

CINCINNATI BELL INC  
Form 10-K  
February 26, 2015

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

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-8519  
CINCINNATI BELL INC.

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (par value \$0.01 per share)	New York Stock Exchange
6 <sup>3</sup> / <sub>4</sub> % Cumulative Convertible Preferred Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No



Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting common shares owned by non-affiliates of the registrant was \$0.8 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2014, the last trading day of the registrant's most recently completed second fiscal quarter. The Company has no non-voting common shares.

At January 31, 2015, there were 209,570,776 common shares outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement relating to the Company's 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

## TABLE OF CONTENTS

PART I

	Page
Item 1. <u>Business</u>	<u>4</u>
Item 1A. <u>Risk Factors</u>	<u>12</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>23</u>
Item 2. <u>Properties</u>	<u>23</u>
Item 3. <u>Legal Proceedings</u>	<u>23</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>23</u>

PART II

Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
Item 6. <u>Selected Financial Data</u>	<u>27</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>66</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>67</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>129</u>
Item 9A. <u>Controls and Procedures</u>	<u>129</u>
Item 9B. <u>Other Information</u>	<u>129</u>

PART III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>130</u>
Item 11. <u>Executive Compensation</u>	<u>131</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>131</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>131</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>131</u>

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>132</u>
--	------------

Signatures

138

This report contains trademarks, service marks and registered marks of Cincinnati Bell Inc., as indicated.

---

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

## Part I

## Item 1. Business

## Overview and Strategy

Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") provides integrated communications solutions - including high-speed internet, data, video, and local and long distance voice - that keep residential and business customers in Greater Cincinnati connected with each other and with the world. In addition, business customers across the United States rely on CBTS, a wholly-owned subsidiary, for the sale and service of efficient, end-to-end communications and IT systems and solutions. Cincinnati Bell also owns approximately 44% of CyrusOne Inc. (NASDAQ: CONE) ("CyrusOne"), which specializes in highly reliable enterprise-class, carrier-neutral data center properties.

Our goal is to transform Cincinnati Bell from a legacy copper-based telecommunications company into a fiber-based entertainment, communications and IT solutions company with growing revenue, growing profits and sustainable cash flows. In an effort to meet our goal, we identified the following key initiatives:

- continue the expansion of our fiber network
- evaluate opportunities to thoughtfully monetize our CyrusOne investment in order to reduce leverage
- manage the wireless business for cash flows and profitability as we wind down operations

## Continue the expansion of our fiber network

We invested \$130.0 million of capital in our strategic products during 2014. Revenue from these high demand products totaled \$435.6 million, up 21% over the prior year and more than offset the decline in our legacy products. The primary focus of our strategic investments is the expansion of our Fioptics suite of products which is designed to compete directly with the cable Multiple System Operators (MSO) serving the Company's ILEC market area. We invested \$93.1 million in 2014 for Fioptics as demand for the products remains strong. Year-over-year growth is outlined in the table:

	2014	2013	2012
Fioptics Revenue (in millions):	\$142.4	\$100.8	\$68.2
Fioptics subscribers (in thousands):			
High-speed internet	113.7	79.9	56.8
Entertainment	91.4	74.2	55.1
Voice	61.0	53.3	40.8

During the year we passed an additional 59,000 addresses with Fioptics and as of December 31, 2014 the product is available to approximately 335,000 customer locations or 41% of Greater Cincinnati. In the third quarter of 2014, we announced a plan to further accelerate the build-out of Fioptics to capitalize on the heightened demand for the product as well as the unique opportunity created by the pending acquisition of the cable provider in our market.

The Company also invested \$25.0 million in fiber and IP-based core network technology to meet increased enterprise demand primarily within its ILEC geography and in contiguous markets in the Midwest region for high-bandwidth data transport products, such as metro-ethernet and VoIP. We continue to evolve and optimize network assets to support the migration of legacy products to new technology and as of December 31, 2014, the Company has:

- connected approximately 5,800 commercial buildings with fiber-based services (also referred to as a lit building), including more than 550 multi-tenant units ("MTU's") lit with fiber;
- expanded the fiber network to span more than 6,600 route miles; and
- provided cell site back-haul services to more than 70% of the 1,100 cell sites in-market, of which approximately 500 are lit with fiber.

As a result of our strategic investments, we generated year-over-year wireline revenue growth for the first time since 2007. Wireline strategic revenue totaled \$305.0 million (net of intercompany), up 23% compared to the prior year, primarily due to growth in our Fioptics suite of products. Strategic revenue from business customers was also up 12% in 2014 due to increased demand for metro-ethernet and VoIP products.

In addition to our fiber investments, we also invested \$11.9 million in our IT Services and Hardware strategic products generating an 18% increase in strategic revenue as demand for staffing solutions and managed telephony service offerings remains robust. Revenue growth from Telecom and IT equipment sales increased 29% year-over-year, and remains an important value added product to our existing customer base.

Evaluate opportunities to monetize our CyrusOne investment

On June 25, 2014, we consummated the sale of 16.0 million operating partnership units of CyrusOne LP to CyrusOne, Inc. at a price of \$22.26 per unit. The sale generated proceeds of \$355.9 million and resulted in a gain of \$192.8 million. Proceeds from the sale were used to redeem \$325.0 million of the outstanding 8 <sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2018 at a redemption rate of 104.375%, reducing annual interest expense by approximately \$28 million. As of December 31, 2014, we effectively own 44% of CyrusOne, which is held in the form of 1.9 million shares of CyrusOne common stock and 26.6 million CyrusOne LP partnership units. The fair value of this investment was \$785.0 million based on the quoted market price of CyrusOne's common stock at December 31, 2014. In determining the appropriate time to further monetize our CyrusOne investment, we will give due consideration to, among other factors: CyrusOne's stock price, market performance of other real estate investment trusts ("REIT") and overall market indicators. We will balance our objectives of reducing the risk associated with owning any equity security, with the upside appreciation potential for our investment in CyrusOne. Proceeds from any future monetization event will be primarily used for debt repayment, in accordance with the terms in our amended Corporate Credit Agreement, in an effort to achieve leverage ratios in line with other telecom companies.

Manage the Wireless business for cash flows and profitability as we wind down operations

Our Wireless operating territory is saturated with national carriers that are able to offer customers nation-wide family talk and data plans using premier handsets on more technologically advanced LTE networks. As a result, our postpaid subscriber base decreased, on average, 20% in 2012 and 2013. In the first quarter of 2013, we announced that we were exploring strategic alternatives for our wireless operations and on April 6, 2014, we entered into agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets. The agreement to sell our wireless spectrum licenses closed on September 30, 2014 for cash proceeds totaling \$194.4 million. Simultaneously, a separate agreement to use certain spectrum licenses until we discontinue providing wireless service became effective. We plan to provide wireless service until no later than April 6, 2015 as we migrate the remaining 82,400 subscribers to other carriers, at which time we will transfer the tower leases being assumed and other assets being acquired.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

## Operations

As of December 31, 2014, the Company operated three segments: Wireline, IT Services and Hardware, and Wireless; and generally classifies the products and services from its Wireline and IT Services and Hardware segments into three distinct categories: Strategic, Legacy and Integration. Wireline and IT Services and Hardware products and services have been categorized based primarily on the underlying technology, as noted in the chart below:

	Strategic	Legacy	Integration
Voice	Fioptics Voice	Switched Access	Maintenance
		Digital Trunking	Information Services
	Fioptics Internet	DSL (< 10 meg)	
Data	DWDM (1)	Dial up Internet	
	DSL (2) (> 10 meg)	TDM (5)	
	Metro-Ethernet	DSO (6), DS1, DS3	
	Dedicated Internet		
Long Distance/VoIP	VoIP (3)	Long Distance	
	Private Line		
	MPLS (4)		
	Audio Conferencing		
Entertainment	Fioptics Video		
	Managed Services		
	- Monitoring/Management		
	- Data Storage		
	- Data Security		
	- Virtual Data Center		
Managed/Professional Services	Professional Services		
	- Staff Augmentation		
	- IT Consulting		
Telecom & IT Equipment			Hardware
			Installation
			Maintenance

(1) Dense Wavelength Division Multiplexing

(2) Digital Subscriber Line

(3) Voice over Internet Protocol

(4) Multi-Protocol Label Switching

(5) Time Division Multiplexing

(6) Digital Signal

## Wireline

The Wireline segment provides products and services such as data transport, high-speed internet, entertainment, local voice, long distance, VoIP, and other services. Cincinnati Bell Telephone Company LLC ("CBT"), a subsidiary of the Company, is the Incumbent Local Exchange Carrier ("ILEC") for a geography that covers a radius of approximately 25 miles around Cincinnati, Ohio, and includes parts of northern Kentucky and southeastern Indiana. CBT has operated in this territory for over 140 years. The segment also provides voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, through the operations of Cincinnati Bell Extended Territories LLC ("CBET"), a competitive local exchange carrier ("CLEC") and subsidiary of CBT. The Wireline segment provides long distance and VoIP services primarily through its Cincinnati Bell Any Distance Inc. ("CBAD") and eVolve



Business Solutions LLC ("eVolve") subsidiaries.

6

---

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

The key products and services provided by the Wireline segment include the following:

**Data Services**

The Company's data service products include high-speed internet access, data transport, and interconnection services. Consumer demand for increased internet speeds is accelerating and more customers are opting for higher bandwidth solutions such as Fioptics. To address this demand, we are able to provide internet speeds of 10 megabits or more to nearly 490,000 addresses, or 60% of our operating territory with the coverage expected to increase to approximately 80% by the end of 2016.

As business customers migrate from legacy products and network technology, our metro-ethernet product becomes the access method of choice, due to its ability to support multiple applications on a single physical connection. The Company continues to build out fiber to MTU's in greater Cincinnati to meet growing demand for these services. We are also expanding our metro-ethernet platform to deliver services across a wider geography to target business customers beyond our ILEC footprint. The Company's regional network connects the greater Cincinnati, Columbus, and Dayton areas in Ohio, as well as Indianapolis, Indiana; Chicago, Illinois; and Louisville, Kentucky.

**Voice - Local Service**

Voice local service revenue includes local service, digital trunking, switched access, information services, and other value-added services such as caller identification, voicemail, call waiting, and call return. The Company's voice access lines continue to decrease as our customers have increasingly employed wireless technologies in lieu of wireline voice services ("wireless substitution"), migrated to competitors, or were disconnected due to credit problems. The Wireline segment has been able to increasingly offset the effect of access line loss on revenue by:

- bundling two or more of the Company's other services at a lower price than if they were purchased individually; and
- increasing the sale of VoIP services and other fiber-based products to business customers (reported under the caption Long Distance and VoIP).

**Long Distance and VoIP**

The Company's investment in its VoIP network has created a platform capable of supporting a variety of customers ranging from small shops to large enterprise customers. Our VoIP products provide our customers access to widely disbursed communication platforms and access to our cloud based services and hosted unified communications product.

Residential and business customers electing traditional long-distance lines can choose from a variety of long distance plans, which include unlimited long distance for a flat fee, purchase of minutes at a per-minute-of-use rate, or a fixed number of minutes for a flat fee. The Company's long distance lines have continued to decline over the past several years as a result of wireless substitution and the migration to VoIP technology.

**Entertainment**

In 2009, the Company launched Fioptics and focused our fiber network expenditures on densely populated areas, such as apartments and condominiums. At the end of 2009, Fioptics was available to only 5% of Greater Cincinnati and had 11,100 entertainment subscribers. Today, Fioptics is available to approximately 41% of Greater Cincinnati and as of December 31, 2014, we have 91,400 entertainment subscribers. Our Fioptics customers enjoy access to over 400 entertainment channels, including digital music, local, movie, and sports programming, as well as Indian and Spanish-language packages, over 120 high-definition channels, parental controls, HD DVR and video On-Demand. In addition, we offer features that deliver high customer satisfaction, including Fioptics TV Everywhere™ and a Fioptics live TV streaming application.

**Other Revenues**

Other revenue consists of wiring projects for business customers, Fioptics advertising revenue, and commissions received as authorized sales agents for DirecTV® and Verizon Wireless. In addition, CBT's subsidiary, Cincinnati Bell Telecommunications Services LLC, generates revenue operating the National Payphone Clearinghouse ("NPC") in an agency capacity.



Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

**IT Services and Hardware**

IT Services and Hardware provides a full range of managed IT solutions, including managed infrastructure services, IT and telephony equipment sales, and professional IT staffing services. These services and products are provided in multiple geographic areas through the Company's subsidiaries, CBTS, CBTS Canada Inc., CBTS Software LLC and Cincinnati Bell Technology Solutions UK Limited. By offering a full range of equipment and outsourced services in conjunction with the Company's wireline network services, the IT Services and Hardware segment provides end-to-end IT and telecommunications infrastructure management designed to reduce cost and mitigate risk while optimizing performance for its customers.

The key products and services provided by the IT Services and Hardware segment include the following:

**Managed and Professional Services**

Managed Services include products and services that combine assets, either owned by the customer or by the Company, with management and monitoring from its network operations center and skilled technical resources to provide a suite of offerings around voice and data infrastructure management. Service offerings include, but are not limited to, network management, electronic data storage management, disaster recovery, data security management, telephony management and server management. These services can be purchased individually or bundled by combining multiple products, services, and assets into a utility or as a service model for enterprise customers. Professional Services include staff augmentation and professional IT consulting by highly technical, certified employees. These engagements can be short-term IT implementation and project-based work as well as longer term staffing and permanent placement assignments. The Company utilizes a team of experienced recruiting and hiring personnel to provide its customers a wide range of skilled IT professionals at competitive hourly rates.

**Telecom and IT equipment**

The Company maintains premium resale relationships and certifications with a variety of branded technology vendors which allows it to competitively sell and install a wide array of telecommunications and computer equipment to meet the needs of its customers. This segment also manages the maintenance of a large base of local customers with traditional voice systems as well as converged VoIP systems.

**Wireless**

Cincinnati Bell Wireless LLC ("CBW") provides digital wireless voice and data communications services through the operation of a Global System for Mobile Communications/General Packet Radio Service ("GSM") network with a 3G Universal Mobile Telecommunications System ("UMTS") and 4G High Speed Packet Access+ ("HSPA+") network overlay, which is able to provide high-speed data services such as streaming video. The Company's digital wireless network utilizes approximately 460 cell sites in its operating territory. Wireless services are provided to customers in the Company's licensed service territory, which includes Greater Cincinnati and Dayton, Ohio, and areas of northern Kentucky and southeastern Indiana. The Company's customers are also able to place and receive wireless calls nationally and internationally due to roaming agreements the Company has with other carriers.

On April 6, 2014, we entered into agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business, including leases to certain wireless towers and related equipment and other assets. The agreement to sell our spectrum licenses closed on September 30, 2014. Prior to this date, the Company's digital wireless network utilized 50 MHz of licensed spectrum in the Cincinnati area and 40 MHz of licensed spectrum in the Dayton area. Simultaneous with the close of the spectrum sale, the Company entered into a separate agreement to use certain wireless spectrum licenses in order to provide wireless service until no later than April 6, 2015.

**Equity Method Investment in CyrusOne**

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne, a former subsidiary that provides full data center colocation services to enterprise customers through its facilities currently located in the Midwest, Texas, Arizona, London and Singapore. Effective with the IPO, we no longer consolidate CyrusOne in our financial statements and now account for our ownership in CyrusOne as an equity method investment.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

CyrusOne is a real estate investment trust ("REIT") that conducts its data center business through CyrusOne LP, an operating partnership. Cincinnati Bell owns approximately 44% of the economic interests of CyrusOne (NASDAQ: CONE), through the ownership of 1.9 million shares of CyrusOne's common stock and 26.6 million partnership units of CyrusOne LP. At December 31, 2014, the fair value of this investment was \$785.0 million based on the quoted market price of CyrusOne's common stock.

**Sales and Distribution Channels**

The Company's Wireline and Wireless segments utilize a number of distribution channels to acquire customers. Subsequent to the agreement to sell our wireless spectrum, we significantly reduced our sales effort for wireless service and products and rebranded our retail stores to market and distribute our Fioptics suite of products. As of December 31, 2014, the Company operated eight retail stores in its operating territory, up from seven in the prior year. The Company works to locate retail stores in high traffic but affordable areas, with a distance between each store that considers optimal returns per store and customer convenience. The Company also offers fully-automated, end-to-end web-based sales of various other Company services and accessories. In addition, the Company utilizes a door-to-door sales force that targets the sale of Fioptics to residents.

During 2014, there were approximately 130 third-party agent locations that sold Wireline and Wireless products and services at their retail locations. The Company supported these agents with discounted prices for equipment and commission structures. In conjunction with the completion of the wireless spectrum sale on September 30, 2014, the Company has discontinued third-party agent relationships. The Company also sells wireline capacity on a wholesale basis to independent companies, including competitors that resell these services to end-users.

Within each segment, we utilize a business-to-business sales force and a call center organization to reach business customers in our operating territory. Larger business customers are often supported by sales account representatives, who may go to the customer premises to understand the business needs and recommend solutions the Company offers. Smaller business customers are supported through a telemarketing sales force, customer representatives and store locations.

**Suppliers and Product Supply Chain**

The Company generally subjects purchases to competitive bids and selects its vendors based on price, service level, delivery, quality of product and terms and conditions.

Wireline's primary purchases are for network equipment, software, and fiber cable to maintain and support the growth of Fioptics, as well as copper-based electronics and cable. The Company maintains facilities and operations for storing cable and other equipment, product distribution and customer fulfillment.

IT Services and Hardware primarily purchases IT and telephony equipment that is either sold to a customer or used to provide service to the customer. The Company is a certified distributor of Cisco, EMC, Avaya, and Oracle equipment. Most of this equipment is shipped directly to the customer from vendor locations but the Company does maintain warehouse facilities for replacement parts and equipment testing and staging.

In addition, we have long-term commitments to outsource various services, such as certain information technology functions, cash remittance and accounts payable functions, call center operations, and maintenance services.

**Competition**

The telecommunications industry is very competitive and the Company competes against larger, well-capitalized national providers.

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, as well as cable, broadband, and internet service providers. The Company has lost, and will likely continue to lose, access lines as a part of its customer base utilizes the services of competitive wireline or wireless providers in lieu of the Company's services. Wireless providers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for the Company's local voice and long-distance services. The Company believes this is the reason for the largest portion of the Company's access line and long-distance line losses.



Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Our strategic products also face intense competition from cable operators, other telecom companies, and niche fiber companies. Many of our competitors have lower operating costs and access to resources that provide economies of scale allowing them to more aggressively price products which they are able to provide on a much broader scale given their expanded geographic operations. Our competitors are expected to continuously upgrade their service quality and offerings which could substantially erode the competitive advantage we currently have with our fiber-based products. These competitive factors could limit the Company's ability to grow revenue and cash flows despite the strategic initiatives implemented.

The Fioptics suite of products also face competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, some without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices. Increased customer migration to these non-traditional entertainment products could result in increased Fioptics churn and decreased penetration.

The IT Services and Hardware segment competes against numerous other information technology consulting, web-hosting, and computer system integration companies, many of which are larger in scope and well-financed. The Company believes that participants in this market must grow rapidly and achieve significant scale to compete effectively. Other competitors may consolidate with larger companies or acquire software application vendors or technology providers, enabling them to more effectively compete. This consolidation could affect prices and other competitive factors in ways that could impede the ability of these businesses to compete successfully in the market.

**Customers**

The following table demonstrates how the Company's revenue portfolio has changed over the past three years, excluding CyrusOne, which is no longer consolidated in our financial results. During 2012, CyrusOne represented 15% of our revenue.

Percentage of revenue	2014	2013	2012	2014 vs 2013 Change	2013 vs 2012 Change
Data	26	% 25	% 24	% 1 pt	1 pt
Voice - local service	16	% 18	% 20	% (2 )	(2 )
Long distance and VoIP	8	% 9	% 9	% (1 )	—
Entertainment	6	% 4	% 2	% 2	2
Other Wireline	1	% 1	% 1	% —	—
Total Wireline	57	% 57	% 56	% —	1
Managed and professional services	11	% 10	% 9	% 1	1
Telecom and IT equipment sales	22	% 17	% 16	% 5	1
Total IT Services and Hardware	33	% 27	% 25	% 6	2
Wireless	10	% 16	% 19	% (6 )	(3 )
Total (excluding CyrusOne)	100	% 100	% 100	% —	—

In 2014, the Company's revenue mix was 66% to business customers and 34% to residential customers. By comparison, the Company's 2013 revenues were comprised of 63% to business customers and 37% to residential customers, excluding CyrusOne. Excluding Wireless, our revenue mix would be 72% to business customers and 28% to residential customers in 2014, and strategic revenues would account for 38% of our total revenue. During 2014, strategic Wireline revenue accounted for 42% of total Wireline revenue compared to 35% in 2013.

The Company has sales with one large customer that contributed 14% of the Company's 2014 annual revenue. The same customer had receivables of 26% and 19% of the outstanding accounts receivable balance as of December 31, 2014 and 2013, respectively.

**Employees**

At December 31, 2014, the Company had approximately 3,100 employees, and approximately 30% of its employees are covered under a collective bargaining agreement with the Communications Workers of America (“CWA”), which is affiliated with the AFL-CIO. This agreement expired on August 9, 2014 and the parties are currently in negotiations to renew the contract.



Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Website Access and Other Information

The Company was incorporated under the laws of Ohio in 1983 with its headquarters at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address <http://www.cincinnati-bell.com>). The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC") under the Exchange Act of 1934 (the "Exchange Act"). These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington, D.C. 20549. Information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy statements, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is <http://www.sec.gov>. The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), proxy statements and other information, free of charge, at the Investor Relations section of its website.

Executive Officers

Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Annual Report on Form 10-K for information regarding executive officers of the registrant.

Business Segment Information

The amounts of revenue, intersegment revenue, operating income, expenditures for long-lived assets, and depreciation and amortization attributable to each of the Company's business segments for the years ended December 31, 2014, 2013, and 2012, and assets as of December 31, 2014 and 2013 are set forth in Note 15 to the consolidated financial statements.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

## Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating us. Our business, financial condition, liquidity or results of operations could be materially affected by any of these risks.

## Risks Related to our Indebtedness

The Company's substantial debt could limit its ability to fund operations, raise additional capital, and fulfill its obligations, which, in turn, would have a material adverse effect on its businesses and prospects generally.

The Company has a substantial amount of debt and has significant debt service obligations. As of December 31, 2014, the Company and its subsidiaries had outstanding indebtedness of \$1,784.2 million, on which it incurred \$148.7 million of interest expense in 2014, and had total shareowners' deficit of \$648.5 million. At December 31, 2014, the Company and its subsidiaries had \$90.7 million of borrowing availability under its accounts receivable securitization facility ("Receivables Facility"), and had the ability to borrow up to an additional \$150.0 million under the Corporate Credit Agreement's revolving credit facility, subject to compliance with certain conditions. In addition, the Company's ability to incur additional debt from time to time is subject to the restrictions contained in its credit facilities and other debt instruments.

The Company's substantial debt has important consequences, including the following:

- the Company is required to use a substantial portion of its cash flow from operations to pay principal and interest on its debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements;
- there is a variable interest rate on a portion of its debt which could increase if the market rates increase;
- the Company's substantial debt increases its vulnerability to adverse changes in the credit markets, which adverse changes could increase the Company's borrowing costs and limit the availability of financing;
- the Company's debt service obligations limit its flexibility to plan for, or react to, changes in its business and the industries in which it operates;
- the Company's level of debt and shareowners' deficit may restrict it from raising additional financing on satisfactory terms to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements; and
- the Company's debt instruments require the Company to comply with specified financial ratios and other restrictive covenants. Failure to comply with these covenants, if not cured or waived, could limit availability to the cash required to fund the Company's operations and general obligations and could result in the Company's dissolution, bankruptcy, liquidation, or reorganization.

The Company's creditors and preferred stockholders have claims that are superior to claims of the holders of the Company's common stock. Accordingly, in the event of the Company's dissolution, bankruptcy, liquidation, or reorganization, payment is first made on the claims of creditors of the Company and its subsidiaries, then preferred stockholders, and finally, if amounts are available, to holders of the Company's common stock.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

The Corporate Credit Agreement and other indebtedness impose significant restrictions on the Company.

