CINCINNATI BELL INC
Form 10-K
February 26, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009**

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

COMMISSION FILE NUMBER: 1-8519

CINCINNATI BELL INC.

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

221 East Fourth Street, Cincinnati, Ohio 45202

Telephone 513-397-9900

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 3/4% 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 x 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 x

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

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

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

The aggregate market value of the voting common shares owned by non-affiliates of the registrant was $0.6 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2009, the last trading day of the registrant s most recently completed second fiscal quarter. The Company has no non-voting common shares.

At February 1, 2010, there were 201,126,463 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the Company s 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

Table of Contents

TABLE OF CONTENTS

PART I

		Page
Item 1.	Business	2
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Submission of Matters to a Vote of the Security Holders	18

PART II

Item 5.	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6.	Selected Financial Data	21
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 8.	Financial Statements and Supplementary Data	51
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	101
Item 9A.	Controls and Procedures	101
Item 9B.	Other Information	102

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	103
Item 11.	Executive Compensation	104
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	104
Item 13.	Certain Relationships and Related Transactions, and Director Independence	104
Item 14.	Principal Accountant Fees and Services	104

PART IV

Item 15.	Exhibits and Financial Statement Schedules	105
	Signatures	113

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

Table of Contents

Part I

Item 1. Business

General

Cincinnati Bell Inc. and its consolidated subsidiaries (the Company) is a full-service regional provider of data and voice communications services over wireline and wireless networks and a full-service provider of data center operations, related managed services and equipment. The Company provides telecommunications service to businesses and consumers in the Greater Cincinnati and Dayton areas primarily on its owned wireline and wireless networks with a well-regarded brand name and reputation for service. The Company also provides business customers with outsourced data center operations including related managed services in world class, state-of-the-art data center facilities. The Company operates in three segments: Wireline, Wireless, and Technology Solutions.

The Company is an Ohio corporation, incorporated under the laws of Ohio in 1983. Its principal executive offices are at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address *http://www.cincinnatibell.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. 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.

Wireline

The Wireline segment provides local voice, data, long-distance, voice over internet protocol (VoIP), and other services over its owned and other wireline networks. Local voice services include local telephone service, switched access, information services such as directory assistance, and value-added services such as caller identification, voicemail, call waiting, call return and text messaging. Data services include high-speed internet using digital subscriber line (DSL) technology, dial-up internet access, dedicated network access, and Gigabit Ethernet (Gig-E) and Asynchronous Transfer Mode (ATM) data transport, which businesses principally utilize to transport large amounts of data typically over a private network. Approximately 95% of Wireline voice and data revenue was generated within the Company s incumbent local exchange carrier (ILEC) operating territory. Long distance and VoIP services include long distance voice, audio conferencing, VoIP and other broadband services including private line and multi-protocol label switching (MPLS), a technology that enables a business customer to privately interconnect voice and data services at its locations. Other services include security monitoring services, public payphones, television over coaxial cable and fiber optical cable in limited areas, high-speed internet over fiber optical cable in limited areas, DirecTV© commissioning over the Company s entire operating area, inside wire installation for business enterprises, data center collocation services, billing, clearinghouse and other ancillary services primarily for inter-exchange (long distance) carriers.

The Company provides wireline voice and data services to its historical operating territory in southwestern Ohio, northern Kentucky and southeastern Indiana through the operations of Cincinnati Bell Telephone Company LLC (CBT), an ILEC. The Company s core ILEC franchise covers approximately 2,400 square miles in a 25-mile radius around Cincinnati, Ohio. The Company has operated its core ILEC franchise for approximately 135 years.

The Company has expanded its 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) subsidiary of CBT. CBET provides voice and data services on either its own network or through purchasing unbundled network elements (UNE-L or loops) from various incumbent local carriers. The ILEC and CLEC territories are linked through a Synchronous Optical Fiber Network (SONET), which provides route diversity between the two territories via two separate paths.

Voice services

The Wireline segment provides voice services over a digital circuit switch-based network to end users via access lines. In recent years, the Company s voice access lines have decreased as its customers have increasingly employed wireless technologies in lieu of wireline voice services (wireless substitution), have migrated to competitors, including cable companies that offer VoIP solutions, or have been disconnected due to credit problems. The Wireline segment had approximately 723,500 voice access lines in service on December 31, 2009, which is a 7% and 13% reduction in comparison to 779,700 and 834,300 access lines in service at December 31, 2008 and 2007, respectively.

In order to minimize the access line losses and to provide a greater value to its customers, the Company has a history of providing bundled offerings, in which the customer can bundle two or more of the Company s services, such as wireless and an access line, at a lower price than if the services were purchased individually. In early 2009, the Company began offering Priced for Life, which allows the customer to lock in a monthly price for two or more services for the life of their services.

The Wireline segment has been able to partially offset the effect of access line losses on revenue by:

(1) increasing DSL high-speed internet penetration;

(2) increasing the sale of high capacity data circuits to business customers;

(3) increasing the sale of VoIP services; and

(4) increasing entertainment and high-speed internet subscribers with the Fioptics fiber-to-the-home product suite.

Data, including DSL high-speed internet

The Company has deployed DSL capable electronics throughout its ILEC operating territory, allowing it to offer DSL high-speed internet to over 96% of its ILEC customers. The Company s DSL subscribers were 233,800, 233,200, and 221,500 at December 31, 2009, 2008, and 2007, respectively. The Company s consumer penetration for DSL service was 54% of ILEC addressable lines at the end of 2009, an increase of 6 percentage points compared to the end of 2008. DSL revenue represented 34% of Wireline data revenue in 2009.

The Company s wireline network includes the use of fiber optical cable, with SONET rings linking Cincinnati s downtown with other area business centers. These SONET rings offer increased reliability and redundancy to CBT s major business customers. CBT has an extensive business-oriented data network, offering high-speed and high capacity data transmission services over an interlaced ATM Gig-E backbone network. Data transmission revenues represented 63% of Wireline data revenue in 2009. The remaining 3% of Wireline data revenue in 2009 consisted mainly of dial-up internet access.

Long distance and VoIP services

The Company provides long distance and VoIP services primarily through its Cincinnati Bell Any Distance Inc. (CBAD) and eVolve Business Solutions LLC (eVolve) subsidiaries. These entities provide long distance and audio conferencing services to business and residential customers in the Greater Cincinnati and Dayton, Ohio areas as well as other broadband services, including private line and MPLS, beyond its traditional territory to business customers. Residential customers 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. In addition to long distance, business customers can choose from a variety of other services, which include audio conferencing, dedicated long distance, and VoIP. At December 31, 2009, CBAD had approximately 508,300 long distance subscribers, consisting of 331,900 residential and 176,400 business subscribers, compared to 531,600 and 548,300 long distance subscribers at December 31, 2008 and 2007, respectively. The decrease in subscribers from 2008 was related to a 6% decline in residential subscribers, consistent with the CBT access line loss. Outside its traditional operating territory, the Company provides VoIP services to business customers primarily located in Ohio, Indiana and Illinois. The Company believes its VoIP operations will expand as business customers continue to look for alternatives to traditional ILEC-based operations and the VoIP technology

continues to improve. The VoIP access line equivalents increased from 7,600 at December 31, 2008 to 14,600 at December 31, 2009.

In 2009, long distance and VoIP services produced $97.1 million in revenue for the Wireline segment compared to $98.3 million in 2008, and $79.3 million in 2007. The increase in revenue in 2009 and 2008 as compared to 2007 was primarily due to the acquisition in early 2008 of eGIX Inc. (eGix), a CLEC provider of voice and long-distance service to business customers in Indiana and Illinois.

Fioptics product suite and other entertainment

In 2007, CBET purchased a local telecommunications business which offers voice, data and cable TV services in Lebanon, Ohio for a purchase price of $7.0 million. As a result of this acquisition, the Wireline segment offers cable TV services to selected customers in its operating territory. In addition, the Company s improvement of its wireline network over the last several years has included capital expenditures for fiber optical cable in limited areas. The large bandwidth of fiber optical cable allows the Company to provide customers with its Fioptics product suite of services, which include entertainment, high-speed internet and voice services, in areas that the fiber optical cable is laid. The Company has focused its fiber network expenditures on high traffic areas, such as apartments and condominium complexes as well as business office parks, and, as of December 31, 2009, the Company now passes and is able to provide its Fioptics services to 41,000 homes. As of December 31, 2009, the Company had 11,100 entertainment, 10,200 high-speed fiber internet, and 7,500 voice Fioptics customers.

In addition to providing entertainment over coaxial cable and fiber optical cable in limited areas, the Company also is an authorized sales agent and offers DirecTV© satellite programming to customers in substantially all of its operating territory through its retail distribution outlets. The Company does not deliver satellite television services. Instead, DirecTV© pays the Company a commission for each subscriber and in some circumstances may offer a bundle price discount directly to the Cincinnati Bell customer subscribing to its satellite television service. At December 31, 2009 and 2008, the Company had 30,000 and 22,000 customers, respectively, that were subscribers to DirecTV©.

Security monitoring services

Cincinnati Bell Complete Protection Inc. (CBCP) provides surveillance hardware and monitoring services to residential and business customers in the Greater Cincinnati area. At December 31, 2009, CBCP had approximately 13,600 monitoring subscribers in comparison to 11,800 and 9,900 monitoring subscribers at December 31, 2008 and 2007, respectively. CBCP produced $4.9 million, $4.5 million, and $4.0 million in revenue in 2009, 2008, and 2007, respectively, for the Wireline segment.

Public payphone

The Company s public payphone business (Public) provides public payphone services primarily within the ILEC operating territory. Public had approximately 1,800, 1,900, and 2,200 stations in service as of December 31, 2009, 2008, and 2007, respectively, and generated approximately $1.0 million, $1.3 million, and $1.9 million in revenue in 2009, 2008, and 2007, respectively, or less than 1% of consolidated revenue in each year. The revenue decrease results primarily from wireless substitution, as usage of payphones continues to decrease in favor of wireless products, and a targeted reduction in unprofitable lines.

CBT s subsidiary Cincinnati Bell Telecommunications Services LLC operates the National Payphone Clearinghouse (NPC) in an agency function, facilitating payments from inter-exchange carriers to payphone service providers (PSPs) relating to the compensation due to PSPs for originating access code calls, subscriber 800 calls, and other toll free and qualifying calls pursuant to the rules of the Federal Communications Commission (FCC) and state regulatory agencies. As the NPC agent, the Company does not take title to any funds to be paid to the PSPs, nor does the Company accept liability for the payments owed to the PSPs.

The Wireline segment produced revenue of $773.1 million, $803.6 million, and $821.7 million, or 58%, 57%, and 61% of consolidated revenue, in 2009, 2008, and 2007, respectively. The Wireline segment produced operating income of $261.2 million, $261.7 million, and $252.5 million in 2009, 2008, and 2007, respectively.

Wireless

Cincinnati Bell Wireless LLC (CBW) provides advanced 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 (3G) network overlay, which is able to provide enhanced high-speed data services such as streaming video. 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 digital wireless network utilizes approximately 455 tower structures. The Company s digital wireless network also utilizes 50 MHz of licensed wireless spectrum in the Cincinnati Basic Trading Area and 40 MHz of licensed spectrum in the Dayton Basic Trading Area. The Company owns the licenses for the spectrum that it uses in its network operations. As of December 31, 2009, the Wireless segment served approximately 533,100 subscribers of which 379,100 were postpaid subscribers who are billed monthly in arrears, and 154,000 were prepaid i-wireless[SM] subscribers who purchase service in advance.

In December 2009, the Company sold 196 wireless towers, which represented substantially all of its owned towers, for $99.9 million in cash. CBW continues to use these towers in its operations under a 20-year lease agreement. See Note 5 to the Consolidated Financial Statements for further discussion regarding the sale of these wireless towers. Also, during 2009, the Company sold almost all of its owned wireless licenses for areas outside of its Cincinnati and Dayton operating territories. These licenses, which were primarily for the Indianapolis, Indiana region, were sold for $6.0 million, resulting in a loss on sale of the spectrum assets of $4.8 million.

