and can occur over time or at a point in time.

The Company uses multiple methods to determine stand-alone selling prices in the Entertainment and Communications segment. For Fioptics Data, Video and Voice, market rate is the primary method used to determine

stand-alone selling prices. For Enterprise Fiber Data and Legacy Voice, Data, and Other, stand-alone selling prices are determined based on a list price, discount off of list price, a tariff rate, a margin percentage range, or a minimum margin percentage.

IT Services and Hardware

The Company has identified four distinct performance obligations in the IT Services and Hardware segment. These performance obligations are Communications, Cloud, Consulting, and Infrastructure Solutions. Communications services are monthly services that include data and VoIP services, tailored solutions that include converged IP communications of data, voice, video and mobility applications, enterprise long distance, MPLS (Multi-Protocol Label Switching) and conferencing services. Cloud services includes storage, backup, disaster recovery, SLA-based monitoring and management, cloud computing and cloud consulting. Consulting services provide customers with IT staffing, consulting, emerging technology solutions and installation projects. Infrastructure Solutions includes the sale of hardware and maintenance contracts.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

For the sale of hardware, the Company evaluated whether it is the principal or the agent. The Company has concluded it acts as an agent because it does not control the inventory before it is transferred to customers, it does not have the ability to direct the product to anyone besides the purchasing customer, and it does not integrate the hardware with any of its own goods or services. Based on this assessment, the performance obligation is to arrange a sale of hardware between the manufacturer and the customer. In the instance where there is an issue with the hardware, the Company coordinates with the manufacturer to facilitate a return in accordance with the standard manufacturer warranty. Hardware returns are not significant to the Company.

Stand-alone selling prices for the four performance obligations within the IT Services and Hardware segment were determined based on a margin percentage range, minimum margin percentage or standard price list.

Revenue recognized at a point in time includes revenue recognized net of the cost of product for hardware sales within Infrastructure Solutions as well as for certain projects within Communications and Consulting. Revenue generated from these contracts is recognized when the hardware is shipped to the customer, in the case of Infrastructure Solutions when we act as the agent, or when the customer communicates acceptance of services performed, in the case of Communications and Consulting. For contracts with freight on board shipping terms, management has elected to account for shipping and handling as activities to fulfill the promise to transfer the good, and therefore, has not evaluated whether shipping and handling activities are promised services to its customers.

Contract Balances

The Company recognizes an asset for incremental fulfillment costs that include installation costs associated with Voice, Video, and Data product offerings in the Entertainment and Communications segment for which the contract life is longer than one year. These fulfillment costs are amortized ratably over the expected life of the customer, which is representative of the expected period of benefit of the asset capitalized. The expected life of the customer is determined utilizing the average churn rate for each product. The Company calculates average churn based on the historical average customer life. We recognize an asset for incremental fulfillment costs that include installation and provisioning costs for certain Communications services in the IT Services and Hardware segment. The asset recognized for Communication services is amortized over the average contract life. Churn rates and average contract life are reviewed on an annual basis. Fulfillment costs are capitalized to "Other noncurrent assets." The related amortization expense is recorded to "Cost of services and products."

The Company recognizes an asset for the incremental costs of acquiring a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive programs related to Voice, Video, Data and certain Communications and Cloud services meet the requirements to be capitalized. The contract asset established for the costs of acquiring a contract are recorded to "Other noncurrent assets." Sales incentives are amortized ratably over the period that services are delivered using either an average churn rate or average contract term, both representative of the expected period of benefit of the asset capitalized. Customer churn rates and average contract term assumptions are reviewed on an annual basis. The related amortization expense is recorded to "Selling, general and administrative."

Management has elected to use the practical expedient detailed in ASC 340-40-25-4 to expense any costs to fulfill a contract and costs to obtain a contract as they are incurred when the amortization period would have been one year or less. This practical expedient has been applied to fulfillment costs that include installation costs associated with wiring projects and certain Cloud services. In addition, this practical expedient has been applied to acquisition costs associated with revenue from certain Communications projects.