The Company's debt instruments impose, and the terms of any future debt may impose, operating and other restrictions on the Company. These restrictions affect, and in many respects limit or prohibit, among other things, the Company's ability to:

- incur additional indebtedness;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- guarantee indebtedness;
- declare or pay dividends or other distributions to shareholders;
- repurchase equity interests;
- redeem debt that is junior in right of payment to such indebtedness;
- enter into agreements that restrict dividends or other payments from subsidiaries;
- issue or sell capital stock of certain of its subsidiaries; and
- consolidate, merge, or transfer all or substantially all of its assets and the assets of its subsidiaries on a consolidated basis.

In addition, the Company's Corporate Credit Agreement and debt instruments include restrictive covenants that may materially limit the Company's ability to prepay debt and redeem preferred stock. The agreements governing the Corporate Credit Agreement also require the Company to achieve and maintain compliance with specified financial ratios.

The restrictions contained in the terms of the Corporate Credit Agreement and its other debt instruments could:

- limit the Company's ability to plan for or react to market conditions or meet capital needs or otherwise restrict the Company's activities or business plans; and
- adversely affect the Company's ability to finance its operations, strategic acquisitions, investments or alliances, or other capital needs, or to engage in other business activities that would be in its interest.

A breach of any of the debt's restrictive covenants or the Company's inability to comply with the required financial ratios would result in a default under some or all of the debt agreements. During the occurrence and continuance of a default, lenders may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. Additionally, under the Corporate Credit Agreement, the lenders may elect not to provide loans until such default is cured or waived. The Company's debt instruments also contain cross-acceleration provisions, which generally cause each instrument to be subject to early repayment of outstanding principal and related interest upon a qualifying acceleration of any other debt instrument. Failure to comply with these covenants, if not cured or waived, would limit the cash required to fund operations and its general obligations and could result in the Company's dissolution, bankruptcy, liquidation, or reorganization.

The Company depends on its Corporate Credit Agreement and Receivables Facility to provide for its short-term financing requirements in excess of amounts generated by operations, and the availability of those funds may be reduced or limited.

The Company depends on the revolving credit facility under its Corporate Credit Agreement and Receivables Facility to provide for short-term financing requirements in excess of amounts generated by operations.

As of December 31, 2014, the Company had no outstanding borrowings under the Corporate Credit Agreement's revolving credit facility, leaving \$150.0 million in additional borrowing availability under this facility. The \$150.0 million available under the Corporate Credit Agreement's revolving credit facility is funded by various financial institutions. If one or more of these banks is not able to fulfill its funding obligations, the Company's financial condition would be adversely affected.

Effective with the sale of our 16.0 million partnership units to CyrusOne, Inc. on June 25, 2014 for \$355.9 million, the amount available under the Corporate Credit Agreement's revolving credit facility was reduced to \$150.0 million from its original capacity of \$200.0 million. In addition, the original revolving commitments will be further reduced to

\$125.0 million on December 31, 2015.

13

---

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

In addition, the Company's ability to borrow under its Corporate Credit Agreement is subject to the Company's compliance with covenants, including covenants requiring compliance with specified financial ratios. Failure to satisfy these covenants would constrain or prohibit its ability to borrow under these facilities.

As of December 31, 2014, the Company had \$19.2 million of borrowings and \$6.9 million of letters of credit that were outstanding under its Receivables Facility. At that date, the Company had a borrowing capacity under this Receivables Facility of \$116.8 million and a maximum borrowing limit of \$120.0 million. The available borrowing capacity is calculated monthly based on the quantity and quality of outstanding accounts receivable and thus may be lower than the maximum borrowing limit. If the quality of the Company's accounts receivables deteriorates, this will negatively impact the available capacity under this facility. As of December 31, 2014, the Company had \$90.7 million of borrowing capacity remaining under its Receivables Facility.

The servicing of the Company's indebtedness requires a significant amount of cash, and its ability to generate cash depends on many factors beyond its control.

The Company's ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory, and other factors, many of which are beyond its control. The Company cannot provide assurance that its business will generate sufficient cash flow from operations, additional sources of debt financing will be available, or future borrowings will be available under its Corporate Credit Agreement or Receivables Facility, in each case, in amounts sufficient to enable the Company to service its indebtedness or to fund other liquidity needs. If the Company cannot service its indebtedness, it will have to take actions such as reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, or selling assets, including its investment in CyrusOne, restructuring or refinancing indebtedness, or seeking additional equity capital, which may adversely affect its shareholders, debt holders, and customers. The Company may not be able to negotiate remedies on commercially reasonable terms, or at all. In addition, the terms of existing or future debt instruments may restrict the Company from adopting any of these alternatives. The Company's inability to generate the necessary cash flows could result in its dissolution, bankruptcy, liquidation, or reorganization.

The Company depends on the receipt of dividends or other intercompany transfers from its subsidiaries and investments.

Virtually all of the Company's operations are conducted through its subsidiaries and most of the Company's debt is held at the parent company. Certain of the Company's material subsidiaries are subject to regulatory authority which may potentially limit the ability of such subsidiaries to distribute funds or assets. If any of the Company's subsidiaries were to be prohibited from paying dividends or making distributions, the Company may not be able to make the scheduled interest and principal repayments on its debt. This failure would have a material adverse effect on the Company's liquidity and the trading price of the Company's common stock, preferred stock, and debt instruments, which could result in its dissolution, bankruptcy, liquidation, or reorganization.

#### Risk Factors Related to our Business and Operations

The Company's access lines, which generate a significant portion of its cash flows and profits, are decreasing in number. If the Company continues to experience access line losses similar to the past several years, its revenues, earnings and cash flows from operations may be adversely impacted.

The Company generates a substantial portion of its revenues by delivering voice and data services over access lines. The Company's local telecommunications subsidiary, CBT, has experienced substantial access line losses over the

past several years due to a number of factors, including increased competition and wireless and broadband substitution. The Company expects access line losses to continue into the foreseeable future. Failure to retain access lines without replacing such losses with an alternative source of revenue would adversely impact the Company's revenues, earnings and cash flow from operations.

Some of our strategic products generate lower profit margins than our traditional services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to these newer products. Moreover, we cannot provide assurance that the revenues generated from our new offerings will offset revenue losses from the reduced sales of our legacy products or that our new strategic offerings will be as successful as anticipated.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

The Company operates in highly competitive industries, and customers may not continue to purchase products or services, which would result in reduced revenue and loss of market share.

The telecommunications industry is very competitive, and the Company competes against larger, well-capitalized national providers. Competitors may reduce pricing, create new bundled offerings, or develop new technologies, products, or services. If the Company cannot continue to offer reliable, competitively priced, value-added services, or if the Company does not keep pace with technological advances, competitive forces could adversely affect it through a loss of market share or a decrease in revenue and profit margins. The Company has lost, and will likely continue to lose, access lines as a part of its customer base utilizes the services of competitors or wireless providers.

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband, and internet service providers. Wireless providers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for the Company's access lines and long distance lines. The Company believes wireless substitution accounts for the largest portion of its access line losses. Also, cable competitors that have existing service relationships with CBT's customers also offer substitution services, such as VoIP and long distance voice services in the Company's operating areas.

Partially as a result of wireless substitution and increased competition, CBT's access lines decreased by 9% and long distance subscribers decreased by 8% in 2014 compared to 2013.

Our strategic products also face intense competition from cable operators, other telecom companies, and niche fiber companies. Many of our competitors have lower operating costs and access to resources that provide economies of scale allowing them to more aggressively price products, which they are able to provide on a much broader scale given their expanded geographic operations. Our competitors are expected to continuously upgrade their service quality and offerings, which could substantially erode the competitive advantage we currently have with our fiber-based products. These competitive factors could limit the Company's ability to grow revenue and cash flows despite the strategic initiatives implemented.

The Fioptics suite of products also face competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, some without charging a fee for access to the content. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices. Increased customer migration to these non-traditional entertainment products could result in increased Fioptics churn and decreased penetration. If the Company is unable to effectively implement strategies to attract and retain Fioptics video and high-speed internet subscribers, retain access lines and long distance subscribers, or replace such customers with other sources of revenue, the Company's Wireline business will be adversely affected.

The IT Services and Hardware segment competes against numerous other information technology consulting, web-hosting, and computer system integration companies, many of which are large in scope and well-financed. This market is rapidly evolving and highly competitive. Other competitors may consolidate with larger companies or acquire software application vendors or technology providers, which may provide competitive advantages. The Company believes that many of the participants in this market must grow rapidly and achieve significant scale to compete effectively. This consolidation could affect prices and other competitive factors in ways that could impede our ability to compete successfully in the market.

The competitive forces described above could have a material adverse impact on the Company's business, financial condition, results of operations, and cash flows.

Failure to anticipate the need for and introduce new products and services or to compete with new technologies may compromise the Company's success in the telecommunications industry.

The Company's success depends, in part, on being able to anticipate the needs of current and future business, carrier, and residential customers. The Company seeks to meet these needs through new product introductions, service quality, and technological improvements. New products and services are important to the Company's success because its industry is technologically driven, such that new technologies can offer alternatives to the Company's existing services. The development of new technologies and products could accelerate the Company's loss of access lines or

limit the growth from its strategic products, which would have a material adverse effect on the Company's revenue, results of operations, and cash flows.

15

---



Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Accelerating the pace of investment in our Fioptics suite of products could have a negative impact on our financial results.

In order to take advantage of a unique opportunity in our market, and due to a progressive change in customer expectations of increased internet speeds, beginning in 2014 we began accelerating the pace of investment in our Fioptics suite of products, and intend to continue such accelerated investments through 2016. There are several factors that could result in a negative effect on our revenue, operating income and cash flows, such as:

- our costs could significantly exceed expectations
- the acceleration may not generate the expected increase in subscribers
- it may be inefficient to build out the additional fiber at an accelerated rate
- there may be a lack of workforce to achieve our construction, sales, and installation targets
- access to the fiber required for our construction plans may be limited

The Company may be unable to grow our revenues and cash flows despite the initiatives we have implemented. We must produce adequate revenues and cash flows that, when combined with cash on hand and funds available under our Corporate Credit Agreement and Receivables Facility, will be sufficient to service our debt, fund our capital expenditures, pay our taxes, fund our pension and other employee benefit obligations and pay preferred dividends pursuant to our dividend policy. We have identified some potential areas of opportunity and implemented several growth initiatives, including increasing marketing promotions and related expenditures and launching new products and services with a focus on areas that are growing such as Fioptics and enterprise fiber-based service offerings. We cannot assure you that these opportunities will be successful or that these initiatives will improve our financial position or our results of operations.

The Company's failure to meet performance standards under its agreements could result in customers terminating their relationships with the Company or customers being entitled to receive financial compensation, which would lead to reduced revenues and/or increased costs.

The Company's agreements with its customers contain various requirements regarding performance and levels of service. If the Company fails to provide the levels of service or performance required by its agreements, customers may be able to receive service credits for their accounts and other financial compensation and also may be able to terminate their relationship with the Company. In order to provide these levels of services, the Company is required to protect against human error, natural disasters, equipment failure, power failure, sabotage and vandalism, and have disaster recovery plans available for disruption of services. The failure to address these or other events may result in a disruption of services. In addition, any inability to meet service level commitments or other performance standards could reduce the confidence of customers and could consequently impair the Company's ability to attract and retain customers, which would adversely affect both the Company's ability to generate revenues and operating results.

The Company generates a substantial portion of its revenue by serving a limited geographic area.

The Company generates a substantial portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this limited operating territory would have a disproportionate effect on the Company's 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.

A large customer accounts for a significant portion of the Company's revenues and accounts receivable. The loss or significant reduction in business from this customer would cause operating revenues to decline significantly and have a materially adverse long-term impact on the Company's business.

As of December 31, 2014 and 2013, the Company had receivables with one large customer that makes up 26% and 19% of the outstanding accounts receivable balance, respectively. This same customer contributed 14% to consolidated revenue for the year ended 2014. Contracts with this customer may not sufficiently reduce the inherent risk that the customer may terminate or fail to renew their relationships with the Company. As a result of customer concentration, the Company's results of operations and financial condition could be materially affected if the Company lost this customer or if services purchased were significantly reduced. If this customer were to default on its accounts receivable obligations, the Company would be exposed to potentially significant losses in excess of the

provisions established. This would also negatively impact the available borrowing capacity under the Receivables Facility.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Maintaining the Company's telecommunications networks requires significant capital expenditures, and its inability or failure to maintain its telecommunications networks would have a material impact on its market share and ability to generate revenue.