The Wireless segment competes against all of the U.S. national wireless carriers by offering superior network quality, unique rate plans, which may be bundled with the Company s wireline services, and extensive and conveniently located retail outlets. The Company s unique rate plans and products include the Unlimited Everyday Calling Plan to any Cincinnati Bell local voice, wireless or business customers and Fusion WiFi (Wi-Fi), which utilizes Unlicensed Mobile Access (UMA) technology for enhanced in-building wireless voice reception and faster rates of data transmission compared to alternative wireless data services**.** In addition, the Company also offers several family plans, including the Unlimited Family Plan as well as a Smart Device Family Plan. These plans allow the first subscriber to get a wireless voice rate plan and, if selected, a data plan, at regular price and then each additional family member can be added at a lower price.

As is typical in the wireless communications industry, CBW sells wireless handset devices at or below cost, to entice customers to use its wireless services, for which a recurring monthly fee is charged. The Company is increasingly using equipment contracts, which require the customer to use the CBW monthly service for a minimum period of two years in exchange for a deeply discounted wireless handset. Additionally, CBW sells its wireless network services to other wireless carriers for their customers to access the Company s voice and data services through roaming.

Postpaid subscriber service revenue generated approximately 74% of 2009 segment revenue. A variety of rate plans are available to postpaid subscribers, and these plans can include a fixed or unlimited number of national minutes, an unlimited number of Cincinnati Bell mobile-to-mobile (calls to and from other Wireless subscribers), an unlimited number of calls to and from a CBT access line, and/or local minutes for a flat monthly rate. For plans with a fixed number of minutes, postpaid subscribers can purchase additional minutes at a per-minute-of-use rate. A variety of data plans are also available including mobile messaging, mobile internet, and smart device data plans as a bolt-on to voice rate plans.

Prepaid i-wireless[SM] subscribers, which accounted for 17% of 2009 segment revenue, can purchase airtime cards for use with pay per minute, pay by day, pay by week, or pay by month rate plans. A weekly smartphone plan was also introduced in 2009 for the i-wireless[SM] subscribers.

Revenue from other wireless service providers for use of the Company s wireless networks to satisfy the roaming requirements of the carrier s own subscribers, collocation revenue (rent received, prior to sale of wireless towers in December 2009, for the placement of other carriers radios on CBW towers), and reciprocal compensation for other carriers subscribers who terminate calls on CBW s network, accounted for 2% of total 2009 segment revenue.

Sales of handsets and accessories generated the remaining 7% of 2009 segment revenue. CBW sells handsets and accessories, often below its purchase cost, to promote the acquisition and retention of subscribers. Sales take place at Company owned retail stores, on the Company s website, via business sales representatives, and in independent distributors retail stores pursuant to agency agreements. CBW purchases handsets and accessories from a variety of manufacturers and maintains an inventory to support sales.

The Wireless segment contributed $307.0 million, $316.1 million, and $294.5 million, or 23% of revenue in 2009 and 2008, and 22% of consolidated revenue in 2007. The Wireless segment produced operating income of $33.0 million in 2009, $46.8 million in 2008, and $34.3 million in 2007.

Technology Solutions

The Technology Solutions segment provides a full range of managed information technology solutions, including outsourced data center collocation in world class, state-of-the-art data center facilities, related data center managed services, IT and telephony equipment sales, and professional IT infrastructure staff augmentation services. These services and products are provided in multiple states through the Company s subsidiaries, Cincinnati Bell Technology Solutions Inc. (CBTS), CBTS Canada Inc., CBTS Software LLC, and GramTel Inc. (GramTel). By offering a full range of equipment and outsourced managed services in conjunction with the Company s wireline network services, Technology Solutions provides end-to-end IT telecommunications infrastructure management designed to reduce cost and mitigate risk while optimizing performance for its customers.

The Company s data center and managed services product line includes the operations of eleven data centers totaling 271,000 square feet of billable data center capacity, a network operations center that provides off-site infrastructure monitoring, and a wide array of IT infrastructure management products, which includes network management, electronic data storage, disaster recovery, and data security management. At December 31, 2009, 214,000 square feet were under contract with customers, resulting in a 79% utilization rate of the 271,000 square feet of available data center space. Data center services include 24-hour monitoring of the customer s computer equipment in the data center, redundant power, and environmental controls. CBTS data centers are connected with one another and to its customers data networks through the fully redundant facilities of CBT s telecommunications network and/or CBTS dedicated dense wave division multiplexing optical network. This connectivity and the geographical dispersion of the data centers provide enhanced data reliability and disaster recovery. Data center and managed services revenue was $111.2 million for 2009, $97.7 million in 2008, and $67.6 million in 2007.

The Company s telecom and IT equipment distribution product line is the value-added reseller operation of Technology Solutions. The Company maintains relationships with over ten branded technology vendors, which allow it to sell, install, and maintain a wide array of telecommunications and computer equipment and operating systems to meet the needs of small to large businesses. This unit also manages the implementation and maintenance of traditional voice systems as well as converged VoIP systems. Revenue from telecom and IT equipment distribution was $161.1 million in 2009, $201.2 million in 2008, and $180.8 million in 2007.

The professional services product line provides IT infrastructure staff augmentation and professional IT infrastructure 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. Technology Solutions utilizes a team of experienced recruiting and hiring personnel to provide its customers a wide range of skilled IT professionals at competitive hourly rates. Professional services revenue was $20.8 million in 2009, $16.3 million in 2008, and $9.9 million in 2007.

Technology Solutions combines data center collocation services with value-added IT managed services into a fully managed and outsourced infrastructure service. Data center customer contracts typically range from three to fifteen years in length and produce attractive returns on invested capital. The Company intends to continue to pursue additional customers and growth specific to its data center business and is prepared to commit additional resources, including resources for capital expenditures, acquisitions and working capital both within and outside its traditional operating territory, to support this growth.

In 2009, Technology Solutions purchased both Toronto, Canada-based Virtual Blocks Inc., a leading software developer in the area of data center virtualization, and Cincinnati, Ohio-based Cintech LLC, a hosted

provider of an outbound notification services for a total acquisition price of $2.5 million. In December 2007, Technology Solutions purchased GramTel, a data center services provider to small and medium-size companies in Chicago and northwestern Indiana for $20.3 million.

The Technology Solutions segment produced total revenue of $293.1 million, $315.2 million, and $258.3 million and constituted approximately 22%, 22% and 19% of consolidated revenue in 2009, 2008, and 2007, respectively. The Technology Solutions segment produced operating income of $22.1 million in 2009 and $18.1 million in both 2008 and 2007.

Customers

As the Company s growth products and services, such as data center services and wireline data and entertainment services, continue to increase in revenue, and the Company s legacy products, such as wireline voice service in its ILEC territory, continue to decrease in revenue, the Company s revenue portfolio is becoming more diversified than in the past, as the comparison between 2009 revenue and 2005 revenue demonstrates below.

Percentage of revenue (before intercompany eliminations)	2009	2005	Change
Wireline local voice	26%	41%	(15)pts
Wireless	22%	20%	2
Technology Solutions	21%	14%	7
Wireline data	20%	18%	2
Other Wireline, including long distance	11%	7%	4
Total	100%	100%	

Additionally, the Company s mix of business and consumer customers is changing, as many of the Company s growth products, such as data center services and data transport services, are geared primarily toward business customers. In 2009, the Company s revenues were comprised of 59% to business customers and 41% to consumers. By comparison, the Company s 2005 revenues were comprised of 53% to business customers and 47% to consumers. The Company has receivables with one large customer that exceed 10% of the Company s outstanding accounts receivable balance.

Competitive Conditions

Refer to Item 1A. Risk Factors for further information regarding Company risks associated with competitive conditions.

Employees

At February 1, 2010, the Company had approximately 3,200 employees. CBT has approximately 1,100 employees covered under a collective bargaining agreement that expires in May 2011 with the Communications Workers of America (CWA), which is affiliated with the AFL-CIO.

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 amount 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, 2009, 2008, and 2007, and assets as of December 31, 2009 and 2008, is set forth in Note 14 to the Consolidated Financial Statements.

Item 1A. Risk Factors

The Company s substantial debt could limit its ability to fund operations, expose it to interest rate volatility, limit its ability to raise additional capital and have a material adverse effect on its ability to fulfill its obligations and on its business and prospects generally.

The Company has a substantial amount of debt and has significant debt service obligations. As of December 31, 2009, the Company and its subsidiaries had outstanding indebtedness of $2.0 billion on which it incurred $130.7 million of interest expense in 2009, and had total shareowners deficit of $654.6 million. In addition, at December 31, 2009, the Company had the ability to borrow additional amounts under its revolving credit facility totaling approximately $185.5 million, subject to compliance with certain conditions. The Company may incur additional debt from time to time, subject to the restrictions contained in its credit facilities and other debt instruments.

The Company s substantial debt could have important consequences, including the following:

- the Company will be 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;

- the Company s interest expense could increase if interest rates, in general, increase as 15% of the Company s indebtedness is based on variable interest rates;

- the Company s interest rate on its revolving credit facility depends on the level of the Company s specified financial ratios, and therefore could increase if the Company s specified financial ratios require a higher rate;

- the Company s substantial debt will increase its vulnerability to general economic downturns and adverse competitive and industry conditions and could place the Company at a competitive disadvantage compared to those of its competitors that are less leveraged;

- the Company s debt service obligations could limit its flexibility to plan for, or react to, changes in its business and the industry 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 joint ventures, and other general corporate requirements; and

- a potential failure to comply with the financial and other restrictive covenants in the Company s debt instruments, which, among other things, require it to maintain specified financial ratios, could, if not cured or waived, have a material adverse effect on the Company s ability to fulfill its obligations and on its business and prospects generally.

Uncertainty in the U.S. and world securities markets and adverse medical cost trends could cause the Company s pension and postretirement costs to increase.

Investment returns of the Company s pension funds depend largely on trends in the U.S. and world securities markets and the U.S. and world economies in general. For example, during the credit and financial crisis experienced in 2008, pension investment losses equaled 23%, which resulted in an $11 million increase to 2009 pension expense compared to 2008. Future investment losses could cause a further decline in the value of plan assets, which the Company would be required to recognize over the next several years under generally accepted accounting principles. Additionally, the Company s postretirement costs are adversely affected by increases in medical and prescription drug costs. If the

Company incurs future investment losses or future investment gains that are less than expected, or if medical and prescription drug costs increase significantly, the Company would expect to face even higher annual net pension and postretirement costs. Refer to Note 9 to the Consolidated Financial Statements for further information.

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 senior executives. 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. Further 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 further 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 $203 million of estimated cash contributions to fully fund its qualified pension plans for the years 2010 to 2017. Further, adverse changes to plan assets could require the Company to contribute additional material amounts of cash to the plan or could accelerate the timing of required payments.

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 credit facilities, 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 joint ventures, or selling assets, restructuring or refinancing indebtedness, or seeking additional equity capital, which may adversely affect its shareholders, debtholders, 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 depends on the receipt of dividends or other intercompany transfers from its subsidiaries.

Certain of the Company s material subsidiaries are subject to regulatory authority that may potentially limit the ability of a subsidiary to distribute funds or assets. If the Company s subsidiaries were to be prohibited from paying dividends or making distributions to Cincinnati Bell Inc. (CBI), the parent company, CBI may not be able to make the scheduled interest and principal repayments on its $1.6 billion of debt. This would have a material adverse effect on the Company s liquidity and the trading price of CBI s common stock, preferred stock, and debt instruments.

The Company s creditors and preferred stockholders have claims that are superior to claims of the holders of Cincinnati Bell 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 Cincinnati Bell common stock.

The Company depends on its revolving credit facility to provide for its financing requirements in excess of amounts generated by operations.

The Company depends on its revolving credit facility to provide for temporary financing requirements in excess of amounts generated by operations. As of December 31, 2009, the Company had no outstanding borrowings under its revolving credit facility and outstanding letters of credit totaling $24.5 million, leaving $185.5 million in additional borrowing availability under its $210 million revolving credit facility. The revolving credit facility is funded by 11 different financial institutions, with no financial institution having more than 12% of the total facility. If one or more of these banks is not able to fulfill its funding obligations, the Company s financial condition could be adversely affected. In addition, the Company s ability to borrow under the revolving

credit facility 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 the revolving credit facility.