The following table presents the activity for the Company's contract assets:

(dollars in millions)	Fulfillment Costs		Cost of Acquisition		Total Contract Assets	
	Entertainment and Services Communications	Total Company	Entertainment and Services Communications	Total Company	Entertainment and Services Communications	Total Company

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	Hardware			Hardware			Hardware		
Balance as of December 31, 2017	\$17.5	\$ 2.0	\$ 19.5	\$11.6	\$ 1.3	\$ 12.9	\$29.1	\$ 3.3	\$ 32.4
Additions	3.1	0.4	3.5	1.6	0.4	2.0	4.7	0.8	5.5
Amortization	(3.3)	(0.3)	(3.6)	(1.7)	(0.2)	(1.9)	(5.0)	(0.5)	(5.5)
Balance as of March 31, 2018	17.3	2.1	19.4	11.5	1.5	13.0	28.8	3.6	32.4
Additions	3.0	0.4	3.4	1.8	0.3	2.1	4.8	0.7	5.5
Amortization	(3.3)	(0.3)	(3.6)	(1.6)	(0.2)	(1.8)	(4.9)	(0.5)	(5.4)
Balance as of June 30, 2018	\$17.0	\$ 2.2	\$ 19.2	\$11.7	1.6	\$ 13.3	\$28.7	\$ 3.8	\$ 32.5

12

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Disaggregated Revenue

The following table presents revenues disaggregated by product and service lines.

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
(dollars in millions)	2018	2017	2018	2017
Data	\$84.4	\$90.1	\$169.3	\$174.5
Video	39.7	36.9	78.9	72.8
Voice	46.0	50.5	93.0	102.2
Other	3.8	3.5	6.9	6.6
Total Entertainment and Communications	173.9	181.0	348.1	356.1
Consulting	39.8	16.5	77.9	33.2
Cloud	23.0	19.2	45.6	40.1
Communications	41.5	40.3	82.1	76.8
Infrastructure Solutions	24.0	8.8	50.3	15.7
Total IT Services and Hardware	128.3	84.8	255.9	165.8
Intersegment revenue	(5.4)	(6.4)	(11.5)	(12.9)
Total revenue	\$296.8	\$259.4	\$592.5	\$509.0

The following table presents revenues disaggregated by contract type.

	Three Months Ended June 30,							
	Entertainment and Communications		IT Services and Hardware		Intersegment revenue elimination		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
(dollars in millions)								
Products and Services transferred at a point in time	\$5.6	\$5.1	\$32.1	\$13.6	\$—	\$—	\$37.7	\$18.7
Products and Services transferred over time	163.6	170.6	95.5	70.1	—	—	259.1	240.7
Intersegment revenue	4.7	5.3	0.7	1.1	(5.4)	(6.4)	—	—
Total revenue	\$173.9	\$181.0	\$128.3	\$84.8	\$(5.4)	\$(6.4)	\$296.8	\$259.4
	Six Months Ended June 30,							
	Entertainment and Communications		IT Services and Hardware		Intersegment revenue elimination		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
(dollars in millions)								
Products and Services transferred at a point in time	\$10.4	\$10.2	\$67.4	\$24.3	\$—	\$—	\$77.8	\$34.5
Products and Services transferred over time	327.8	335.2	186.9	139.3	—	—	514.7	474.5
Intersegment revenue	9.9	10.7	1.6	2.2	(11.5)	(12.9)	—	—
Total revenue	\$348.1	\$356.1	\$255.9	\$165.8	\$(11.5)	\$(12.9)	\$592.5	\$509.0

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

4. Mergers and Acquisitions

Acquisition of OnX Holdings LLC

On October 2, 2017, the Company acquired 100% of OnX Holdings LLC ("OnX"), a privately held company that provides technology services and solutions to enterprise customers in the United States, Canada and the United Kingdom. The acquisition extends the IT Services and Hardware segment's geographic footprint and accelerates its initiatives in IT cloud migration.