Over the past several years, the Company has improved its wireline network through increased capital expenditures for fiber optic cable in limited areas of its operating network. The Company is accelerating the pace of investment in its Fioptics suite of services and intends to continue to increase its capital expenditures for fiber optic cable through 2016.

In order to provide appropriate levels of service to the Company's customers, the network infrastructure must be protected against damage from human error, natural disasters, unexpected equipment failure, power loss or telecommunications failures, terrorism, sabotage, or other intentional acts of vandalism. The Company's networks may not address all of the problems that may be encountered in the event of a disaster or other unanticipated problems, which may result in disruption of service to customers.

The Company may also incur significant additional capital expenditures as a result of unanticipated developments, regulatory changes, and other events that impact the business.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions or reduced capacity for customers.

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions or reduced capacity for customers.

We may not be able to recover the costs of the necessary network investments. This would result in an adverse impact to our results of operations and financial condition.

We may be liable for the material that content providers distribute over our networks.

The law relating to the liability of private network operators for information carried on, stored or disseminated through their networks is still unsettled. As such, we could be exposed to legal claims relating to content disseminated on our networks. Claims could challenge the accuracy of materials on our network or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks or are required to defend ourselves against such claims, our financial results would be negatively affected.

Cyber attacks or other breaches of network or other information technology security could have an adverse effect on our business.

Cyber attacks or other breaches of network or information technology security may cause equipment failures or disruptions to our operations. Our inability to operate our wireline networks as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers. In addition, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Cyber attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, have increased in frequency, scope and potential harm in recent years. While, to date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, have been material to our operations or financial condition, the preventative actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber attack in the future. The costs associated with a major cyber attack could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. If we fail to prevent the theft of valuable information such as financial data, sensitive information about the Company and intellectual property, or if we fail to protect the privacy of customer and employee confidential data against breaches of network or information technology security, it would result in damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.



Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and result in significant disruptions to our operations.

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, other hostile acts and events beyond our control. Such events could cause significant damage to our infrastructure, resulting in degradation or disruption of service to our customers. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate and our disaster recovery planning may not be sufficient for all eventualities. These events could also damage the infrastructure of suppliers that provide us with the equipment and services we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage would cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

The regulation of the Company's businesses by federal and state authorities may, among other things, place the Company at a competitive disadvantage, restrict its ability to price its products and services, and threaten its operating licenses.

Several of the Company's subsidiaries are subject to regulatory oversight of varying degrees at both the state and federal levels, which may differ from the regulatory scrutiny faced by the Company's competitors. A significant portion of CBT's revenue is derived from pricing plans that require regulatory overview and approval. These regulated pricing plans limit the rates CBT charges for some services while the competition has typically been able to set rates for services with limited restriction. In the future, regulatory initiatives that would put CBT at a competitive disadvantage or mandate lower rates for its services would result in lower profitability and cash flows for the Company. In addition, different regulatory interpretations of existing regulations or guidelines may affect the Company's revenues and expenses in future periods.

At the federal level, CBT is subject to the Telecommunications Act of 1996 (the "1996 Act"), including the rules subsequently adopted by the FCC to implement the 1996 Act, which has impacted CBT's in-territory local exchange operations in the form of greater competition. At the state level, CBT conducts local exchange operations in portions of Ohio, Kentucky, and Indiana, and, consequently, is subject to regulation by the Public Utilities Commissions in those states. Various regulatory decisions or initiatives at the federal or state level may from time to time have a negative impact on CBT's ability to compete in its markets.

From time to time, different regulatory agencies conduct audits to ensure that the Company is in compliance with the respective regulations. The Company could be subject to fines and penalties if found to be out of compliance with these regulations, and these fines and penalties could be material to the Company's financial condition.

There are currently many regulatory actions under way and being contemplated by federal and state authorities regarding issues that could result in significant changes to the business conditions in the telecommunications industry. In addition, in connection with our Internet access offerings, we could become subject to laws and regulations as they are adopted or applied to the Internet. There is currently only limited regulation applicable to these services. As the significance of the Internet continues to grow, federal, state and local governments may pass laws and adopt rules and regulations or apply existing laws and regulations to the Internet (including Internet access services), and related matters are under consideration in both federal and state legislative and regulatory bodies. We cannot provide any assurances that changes in current or future regulations adopted by the FCC or state regulators, or other legislative, administrative, or judicial initiatives relating to the telecommunications industry, will not have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

The Company depends on a number of third-party providers, and the loss of, or problems with, one or more of these providers may impede the Company's growth or cause it to lose customers.

The Company depends on third-party providers to supply products and services. For example, many of the Company's information technology and call center functions are performed by third-party providers, and network equipment is purchased from and maintained by vendors. The loss of, or problems with one or more of these third-party providers may result in an adverse effect on our ability to provide products and services to our customers and on our results of

operations and financial condition.

18

---

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

A failure of back-office information technology systems could adversely affect the Company's results of operations and financial condition.

The efficient operation of the Company's business depends on back-office information technology systems. The Company relies on back-office information technology systems to effectively manage customer billing, business data, communications, supply chain, order entry and fulfillment and other business processes. A failure of the Company's information technology systems to perform as anticipated could disrupt the Company's business and result in a failure to collect accounts receivable, transaction errors, processing inefficiencies, and the loss of sales and customers, causing the Company's reputation and results of operations to suffer. In addition, information technology systems may be vulnerable to damage or interruption from circumstances beyond the Company's control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on the Company's business.

If the Company fails to extend or renegotiate its collective bargaining agreements with its labor union when they expire or if its unionized employees were to engage in a strike or other work stoppage, the Company's business and operating results could be materially harmed.

The Company is a party to collective bargaining agreements with its labor union, which represents a significant number of its employees, and these collective bargaining agreements expired in August 2014. At that time, the Company reached a tentative agreement with the CWA on a new labor contract. This contract was not ratified by local members of the union on two separate occasions and the two parties have resumed negotiations. If a resolution is not achieved, a work force stoppage could occur resulting in a negative effect on our revenue, operating income and cash flows.

No assurance can be given that the Company will be able to successfully extend or renegotiate its collective bargaining agreements. If the Company fails to extend or renegotiate its collective bargaining agreements, if disputes with its union arise, or if its unionized workers engage in a strike or a work stoppage, the Company could experience a significant disruption of operations or incur higher ongoing labor costs, either of which would have a material adverse effect on the business.

The loss of any of the senior management team or attrition among key sales associates could adversely affect the Company's business, financial condition, results of operations, and cash flows.

The Company's success will continue to depend to a significant extent on its senior management team and key sales associates. Senior management has specific knowledge relating to the Company and the industry that would be difficult to replace. The loss of key sales associates could hinder the Company's ability to continue to benefit from long-standing relationships with customers. The Company cannot provide any assurance that it will be able to retain the current senior management team or key sales associates. The loss of any of these individuals could adversely affect the Company's business, financial condition, results of operations, and cash flows.

#### Risk Factors Related to Our Investment in CyrusOne

The Company no longer controls the operations of CyrusOne.

As of January 24, 2013, CyrusOne is an independent public company which the Company does not control. As a result, the Company no longer sets the strategies, selects the management team, or controls the operations of CyrusOne. CyrusOne may choose to pursue strategies which conflict with our business strategies, and, if this were to occur, the CyrusOne Board is required to act for the benefit of its shareholders.

The Company executed a non-compete agreement with CyrusOne under which both parties agreed not to enter each other's lines of business, subject to certain exceptions, for a period of four years. CyrusOne may choose to compete with us after the expiration of this non-compete agreement which could have an adverse effect on our telecommunications business.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

The Company has a significant investment in CyrusOne.

As of December 31, 2014, we effectively own 44% of CyrusOne, which is held in the form of 1.9 million shares of CyrusOne common stock and 26.6 million CyrusOne LP partnership units. The value of our investment is subject to CyrusOne executing on their strategic plan and other factors beyond CyrusOne's control, such as stock market volatility and fluctuations in the valuation of companies perceived by investors to be comparable to CyrusOne, all of which could cause significant changes in the market price of CyrusOne's common stock. The fair value of our investment in CyrusOne may decline which may adversely affect the realization of our investment. As a result, we may be unable to monetize any or all of our investment in CyrusOne, which would therefore not allow us to repay debt and achieve a leverage ratio comparable to our peers thereby limiting our opportunity to significantly increase cash flow. Our inability to liquidate our investment in CyrusOne could ultimately limit the cash to fund operations and our general obligations and could result in the Company's dissolution, bankruptcy, liquidation, or reorganization. Refer to the CyrusOne 2014 Form 10-K for additional risk disclosures specific to that entity.

**Other Risk Factors**

The trading price of the Company's common stock may be volatile, and the value of an investment in the Company's common stock may decline.

The market price of the Company's common stock has been volatile and could be subject to wide fluctuations in response to, among other things, the risk factors described in this report and other factors beyond the Company's control, such as stock market volatility and fluctuations in the valuation of companies perceived by investors to be comparable to the Company.

The stock markets have experienced price and volume fluctuations that have affected the Company's stock price and the market prices of equity securities of many other companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, may negatively affect the market price of the Company's stock. Companies that have experienced volatility in the market price of their stock have periodically been subject to securities class action litigation. The Company may be the target of this type of litigation in the future. Securities litigation could result in substantial costs and/or damages and divert management's attention from other business concerns.

The Company's failure to remove all subscribers from its wireless network may result in a fine or a penalty adversely affecting revenues, earnings and cash flows.

On September 30, 2014, we closed the agreement to sell our wireless spectrum licenses which requires us to cease wireless operations no later than April 6, 2015. Should we still have wireless subscribers at that time, we would be subject to penalty per terms of the agreement. Subsequent to discontinuing wireless operations, we will start the process of decommissioning the network and removing assets and equipment from our remaining tower leases. Any unforeseen complications or delays could negatively impact profitability and cash flows.

The uncertain economic environment, including uncertainty in the U.S. and world securities markets, could impact the Company's business and financial condition.

The uncertain economic environment could have an adverse effect on the Company's business and financial liquidity. The Company's primary source of cash is customer collections. If economic conditions were to worsen, some customers may cancel services or have difficulty paying. These conditions would result in lower revenues and increases in the allowance for doubtful accounts, which would negatively affect the results of operations. Furthermore, the sales cycle would be further lengthened if business customers slow spending or delay decision-making on the Company's products and services, which would adversely affect revenues. If competitors lower prices as a result of economic conditions, the Company would also experience pricing pressure. If the economies of the U.S. and the world deteriorate, this could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.





Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

The Company's future cash flows would be adversely affected if it is unable to fully realize its deferred tax assets. As of December 31, 2014, the Company had net deferred income taxes of \$369.6 million, which are primarily composed of deferred tax assets associated with U.S. federal net operating loss carryforwards of \$232.8 million and state, local and foreign net operating loss carryforwards of \$53.7 million. The Company has recorded valuation allowances against deferred tax assets related to certain state, local and foreign net operating losses and other deferred tax assets due to the uncertainty of the Company's ability to utilize the assets within the statutory expiration period. The use of the Company's deferred tax assets enables it to satisfy current and future tax liabilities without the use of the Company's cash resources. If the Company is unable for any reason to generate sufficient taxable income to fully realize its deferred tax assets, or if the use of its net operating loss carryforwards is limited by Internal Revenue Code Section 382 or similar state statute, the Company's net income, shareowners' deficit, and future cash flows would be adversely affected.

Adverse changes in the value of assets or obligations associated with the Company's employee benefit plans could negatively impact shareowners' deficit and liquidity.

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees, and one supplemental, nonqualified, unfunded plan for certain former executives. The Company also provides healthcare and group life insurance benefits for eligible retirees. The Company's Consolidated Balance Sheets indirectly reflect the value of all plan assets and benefit obligations under these plans. The accounting for employee benefit plans is complex, as is the process of calculating the benefit obligations under the plans. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the Company's benefit obligations or a significant decrease of the asset values, without necessarily impacting the Company's net income. In addition, the Company's benefit obligations could increase significantly if it needs to unfavorably revise the assumptions used to calculate the obligations. These adverse changes could have a further significant negative impact on the Company's shareowners' deficit. In addition, with respect to the Company's pension plans, the Company expects to make approximately \$30 million of estimated aggregate cash contributions to its qualified pension plans for the years 2015 to 2018, of which \$13 million is expected to be contributed in 2015. Additionally, the Company's postretirement costs are adversely affected by increases in medical and prescription drug costs. Further, if there are adverse changes to plan assets, or if medical and prescription drug costs increase significantly, the Company could be required to contribute additional material amounts of cash to the plan or could accelerate the timing of required payments.