The credit facilities 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 credit facilities and debt instruments include restrictive covenants that may materially limit the Company s ability to prepay debt and preferred stock. The agreements governing the credit facilities also require the Company to achieve and maintain compliance with specified financial ratios.

The restrictions contained in the terms of the credit facilities 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 these 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 credit facilities, 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.

The Company s future cash flows could be adversely affected if it is unable to realize fully its deferred tax assets.

As of December 31, 2009, the Company had net deferred income taxes of $477.5 million, which includes deferred tax assets associated with U.S. federal net operating loss carryforwards totaling $393.7 million, alternative minimum tax credit carryforwards of $14.4 million, state and local net operating loss carryforwards of $60.6 million, and deferred tax temporary differences and other tax attributes of $76.0 million, offset by valuation allowances of $67.2 million. The valuation allowances have been provided against deferred tax assets related to certain state and local 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. For more information concerning

the Company s net operating loss carryforwards, deferred tax assets, and valuation allowance, see Note 12 to the Consolidated Financial Statements. 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 equity, and future cash flows could be adversely affected.

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

The telecommunications industry is very competitive. 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 competitive wireline or wireless providers in lieu of the Company s local wireline service.

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband, and internet service providers. The Company believes CBT could face greater competition as new facilities-based service providers with existing service relationships with CBT s customers compete more aggressively and focus greater resources on the Greater Cincinnati operating area. Insight Cable, which provides cable service in the northern Kentucky portion of the Company s ILEC territory, offers VoIP and long distance services. Time Warner Cable, AT&T, Verizon, and others offer VoIP and long distance services in Cincinnati and Dayton. Wireless providers offer plans with no additional fees for long distance. Partially as a result of this increased competition, the Company s access lines decreased by 7% and long distance subscribers decreased by 4% in 2009. If the Company is unable to effectively implement strategies to retain access lines and long distance subscribers, or replace such access line loss with other sources of revenue, the Company s Wireline business will be adversely affected.

Wireless competes against national, well-funded wireless service providers in the Cincinnati and Dayton, Ohio metropolitan market areas, including Verizon, AT&T, Sprint Nextel, T-Mobile and Leap. The Company anticipates that continued competition could compress its margins for wireless products and services as carriers continue to offer more minutes for equivalent or lower service fees while CBW cannot offer more minutes without incremental capital expenditures and operating costs. Also, new wireless products are not always available to the Company as other competitors may have exclusive agreements for these new products, such as for the iPhone . CBW s ability to compete will depend, in part, on its ability to anticipate and respond to various competitive factors affecting the telecommunications industry.

In addition, wireless subscribers are permitted to retain their wireless phone numbers when changing to another wireless carrier within the same geographic area. CBW does not enter into long-term contracts with its wireless subscribers to the extent that its competitors do, and therefore, this portability could have a significant adverse impact on the Company. The Company also believes that these wireless competitors, and in particular, companies that offer unlimited wireless service plans for a flat monthly fee, are a cause of Wireline access line loss.

The Technology Solutions segment competes against numerous other data center collocation, information technology consulting, web-hosting, and computer system integration companies, many of which are larger, national in scope, and better financed. This market is rapidly evolving, highly competitive and may be characterized by over-capacity and industry consolidation. Other competitors may consolidate with one another or acquire software application vendors or technology providers, enabling them to more effectively compete with Technology Solutions. The Company believes that many of the participants in this market must grow rapidly and achieve a significant presence to compete effectively. This consolidation could affect prices and other competitive factors in ways that could impede the Technology Solutions segment s ability to compete successfully in the market.

The effect of the foregoing competition on any of the Company s segments could have a material adverse impact on its businesses, financial condition, results of operations, and cash flows.

A few large customers account for a significant portion of the Company s revenues and accounts receivable. The loss or significant reduction in business from one or more of these large customers could cause operating revenues to decline significantly and have a materially adverse long-term impact on the Company s business.

The Company has receivables with one large customer that exceed 10% of the Company s outstanding accounts receivable balance. Contracts with customers may not sufficiently reduce the risk inherent that customers may terminate or fail to renew their relationships with the Company. As a result of the customer concentration, the Company s results of operations and financial condition could be materially affected if the Company lost one or more large customers or if services purchased were significantly reduced. If one or more of the Company s larger customers were to default on its accounts receivable obligations or if general economic conditions in the Company s operating area further deteriorated, the Company could be exposed to potentially significant losses in excess of the provisions established.

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

Capital expenditures in 2009 totaled $195.1 million, and the Company expects to spend a similar amount in 2010.

The Company currently operates eleven data centers and any further data center expansion will involve significant capital expenditures for data center construction. In order to provide guaranteed levels of service to our data center 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 disaster recovery plan may not address all of the problems that may be encountered in the event of a disaster or other unanticipated problem, which may result in disruption of service to data center customers.

Time Warner Cable has made significant investments in Clearwire, a company created by combining the wireless businesses of Sprint Nextel and Clearwire. Clearwire is in the process of constructing a nationwide 4G wireless network. Verizon plans to launch its 4G wireless network in 2010, and AT&T has plans to deploy its 4G wireless network starting in 2011. The Company has made no plans to construct a 4G wireless network, in part because it believes it has the fastest 3G wireless network in the Greater Cincinnati area.

The Company may also incur significant additional capital expenditures as a result of unanticipated developments, regulatory changes, and other events that impact the business. If the Company is unable or fails to adequately maintain or expand its networks to meet customer needs, there could be a material adverse impact on the Company s market share and its ability to generate revenue.

Maintenance of CBW s wireless network, growth in the wireless business, or the addition of new wireless products and services may require CBW to obtain additional spectrum and transmitting sites which may not be available or be available only on less than favorable terms.

CBW uses spectrum licensed to the Company for its GSM network. Introduction of new wireless products and services, as well as maintenance of the existing wireless business, may require CBW to obtain additional spectrum either to supplement or to replace the existing spectrum. Furthermore, the Company s network depends on the deployment of radio frequency equipment on towers and on buildings. The Company, after the sale of its owned towers in December 2009, now leases substantially all the towers used in its wireless network operations, and the use of the towers under these leases is more restrictive than if these towers were owned by the Company. There can be no assurance that spectrum or the appropriate transmitting locations will be available to CBW or will be available on commercially favorable terms. Failure to obtain or retain any needed spectrum or transmitting locations could have a materially adverse impact on the wireless business as a whole, the quality of the wireless networks, and the ability to offer new competitive products and services.

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.

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 our growth or cause us to lose customers.

The Company depends on third-party providers to supply products and services. For example, many of the Company s information technology functions and call center functions are performed by third-party providers, network equipment is purchased from and maintained by vendors, and data center space is leased from landlords. In addition, with the recent sale of the Company-owned wireless towers, almost half of the towers are managed by one third-party service provider. Any failure on the part of third-party suppliers to provide the contracted services, additional required services, additional products, or additional leased space could impede the growth of the Company s business and cause financial results to suffer.

The Company could be subject to increased operating costs, as well as claims, litigation or other potential liability, in connection with risks associated with internet security and system security.

A significant barrier to the growth of e-commerce and communications over the internet has been the need for secure transmission of confidential information. Several of the Company s infrastructure systems and application services use encryption and authentication technology licensed from third parties to provide the protections necessary for secure transmission of confidential information, including credit card information from customers. We also rely on personnel in our network operations centers, data centers, and retail stores to follow Company policies when handling sensitive information. Any unauthorized access, computer viruses, accidental or intentional actions and other disruptions could result in increased operating costs.

Data center business could be harmed by prolonged electrical power outages or shortages, increased costs of energy, or general lack of availability of electrical resources.

Data centers are susceptible to regional costs of power, planned or unplanned power outages and shortages, and limitations on the availability of adequate power resources. Power outages, such as those that occurred in California in 2001, the Northeast in 2003, and from the tornados on the east coast of the U.S. in 2004, could harm the Company s customers and business. The Company attempts to limit exposure to system downtime by using backup generators and power supplies. As a result of these data center redundancies, the Company s data center customers incurred only minimal downtime during the aftermath of the Hurricane Ike windstorm that caused severe disruption to power sources in the Cincinnati area for approximately two weeks in September 2008. However, the Company may not be able to limit the exposure entirely in future occurrences even with those protections in place. In addition, global fluctuations in the price of power can increase the cost of energy, and although contractual price increase clauses may exist and, in some cases, the data center customer pays directly for the cost of power, the Company may not be able to pass all of these increased costs on to customers, or the increase in power costs may impact additional sales of data center space.

The long sales cycle for data center services may materially affect the data center business and results of its operations.

A customer s decision to lease cabinet space in one of the Company s data centers and to purchase additional services typically involves a significant commitment of resources, significant contract negotiations regarding the service level commitments, and significant due diligence on the part of the customer regarding the

adequacy of the Company s facilities, including the adequacy of carrier connections. As a result, the sale of data center space has a long sales cycle. Furthermore, the Company may expend significant time and resources in pursuing a particular sale or customer that may not result in revenue. Delays in the length of the data center sales cycle may have a material adverse effect on the Technology Solutions segment and results of its 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 could 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 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 obtain and retain customers, which would adversely affect both the Company s ability to generate revenues and operating results.

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. Different interpretations by regulatory bodies may result in adjustments to revenue in future periods. In recent years, these regulated pricing plans have required CBT to decrease or fix the rates it charges for some services while its competition has typically been able to set rates for its services with limited restriction. In the future, regulatory initiatives that would put CBT at a competitive disadvantage or mandate lower rates for its services could result in lower profitability and cash flow 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, 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.

CBW s FCC licenses to provide wireless services are subject to renewal and revocation. Although the FCC has routinely renewed wireless licenses in the past, the Company cannot be assured that challenges will not be brought against those licenses in the future. Revocation or non-renewal of CBW s licenses could result in a cessation of CBW s operations and consequently lower operating results and cash flows for the Company.

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 statements.

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. Assurances cannot be given 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.

Table of Contents

Future declines in the fair value of the Company s wireless licenses could result in future impairment charges.

The market values of wireless licenses have varied dramatically over the last several years and may vary significantly in the future. In 2009, the Company incurred a loss of $4.8 million on the sale of spectrum it was not using in Indianapolis, Indiana. Further valuation swings could occur if:

- consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;
- a sudden large sale of spectrum by one or more wireless providers occurs;
- market prices decline as a result of the sale prices in recent and upcoming FCC auctions; or
- significant technology changes occur.

In addition, the price of wireless licenses could decline as a result of the FCC s pursuit of policies designed to increase the number of wireless licenses available in each of the Company s markets. For example, the FCC auctioned an additional 90 MHz of spectrum in the 1700 MHz to 2100 MHz band in the Advanced Wireless Services spectrum auction in 2006 and, in 2008, auctioned 62 MHz of 700 MHz wireless spectrum. If the market value of wireless licenses were to decline significantly, the value of the Company s wireless licenses could be subject to non-cash impairment charges.

The Company reviews for potential impairments to indefinite-lived intangible assets, including wireless licenses and trademarks, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. A significant impairment loss, most likely resulting from reduced cash flow, could have a material adverse effect on the Company s operating income and on the carrying value of the wireless licenses on the balance sheet.

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 consumer customers. The Company seeks to meet these needs through new product introductions, service quality, and technological superiority. New products are not always available to the Company, as other competitors may have exclusive agreements for those new products, such as the iPhone . New products and services are important to the Company s success as 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 and increase wireless customer churn, which could have a material adverse effect on the Company s revenue, results of operations, and cash flows.

Terrorist attacks and other acts of violence or war may affect the financial markets and the Company s business, financial condition, results of operations, and cash flows.