The purchase price for OnX consisted of the following:

(dollars in millions)

Cash consideration	\$241.2
Debt repayment	(77.6)
Working capital adjustment	2.8
Total purchase price	\$166.4

The cash portion of the purchase price was funded through borrowings under the Credit Agreement (see Note 6). The cash consideration includes \$77.6 million related to existing debt that was repaid in conjunction with the close of the acquisition. In addition, a working capital adjustment of \$2.8 million was paid in the first quarter of 2018. The Company spent \$8.6 million in acquisition expenses related to the OnX acquisition, of which no expense was recorded in three months ended June 30, 2018 and \$0.5 million was recorded in the six months ended June 30, 2018. No expenses were recorded in the prior year comparable periods related to the OnX acquisition. These expenses are recorded in "Transaction and integration costs" on the Condensed Consolidated Statements of Operations.

Purchase Price Allocation and Other Items

Based on fair value estimates, the purchase price for OnX has been allocated to individual assets acquired and liabilities assumed as follows:

(dollars in millions)

Assets acquired		
Cash	\$	6.5
Receivables	69.9	
Prepaid expenses	11.8	
and other current assets		
Property, plant and	11.6	
equipment		
Goodwill	133.1	
Intangible assets	134.0	
Other noncurrent	3.2	
assets		
Total assets acquired	370.1	
Liabilities assumed		
Accounts payable	63.6	
Current portion of	1.3	
long-term debt		
Accrued expenses	18.3	
and other current		
liabilities		
Deferred income tax	42.3	
liabilities		
Long-term debt, less	76.7	
current portion		
Other noncurrent	1.5	
liabilities		

Total liabilities assumed	203.7
Net assets acquired	\$ 166.4

14

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

During the first quarter of 2018, the Company recorded a purchase price allocation adjustment of \$0.2 million to "Goodwill" related to the payment of the working capital adjustment. Also in the first quarter of 2018, the Company recorded purchase price allocation adjustments of \$0.1 million to "Deferred income tax liabilities" and \$0.4 million to "Other noncurrent liabilities" related to the finalization of certain tax aspects of the acquisition. The offset of these adjustments were recorded as an increase to "Goodwill."

The estimated fair value of identifiable intangible assets and their estimated useful lives are as follows:

(dollars in millions)	Fair Value	Useful Lives
Customer relationships	\$108.0	15 years
Trade name	16.0	10 years
Technology	10.0	10 years
Total identifiable intangible assets	\$134.0	

Identifiable intangible assets are amortized over their useful lives based on a number of assumptions including the estimated period of economic benefit and utilization. The weighted-average amortization period for identifiable intangible assets acquired in the OnX acquisition is 14 years.

The goodwill for OnX is attributable to increased access to a diversified customer base and acquired workforce in the United States, Canada and the United Kingdom. The amount of goodwill related to OnX that is expected to be deductible for income tax purposes is \$2.3 million.

Pro Forma Information (Unaudited)

The following table provides the unaudited pro forma results of operations for the three and six months ended June 30, 2017 as if OnX had been acquired as of the beginning of fiscal year 2016. Revenue has been retrospectively adjusted for the adoption of ASC 606 to reflect hardware revenue in the Infrastructure Solutions category net of related cost of products. These results include adjustments related to the financing of the acquisition, to increase depreciation and amortization associated with the higher values of property, plant and equipment and 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.

(dollars in millions, except per share amounts)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenue	\$313.1	\$611.6
Net (loss) income applicable to common shareholders	(5.5)	48.6
Earnings per share:		
Basic and diluted earnings (loss) per common share	(0.13)	1.15

Other Acquisition Activity

On February 28, 2017, the Company acquired 100% of SunTel Services ("SunTel"), a private company that provides network security, data connectivity, and unified communications solutions to commercial and enterprise customers across multiple sectors throughout Michigan for cash consideration of \$10.0 million. Based on final fair value assessment and the finalization of the working capital adjustment, the acquired assets and liabilities assumed consisted primarily of property, plant and equipment of \$0.4 million, customer relationship intangible assets of \$1.2 million, working capital of \$4.1 million and goodwill of \$4.6 million. These assets and liabilities are included in the IT Services and Hardware segment.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