Third parties may claim that the Company is infringing upon their intellectual property, and the Company could suffer significant litigation or licensing expenses or be prevented from selling products.

The Company may be unaware of intellectual property rights of others that may cover some of its technology, products, or services. Any litigation growing out of third-party patents or other intellectual property claims could be costly and time-consuming and would divert the Company's management and key personnel from its business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Resolution of claims of intellectual property infringement might also require the Company to enter into costly license agreements. Likewise, the Company may not be able to obtain license agreements on acceptable terms. The Company also may be subject to significant damages or injunctions against development and sale of certain of its products or services. Further, the Company often relies on licenses of third-party intellectual property for its businesses. The Company cannot ensure these licenses will be available in the future on favorable terms or at all. We could be subject to a significant amount of litigation, which could require us to pay significant damages or settlements.

Our business faces a substantial amount of litigation, including, from time to time, patent infringement lawsuits, antitrust class actions, securities class actions, wage and hour class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection processes. In addition, as we wind down our wireless business, we also face personal injury and consumer class action lawsuits relating to alleged health effects of wireless phones or radio frequency transmitters, and class action lawsuits that challenge marketing practices and disclosures relating to alleged adverse effects of handheld wireless phones. We may incur significant expenses in defending these lawsuits.

In addition, we may be required to pay significant awards and settlements.

21

---

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Third parties may infringe upon the Company's intellectual property, and the Company may expend significant resources enforcing its rights or suffer competitive injury.

The Company's success depends in significant part on the competitive advantage it gains from its proprietary technology and other valuable intellectual property assets. The Company relies on a combination of patents, copyrights, trademarks and trade secrets protections, confidentiality provisions, and licensing arrangements to establish and protect its intellectual property rights. If the Company fails to successfully enforce its intellectual property rights, its competitive position could suffer, which could harm its operating results.

The Company may also be required to spend significant resources to monitor and police its intellectual property rights. The Company may not be able to detect third-party infringements and its competitive position may be harmed before the Company does so. In addition, competitors may design around the Company's technology or develop competing technologies. Furthermore, some intellectual property rights are licensed to other companies, allowing them to compete with the Company using that intellectual property.

The Company could incur significant costs resulting from complying with, or potential violations of, environmental, health, and human safety laws.

The Company's operations are subject to laws and regulations relating to the protection of the environment, health, and human safety, including those governing the management and disposal of, and exposure to, hazardous materials and the cleanup of contamination, and the emission of radio frequency. While the Company believes its operations are in substantial compliance with environmental, health, and human safety laws and regulations, as an owner or operator of property, and in connection with the current and historical use of hazardous materials and other operations at its sites, the Company could incur significant costs resulting from complying with or violations of such laws, the imposition of cleanup obligations, and third-party suits. For instance, a number of the Company's sites formerly contained underground storage tanks for the storage of used oil and fuel for back-up generators and vehicles.

Table of Contents

Form 10-K Part I

Cincinnati Bell Inc.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, we owned or maintained properties in Ohio, Kentucky and Indiana. Principal office locations are in Cincinnati, Ohio.

Our property comprises copper and fiber plant and associated equipment in our local operating market. Each of the Company's subsidiaries maintains some investment in furniture and office equipment, computer equipment and associated operating system software, application system software, leasehold improvements, and other assets.

With regard to its local Wireline operations, the Company owns substantially all of the central office switching stations and the land upon which they are situated. Some business and administrative offices are located in rented facilities, some of which are recorded as capital leases. The Company's out-of-territory Wireline network assets include a fiber network plant, internet protocol and circuit switches and integrated access terminal equipment. In addition, we lease eight Company-run retail locations. Those locations were historically used by the wireless operations but have been converted to sell our Fioptics suite of products.

Our wireless operation is currently leasing spectrum to provide service until April 6, 2015 in conjunction with the agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business. CBW also leases locations that contain its switching and messaging equipment as well as all of its tower sites. Certain tower leases and the related assets will be assumed by the acquiring company.

For additional information about the Company's properties, see Note 5 to the consolidated financial statements.

Item 3. Legal Proceedings

We are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations in the normal course of business. We believe the liabilities accrued for legal contingencies in our consolidated financial statements, as prescribed by generally accepted accounting principles ("GAAP"), are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations, and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our consolidated financial statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2014, cannot be reasonably determined.

Based on information currently available, consultation with counsel, available insurance coverage and established reserves, management believes the eventual outcome of all outstanding claims will not individually, or in the aggregate, have a material effect on the Company's financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents  
Form 10-K Part II

Cincinnati Bell Inc.

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## (a) Market Information

The Company's common shares (symbol: CBB) are listed on the New York Stock Exchange. The high and low closing sale prices during each quarter for the last two fiscal years are listed below:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014	High	\$3.75	\$3.95	\$4.10	\$3.71
	Low	\$3.25	\$3.19	\$3.35	\$2.97
2013	High	\$5.57	\$3.66	\$3.51	\$3.63
	Low	\$2.94	\$2.92	\$2.72	\$2.63

## (b) Holders

As of January 31, 2015, the Company had 9,286 holders of record of the 209,570,776 outstanding common shares and 155,250 outstanding shares of the 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock.

## (c) Dividends

In 2014 and 2013, the Company paid \$10.4 million of dividends on its 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock. In 2014 and 2013, the Company did not pay any dividends on its common stock and does not intend to pay any common stock dividends in 2015.

## (d) Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2014 regarding securities of the Company to be issued and remaining available for issuance under the equity compensation plans of the Company:

Plan Category	Number of securities to be issued upon exercise of outstanding stock options, awards, warrants and rights	Weighted-average exercise price of outstanding stock options, awards, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	7,653,877	(1) \$ 3.84	1,551,558
Equity compensation plans not approved by security holders	166,721	(2) —	294,701
Total	7,820,598	\$ 3.84	1,846,259

Includes 5,224,346 outstanding stock options and stock appreciation rights not yet exercised, 683,903 shares of time-based restricted stock, and 1,745,628 shares of performance-based awards, restrictions on which have not (1) expired as of December 31, 2014. Awards were granted under various incentive plans approved by Cincinnati Bell Inc. shareholders. The number of performance-based awards assumes the maximum awards that can be earned if the performance conditions are achieved.

Table of Contents

Form 10-K Part II

Cincinnati Bell Inc.

The shares to be issued relate to deferred compensation in the form of previously received special awards and annual awards to non-employee directors pursuant to the “Deferred Compensation Plan for Outside Directors.” From 1997 through 2011, the directors received an annual award of phantom stock equivalent to a number of common shares. In 2014 and 2013, no such awards were granted. As a result of a plan amendment effective as of January 1, (2)2005, upon termination of Board service, non-employee directors are required to take distribution of all annual phantom stock awards in cash. Therefore, the number of actual shares of common stock to be issued pursuant to the plan as of December 31, 2014 is approximately 11,500. This plan also provides that no awards are payable until such non-employee director completes at least five years of active service as a non-employee director, except if he or she dies while serving as a member of the Board of Directors.

(e) Stock Performance

The graph below shows the cumulative total shareholder return assuming the investment of \$100 on December 31, 2009 (and the reinvestment of dividends thereafter) in each of (i) the Company’s common shares, (ii) the S&P 500 ® Stock Index, and (iii) the S&P® Integrated Telecommunications Services Index.

Table of Contents  
Form 10-K Part II

Cincinnati Bell Inc.

## (f) Issuer Purchases of Equity Securities

The following table provides information regarding the Company's purchases of its common stock during the quarter ended December 31, 2014:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs *	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (in millions)*
10/1/2014 - 12/31/2014	—	\$—	—	\$129.2

In February 2010, the Board of Directors approved an additional plan for the repurchase of the Company's outstanding common stock in an amount up to \$150.0 million. The Company may repurchase shares when management believes the share price offers an attractive value and to the extent its available cash is not needed for growth opportunities. This repurchase plan does not have a stated maturity.



Table of Contents  
Form 10-K Part II

Cincinnati Bell Inc.

## Item 6. Selected Financial Data

The selected financial data should be read in conjunction with the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this document.

(dollars in millions, except per share amounts)	2014	2013 (a)	2012	2011	2010 (b)
<b>Operating Data</b>					
Revenue	\$1,278.2	\$1,256.9	\$1,473.9	\$1,462.4	\$1,377.0
Cost of services and products, selling, general and administrative, depreciation, and amortization expense	1,153.2	1,033.4	1,181.5	1,139.9	1,054.9
Other operating costs and losses (c)	9.2	59.7	22.3	63.0	22.8
Operating income	115.8	163.8	270.1	259.5	299.3
Interest expense	148.7	182.0	218.9	215.0	185.2
Loss on extinguishment of debt	19.6	29.6	13.6	—	46.5
Loss from CyrusOne equity method investment (d)	7.0	10.7	—	—	—
Gain on sale of CyrusOne equity method investment (e)	(192.8)	—	—	—	—
Net income (loss)	\$75.6	\$(54.7)	\$11.2	\$18.6	\$28.3
Basic and diluted earnings (loss) per common share	\$0.31	\$(0.32)	\$0.00	\$0.04	\$0.09
Dividends declared per common share	\$—	\$—	\$—	\$—	\$—
<b>Weighted-average common shares outstanding</b>					
Basic	208.5	205.9	197.0	196.8	201.0
Diluted	209.6	205.9	204.7	200.0	204.0
<b>Financial Position</b>					
Property, plant and equipment, net	\$859.5	\$902.8	\$1,587.4	\$1,400.5	\$1,264.4
Total assets	1,819.7	2,107.3	2,872.4	2,714.7	2,653.6
Total long-term obligations (f)	2,058.4	2,529.7	3,215.2	3,073.5	2,992.7
<b>Other Data</b>					
Cash flow provided by operating activities	\$175.2	\$78.8	\$212.7	\$289.9	\$300.0
Cash flow provided by (used in) investing activities (g)	392.6	(185.4)	(371.8)	(244.7)	(675.5)
Cash flow (used in) provided by financing activities (h)	(514.5)	87.6	109.0	(48.8)	429.8
Capital expenditures	(182.3)	(196.9)	(367.2)	(255.5)	(149.7)

Table of Contents

Form 10-K Part II

Cincinnati Bell Inc.

- (a) Results for 2013 include the revenues and expenses of CyrusOne, our former data center business, for the period January 1, 2013 through January 23, 2013. Effective January 24, 2013, the date of the CyrusOne IPO, we no longer include CyrusOne's operating results in our consolidated financial statements. See Notes 1 and 3 to the consolidated financial statements.
- (b) Results for 2010 include the acquisition of CyrusOne from the acquisition date of June 11, 2010 to the end of the year.
- (c) Other operating costs and losses consist of restructuring charges, transaction-related compensation, curtailment (gains) loss, (gain) loss on disposal of assets - net, amortization of deferred gains, impairment of goodwill and other assets, and transaction costs.
- (d) We account for our investment in CyrusOne using the equity method as we no longer control its operations. These losses from CyrusOne represent our equity method share of CyrusOne's losses.
- (e) In 2014, we recorded a gain resulting from the sale of 16.0 million partnership units of CyrusOne LP to CyrusOne, Inc.
- (f) Total long-term obligations comprise long-term debt less current portion, pension and postretirement benefit obligations, and other noncurrent liabilities. See Notes 7, 8, 10 and 11 to the consolidated financial statements for discussions related to 2014 and 2013.
- (g) In 2014, cash from investing activities included \$355.9 million of proceeds from the sale of 16.0 million partnership units of CyrusOne LP to CyrusOne Inc. and \$194.4 million proceeds from the sale of Wireless spectrum licenses.
- (h) Cash used in financing activities for 2014 includes the repayment of \$325.0 million 8 3/4% Senior Subordinated Note due 2020 and repayment of \$22.7 million 8 3/8% Senior Notes due 2018.