Terrorist attacks may negatively affect the Company s operations and financial condition. There can be no assurance that there will not be further terrorist attacks against the U.S. and U.S. businesses, or armed conflict involving the U.S. Further terrorist attacks or other acts of violence or war may directly impact the Company s physical facilities or those of its customers and vendors. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. They could result in an economic recession in the U.S. or abroad. Any of these occurrences could have a material adverse impact on the Company s business, financial condition, results of operations, and cash flows.

A health pandemic could severely affect the Company s operations.

As a result of any health pandemic, such as the H1N1 influenza virus, the Company could potentially experience a significant disruption in its operations due to staffing shortages as well as disruption of services and products provided by third-party providers. Any significant disruption in its operations could have a material adverse impact on the Company s business, financial condition, results of operations, and cash flows.

Table of Contents

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 our 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. In addition, a few sites currently contain underground fuel tanks for back-up generator use, and many of the Company s sites have aboveground fuel tanks for similar purposes.

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 could 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.

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.

Although the Company does not believe that any of its products or services infringe upon the valid intellectual property rights of third parties, 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 could 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. 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.

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 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 operation, 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 would 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.

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. Although the Company believes that relations with its employees are satisfactory, no assurance can be given that the Company will be able to successfully extend or renegotiate its collective bargaining agreements when they expire. 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 could have a material adverse effect on the business. The Company s collective bargaining agreement was renewed in February 2008 for three years and will expire in May 2011.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Cincinnati Bell Inc. and its subsidiaries own or maintain facilities in Ohio, Kentucky, Indiana, Michigan, and Illinois. Principal office locations are in Cincinnati, Ohio.

The property of the Company comprises telephone plant and equipment in its local telephone franchise area (i.e., Greater Cincinnati), the infrastructure associated with its wireless business in the Greater Cincinnati and Dayton, Ohio operating areas, and eleven data center facilities. 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 telephone 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. In its wireless operations, CBW both owns and leases the locations that house its switching and messaging equipment. With the sale of 196 wireless towers in December 2009, CBW now leases substantially all of its tower sites, primarily from tower companies and other wireless carriers. CBW s tower leases are typically either for a fixed 20-year term ending in December 2029 or renewable on a long-term basis at CBW s option, both with predetermined rate escalations. In addition, CBW leases 22 Company-run retail locations. Technology Solutions operates eleven data centers five owned and six leased in Ohio, Kentucky, Indiana, Michigan, and Illinois. The data centers provide 24-hour monitoring of the customer s computer equipment in the data center, power, environmental controls, and high-speed, high-bandwidth point-to-point optical network connections. CBTS also has leased office space in Kentucky, Ohio, Indiana, and Canada.

The Company s gross investment in property, plant, and equipment was $3,145.1 million and $3,007.4 million at December 31, 2009 and 2008, respectively, and was divided among the operating segments as follows:

	December 31,	
	2009	2008
Wireline	78.5%	78.8%
Wireless	11.8%	12.3%
Technology Solutions	9.6%	8.8%
Corporate	0.1%	0.1%
Total	100.0%	100.0%

Table of Contents

For additional information about the Company s properties, see Note 4 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

The information required by this Item is included in Note 11 to the Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of the Security Holders

None.

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 sales prices during each quarter for the last two fiscal years are listed below:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009	High	$2.30	$3.03	$3.56	$3.59
	Low	$1.30	$2.46	$2.60	$2.93
2008	High	$4.52	$4.71	$4.38	$3.04
	Low	$3.75	$3.89	$2.98	$1.39

(b) Holders

As of February 1, 2010, the Company had 32,903 holders of record of the 201,126,463 outstanding common shares and the 155,250 outstanding shares of the 6 $^{3}/4$% cumulative convertible preferred stock.

(c) Dividends

The Company has not paid any dividends for the year ended December 31, 2009 and 2008 and does not currently intend to pay dividends in the future on its common shares.

(d) Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2009 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 (a)	Weighted-average exercise price of outstanding stock options, awards, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	24,603,051(1)	$ 7.15	7,995,386
Equity compensation plans not approved by security holders	238,884(2)		
Total	24,841,935	$ 7.15	7,995,386

(1) Includes 20,172,163 outstanding stock options and stock appreciation rights not yet exercised, 212,877 shares of time-based restricted stock, and 4,218,011 shares of performance-based awards, restrictions on which have not expired as of December 31, 2009. 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.

(2) 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 2004, the directors received an annual award of phantom stock equivalent to a number of common shares. For years beginning after 2004, the annual award is the equivalent of 6,000 common shares. As a result of a plan amendment effective as of January 1, 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, 2009 is approximately 19,000. 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, 2004 (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.

(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, 2009:

		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)**
10/1/2009	10/31/2009	1,495,137	$ 3.44	1,494,005	$ 8.7
11/1/2009	11/30/2009	1,526,772	3.06	1,526,772	4.0
12/1/2009	12/31/2009	1,256,335	3.16	1,256,335	0

* The period October 1, 2009 through October 31, 2009 includes 1,132 shares purchased at market value for certain deferred compensation plans.

** In February 2008, the Company s Board of Directors approved the repurchase of the Company s outstanding common stock in an amount up to $150 million through December 2009. This program has been completed.

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 million. This new plan does not have a stated end date. The Company plans to repurchase shares to the extent its available cash is not needed for data center growth and other opportunities.

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)	2009	2008	2007	2006	2005
Operating Data					
Revenue	$ 1,336.0	$ 1,403.0	$ 1,348.6	$ 1,270.1	$ 1,209.6
Cost of services and products, selling, general and administrative, depreciation and amortization expense	1,030.7	1,078.7	1,026.4	955.5	908.0
Restructuring, loss on sale of asset and asset impairments, operating tax settlement, and shareholder claim settlement (a)	9.8	19.1	39.8	2.1	42.8
Operating income	295.5	305.2	282.4	312.5	258.8
Interest expense (b)	130.7	139.7	154.9	162.1	184.4
Loss (gain) on extinguishment of debt (b)	10.3	(14.1)	0.7	0.1	99.8
Net income (loss)	$ 89.6	$ 102.6	$ 73.2	$ 86.3	$ (64.5)
Earnings (loss) per common share					
Basic	$ 0.37	$ 0.39	$ 0.25	$ 0.31	$ (0.30)
Diluted	$ 0.37	$ 0.38	$ 0.24	$ 0.30	$ (0.30)
Dividends declared per common share	$	$	$	$	$
Weighted average common shares outstanding (millions)					
Basic	212.2	237.5	247.4	246.8	245.9
Diluted	215.2	242.7	256.8	253.3	245.9
Financial Position					
Property, plant and equipment, net (c)	$ 1,123.3	$ 1,044.3	$ 933.7	$ 818.8	$ 800.4
Total assets (d)	2,064.3	2,086.7	2,019.6	2,013.8	1,863.3
Total long-term obligations (e)	2,395.1	2,472.2	2,369.6	2,486.5	2,295.3
Other Data					
Cash flow provided by operating activities	$ 265.6	$ 403.9	$ 308.8	$ 334.7	$ 322.3
Cash flow used in investing activities	(93.8)	(250.5)	(263.5)	(260.0)	(142.7)
Cash flow used in financing activities	(155.5)	(172.8)	(98.6)	(21.0)	(178.8)
Capital expenditures	(195.1)	(230.9)	(233.8)	(151.3)	(143.0)

(a) See Notes 1, 3, and 14 to the Consolidated Financial Statements for discussion related to 2009, 2008, and 2007.
(b) See Note 7 to the Consolidated Financial Statements.
(c) See Note 4 to the Consolidated Financial Statements for discussion related to 2009 and 2008.
(d) See Notes 1, 4, 5, 6, 8, 12 and 14 to the Consolidated Financial Statements for discussion related to 2009 and 2008.
(e) Total long-term obligations comprise long-term debt, less current portion, pension and postretirement benefit obligations, and other noncurrent liabilities.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement, Risk Factors, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements.

Executive Summary

Despite a decline in revenue of $67.0 million from 2008 due to extremely difficult economic conditions, the Company was able to maintain operating income of $295.5 million in 2009 compared to $305.2 million in 2008 and diluted earnings per share of $0.37 in 2009 versus $0.38 in 2008. Highlights for 2009 were as follows:

Technology Solutions

Technology Solutions increased its data center and managed services revenue by 14% to $111.2 million in 2009 compared to 2008, which was primarily generated through utilization and billing of 30,000 square feet of new data center capacity. The Company has total data center capacity of 271,000 square feet, 79% utilized by customers, at December 31, 2009 compared to 209,000 square feet, 88% utilized, at December 31, 2008. Technology Solutions spent $25.6 million of capital expenditures in 2009, primarily to complete the construction of a new data center in the Greater Cincinnati area. Sales of telecom and IT equipment, a large portion of which are generated from data center customers, totaled $161.1 million during 2009, a 20% decrease from 2008. The decrease in equipment revenue was primarily driven from lower spending by business customers, particularly in the first half of 2009, due to the severe economic downturn. The Company intends to continue to pursue additional customers and growth specific to its data center business and is prepared to commit additional resources, including resources for capital expenditures, acquisitions and working capital both within and outside its traditional operating territory, to support this growth.

Technology Solutions operating income totaled $22.1 million in 2009, an increase of $4.0 million as compared to 2008. The income generated from the increased revenue on data center and managed services revenue noted above was offset by lower equipment sales, increased depreciation on more data center assets and costs for additional headcount to support the growing operations.

Wireless

Wireless service revenue decreased by 2% to $284.3 million in 2009 compared to 2008, primarily due to an average of 20,000 fewer subscribers. The Company believes it lost subscribers in 2009 due to the Company s tightening of credit standards and increased competition in part driven by handset exclusivity contracts, such as for the iPhone™, which keeps the Company from being able to sell these popular handsets to its customers. In 2009, the Company focused its marketing and other resources on acquiring new subscribers who use smartphones (i.e., phones that provide robust keyboards and a rich internet experience for messaging and web browsing). Smartphone postpaid subscribers increased by 95% to 83,000 subscribers at December 31, 2009 compared to December 31, 2008, and smartphone subscribers now represent 22% of the Company s postpaid subscribers. The Company believes this focus on smartphone subscribers has allowed its monthly average revenue per postpaid user to remain steady compared to 2008 as increased data usage (e.g., text messaging, emails, and internet service) offset a decline in voice revenue. The Company earned $10.00 per month on average from postpaid subscribers for data service in 2009 compared to $8.02 in 2008.

In December 2009, the Company sold 196 wireless towers, which represented substantially all of its owned towers, for $99.9 million in cash. CBW continues to use these towers in its operations under a 20-year lease agreement. See Note 5 to the Consolidated Financial Statements for further discussion regarding the sale of these wireless towers. Also, during 2009, the Company sold almost all of its owned wireless licenses for areas outside of its Cincinnati and Dayton operating territories. These licenses, which were primarily for the Indianapolis, Indiana region, were sold for $6.0 million, resulting in a loss on sale of the spectrum assets of $4.8 million.

Primarily as a result of the wireless postpaid service revenue decline, higher subsidies to attract new smartphone subscribers, the loss on sale of the spectrum, and higher depreciation partially offset by lower operating costs, Wireless segment operating income decreased by $13.8 million to $33.0 million in 2009.

Wireline

Wireline revenue decreased 4% to $773.1 million, as reductions in voice revenue due to ILEC access line losses more than offset growth in revenue from additional CLEC customers and data services. The Company ended the year with 738,100 total access lines and access line equivalents, a loss of 6% compared to 787,300 access lines and equivalents at December 31, 2008. Access lines decreased by 8% in 2009 in the Company s ILEC territory but were partially offset by a 2,100 increase in access lines in areas outside of the ILEC territory (i.e., suburbs north of Cincinnati and Dayton) and by an increase of 7,000 VoIP access line equivalents sold to business customers. Data revenue grew 3% to $281.4 million from additional data transport revenue, primarily from business customers.

In 2009, the Company launched in limited areas its Fioptics product suite of services, which are fiber-to-the-home products that include entertainment, high-speed internet and voice services. The Company has focused its fiber network expenditures on high traffic areas, such as apartment complexes and business office parks, and as of December 31, 2009, the Company now passes and is able to provide its Fioptics services to 41,000 homes. The Company had 11,100 entertainment, 10,200 high-speed internet, and 7,500 voice Fioptics customers as of December 31, 2009.