5. Goodwill and Intangible Assets

Goodwill

The changes in the Company's goodwill consisted of the following:

	IT Services and Hardware	Entertainment and Communications	Total Company
(dollars in millions)			
Goodwill, balance as of December 31, 2017	\$ 148.8	\$ 2.2	\$ 151.0
Activity during the year			
Adjustments to prior year acquisitions	0.7	—	0.7
Currency translations	(2.3)	—	(2.3)
Goodwill, balance as of June 30, 2018	\$ 147.2	\$ 2.2	\$ 149.4

On January 1, 2018, the Company changed the composition of its operating segments to align more closely with the Company's broader strategy and how it manages business operations. This strategy groups CLEC revenue, which was previously included as part of the Entertainment and Communications segment, as part of the IT Services and Hardware segment in order to consolidate all company-wide VoIP sales. As a result of the change, \$9.7 million of goodwill related to CBTS Technology Solutions LLC ("CBTS TS") was reclassified from the Entertainment and Communications segment to the IT Services and Hardware segment for the period ending December 31, 2017. For further information related to these business segments see Note 11.

No impairment losses were recognized in goodwill for the three and six months ended June 30, 2018 and 2017.

Intangible Assets

The Company's intangible assets consisted of the following:

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount (a)	Accumulated Amortization	Net Amount	Gross Carrying Amount (a)	Accumulated Amortization	Net Amount
(dollars in millions)						
Customer relationships	\$114.3	\$ (12.6)	\$ 101.7	\$116.0	\$ (8.9)	\$ 107.1
Trade names	15.0	(1.1)	13.9	15.9	(0.4)	15.5
Technology	9.8	(0.7)	9.1	9.9	(0.2)	9.7
Total	\$139.1	\$ (14.4)	\$ 124.7	\$141.8	\$ (9.5)	\$ 132.3

(a) Change in gross carrying amounts is due to foreign currency translation.

Amortization expense for intangible assets subject to amortization was \$2.3 million and \$4.9 million for the three and six months ended June 30, 2018, respectively. Amortization expense for the three and six months ended June 30, 2017 was insignificant. No impairment losses were recognized for the three and six months ended June 30, 2018 and 2017.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

6. Debt and Other Financing Arrangements

The Company's debt consists of the following:

	June 30,	December
(dollars in millions)	2018	31, 2017
Current portion of long-term debt:		
Credit Agreement - Tranche B Term Loan due 2024	\$4.5	\$6.0
Capital lease obligations and other debt	12.3	12.4
Current portion of long-term debt	16.8	18.4
Long-term debt, less current portion:		
Credit Agreement - Tranche B Term Loan due 2024	595.5	594.0
7 1/4% Senior Notes due 2023	22.3	22.3
7% Senior Notes due 2024	625.0	625.0
8% Senior Notes due 2025	350.0	350.0
Cincinnati Bell Telephone Notes	87.9	87.9
Capital lease obligations and other debt	65.6	70.5
	1,746.3	1,749.7
Net unamortized premium	1.8	1.9
Unamortized note issuance costs	(20.8)	(22.3)
Long-term debt, less current portion	1,727.3	1,729.3
Total debt	\$1,744.1	\$1,747.7

Credit Agreement

There were no outstanding borrowings on the Credit Agreement's revolving credit facility, leaving \$200.0 million available for borrowings as of June 30, 2018. This revolving credit facility expires in October 2022.

In April 2018, the Company amended its Credit Agreement dated as of October 2, 2017 to reduce the applicable margin on the Tranche B Term Loan due 2024 and revolving credit facility with respect to LIBOR borrowings from the previous 3.75% per annum to 3.25% per annum and, with respect to adjusted base rate borrowings, from the previous 2.75% per annum to 2.25% per annum. The letter of credit fees were reduced from the previous 3.75% per annum to 3.25% per annum. As a result of amending the Credit Agreement, a loss on extinguishment of debt is recorded in the second quarter of \$1.3 million.