Table of Contents

Form 10-K Part II

Cincinnati Bell Inc.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K and the documents incorporated by reference herein contain forward-looking statements regarding future events and results that are subject to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, are statements that could be deemed forward-looking statements. See "Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement," for further information on forward-looking statements.

## Executive Summary

Segment results described in the Executive Summary and Consolidated Results of Operations section are net of intercompany eliminations.

The Company is a full-service regional provider of data, entertainment, and voice communications services over wireline and wireless networks, a provider of managed and professional information technology services, and a reseller of information technology ("IT") and telephony equipment. In addition, enterprise customers across the United States rely on Cincinnati Bell Technology Solutions Inc. ("CBTS"), a wholly-owned subsidiary, for efficient, scalable communication systems and end-to-end IT solutions.

Consolidated revenue totaled \$1,278.2 million for 2014, up 2%, as the growth from our strategic products, combined with increased telecom and IT equipment sales, more than offset declines from wireless and legacy products. Revenue from our strategic products totaled \$435.6 million in 2014, up 21% compared to 2013.

Operating income in 2014 was \$115.8 million, down from the prior year primarily due to increased costs associated with winding down wireless operations. Wireless restructuring charges totaled \$16.3 million, in addition to an asset impairment of \$7.5 million and \$62.2 million additional depreciation and amortization expense due to reducing the useful lives of certain wireless assets. These cost increases were partially offset by accelerated deferred gain amortization and one-time IPO transaction related compensation in the prior year.

Net income for the year equaled \$75.6 million resulting in basic and diluted earnings per share of \$0.31 due largely to the gain on the initial monetization of our CyrusOne equity method investment.

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne, our former Data Center Colocation segment. As of the date of the IPO, we owned approximately 1.9 million shares, or 8.6%, of CyrusOne's common stock and were limited partners in CyrusOne LP, owning approximately 42.6 million, or 66% of its partnership units. We effectively owned 69% of CyrusOne and continued to have significant influence over the entity, but we did not control its operations. Therefore, effective with the completion of the IPO, we no longer include the accounts of CyrusOne in our consolidated financial statements, but account for our ownership in CyrusOne as an equity method investment.

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

On June 25, 2014, we consummated the sale of 16.0 million partnership units of CyrusOne LP to CyrusOne, Inc. at a price of \$22.26 per unit. The sale generated proceeds of \$355.9 million and resulted in a gain of \$192.8 million. As of December 31, 2014, we effectively own 44% of CyrusOne, which is held in the form of 1.9 million shares of CyrusOne common stock and 26.6 million CyrusOne LP partnership units.

In the second quarter of 2014, we entered into agreements to sell our wireless spectrum licenses and certain other assets related to our wireless business. This agreement to sell our wireless spectrum license closed on September 30, 2014, for cash proceeds of \$194.4 million. As a result, we derecognized the \$88.2 million carrying value of the licenses previously reported as "Intangible assets, net" in the Consolidated Balance Sheets. Also on September 30, 2014, we entered into a separate agreement to use certain spectrum licenses until we no longer provide wireless service. We recorded the fair value of the lease of the spectrum of \$6.4 million, in "Prepaid expenses" in the Consolidated Balance Sheets. This fair value is considered a Level 3 measurement based on other comparable transactions. The asset is being amortized over a six month period and had a net carrying value of \$3.2 million as of December 31, 2014. In addition, as we continue to use the licenses, we deferred the gain of \$112.6 million related to the sale of the spectrum, which is presented in the Consolidated Balance Sheets. We plan to operate and generate cash from our wireless operations until no later than April 6, 2015. At that time, we will transfer certain leases and other assets valued at approximately \$25 million to the acquiring company.

Negotiations with the Communications Workers of America ("CWA") have been ongoing since the tentative agreement reached on August 4, 2014 was not ratified by local members of the union. We reached another tentative agreement on January 23, 2015 that is pending ratification by the local union's members.

#### Consolidated Results of Operations 2014 Compared to 2013

Service revenue was \$999.6 million in 2014, a decrease of \$39.7 million compared to 2013. Of this decrease, \$15.2 million was due to the deconsolidation of CyrusOne's results of operations from our consolidated financial statements. Excluding the impact of CyrusOne, service revenue in 2014 decreased by \$24.5 million year-over-year, primarily driven by lower Wireless service revenue of \$59.4 million as the postpaid and prepaid subscriber base continues to decline as a result of the wind down of the business. This decrease was partially offset by strong demand for strategic products that resulted in an additional \$12.2 million of Wireline service revenue and \$22.7 million of IT Services and Hardware revenue.

Product revenue totaled \$278.6 million in 2014, up 28% compared to 2013 due largely to \$64.8 million higher sales of telecommunications and IT hardware. Wireline equipment sales were up \$4.9 million as a result of sales generated through an agreement with Verizon Wireless to sell their products and services at our retail locations. Increased sales were partially offset by lower Wireless handset and accessory sales.

Cost of services was \$454.2 million in 2014, up \$23.8 million compared to 2013 due to the growth in our strategic products. Wireline and IT Services costs were up \$17.3 million and \$17.6 million, respectively. These increases were partially offset by Wireless cost of services which are down \$6.5 million as a result of a declining subscriber base. CyrusOne cost of services was \$4.6 million in 2013.

Cost of products sold was \$244.9 million in 2014 up from \$215.9 million in the prior year, due to a \$52.6 million increase of costs from higher telecommunications and IT hardware sales. Wireline cost of products increased by \$3.8 million primarily related to sales generated through an agreement with Verizon Wireless to sell their products and services at our retail locations. These increases were partially offset by lower Wireless cost of products sold equaling \$27.4 million, due to lower handset and accessory sales as a result of the planned wind down of the wireless segment. Selling, general and administrative ("SG&A") expenses were \$223.1 million in 2014, an increase of \$2.3 million compared to the same period in 2013. CyrusOne SG&A expenses were \$2.4 million prior to the IPO. Excluding CyrusOne, SG&A expenses increased \$4.7 million compared to the prior year. Wireline and IT Services and Hardware costs were up \$2.1 million and \$6.9 million, respectively, to support growth in our strategic products. Wireline costs were also up due to outsourcing certain IT functions. Partially offsetting this increase was a \$14.9 million decrease in Wireless SG&A expenses due primarily to cost containment efforts as we begin to wind down operations. Corporate costs were up \$10.6 million from the prior year primarily as a result of an increase in stock compensation expense due to less mark to market benefit on plans indexed to changes in our stock price as well as increases in other employee related costs.



Depreciation and amortization was \$231.0 million in 2014, an increase of \$61.4 million compared to the prior year. The increase in depreciation expense is primarily due to reducing the useful life of our long-lived wireless assets as a result of a continued decline in our subscriber base and the agreement to sell our wireless spectrum licenses and certain other assets. Wireless depreciation and amortization expense totaled \$103.4 million in 2014, up \$62.2 million compared to the prior year. Wireline depreciation and amortization increased by \$3.5 million due to the expansion of our fiber-based network. IT Services and Hardware was \$1.2 million higher than the prior year as a result of new assets placed in service to support growth in managed and professional service revenue. These increases were offset by a \$5.2 million reduction due to the deconsolidation of CyrusOne.

Restructuring charges were \$15.9 million in 2014 compared to \$13.7 million in the prior year. In 2014, restructuring charges represented severance associated with employee separations, consulting fees related to a workforce optimization initiative and lease abandonments. Charges incurred in 2014 include \$4.2 million of severance cost for employee separations related to the wireless segment and outsourcing certain aspects of our IT department and \$13.1 million of contract termination fees related to winding down wireless operations. These charges were partially offset by a \$1.4 million reduction to the lease abandonment reserve related to certain leased space being reoccupied during the third quarter of 2014. Charges incurred during the comparative periods of 2013 represented severance costs, expenses related to lease abandonments and fees associated with a workforce optimization initiative.

Transaction-related compensation was \$42.6 million in 2013, of which \$20.0 million was related to CyrusOne employees. In 2010, the Company's Board of Directors approved a long-term incentive program for certain members of management under which payments were contingent upon the completion of a qualifying transaction and attainment of an increase in the equity value of the data center business, as defined in the plan. The completion of the IPO during 2013 resulted in a qualifying transaction requiring payment of compensation to the employees covered under this plan. No such transaction-related compensation has occurred in 2014.

During the three months ended June 30, 2013, the Company amended the management pension plan to eliminate all future pension service credits effective July 1, 2013. As a result, the Company remeasured its projected benefit obligation for this plan, and the Wireline segment recognized a curtailment gain of \$0.6 million in the second quarter of 2013.

The gain on sale or disposal of assets totaled \$0.3 million in 2014 compared to a loss on sale or disposal of assets of \$2.4 million recorded in 2013. The Wireline segment recorded gains on the sale of copper cabling that was no longer in use totaling \$0.4 million and \$1.1 million in 2014 and 2013, respectively. The Corporate segment recorded a loss on sale or disposal of assets of \$0.1 million in 2014 partially offsetting the gain. In 2013, Wireless recorded a \$3.5 million loss on disposal of assets for equipment that had no resale market or has either been disconnected from the wireless network, abandoned or demolished.

Amortization of the deferred gain totaled \$22.9 million in 2014 compared to \$3.3 million in 2013. The change in the useful life of our long-lived wireless assets, excluding the spectrum licenses, resulted in the acceleration of the amortization of the deferred gain in 2014. In December 2009, the Company sold 196 wireless towers for \$99.9 million in cash proceeds and leased back a portion of the space on these towers for a term of 20 years, which resulted in a deferred gain of \$35.1 million.

Impairment charges totaling \$12.1 million in 2014 included \$7.5 million for certain construction-in-progress projects that will no longer be completed due to the wind down of the wireless business and \$4.6 million for the abandonment of an internal use software project that was written off in the Wireline segment. No impairment charges were recorded in 2013.

Transaction costs of \$4.4 million were incurred in 2014, up from \$1.6 million incurred in 2013. In 2014, these costs primarily represent fees associated with the sale of our wireless spectrum licenses. In 2013, these costs represented legal and consulting costs incurred to restructure our legal entities in preparation for the proposed IPO of the common stock of CyrusOne and to prepare CyrusOne to be a real estate investment trust.

Interest expense was \$148.7 million in 2014 compared to \$182.0 million in 2013. The decrease was primarily due to the Company amending its Corporate Credit Agreement to include a \$540.0 million Tranche B Term Loan and using the proceeds to redeem all of the Company's \$500.0 million 8 1/4% Senior Notes on October 15, 2013. In addition, in

the third quarter of 2014, the Company redeemed \$325.0 million outstanding 8 <sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2018 at a redemption price of 104.375%. The deconsolidation of CyrusOne in January 2013 also resulted in a \$2.5 million decrease compared to the prior year.

The Company recorded a loss on extinguishment of debt totaling \$19.4 million in the third quarter of 2014 related to the redemption of \$325.0 million 8 <sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2018. In the fourth quarter of 2014, the Company redeemed \$22.7 million of its outstanding 8 <sup>3</sup>/<sub>8</sub>% Senior Notes due 2020 at par and recognized a loss on extinguishment of debt totaling \$0.2 million.

Loss from CyrusOne equity method investment totaled \$7.0 million in 2014, down from \$10.7 million in 2013, for the Company's share of CyrusOne's net loss. In the second quarter of 2014, the Company recognized a \$192.8 million gain on the sale of 16.0 million CyrusOne LP partnership units.

Income tax expense of \$57.4 million in 2014 was up compared to the prior year due primarily to higher pre-tax income. In 2013, the tax benefit was a result of loss before income taxes offset by a valuation allowance provision of \$10.7 million for Texas margin credits, which effective with CyrusOne's IPO, are uncertain of being realized before their expiration date.

The Company has certain non-deductible expenses, including interest on securities originally issued to acquire its broadband business (the "Broadband Securities") or securities that the Company has subsequently issued to refinance the Broadband Securities. In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses associated with the Broadband Securities. The Company uses federal and state net operating losses to defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments, net of refunds, of \$9.1 million in 2014.