In light of the severe economic downturn that occurred in 2009, the Company implemented several cost reduction initiatives, which primarily affected the Wireline segment. These initiatives included significant changes to its management pension and postretirement plans, including freezing pension benefits for certain management employees, phasing out the retiree healthcare plan for all management employees and certain retirees in 10 years, temporarily suspending matching contributions to the Company s defined contribution plan for 2009, outsourcing certain IT functions and headcount reductions. These initiatives contributed annualized savings of approximately $30 million and reduced 2009 expenses by $25 million.

In the fourth quarter of 2009, the Company determined the need for additional cost reduction programs, which resulted in a restructuring charge of $10.5 million. A portion of this charge relates to 130 employees who were severed in early 2010, which will reduce costs by approximately $8 million in 2010. In 2008, the Company incurred restructuring charges of $28.1 million, primarily for an early retirement program for its union employees. These cost reduction programs are intended to reduce the cost structure of the Company to levels commensurate with the expected revenue reductions in the Wireline segment.

Wireline operating income of $261.2 million remained flat compared to 2008 as the decreased revenue from access line losses and decrease due to operating tax settlement gains in 2008 were offset by the cost reduction initiatives and reduction in restructuring charges.

Share repurchase program and debt buybacks

In 2009, the Company completed the share repurchase program authorized by the Board of Directors in February 2008 and, for the two-year program, repurchased a total of 48.6 million common shares or 20% of common shares outstanding at December 31, 2007. In 2009, the Company repurchased 28.0 million common shares for $73.2 million and, in 2008, repurchased 20.6 million common shares for $76.8 million.

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 million. This new plan does not have a stated end date. The Company plans to repurchase shares to the extent its available cash is not needed for data center growth and other opportunities.

The Company s total indebtedness was $1,979.1 million at December 31, 2009 compared to $1,960.7 million at December 31, 2008. In 2009, the Company used the net proceeds from the issuance of $500 million of 8 1/4% Senior Notes due 2017 (8 1/4% Senior Notes) to redeem its outstanding $439.9 million of 7 1/4% Senior Notes due 2013 plus accrued and unpaid interest and related call premium, and for general corporate purposes including the repayment of other debt. The Company incurred a loss on debt extinguishment of $17.7 million on the redemption of the 7 1/4% Senior Notes due 2013. The Company also purchased and extinguished $10.0 million of the Company s 7 1/4% Senior Notes due 2023 and retired $22.5 million of Cincinnati Bell Telephone Notes at an average discount of 24%, which resulted in a gain on debt extinguishment of $7.7 million.

Table of Contents

Results of Operations

Consolidated Overview

The financial results for 2009, 2008, and 2007 referred to in this discussion should be read in conjunction with the Consolidated Statements of Operations and Note 14 to the Consolidated Financial Statements.

2009 Compared to 2008

Consolidated revenue totaled $1,336.0 million in 2009, a decrease of $67.0 million compared to $1,403.0 million in 2008. The decrease was primarily due to the following:

- $30.5 million lower revenues in the Wireline segment due to lower voice revenue partially offset by higher data and Fioptics revenue;
- $22.1 million lower revenues in the Technology Solutions segment primarily due to lower telecom and IT equipment distribution revenue partially offset by increased revenue from data center and managed services; and
- $9.1 million lower revenues in the Wireless segment primarily due to lower postpaid service revenue and lower equipment revenue.

Operating income for 2009 was $295.5 million, a decrease of $9.7 million compared to 2008. The decrease was primarily due to the following:

- $13.8 million decrease in Wireless segment operating income primarily due to lower postpaid service revenue, higher subsidies to attract new smartphone subscribers, loss on sale of spectrum and higher depreciation partially offset by lower operating costs; and
- $4.0 million increase in Technology Solutions segment due to increased data center and managed services revenue and lower incentive compensation costs offset by lower IT equipment distribution revenue, higher payroll and employee related costs and higher depreciation.

Interest expense decreased to $130.7 million for 2009 compared to $139.7 million in 2008. The decrease compared to last year is primarily attributable to lower short-term interest rates.

The loss on extinguishment of debt of $10.3 million for 2009 was primarily due to the redemption of the Company s 7 1/4% Senior Notes due 2013 and was partially offset by a gain on extinguishment of a portion of the Company s 7 1/4% Senior Notes due 2023 and Cincinnati Bell Telephone Notes at an average discount of 24%. The gain on extinguishment of debt of $14.1 million for 2008 was due to the Company s purchase and retirement of $108.1 million of the Company s corporate bonds at an average discount of 14%. See Note 7 to the Consolidated Financial Statements for further details.

Other expense, net for 2008 of $3.4 million primarily resulted from unrealized losses on short-term interest rate swap contracts. The Company did not designate these swaps as hedging instruments, which resulted in the fair value loss on these instruments being recognized in earnings during each period that these instruments were outstanding.

Income tax expense decreased from $73.6 million in 2008 to $64.7 million in 2009 primarily due to lower pretax income.

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 used approximately $45 million of federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments of only $6.0 million in 2009.

2008 Compared to 2007

Consolidated revenue totaled $1,403.0 million in 2008, an increase of $54.4 million compared to $1,348.6 million in 2007. The increase was primarily due to the following:

- $56.9 million higher revenues in the Technology Solutions segment primarily due to increased data center and managed services revenue and telecom and IT equipment distribution revenue;
- $21.6 million higher revenues in the Wireless segment primarily due to increased postpaid service revenue; and
- $18.1 million lower revenues in the Wireline segment due to lower voice revenue and the effect of a $9.5 million one-time business customer project in 2007 partially offset by increased data, long distance and VoIP revenue.

Operating income for 2008 was $305.2 million, an increase of $22.8 million compared to 2007. The increase was primarily due to the following:

- $12.5 million increase in Wireless segment operating income primarily due to higher postpaid revenue;
- $9.2 million increase in Wireline segment operating income due to lower labor costs, lower restructuring costs and income from an operating tax settlement offset by a decline in revenue described above; and
- $1.1 million decrease in Corporate expenses due to lower expense related to incentive and deferred compensation plans partially offset by higher expenses of $2.0 million related to a settlement of a patent lawsuit.

Interest expense decreased to $139.7 million for 2008 compared to $154.9 million in 2007. The decrease was primarily attributable to lower debt balances due to the purchase and extinguishment of a portion of the Company s corporate bonds and lower short-term interest rates.

The gain on extinguishment of debt of $14.1 million for 2008 was due to the Company s purchase and retirement of $108.1 million of the Company s corporate bonds at an average discount of 14%.

Income tax expense increased from $56.7 million in 2007 to $73.6 million in 2008 primarily due to higher pretax income. The Company used approximately $56 million of federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments of only $2.0 million in 2008.

Discussion of Operating Segment Results

Wireline

The Wireline segment provides local voice telephone service, including custom calling features, and data services, including DSL high-speed internet access, dedicated network access, ATM Gig-E based data transport, and dial-up internet access to customers in southwestern Ohio, northern Kentucky, and southeastern Indiana through the operations of CBT, an ILEC in its operating territory of an approximate 25-mile radius of Cincinnati, Ohio. CBT s network has full digital switching capability and can provide data transmission services to over 96% of its in-territory access lines via DSL.

Outside of the ILEC territory, the Wireline segment provides these services through CBET, which operates as a CLEC both in the communities north of CBT s operating territory and in the greater Dayton market. CBET provides voice and data services for residential and business

customers on its own network and by purchasing unbundled network elements from the ILEC. CBET provides service through UNE-L to its customer base in the Dayton, Ohio market. The Wireline segment links the Cincinnati and Dayton geographies through its SONET, which provides route diversity via two separate paths.

In 2009, the Company launched in limited areas its Fioptics product suite of services, which are fiber-to-the-home products that include entertainment, high-speed internet and voice services. The Company has focused its fiber network expenditures on high traffic areas, such as apartment complexes and business office parks.

Table of Contents

The Wireline segment also includes long distance, audio conferencing, other broadband services including private line and MPLS, VoIP services, security monitoring services, and payphone services.

(dollars in millions)	2009	2008	$ Change 2009 vs. 2008	% Change 2009 vs. 2008	2007	$ Change 2008 vs. 2007	% Change 2008 vs. 2007
Revenue:							
Voice local service	$ 343.2	$ 389.1	$ (45.9)	(12)%	$ 432.4	$ (43.3)	(10)%
Data	281.4	273.5	7.9	3%	258.6	14.9	6%
Long distance and VoIP	97.1	98.3	(1.2)	(1)%	79.3	19.0	24%
Other	51.4	42.7	8.7	20%	51.4	(8.7)	(17)%
Total revenue	773.1	803.6	(30.5)	(4)%	821.7	(18.1)	(2)%
Operating costs and expenses:							
Cost of services and products	254.9	265.9	(11.0)	(4)%	276.6	(10.7)	(4)%
Selling, general and administrative	147.4	156.0	(8.6)	(6)%	151.0	5.0	3%
Depreciation	103.6	100.7	2.9	3%	105.2	(4.5)	(4)%
Amortization	1.0	1.2	(0.2)	(17)%	0.3	0.9	n/m
Restructuring	5.0	27.1	(22.1)	n/m	36.1	(9.0)	n/m
Operating tax settlement		(10.2)	10.2	n/m		(10.2)	n/m
Asset impairment		1.2	(1.2)	n/m		1.2	n/m
Total operating costs and expenses	511.9	541.9	(30.0)	(6)%	569.2	(27.3)	(5)%
Operating income	$ 261.2	$ 261.7	$ (0.5)	0%	$ 252.5	$ 9.2	4%
Operating margin	33.8%	32.6%		1.2 pts	30.7%		1.9 pts
Capital expenditures	$ 134.2	$ 102.1	$ 32.1	31%	$ 96.3	$ 5.8	6%
Metric information (in thousands):							
Local access lines	723.5	779.7	(56.2)	(7)%	834.3	(54.6)	(7)%
DSL subscribers	233.8	233.2	0.6	0%	221.5	11.7	5%
Fiber internet subscribers	10.2	1.2	9.0	n/m		1.2	n/m
Fiber entertainment subscribers	11.1	1.2	9.9	n/m		1.2	n/m
Long distance lines	508.3	531.6	(23.3)	(4)%	548.3	(16.7)	(3)%

2009 Compared to 2008

Revenue

Voice local service revenue includes local service, value added services, digital trunking, switched access, and information services. Voice revenue decreased in 2009 compared to 2008 primarily as a result of a 7% decrease in access lines. Access lines within the segment s ILEC territory decreased by 58,300, or 8%, from 708,500 at December 31, 2008 to 650,200 at December 31, 2009. The Company believes the access line loss resulted from several factors including customers electing to use wireless communication in lieu of the traditional local service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The Company has partially offset its access line loss in its ILEC territory by continuing to target voice services to residential and business customers in its CLEC territory. The Company had approximately 73,300 CLEC access lines at December 31, 2009, which is a 3% increase from December 31, 2008.

Data revenue consists of data transport, DSL high-speed internet access, dial-up internet access, and local area network (LAN) interconnection services. Data revenue increased $7.9 million in 2009 compared to 2008 primarily from higher data transport revenue, which increased primarily due to increased usage by third party users.

Long distance and VoIP revenue decreased $1.2 million in 2009 compared to 2008. The decrease resulted from lower minutes of use for long distance and audio conferencing, which caused a $6.6 million decrease in revenue for 2009. The decrease in long distance subscribers was due to a 6% decline in residential lines, consistent with the access line loss. The revenue decrease from long distance and audio conferencing was partially offset by growth in revenue from VoIP and broadband services. The VoIP access line equivalents increased from 7,600 at December 31, 2008 to 14,600 at December 31, 2009.

Other revenue increased $8.7 million in 2009 compared to 2008 primarily due to the introduction of the Company s Fioptics fiber-to-the-home suite of products, which includes entertainment and high-speed internet services. As of December 31, 2009, the Company had 11,100 entertainment and 10,200 high-speed internet Fioptics customers.