Accounts Receivable Securitization Facility

As of June 30, 2018, the Company had no borrowings and \$6.7 million of letters of credit outstanding under the accounts receivable securitization facility ("Receivables Facility"), leaving \$154.2 million remaining availability on the total borrowing capacity of \$160.9 million. In the second quarter of 2018, the Company executed an amendment of its Receivables Facility, which replaced, amended and added certain provisions and definitions to increase the credit availability and renew the facility, which is subject to renewal every 364 days, until May 2019. The amended Receivables Facility extends the termination date to May 2021 and includes an option to sell certain receivables on a non-recourse basis. As of June 30, 2018, the Company has not exercised its option to sell such accounts receivable. 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 \$250.0 million depending on the quantity and quality of accounts receivable. Under this

agreement, certain U.S. and Canadian subsidiaries, as originators, sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC ("CBF") or Cincinnati Bell Funding Canada Ltd. ("CBFC"). Although CBF and CBFC are wholly-owned consolidated subsidiaries of the Company, CBF and CBFC are 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 or CBFC, such accounts receivable are legally assets of CBF and CBFC and, as such, are not available to creditors of other subsidiaries or the parent company.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Other Financing Arrangements

The IT Services and Hardware segment entered into a lease in June 2018 for a building to use in its data center operations. Structural improvements were made to these leased facilities in excess of normal tenant improvements and, as such, we are deemed the accounting owner of these facilities. As of June 30, 2018, the liability related to these financing arrangements was \$5.2 million, which was recognized within "Other noncurrent liabilities" in the Condensed Consolidated Balance Sheets.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

7. Restructuring and Severance

Liabilities have been established for employee separations and lease abandonment. A summary of activity in the restructuring and severance liability is shown below:

(dollars in millions)	Employee Separation	Lease Abandonment	Total
Balance as of December 31, 2017	\$ 14.4	\$ 0.1	\$ 14.5
Charges	0.3	—	0.3
Utilizations	(7.3)	—	(7.3)
Balance as of March 31, 2018	7.4	0.1	7.5
Charges	3.8	0.8	4.6
Utilizations	(0.9)	—	(0.9)
Balance as of June 30, 2018	\$ 10.3	\$ 0.9	\$ 11.2

Headcount related restructuring and severance charges of \$3.8 million recorded in the second quarter of 2018 are related to costs incurred in order to recognize future synergies as the Company continues to identify efficiencies with the integration of OnX. In addition, a restructuring charge associated with lease abandonment of \$0.8 million was recorded in the second quarter of 2018 related to an office space that will no longer be utilized. During the three and six months ended June 30, 2018, the Company made severance payments related to employee separations associated with initiatives to reduce costs within our legacy copper network and headcount reductions in our IT Services and Hardware segment.

Lease abandonment costs represent future minimum lease obligations, net of expected sublease income, for abandoned facilities. Lease payments on abandoned facilities will continue through 2020.

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, 2017	\$ 12.3	\$ 2.2	\$	—\$ 14.5
Charges	—	0.3	—	0.3
Utilizations	(5.7)	(1.6)	—	(7.3)
Balance as of March 31, 2018	6.6	0.9	—	7.5
Charges	—	4.6	—	4.6
Utilizations	(0.3)	(0.6)	—	(0.9)
Balance as of June 30, 2018	\$ 6.3	\$ 4.9	\$	—\$ 11.2

At June 30, 2018 and December 31, 2017, \$8.8 million and \$12.0 million, respectively, of the restructuring liabilities were included in "Other current liabilities." At June 30, 2018 and December 31, 2017, \$2.4 million and \$2.5 million, respectively, were included in "Other noncurrent liabilities."

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

8. Financial Instruments and Fair Value Measurements
Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements, the Company uses a three-level hierarchy that prioritizes the use of observable inputs. The three levels are:

Level 1 — Quoted market prices for identical instruments in an active market;

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

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

The determination of where an asset or liability falls in the hierarchy requires significant judgment.