#### 2013 Compared to 2012

Service revenue was \$1,039.3 million in 2013, a decrease of \$233.5 million compared to 2012, primarily due to the deconsolidation of CyrusOne, which accounted for \$199.7 million of the decline. Wireless service revenue was down \$39.6 million from the prior year as a result of continued postpaid subscriber losses. Wireline service revenue declined by only \$2.7 million compared to 2012 as the growth in our strategic products continues to increasingly mitigate the loss from access line, long-distance and DSL subscriber declines. IT Services and Hardware service revenue was up \$8.5 million from a year ago due to strong demand from enterprise customers for managed and professional services. Product revenue totaled \$217.6 million in 2013, up 8% compared to 2012. The increase was largely due to a \$17.9 million increase in sales of telecommunications and IT hardware. These increases were partially offset by slight declines in both Wireline and Wireless product revenue.

Cost of services was \$430.4 million in 2013, compared to \$492.2 million in 2012, which included CyrusOne cost of services totaling \$73.0 million. Excluding CyrusOne, cost of services increased year-over-year primarily to support the growth in Fioptics and managed and professional services. Wireline cost of services was up \$7.5 million compared to the prior year and IT Services and Hardware costs were up \$8.9 million. Wireless cost of services was down \$9.8 million as a result of a declining subscriber base.

Cost of products sold was \$215.9 million in 2013 compared to \$204.7 million in the prior year, an increase of \$11.2 million due to a \$16.9 million increase as a result of higher telecommunications and IT hardware sales. Wireline and Wireless cost of products sold were down \$2.6 million and \$3.1 million, respectively, compared to the prior year.

SG&A expenses were \$220.8 million in 2013, a decrease of \$48.7 million, or 18%, compared to 2012. The decrease is partially the result of no longer consolidating CyrusOne, which accounted for \$28.5 million of the decrease. Corporate costs were down \$20.7 million from the prior year, primarily as a result of recognizing a \$5.6 million stock compensation mark-to-market gain in 2013 compared to a \$7.9 million stock compensation mark-to-market expense in 2012. The remaining decrease is due to a \$4.7 million decrease in bonus expense and a \$2.5 million decrease in payroll and other headcount related costs as a result of cost-out initiatives. Wireline and IT Services and Hardware SG&A expenses were up \$1.1 and \$2.4 million, respectively, primarily to support the growth of our strategic products. Wireless SG&A expenses were down \$3.0 million as a result of cost-out initiatives as we focus on operating the segment for cash flow and profitability.

Depreciation and amortization was \$169.6 million in 2013, a decrease of \$47.8 million compared to the prior year, primarily due to the deconsolidation of CyrusOne. In 2012, CyrusOne's depreciation and amortization expense totaled \$70.6 million compared to \$5.2 million in 2013. Wireline depreciation and amortization increased by \$6.2 million due to the expansion of Fioptics and our fiber-based network. IT Services and Hardware was \$1.9 million higher than the prior year as a result of new assets placed in service to support growth in managed and professional service revenue. Wireless depreciation and amortization expense totaled \$41.2 million in 2013, up \$9.3 million compared to the prior year. In the first quarter of 2013, the useful lives assigned to network software were shortened resulting in \$8.5 million of higher depreciation charges. In the fourth quarter of 2013, the remaining useful life for all property, plant



and equipment, and finite-lived intangible assets was reduced to 30 months as of December 31, 2013. This change in estimate resulted in additional depreciation and amortization expense of \$3.0 million in the fourth quarter. The useful life change in the fourth quarter of 2013 also resulted in the acceleration of the deferred gain associated with the 2009 tower sale. In 2013, the amortization of the deferred gain associated with the tower sale totaled \$3.3 million compared to \$2.3 million in 2012.

Restructuring charges were \$13.7 million in 2013 compared to \$3.4 million in the prior year. In 2013, restructuring charges represented severance associated with employee separations, consulting fees related to a workforce optimization initiatives and lease abandonments. Employee severance costs associated with the Wireline and IT Services and Hardware segment are related to workforce initiatives associated with the continued integration of the Wireline business market with the IT Services and Hardware segment. Corporate employee severance costs were associated with the consulting fees and cost-out initiatives as a result of our smaller size due to the IPO of CyrusOne. Lease abandonment costs for the Wireline segment totaled \$3.9 million as we consolidated office space. The Wireless segment recorded a \$0.2 million lease abandonment charge due to the closure of a retail store. In 2012, restructuring costs were incurred for employee separations totaling \$2.5 million primarily related to Wireline and Wireless. Lease abandonment charges were \$0.9 million in 2012.

In 2010, the Company's Board of Directors approved long-term incentive programs for certain members of management. Payment was contingent upon the completion of a qualifying transaction and attainment of an increase in the equity value of the data center business, as defined in the plans. On January 24, 2013, the IPO of CyrusOne was completed, which represented a qualifying transaction requiring payment under these plans. Transaction-related compensation expense of \$42.6 million was recognized for these awards at the Corporate level and not allocated to the segments. Payments to CyrusOne employees amounted to \$20.0 million of the associated expense.

During the three months ended June 30, 2013, the Company amended the management pension plan to eliminate all future pension service credits effective July 1, 2013. As a result, the Company remeasured its projected benefit obligation for this plan, and the Wireline segment recognized a curtailment gain of \$0.6 million in the second quarter of 2013.

The loss on sale or disposal of assets totaled \$2.4 million in 2013 compared to a gain on sale or disposal of assets of \$1.6 million recorded in 2012. The Wireline segment recorded gains primarily on the sale of copper cabling that was no longer in use totaling \$1.1 million and \$1.8 million in 2013 and 2012, respectively, and the Corporate segment recorded a loss on sale or disposal of assets of \$0.4 million in 2012. In 2013, Wireless recorded a \$3.5 million loss on disposal of assets for equipment that had no resale market or has either been disconnected from the wireless network, abandoned or demolished. CyrusOne recorded a \$0.2 million gain on the sale of assets in 2012.

There were no asset impairments recorded in 2013 compared to \$14.2 million in 2012. In 2012, CyrusOne recorded impairment losses of \$13.3 million on a customer relationship intangible asset and property and equipment. Wireline and Wireless asset impairments were \$0.5 million and \$0.4 million, respectively, during 2012.

Transaction costs of \$1.6 million were incurred in 2013, down from \$6.3 million incurred in 2012. In 2013, these costs represent expenses incurred for exploring strategic alternatives for our Wireless business and legal and consulting costs associated with the CyrusOne IPO. In 2012, these costs represented legal and consulting costs incurred to restructure our legal entities in preparation for the proposed IPO of the common stock of CyrusOne and to prepare CyrusOne to be a real estate investment trust.

Interest expense was \$182.0 million in 2013 compared to \$218.9 million in 2012, a decrease of \$36.9 million. The deconsolidation of CyrusOne resulted in a \$7.0 million decrease and the November 2012 redemptions of the 7% Senior Notes due 2015, certain CBT Notes and a portion of the 8 <sup>3</sup>/<sub>8</sub>% Senior Notes due 2020 reduced interest expense by \$27.3 million year-over-year. In the fourth quarter of 2013, the Company redeemed all of the \$500.0 million of 8 <sup>1</sup>/<sub>4</sub>% Senior Notes due 2017 at a redemption price of 104.125% using proceeds from the \$540.0 million Tranche B Term Loan facility that was issued on September 10, 2013. The refinancing of the 8 <sup>1</sup>/<sub>4</sub>% Senior Notes with the more economical Tranche B Term Loan resulted in \$1.8 million additional interest savings in 2013. The remaining difference was primarily due to lower amortization of note issuance costs.

The redemption of the 8 <sup>1</sup>/<sub>4</sub>% Senior Notes due 2017 in the fourth quarter of 2013 resulted in loss on extinguishment of debt totaling \$29.6 million. Redemptions of the 7% Senior Notes due 2015, certain CBT Notes and a portion of the 8 <sup>3</sup>/<sub>8</sub>% Senior Notes due 2020 in the fourth quarter of 2012 resulted in a loss on extinguishment of debt totaling \$13.6 million.

Loss from CyrusOne equity method investment totaled \$10.7 million in 2013 and represents the Company's share of CyrusOne's net loss which, effective with the CyrusOne IPO, is now recorded using the equity method.

Other income of \$1.3 million in 2013 primarily related to tax refund claims received on assets that had previously been disposed or abandoned. Other expense of \$1.7 million recorded in 2012, primarily related to a loss recorded on the termination of a lease financing arrangement.

An income tax benefit of \$2.5 million in 2013 was the result of pre-tax losses. In 2013, income tax expense includes a valuation allowance provision of \$10.7 million for Texas margin credits which, effective with CyrusOne's IPO, are uncertain of being realized before their expiration date. In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses associated with the Broadband Securities. The Company uses federal and state net operating losses to defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments, net of refunds, of \$2.8 million in 2013.

Discussion of Operating Segment Results

The Company manages its business based upon products and service offerings. At December 31, 2012, we operated four business segments: Wireline, IT Services and Hardware, Wireless and Data Center Colocation. Effective January 24, 2013, the date of the CyrusOne IPO, we no longer include CyrusOne, our former Data Center Colocation segment, in our consolidated financial statements and now account for our ownership in CyrusOne as an equity method investment. Therefore, at December 31, 2014 and 2013, we operated three business segments: Wireline, IT Services and Hardware and Wireless.

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

Table of Contents

Form 10-K Part II

Cincinnati Bell Inc.

## Wireline

The Wireline segment provides products and services such as data transport, high-speed internet, entertainment, local voice, long distance, VoIP, and other services. Cincinnati Bell Telephone Company LLC (CBT), a subsidiary of the Company, is the Incumbent Local Exchange Carrier (ILEC) for a geography that covers a radius of approximately 25 miles around Cincinnati, Ohio, and includes parts of northern Kentucky and southeastern Indiana. CBT has operated this territory for over 140 years. Voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, are provided through the operations of Cincinnati Bell Extended Territories LLC ("CBET"), a competitive local exchange carrier ("CLEC") and subsidiary of CBT. The Company provides long distance and VoIP services primarily through its Cincinnati Bell Any Distance Inc. ("CBAD") and eVolve Business Solutions LLC ("eVolve") subsidiaries.

(dollars in millions, except for operating metrics)	2014	2013	\$ Change		2012	\$ Change		
			2014 vs. 2013	% Change 2014 vs. 2013		2013 vs. 2012	% Change 2013 vs. 2012	
Revenue:								
Data	\$334.9	\$317.8	\$17.1	5 %	\$306.9	\$10.9	4 %	
Voice - local service	203.5	229.1	(25.6 )	(11 )%	255.4	(26.3 )	(10 )%	
Long distance and VoIP	107.3	107.2	0.1	0 %	113.9	(6.7 )	(6 )%	
Entertainment	76.0	55.2	20.8	38 %	35.4	19.8	56 %	
Other	19.0	15.5	3.5	23 %	18.9	(3.4 )	(18 )%	
Total revenue	740.7	724.8	15.9	2 %	730.5	(5.7 )	(1 )%	
Operating costs and expenses:								
Cost of services and products	306.9	287.2	19.7	7 %	283.8	3.4	1 %	
Selling, general and administrative	131.9	127.8	4.1	3 %	125.6	2.2	2 %	
Depreciation and amortization	115.7	112.2	3.5	3 %	106.0	6.2	6 %	
Restructuring (reversals) charges	(0.5 )	9.1	(9.6 )	n/m	3.5	5.6	n/m	
Curtailment gain	—	(0.6 )	0.6	n/m	—	(0.6 )	n/m	
Gain on sale or disposal of assets	(0.4 )	(1.1 )	0.7	(64 )%	(1.8 )	0.7	39 %	
Asset impairments	4.6	—	4.6	n/m	0.5	(0.5 )	n/m	
Total operating costs and expenses	558.2	534.6	23.6	4 %	517.6	17.0	3 %	
Operating income	\$182.5	\$190.2	\$(7.7 )	(4 )%	\$212.9	\$(22.7 )	(11 )%	
Operating margin	24.6 %	26.2 %	(1.6 )	pts	29.1 %	(2.9 )	pts	
Capital expenditures	\$163.7	\$162.6	\$1.1	1 %	\$114.2	\$48.4	42 %	
Metrics information (in thousands):								
Fioptics units passed	335.0	276.0	59.0	21 %	205.0	71.0	35 %	
Internet subscribers								
DSL	156.2	188.5	(32.3 )	(17 )%	202.6	(14.1 )	(7 )%	
Fioptics	113.7	79.9	33.8	42 %	56.8	23.1	41 %	
Total internet subscribers	269.9	268.4	1.5	1 %	259.4	9.0	3 %	
Fioptics video subscribers	91.4	74.2	17.2	23 %	55.1	19.1	35 %	
Local access lines	480.6	530.7	(50.1 )	(9 )%	573.9	(43.2 )	(8 )%	
Long distance lines	362.8	394.1	(31.3 )	(8 )%	417.9	(23.8 )	(6 )%	