Costs and Expenses

In light of the severe economic downturn that occurred in 2009, the Company implemented several cost reduction initiatives, which primarily affected the Wireline segment. These initiatives included significant changes to its management pension and postretirement plans, which froze pension benefits for certain management employees as well as phasing out the retiree healthcare plan for all management employees and certain retirees in 10 years, suspending matching contributions to the Company s defined contribution plan for 2009, outsourcing certain IT functions and headcount reductions. These initiatives reduced costs by approximately $25 million in 2009, comprised of $14 million in cost of services and products and $11 million in selling, general and administrative expenses.

Cost of services and products decreased by $11.0 million in 2009 compared to 2008. The decrease in cost of services and products as a result of the initiatives described above, additional payroll cost decreases related to initiatives implemented in 2008 and lower operating taxes of $3.4 million were partially offset by an increase in network costs of $5.6 million, primarily to support the growth in VoIP, broadband and Fioptics services, and additional pension expense of $7.2 million associated with pension asset losses.

Selling, general and administrative expenses decreased $8.6 million in 2009 versus the prior year. The decrease resulting from the initiatives as discussed above and additional payroll cost decreases were partially offset by an increase in pension expense of $3.9 million associated with pension asset losses and a $1.7 million increase in bad debt expense.

Restructuring charges of $5.0 million for 2009 primarily resulted from the following:

- employee separation obligations of $10.5 million resulting from the Company s determination of the need for additional workforce reductions in order to align Wireline costs with expected reductions in future revenue from access line losses;
- amortization of pension and postretirement special termination benefits of $2.1 million related to the 2007 and 2008 early retirement offers; and
- a curtailment gain of $7.6 million due to changes in the pension and postretirement plans announced in February 2009.

Restructuring expenses for 2008 resulted from restructuring plans announced in 2007 and the first quarter of 2008 to reduce costs and increase operational efficiencies. See Note 3 to the Consolidated Financial Statements for further information.

The operating tax settlement for 2008 of $10.2 million resulted from the Company s resolution of a contingent liability from prior years related to exposures on past regulatory filing positions.

2008 Compared to 2007

Revenue

Voice revenue decreased in 2008 compared to 2007 primarily as a result of a 7% decrease in access lines. Access lines within the segment s ILEC territory decreased by 63,500, or 8%, from 772,000 at December 31, 2007 to 708,500 at December 31, 2008. The Company partially offset its access line loss in its ILEC territory with increased services to residential and business customers in its CLEC territory. The Company had approximately 71,200 CLEC access lines at December 31, 2008, which was a 14% increase from December 31, 2007.

Data revenue increased $14.9 million in 2008 compared to 2007 primarily as a result of higher data transport revenue and DSL revenue. Data transport revenues increased by $10.4 million in 2008 compared to

27

2007 primarily due to increased usage by third party users. Data revenue also increased by an additional $5.3 million in 2008 compared to 2007 due to an increase in DSL subscribers of 11,700, bringing total DSL subscribers to 233,200 at December 31, 2008.

Long distance and VoIP revenue increased $19.0 million in 2008 compared to 2007. The increase was primarily due to the acquisition of eGIX, which generated revenue of $13.0 million during 2008. The remaining increase was due to an increase in minutes of use for long distance, VoIP and new broadband services including private line and MPLS. The Company had 531,600 subscribed long distance access lines as of December 31, 2008 compared to 548,300 as of December 31, 2007. The decrease in subscribers was due to a 6% decline in residential lines, consistent with the access line loss, partially offset by a 3% increase in business subscribers.

Other revenue decreased $8.7 million from 2007 due to lower revenue on customer premise wiring projects, $9.5 million of which came from a large one-time business customer project in 2007.

Costs and Expenses

Cost of services and products decreased by $10.7 million in 2008 compared to 2007. The decrease in cost of services and products was due to $7.5 million in lower benefit costs, mainly lower pension and postretirement costs from plan changes announced in the third quarter of 2007, a $9.0 million decrease from costs associated with a large one-time business customer premise wiring project in 2007, and $4.4 million in lower wages primarily related to the restructuring plan announced in the fourth quarter 2007 and the union agreement signed in February 2008. These decreases were partially offset by an increase of $5.7 million in network costs to support the growth in long distance, VoIP, broadband services, and CLEC revenues, and $5.8 million in costs due to the acquisition of eGIX.

Selling, general and administrative expenses increased $5.0 million in 2008 versus 2007. The increase was primarily due to the acquisition of eGIX, which had $6.2 million of costs, and an increase in commissions. These increases were partially offset by lower pension and postretirement costs due to plan changes announced in the third quarter of 2007.

Restructuring expenses for 2008 and 2007 were primarily related to the restructuring plans announced in the fourth quarter of 2007 and first quarter of 2008 to reduce costs and increase operational efficiencies.

Table of Contents

Wireless

The Wireless segment provides advanced digital voice and data communications services through the operation of a regional wireless network in the Company s licensed service territory, which surrounds Cincinnati and Dayton, Ohio and includes areas of northern Kentucky and southeastern Indiana. Although Wireless does not market to customers outside of its licensed service territory, it is able to provide service outside of this territory through roaming agreements with other wireless operators. The segment also sells wireless handset devices and related accessories to support its service business.

(dollars in millions, except for operating metrics)	2009	2008	$ Change 2009 vs. 2008	% Change 2009 vs. 2008	2007	$ Change 2008 vs. 2007	% Change 2008 vs. 2007
Revenue:							
Service	$ 284.3	$ 290.5	$ (6.2)	(2)%	$ 267.5	$ 23.0	9%
Equipment	22.7	25.6	(2.9)	(11)%	27.0	(1.4)	(5)%
Total revenue	307.0	316.1	(9.1)	(3)%	294.5	21.6	7%
Operating costs and expenses:							
Cost of services and products	161.6	162.6	(1.0)	(1)%	152.1	10.5	7%
Selling, general and administrative	68.2	70.7	(2.5)	(4)%	68.2	2.5	4%
Depreciation	37.9	33.4	4.5	13%	34.8	(1.4)	(4)%
Amortization	1.5	2.1	(0.6)	(29)%	3.0	(0.9)	(30)%
Restructuring		0.5	(0.5)	n/m	2.1	(1.6)	n/m
Loss on sale of asset	4.8		4.8	n/m			n/m
Total operating costs and expenses	274.0	269.3	4.7	2%	260.2	9.1	3%
Operating income	$ 33.0	$ 46.8	$ (13.8)	(29)%	$ 34.3	$ 12.5	36%
Operating margin	10.7%	14.8%		(4.1) pts	11.6%		3.2 pts
Capital expenditures	$ 34.9	$ 50.3	$ (15.4)	(31)%	$ 45.7	$ 4.6	10%
Operating metrics							
Postpaid ARPU*	$ 48.56	$ 48.69	$ (0.13)	0%	$ 46.55	$ 2.14	5%
Prepaid ARPU*	$ 28.64	$ 26.56	$ 2.08	8%	$ 23.97	$ 2.59	11%
Postpaid subscribers (in thousands)	379.1	403.7	(24.6)	(6)%	400.4	3.3	1%
Prepaid subscribers (in thousands)	154.0	146.9	7.1	5%	170.6	(23.7)	(14)%
Average postpaid churn	2.2%	2.1%		0.1 pts	1.6%		0.5 pts

* The Company has presented certain information regarding monthly average revenue per user (ARPU) because the Company believes ARPU provides a useful measure of the operational performance of the wireless business. ARPU is calculated by dividing service revenue by the average subscriber base for the period.

2009 Compared to 2008

Revenue

Service revenue decreased by $6.2 million during 2009 as compared to last year primarily due to the following:

Postpaid service revenue decreased $7.3 million primarily due to a decrease in subscribers. The Company s monthly subscriber churn increased from 2.1% in 2008 to 2.2% in 2009. The Company believes it lost subscribers in 2009 due to the Company s tightening of credit standards and increased competition in part driven by handset exclusivity contracts, such as for the iPhone™, which keeps the Company from being able to sell these popular handsets to its customers. ARPU remained steady as a decline in voice revenue offset a 25% increase in data ARPU, as more customers are using smartphones, which promotes increased data usage. At December 31, 2009, the Company had 83,000 smartphone subscribers which represents 22% of its postpaid subscribers, compared to 11% at December 31, 2008; and

Prepaid service revenue increased $1.1 million compared to 2008 primarily due to an increase in ARPU of $2.08, which resulted from the focus on marketing higher value rate plans.

Equipment revenue for 2009 decreased $2.9 million from $25.6 million in 2008 to $22.7 million in 2009 primarily due to lower postpaid subscriber activations partially offset by higher handset revenue per unit.

Costs and Expenses

Cost of services and products consists largely of network operation costs, interconnection expenses with other telecommunications providers, roaming expense (which is incurred for subscribers to use their handsets in the territories of other wireless service providers), and cost of handsets and accessories sold. These expenses decreased $1.0 million during 2009 versus the prior year period. The decrease was primarily attributable to lower operating taxes of $2.8 million and a $1.3 million decrease in third party service provider costs. These decreases were offset by a $3.4 million increase in handset costs, primarily due to increased Company handset subsidies to attract new smartphone customers.

Selling, general and administrative expenses decreased $2.5 million for 2009 compared to 2008, primarily due to lower distributor commissions of $2.2 million resulting from lower activations, as well as lower advertising and other costs partially offset by an increase in bad debt expense of $0.9 million.

The increase in depreciation expense of $4.5 million is related to the 3G wireless network that was launched in late 2008.

The decrease in amortization expense from the prior year is due to the Company s accelerated amortization methodology.

During 2009, the Company sold almost all of its owned wireless licenses for areas outside of its Cincinnati and Dayton operating territories. These licenses, which were primarily for the Indianapolis, Indiana region, were sold for $6.0 million, resulting in a loss on sale of the spectrum assets of $4.8 million.

2008 Compared to 2007

Revenue

Service revenue increased by $23.0 million during 2008 as compared to 2007 primarily due to the following:

- Postpaid service revenue increased $20.3 million due to an increase in average subscribers and ARPU. Postpaid subscribers increased from 400,400 subscribers at December 31, 2007 to 403,700 at December 31, 2008. The average monthly churn increased to 2.1% for 2008 compared to 1.6% for 2007. The increase in churn resulted from increased competition and Company-initiated disconnections of customers with credit problems. ARPU increased from $46.55 in 2007 to $48.69 in 2008. The ARPU increase includes a 29% increase in data ARPU; and

- Prepaid service revenue increased $2.7 million compared to 2007 primarily due to an increase in ARPU of $2.59 partially offset by a lower number of subscribers. The number of prepaid subscribers at December 31, 2008 was 146,900, down from 170,600 prepaid subscribers at December 31, 2007. The Company focused its marketing in 2008 on higher usage rate plans, which generated higher ARPU but led to the decrease in the number of prepaid subscribers.

Equipment revenue decreased slightly from $27.0 million in 2007 to $25.6 million in 2008 primarily due to lower handset revenue per unit and lower prepaid subscriber activations.

Costs and Expenses

Cost of services and products increased $10.5 million during 2008 versus 2007. The increase was primarily attributable to a $9.7 million increase in network costs due to increased usage per subscriber and a $1.9 million increase in handset and subsidy costs, primarily due to Company initiatives to attract new customers and to retain existing customers. These increases were partially offset by lower operating taxes.

Selling, general and administrative expenses increased $2.5 million for 2008 compared to 2007, primarily due to an increase in bad debt expense.

The decrease in amortization expense from 2007 is due to the Company s accelerated amortization methodology.

Table of Contents

Technology Solutions

The Technology Solutions segment provides business technology solutions through the Company s subsidiaries CBTS, GramTel, CBTS Canada Inc., and CBTS Software LLC.

Capital expenditures for the Technology Solutions segment totaled $25.6 million in 2009. The decrease in capital expenditures in 2009 versus 2008 and 2007 was primarily related to lower data center construction as weak economic conditions suppressed customer demand. The Company intends to continue to pursue additional customers and growth in its data center business, and is prepared to commit additional resources, including resources for capital expenditures, acquisitions and working capital both within and outside of its traditional operating territory, to support this growth.