Interest Rate Swaps

The Company uses interest rate swap agreements to minimize its exposure to interest rate fluctuations on variable rate debt borrowings. Interest rate swaps involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the underlying notional amounts between parties. The Company has one forward starting non-amortizing interest rate swap with a total notional amount of \$300.0 million to convert variable rate debt to fixed rate debt. The interest rate swap became effective in June 2018 and expires in June 2023. The interest rate swap results in interest payments based on an average fixed rate of 2.938% plus the applicable margin per the requirements in the Credit Agreement (see Note 6). During the next twelve months, the Company estimates that \$1.6 million will be reclassified as an increase to interest expense.

The Company has agreements with its derivative financial instrument counter-parties that contain provisions where if the Company defaults on the indebtedness associated with its derivative financial instruments, then the Company could also be declared in default on its derivative financial instrument obligations. The Company minimizes this risk by evaluating the creditworthiness of our counter-parties, which are limited to major banks and financial institutions.

Upon inception, the interest rate swaps were designated as a cash flow hedge under ASC 815, with gains and losses, net of tax, measured on an ongoing basis recorded in accumulated other comprehensive income (loss). As of June 30, 2018, the fair value of the interest rate swap was \$1.9 million and is recorded in "Other current liabilities" on the Condensed Consolidated Balance Sheet. The fair value of the interest rate swap is categorized as Level 2 in the fair value hierarchy as it is based on well recognized financial principles and available market data.

	June 30, 2018		
	Quoted	Significant	Significant
(dollars in millions)	June Prices in	observable	unobservable
	30, active	inputs	inputs Level
	2018 markets	Level 2	3
	Level 1		

Liabilities:

Interest Rate Swap \$1.9 \$ —\$ 1.9 \$ —

20

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

Disclosure on Financial Instruments

The carrying values of the Company's financial instruments approximate the estimated fair values as of June 30, 2018 and December 31, 2017, except for the Company's long-term debt, certain other financing arrangements and interest rate swap. The carrying and fair values of these items are as follows:

(dollars in millions)	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion*	\$1,687.0	\$ 1,607.7	\$1,687.1	\$ 1,687.5
Other financing arrangements	5.2	5.3	—	—
Interest Rate Swap	1.9	1.9	—	—

*Excludes capital leases and note issuance costs.

The fair value of our long-term debt was based on closing or estimated market prices of the Company's debt at June 30, 2018 and December 31, 2017, which is considered Level 2 of the fair value hierarchy. The fair value of other financing arrangements was calculated using a discounted cash flow model that incorporates current borrowing rates for obligations of similar duration, which is considered level 3 of the fair value hierarchy. As of June 30, 2018, the current borrowing rate was estimated by applying Cincinnati Bell's credit spread to the risk-free rate for a similar duration borrowing.

Table of Contents

Form 10-Q Part I Cincinnati Bell Inc.

9. 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, 2017, approximately 14% and 13% of the costs, respectively, were capitalized as a component of property, plant and equipment related to construction of our copper and fiber networks. In accordance with ASU 2017-07, retrospectively adopted effective January 1, 2018, only the service cost component of net benefit cost is eligible for capitalization on a prospective basis, which was immaterial for the three and six months ended June 30, 2018.

For the three and six months ended June 30, 2018 and 2017, pension and postretirement benefit costs (benefits) were as follows:

	Three Months Ended June 30,			
	2018		2017	
(dollars in millions)	Pension Benefits	Postretirement and Other Benefits	Pension Benefits	Postretirement and Other Benefits
Service cost	\$ —	\$ —	\$ —	\$ —
Other components of pension and postretirement benefit plans expense:				
Interest cost on projected benefit obligation	4.1	4.9	0.8	0.8
Expected return on plan assets	(6.2)	(6.5)	—	—
Amortization of:				
Prior service benefit	—	—	—	—