## 2014 Compared to 2013

## Revenues

Data revenue consists of Fioptics high-speed and DSL internet access, data transport, and interconnection services. Data revenue was \$334.9 million in 2014, an increase of \$17.1 million compared to 2013. Strategic data revenue was \$151.1 million in 2014, up \$29.0 million compared to the prior year. Revenue from Fioptics high-speed internet service increased to \$45.7 million in 2014, up 64% compared to the prior year. The increase is primarily due to a growing subscriber base totaling 113,700 accounts at December 31, 2014 and an increase in monthly ARPU of approximately \$4.00, up 12% compared to the prior year. Strategic revenue from DSL customers subscribing to at least a 10 megabit internet product totaled \$6.2 million. Strategic business revenue totaled \$102.7 million, including \$3.5 million from Fioptics, up 9% from the prior year. Legacy data revenue was \$183.8 million, a decrease of \$11.9 million from the prior year. This decrease is primarily due to our business customers migrating to higher bandwidth data transport products and a 17% decline in DSL customers as a result of switching to higher speed internet products. Voice local service revenue includes local service, digital trunking, switched access, information services, and other value-added services such as caller identification, voicemail, call waiting, and call return. Voice local service revenue was \$203.5 million in 2014, down \$25.6 million compared to 2013. Strategic voice service revenue was \$21.0 million in 2014, up \$3.1 million compared to 2013, primarily due to an increase in Fioptics voice lines, which totaled 61,000 at December 31, 2014. Legacy voice service revenue was \$175.8 million in 2014, down \$28.4 million compared to 2013. The segment continues to lose access lines as a result of, among other factors, customers electing to solely use wireless service in lieu of traditional local wireline service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. In 2014, legacy voice service revenue also experienced increased access line churn as a result of the wind down of the wireless segment due to customers electing to discontinue their local voice service that had been bundled with their wireless subscription. Integration voice revenue totaled \$6.7 million in 2014, down \$0.3 million compared to the prior year.

Long distance and VoIP revenue was \$107.3 million in 2014, consistent with the prior year as the growth in strategic products offset legacy declines. Strategic revenue was \$58.1 million in 2014, an increase of \$7.0 million compared to the prior year due largely to the growth in VoIP and private line services. Legacy revenue was \$47.0 million in 2014, a decrease of \$5.1 million compared to 2013 primarily due to an 8% decrease in long distance lines as both consumers and business customers are migrating to VoIP or wireless services. Integration revenue was down \$1.8 million totaling \$2.2 million 2014.

Entertainment revenue was \$76.0 million in 2014, up \$20.8 million compared to the prior year and was driven by the growth in Fioptics. The higher entertainment revenue was directly related to the 23% increase in Fioptics entertainment subscribers and the 9% increase in monthly ARPU. As of December 31, 2014, the segment had 91,400 Fioptics entertainment subscribers. The Company continues to expand its Fioptics service area due to strong consumer demand for this service.

Other revenue was \$19.0 million in 2014, an increase of \$3.5 million compared to the prior year. This increase was primarily the result of \$5.7 million of revenue generated through an agreement to sell Verizon Wireless product and services at our retail locations. This increase was partially offset by lower revenue from wiring projects.

## Costs and Expenses

Cost of services and products was \$306.9 million in 2014, an increase of \$19.7 million compared to 2013, primarily due to \$14.1 million of additional programming costs as a result of an increase in the number of Fioptics subscribers and increased programming rates. Other costs of services and products were up \$1.3 million as we prepare to accelerate our fiber investment. Operating tax expenses increased by \$6.6 million due to an increase in Universal Service Fund ("USF") taxes and property taxes. Cost of services and expenses was also up \$4.3 million in 2014 due to cost associated with the agreement to sell Verizon Wireless product and services at our retail locations. These increases were partially offset by a \$6.6 million decline in payroll related costs due to lower pension and post-retirement expense.

SG&A expenses were \$131.9 million in 2014, an increase of \$4.1 million compared to the prior year due to increased software development costs and consulting fees totaling \$3.8 million related primarily to outsourcing certain IT

functions. Payroll related costs were up \$2.7 million due to increased commission and increased headcount to support the acceleration of our fiber investments. These increases were offset by lower advertising, bad debt and other miscellaneous expenses.

Depreciation and amortization was \$115.7 million in 2014, reflecting an increase of \$3.5 million compared to the prior year primarily due to assets placed in service in connection with the expansion of our fiber network.



Restructuring reversal of \$0.5 million in 2014 relates to a lease abandonment reserve for vacant floors totaling \$1.4 million that were reoccupied offset by severance charges recorded for outsourcing certain functions of our IT department. Restructuring charges in 2013 totaled \$9.1 million including employee separation costs of \$4.6 million, lease abandonment charges of \$3.9 million and contract termination charges of \$0.6 million.

Asset impairments of \$4.6 million in 2014 relate to the abandonment of an internal use software project that was written off in the fourth quarter. No such impairments occurred in 2013.

#### Capital Expenditures

Capital expenditures are incurred to expand our Fioptics product suite, upgrade and increase capacity for our internet and data networks, and to maintain our wireline network. Capital expenditures totaled \$163.7 million in 2014, an increase of \$1.1 million compared to 2013. We invested \$93.1 million in Fioptics, including \$50.0 million for construction to pass 59,000 addresses, \$24.3 million for installation costs and \$18.8 million in other Fioptics projects primarily to increase core network capacity. As of December 31, 2014, the Company is able to provide Fioptics services to 335,000 residential and business addresses, an increase of 21% compared to 2013.

#### 2013 Compared to 2012

##### Revenues

Data revenue was \$317.8 million in 2013, up \$10.9 million compared to 2012. Strategic data revenue was \$122.1 million in 2013, up 24% compared to the prior year. Revenue from Fioptics high-speed internet service increased to \$27.9 million in 2013, up from \$18.1 million in the prior year due to a 41% increase in subscribers. The remaining increase is primarily due to increases in strategic data for business customers which was up 17% year-over-year and totaled \$94.2 million in 2013. Legacy data revenue was \$195.7 million in 2013, down \$12.5 million compared to the prior year. This is primarily due to our business customers migrating to higher bandwidth data transport products and a 7% decrease in our legacy DSL subscriber base.

Voice local service revenue was \$229.1 million in 2013, down \$26.3 million compared to 2012. Strategic voice service revenue was \$17.9 million in 2013, up \$4.3 million compared to 2012, primarily due to the 31% growth in Fioptics voice lines, which totaled 53,300 at December 31, 2013. Legacy voice service revenue was \$204.2 million in 2013, down \$29.9 million compared to 2012. The decrease in revenue is primarily due to fewer local access lines compared to a year ago. Access lines within the segment's ILEC territory decreased by 35,000, or 7%, to 476,000 at December 31, 2013 from 511,000 at December 31, 2012. The Company had 54,700 CLEC access lines at December 31, 2013 compared to 62,900 access lines at December 31, 2012. The segment continues to lose access lines as a result of, among other factors, customers electing to solely use wireless service in lieu of traditional local wireline service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The remaining decrease is due to a \$0.7 million reduction in integration voice service revenue in 2013 compared to 2012.

Long distance and VoIP revenue was \$107.2 million in 2013, a decrease of \$6.7 million compared to 2012. Strategic revenue was \$51.1 million in 2013, relatively flat compared to the prior year. Growth in private-line and VoIP services totaled \$2.1 million, but was more than offset by a decrease in audio conferencing revenue primarily as a result of the loss of one large customer. Legacy revenue was \$52.1 million in 2013, a decrease of \$5.0 million compared to 2012 primarily due to a 6% decrease in long distance lines as both consumers and business customers are migrating to VoIP or wireless services. The remaining decrease is due to a \$1.2 million decrease in integration services compared to the prior year.

Entertainment revenue was \$55.2 million in 2013, up \$19.8 million compared to the prior year and was driven by the growth in Fioptics. Fioptics entertainment revenue grew by \$19.4 million in 2013, primarily due to a 35% increase in Fioptics entertainment subscribers. As of December 31, 2013, the segment had 74,200 Fioptics entertainment subscribers.

Other revenue was \$15.5 million in 2013, a decrease of \$3.4 million compared to the prior year. This decrease was primarily the result of a reduction of \$2.3 million and \$0.8 million in legacy and integration other revenue compared to 2012.



### Costs and Expenses

Cost of services and products was \$287.2 million in 2013, an increase of \$3.4 million compared to 2012. This increase was largely attributable to an \$8.6 million increase in programming rates and higher payroll costs of \$5.8 million to support strategic revenue growth. These increases were partially offset by a \$5.6 million reduction in operating taxes due primarily to a reduction in Universal Service Fund ("USF") charges, a \$1.2 million reduction in benefit costs driven by the pension amendments, a \$1.8 million reduction in call center costs associated with outsourcing that function and \$2.8 million due to lower network costs associated with decreased long distance and VoIP revenue. SG&A expenses were \$127.8 million in 2013, an increase of \$2.2 million compared to the prior year. This increase was mainly driven by higher Fioptics advertising costs and non-employee commission fees.

Depreciation and amortization was \$112.2 million in 2013, reflecting an increase of \$6.2 million compared to the prior year primarily due to assets placed in service in connection with the expansion of our fiber network.

Restructuring charges were \$9.1 million in 2013 compared to \$3.5 million in the prior year. The Company continues to manage and reduce the legacy cost structure of this business. Employee separation costs amounted to \$4.6 million and \$3.2 million in 2013 and 2012, respectively, while lease abandonment costs were \$3.9 million in 2013 and \$0.3 million in 2012. Contract termination costs were \$0.6 million in 2013, with no such costs incurred in 2012.

The curtailment gain of \$0.6 million was due to the remeasurement of the Company's projected benefit obligation following an amendment to the management pension plan during the second quarter of 2013 that eliminated all future pension service credits as of July 1, 2013. The gain on sale of assets of \$1.1 million in 2013 was due to a \$2.0 million gain from the sale of copper cabling that was no longer in use, partially offset by a \$0.9 million loss on network equipment with no resale value that was removed from service. During 2012, the segment recognized a gain on sale of assets of \$1.8 million primarily from the sale of copper cabling that was no longer in use.

Asset impairments of \$0.5 million in 2012 relate primarily to the write-off of an out-of-territory fiber network. No such impairments occurred in 2013.

### Capital Expenditures

Capital expenditures incurred to expand the Company's strategic fiber network and maintain its legacy copper-based network totaled \$162.6 million in 2013, an increase of \$48.4 million compared to 2012. During 2013, we invested \$113.0 million in our strategic products, of which \$79.5 million was used for Fioptics as we passed an additional 71,000 units.

Table of Contents  
Form 10-K Part II

Cincinnati Bell Inc.

## IT Services and Hardware

The IT Services and Hardware segment provides a full range of managed IT solutions, including managed infrastructure services, IT and telephony equipment sales, and professional IT staffing services. These services and products are provided in multiple geographic areas including locations in the U.S., Canada and Europe. By offering a full range of equipment and outsourced services in conjunction with the Company's wireline network, the IT Services and Hardware segment provides end-to-end IT and telecommunications infrastructure management designed to reduce cost and mitigate risk while optimizing performance for its customers.

(dollars in millions)	2014	2013	\$ Change 2014 vs. 2013	% Change 2014 vs. 2013	2012	\$ Change 2013 vs. 2012	% Change 2013 vs. 2012		
Revenue:									
Telecom and IT equipment distribution	\$287.7	\$222.6	\$65.1	29	%	\$204.6	\$18.0	9	%
Managed and professional services	145.3	121.5	23.8	20	%	111.1	10.4	9	%
Total revenue	433.0	344.1	88.9	26	%	315.7	28.4	9	%
Operating costs and expenses:									
Cost of services and products	350.0	279.8	70.2	25	%	255.7	24.1	9	%
Selling, general and administrative	51.5	44.6	6.9	15	%	42.3	2.3	5	%
Depreciation and amortization	11.7	10.5	1.2	11	%	8.6	1.9	22	%
Restructuring charges (reversals)									