(dollars in millions)	2009	2008	$ Change 2009 vs. 2008	% Change 2009 vs. 2008	2007	$ Change 2008 vs. 2007	% Change 2008 vs. 2007
Revenue:							
Telecom and IT equipment distribution	$ 161.1	$ 201.2	$ (40.1)	(20)%	$ 180.8	$ 20.4	11%
Data center and managed services	111.2	97.7	13.5	14%	67.6	30.1	45%
Professional services	20.8	16.3	4.5	28%	9.9	6.4	65%
Total revenue	293.1	315.2	(22.1)	(7)%	258.3	56.9	22%
Operating costs and expenses:							
Cost of services and products	208.9	240.4	(31.5)	(13)%	204.6	35.8	17%
Selling, general and administrative	41.6	39.7	1.9	5%	27.2	12.5	46%
Depreciation	18.9	14.6	4.3	29%	7.0	7.6	n/m
Amortization	1.6	1.7	(0.1)	(6)%	0.4	1.3	n/m
Restructuring		0.7	(0.7)	n/m	1.0	(0.3)	n/m
Total operating costs and expenses	271.0	297.1	(26.1)	(9)%	240.2	56.9	24%
Operating income	$ 22.1	$ 18.1	$ 4.0	22%	$ 18.1	$	0%
Operating margin	7.5%	5.7%		1.8 pts	7.0%		(1.3) pts
Operating metrics:							
Capital expenditures	$ 25.6	$ 77.8	$ (52.2)	(67)%	$ 91.8	$ (14.0)	(15)%
Raised floor (in square feet)	271,000	209,000	62,000	30%	144,000	65,000	45%
Utilization rate	79%	88%		(9) pts	93%		(5) pts

2009 Compared to 2008

Revenue

Revenue from telecom and IT equipment distribution represents the sale, installation, and maintenance of major, branded IT and telephony equipment. Revenue from telecom and IT equipment distribution decreased by $40.1 million in 2009 versus 2008 primarily as a result of lower capital spending by business customers, particularly in the first half of 2009, due to the decline in the economy.

Data center and managed services revenue consists of recurring collocation rents from customers residing in the Company s data centers, and revenue for managed VoIP solutions, and IT services that include network management, electronic data storage, disaster recovery and data security management. Revenue increased $13.5 million in 2009 as compared to 2008 primarily due to 30,000 square feet of increased billable data center space. Data center billed utilization at December 31, 2009 was 79% on 271,000 square feet of data center capacity compared to billed utilization of 88% on 209,000 square feet of data center capacity at December 31, 2008.

Professional services revenue consists of long-term and short-term IT outsourcing and consulting engagements. Revenue for 2009 increased by $4.5 million compared to 2008. The Company continues to expand its team of recruiting and hiring personnel in order to focus on selling these outsourcing and consulting engagements.

Costs and Expenses

Cost of services and products decreased by $31.5 million in 2009 compared to 2008 primarily due to a $34.7 million decrease in cost of goods sold related to lower telecom and equipment distribution revenue partially offset by higher data center facility costs and higher payroll related costs to support the growth in both data center and managed services and professional services revenues.

Selling, general and administrative increased by $1.9 million in 2009 compared to 2008. The increase in 2009 was primarily due to an increase of $3.7 million in payroll and employee related costs to support the growing operations and an advertising increase of $0.5 million partially offset by lower incentive compensation costs.

The increase in depreciation expense for 2009 compared to 2008 was primarily due to capital expenditures in recent years associated with expanding data center capacity.

2008 Compared to 2007

Revenue

Revenue from telecom and IT equipment distribution increased by $20.4 million in 2008 versus 2007 primarily as a result of increased equipment sales of $21.7 million partially offset by lower installation and maintenance services.

Data center and managed services increased $30.1 million in 2008 as compared to 2007 primarily due to increased product penetration within managed services and increased billable data center space. Data center billed utilization at December 31, 2008 was 88% on 209,000 square feet of data center capacity compared to billed utilization of 93% on 144,000 square feet of data center capacity at December 31, 2007.

Professional services revenue for 2008 increased by $6.4 million compared to 2007. The Company has expanded its team of recruiting and hiring personnel in order to focus on selling these outsourcing and consulting engagements.

Costs and Expenses

Cost of services and products increased by $35.8 million in 2008 compared to 2007. The increase in 2008 primarily resulted from a $19.0 million increase in the cost of goods sold related to higher telecom and IT equipment distribution revenue, $12.8 million increase in payroll costs due to growth in data center and managed services revenue and professional services revenue, increased data center facilities costs and the acquisition of GramTel.

Selling, general and administrative increased by $12.5 million in 2008 compared to 2007. The increase in 2008 was primarily due to an $8.8 million increase in labor and employee related costs to support the growing operations of CBTS and the acquisition of GramTel and higher operating taxes, bad debt expense, and advertising costs.

The increase in depreciation expense for 2008 compared to 2007 was primarily due to capital expenditures in recent years associated with expanding data center capacity.

Corporate

Corporate is comprised primarily of general and administrative costs that have not been allocated to the business segments. Corporate costs totaled $20.8 million in 2009, $21.4 million in 2008, and $22.5 million in 2007.

2009 Compared to 2008

The decrease in corporate costs of $0.6 million from 2008 is due to lower consulting costs of $3.3 million, lower compensation and other benefits of $3.0 million, a decrease due to a patent lawsuit settlement charge of $2.0 million in 2008, and lower operating taxes. These cost decreases were offset by a stock-based compensation increase of $8.5 million, of which $7.7 million is due to the mark-to-market of cash-payment compensation plans that are indexed to the change in the Company s stock price, which increased by 79% in 2009.

Table of Contents

2008 Compared to 2007

The decrease in corporate costs of $1.1 million from 2007 is due to lower expense related to incentive and deferred compensation plans partially offset by higher expenses of $2.0 million related to a settlement of a patent lawsuit.

The Company s Financial Condition, Liquidity, and Capital Resources

Capital Investment, Resources and Liquidity

Short-term view

The Company s primary sources of cash are cash generated by operations and borrowings from its revolving credit facility. Even with the significant disruption in the U.S. economy and the Company s prepayment of pension, postretirement and health care costs totaling $82.6 million, the Company was able to generate $265.6 million of cash flows from operations in 2009. The Company s financial strength throughout this period of uncertainty was evident by its ability to complete the following financing transactions in 2009:

- Amendment and extension of the Company s revolving credit facility to August 2012. This facility was reduced from $250 million to $210 million, which the Company believes is adequate for funding its current operations. It is funded by 11 different financial institutions with no institution having more than 12% of the total facility, and the average interest rate on this facility since the June 2009 amendment was 4.0%, which the Company believes is an appropriate and acceptable financing cost. As of December 31, 2009, the Company had no outstanding borrowings and $24.5 million letters of credit outstanding under its revolving credit facility, leaving $185.5 million of additional borrowing availability under this facility.

- Issuance of $500 million of 8 $^{1}/4$% Senior Notes, the proceeds from which were primarily used to redeem all outstanding 7 $^{1}/4$% Senior Notes due 2013 totaling $439.9 million. This issuance of 8 $^{1}/4$% Senior Notes and redemption of 7 $^{1}/4$% Senior Notes due 2013 extends the Company s bond maturities for an additional four years at an appropriate and acceptable fixed rate.

- Sale of 196 wireless towers for $99.9 million in cash and leaseback of the Cincinnati Bell Wireless space used on those towers, which equates to a $46.7 million capital lease obligation for the 148 towers sold without purchase price contingencies at an implied rate of 7.5%.

If needed, the Company believes that additional sources of liquidity are available to it, including access to public debt or equity markets.

Uses of cash include capital expenditures, repayments and repurchases of debt and related interest, repurchases of common shares, dividends on preferred stock, and business acquisitions. In 2009, 2008, and 2007, the Company made capital expenditures of $195.1 million, $230.9 million, and $233.8 million, respectively. A large portion of the Company s capital expenditures is discretionary for revenue growth and would not be required in the future to sustain the Company s current level of operations. This is particularly true for the capital-intensive Technology Solutions segment, which had capital expenditures of $25.6 million, $77.8 million, and $91.8 million in 2009, 2008, and 2007, respectively.

In 2009, 2008, and 2007, the Company made total debt repayments of $506.5 million (including payments of principal and call premium totaling $450.5 million to redeem the 7 $^{1}/4$% Senior Notes), $105.7 million, and $219.1 million, respectively. The Company expects to continue to use a portion of its cash flows for de-leveraging in the future, including discretionary, opportunistic repurchases of debt prior to its scheduled maturities. Additionally, the Company s Receivables Facility, which totaled $85.9 million outstanding at December 31, 2009 and is described further in Note 7 to the Consolidated Financial Statements, is subject to bank renewals annually. While the Company expects to continue to renew this facility, the Company would be required to use cash, revolving credit facility borrowing capacity, or other borrowings to repay the Receivables Facility if it were not renewed.

In February 2008, the Company s Board of Directors authorized the repurchase of the Company s outstanding common stock in an amount up to $150 million over 2008 and 2009. The Company completed this program in 2009, repurchasing $73.2 million of common stock in 2009 and $76.8 million in 2008.

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 million. This new plan does not have a stated end date. The Company plans to repurchase shares to the extent its available cash is not needed for data center growth and other opportunities.

The Company believes that its operating cash flows, together with its revolving credit facility and other available debt and equity financing, will be adequate to meet investing and financing needs for 2010.

Long-term view

In addition to the uses of cash described in the *Short-term view* above, the Company has significant future debt maturities and other obligations that come due after 2010 (see Contractual Obligations table below), including $195 million of estimated cash contributions to its qualified pension plans during the years 2011 to 2017 based on current legislation and current actuarial assumptions.

The Corporate credit facility (including the revolving credit facility), which expires in August 2012, contains financial covenants that require the Company to maintain certain leverage, interest coverage, and fixed charge ratios. The facility also has certain covenants which, among other things, limit the Company s ability to incur additional debt or liens, pay dividends, repurchase Company common stock, sell, transfer, lease, or dispose of assets, and make investments or merge with another company. If the Company were to violate any of its covenants and were unable to obtain a waiver, it would be considered a default. If the Company were in default under its credit facility, no additional borrowings under the credit facility would be available until the default was waived or cured. The Company believes it is in compliance and expects to remain in compliance with its Corporate credit facility covenants.

Various issuances of the Company s public debt, which include the 8 3/8% Senior Subordinated Notes due 2014 (8 3/8% Subordinated Notes), the 7% Senior Notes due 2015 (7% Senior Notes), and the 8 1/4% Senior Notes contain covenants that, among other things, limit the Company s ability to incur additional debt or liens, pay dividends or make other restricted payments, sell, transfer, lease, or dispose of assets and make investments or merge with another company. The Company believes it is in compliance and expects to remain in compliance with its public debt indentures.

The Company believes that cash provided by operations and its revolving credit facility, and the likelihood that the Company will continue to have access to capital markets to refinance debt and other obligations as they mature and come due, should allow the Company to meet its cash requirements for the foreseeable future. However, uncertainties related to the global and U.S. economies and the financial markets, particularly if the global and U.S. economies and financial markets are in disarray when the debt matures and other obligations are due, could prevent the Company from refinancing those liabilities at terms that are as favorable as those previously enjoyed, at terms that are acceptable to the Company, or at all.

Reasons for Debt and Accumulated Deficit

As of December 31, 2009, the Company had $2.0 billion of outstanding indebtedness and an accumulated deficit of $3.3 billion. The Company incurred a significant amount of indebtedness and accumulated deficit from the purchase and operation of a national broadband business over the period of 1999 to 2002, which caused outstanding indebtedness and accumulated deficit to reach their respective year-end peaks of $2.6 billion and $4.9 billion at December 31, 2002. This broadband business was sold in 2003.

Cash Flow

2009 Compared to 2008

Cash provided by operating activities in 2009 totaled $265.6 million, a decrease of $138.3 million compared to the $403.9 million provided by operating activities in 2008. The decrease was primarily due to $58.4 million of early contributions made to its pension and postretirement plans and a prepayment of $24.2 million to its medical trust for its active employees in 2009, a customer prepayment of $21.5 million received in 2008 for data center services and an increase in working capital, mainly due to timing of year-end payments. This decrease was partially offset by $13.2 million received related to the termination and settlement of interest rate swaps and $13.0 million in lower interest payments primarily due to lower short-term interest rates and debt balances.

34

Cash flow utilized for investing activities decreased $156.7 million to $93.8 million during 2009 as compared to $250.5 million for 2008. In 2009, the Company sold substantially all of its wireless towers for $99.9 million. The Company also sold almost all of its owned wireless licenses for areas outside of its Cincinnati and Dayton operating territories. These licenses, which were primarily for the Indianapolis, Indiana region, were sold for $6.0 million. In 2008, the Company paid $21.6 million related to the acquisition of businesses, $18.1 million of which related to the purchase of eGIX. Capital expenditures were $35.8 million lower for 2009 versus 2008 due to lower expenditures for data center facilities and the Company s construction of its 3G wireless network in 2008 partially offset by an increase in Wireline capital expenditures for its fiber network.

Cash flow used in financing activities for 2009 was $155.5 million compared to $172.8 million during 2008. In 2009, the Company issued $500 million of 8 $^{1}/4$% Senior Notes. The net proceeds after debt discount from this issuance of $492.8 million were used in part to redeem the outstanding 7 $^{1}/4$% Senior Notes due 2013 of $439.9 million plus accrued and unpaid interest and related call premium. The Company also purchased and extinguished $32.5 million of the Cincinnati Bell Telephone Notes and the 7 $^{1}/4$% Senior Notes due 2023 at an average discount of 24%. The Company paid $15.3 million of debt issuance costs related to the issuance of the 8 $^{1}/4$ % Senior Notes and to amend and extend the term of the Corporate credit facility. In 2009, the Company also repurchased $73.2 million of the Company s common stock as part of its two-year $150 million common stock repurchase plan. Borrowings under the Corporate credit and receivables facilities decreased $62.1 million in 2009. In 2008, the Company purchased and extinguished $108.1 million of 8 $^{3}/8$% Subordinated Notes, 7 $^{1}/4$% Senior Notes due 2013 and 7% Senior Notes at an average discount of 14% and repurchased $76.8 million of the Company s common stock as part of its two-year $150 million common stock repurchase plan. Borrowings under the Corporate credit facility increased $18.0 million during 2008. For both 2009 and 2008, the Company paid preferred stock dividends of $10.4 million.

2008 Compared to 2007

Cash provided by operating activities in 2008 totaled $403.9 million, an increase of $95.1 million compared to 2007. The increase was primarily due to lower payments for interest and operating taxes totaling approximately $60 million and an early pension contribution made in 2007 of approximately $20 million.

Cash flow utilized for investing activities decreased $13.0 million to $250.5 million during 2008 as compared to 2007. In 2008, the Company paid $21.6 million related to the acquisitions of businesses, $18.1 million of which related to the purchase of eGIX. Cash flows utilized for investing activities in 2007 included payments of $23.6 million for the acquisition of a local telecommunications business and GramTel, a data center business headquartered in South Bend, Indiana. Capital expenditures were $2.9 million lower for 2008 versus 2007. In 2007, the Company deposited $4.4 million with the FCC to participate in the wireless spectrum auction in early 2008 and used $2.8 million of the deposit to purchase spectrum. The remainder of the deposit was returned in 2008.

Cash flow used in financing activities for 2008 was $172.8 million compared to $98.6 million during 2007. In 2008, the Company purchased and extinguished $108.1 million of 8 $^{3}/8$% Subordinated Notes, 7 $^{1}/4$% Senior Notes due 2013 and 7% Senior Notes at an average discount of 14% and repurchased $76.8 million of the Company s common stock as part of its two-year $150 million common stock repurchase plan. Borrowings under the Corporate credit facility increased $18.0 million during 2008. During 2007, the Company repaid $184.0 million of the Tranche B Term Loan, utilizing $75.0 million from borrowings under the accounts receivables securitization facility and available cash. Also in 2007, the Company repaid $26.4 million of the 7 $^{1}/4$% Senior Notes due 2013 and $5.0 million of 8 $^{3}/8$% Subordinated Notes, and borrowed $55.0 million on the Corporate credit facility. For both 2008 and 2007, the Company paid preferred stock dividends of $10.4 million.

Future Operating Trends

Wireline

The Company suffered an 8% loss of ILEC access lines in 2009 as some customers elected to use wireless communication in lieu of the traditional local service, elected to use service from other providers, or can no longer pay for phone service. The Company believes these same factors will continue to affect its operations in future years. Further, the continued economic issues facing consumers and businesses could further exacerbate

credit-related disconnections that the Company has experienced in the past. Credit-related disconnections represented 32% of total ILEC consumer access line losses in 2009, which is approximately 3 percentage points higher than in the past. The Company believes this level of credit-related disconnections will continue in 2010.

The Company has been successful at partially offsetting revenue reductions from access line losses with additional data revenue. DSL subscribers have increased by 600 in 2009, 11,700 in 2008, and 23,200 in 2007. The rate of the DSL subscribers increase is declining because the Company s operating territory is saturated with customers that already have high-speed internet service.

Offsetting this trend, in 2009 the Company launched its Fioptics fiber-to-the-home product suite, which provides entertainment, high-speed internet and voice services. At year-end 2009, the Company passed and can provide service to 41,000 homes, and had 11,100 entertainment, 10,200 high-speed internet, and 7,500 voice Fioptics customers. The penetration rate of this product is almost 30% after only a six-month period. The Company expects the number of Fioptics customers to increase in 2010 and plans to construct additional fiber network in 2010, subject to capital availability.

Long distance and VoIP revenues will be impacted by several factors. As noted above, customers may disconnect local voice service for various reasons. In doing so, customers that have both the Company s local voice and long distance service are likely to disconnect long distance service as well. Also, as noted above, some customers have disconnected wireline service in order to use service from other providers. These other providers are normally providing VoIP service, which the Company offers to business customers. The Company believes its VoIP operations will expand as business customers continue to look for alternatives to traditional ILEC-based operations and the VoIP technology continues to improve. The Company is planning to expand its VoIP offering and CLEC operations to two additional cities in 2010. This expansion effort has considerably lower capital investment than many of the Company s other plans and will further leverage the Cincinnati Bell brand outside of the current operating footprint. The Company had 14,600 VoIP access line equivalents at December 31, 2009 versus 7,600 VoIP access line equivalents at December 31, 2008.

Wireless

Wireless postpaid revenue in the future is likely to be affected by data ARPU increases, as more customers begin using data services and smartphones. The Company s data ARPU has increased from $6.21 in 2007 to $8.02 in 2008 to $10.00 in 2009. Given the Company s focus on increasing smartphone subscribers, the Company expects data ARPU to increase in 2010. However, the Company believes postpaid ARPU will remain flat to 2009 as any data ARPU increase may be offset by lower voice revenue, consistent with the lower voice minutes of use per subscriber experienced in 2009.

Wireless postpaid subscribers decreased by 24,600 in 2009. The Company believes it lost subscribers in 2009 due to the Company s tightening of credit standards and increased competition, in part driven by handset exclusivity contracts, such as for the iPhone ™, which keeps the Company from being able to sell these popular handsets to its customers. Similar to DSL service, the Company s operating territory is well-saturated with existing wireless cell phone users. Future subscriber increases are more likely to come from increasing market share, as opposed to acquiring a customer who has never had a cell phone. The Company s competitors are well-funded, and increases in market share are difficult to attain. The Company believes it is likely in 2010 that competition will be fierce and its competitors will continue to have exclusivity contracts on the most popular handsets, which could result in further postpaid subscriber decreases in 2010. Improvements in CBW net subscriber losses would need to come from a higher level of gross activations resulting from enhanced communication regarding CBW s strong network, the value proposition of its wireless voice and data plans, and outstanding customer service. The Company believes average postpaid churn will remain at the same levels as experienced in 2009.

Technology Solutions

Revenue from data center and managed services increased by 14% in 2009, 45% in 2008, and 43% in 2007. Although the Company plans to add new data center capacity in 2010 and believes data center operations is a key growth area for the Company, the poor economic environment in 2009 caused a decrease in the demand for new data center space. The Company expects that a recovering economy could help to increase demand for data center space and managed services in 2010.

Table of Contents

Revenue from equipment distribution decreased 20% in 2009, after increasing by 11% in both 2008 and 2007. These customer purchases generally represent large capital purchases that are, to some extent, discretionary. That is, in periods of fiscal restraint, a customer may defer these capital purchases for IT and telephony equipment and, instead, use its existing, outdated equipment for a little longer. The Company experienced a slow down in these purchases in 2009 given the uncertainty around the economy, particularly in the first half of the year. As the economy began to recover in the second half of 2009, revenue from equipment distribution began to increase. The Company expects that a recovering economy could help increase demand for IT and telephony equipment in 2010.

In 2010, the Company intends to continue to pursue additional customers and growth in its data center business and is prepared to commit additional resources, including resources for capital expenditures, acquisitions and working capital both within and outside its traditional operating territory, to support this growth.

2010 Segment Reorganization

In 2010, the Company plans to reclassify certain data center operations that have been historically reported in the Wireline segment to the Technology Solutions segment. This change will increase Technology Solutions segment revenue by approximately $10 million and increase Technology Solutions operating income by approximately $6 million, and will decrease the Wireline segment results by the same amounts.

Business and Consumer Customers

As noted previously in Item 1 under Customers, the Company s revenue from consumer access line customers has decreased as a percentage of its total revenue, and revenue from other products, such as data center service for business customers, has increased. The Company expects these trends to continue. Because a large portion of the costs associated with the Company s wireline voice service to consumers are fixed network costs, continued productivity improvements will be necessary and may likely be difficult to continue to achieve in order for the Company to reduce its costs at the same rate as the revenue losses associated with consumer access line loss. Conversely, the costs associated with the Company s business growth products are largely variable in nature. For example, the construction of new data centers is required to continue business revenue growth for this product. The Company believes it has largely been successful in the past several years at maintaining revenue and profitability in the face of high margin consumer access line loss and lower margin business revenue growth, and it will need to continue to be innovative with new products for both consumers and business customers as well as achieve productivity gains for this success to continue in future years.

Contractual Obligations

The following table summarizes the Company s contractual obligations as of December 31, 2009:

		Payments Due by Period			
(dollars in millions)	**Total**	**< 1 Year**	**1-3 Years**	**3-5 Years**	**Thereafter**
Long-term debt (1)	$ 1,846.2	$ 2.4	$ 288.8	$ 560.0	$ 995.0
Capital leases	125.1	13.4	22.6	13.1	76.0
Interest payments on long-term debt and capital leases (2)	981.9	136.4	272.7	211.5	361.3
Noncancelable operating lease obligations	46.9	8.2	15.5	13.3	9.9
Purchase obligations (3)	64.5	62.1	1.4	1.0	
Pension and postretirement benefits obligations (4)	236.8	22.6	62.9	79.3	72.0
Other liabilities (5)	47.3	11.3	10.0	9.2	16.8
Total	$ 3,348.7	$ 256.4	$ 673.9	$ 887.4	$ 1,531.0

(1) Long-term debt excludes net unamortized premiums and the unamortized call amounts received on terminated interest rate swaps.
(2) Interest payments on long-term debt and capital leases include interest obligations on both fixed and variable rate debt, assuming no early payment of debt in future periods. The Company used the interest rate forward curve at December 31, 2009 to compute the amount of the contractual obligation for interest payments on variable rate debt.

(3) Purchase obligations primarily consist of amounts under open purchase orders.
(4) Included in pension and postretirement benefit obligations are payments for the Company s postretirement benefits, qualified pension plans, non-qualified pension plan and other employee retirement agreements. Amounts for 2010 include $13 million of expected cash contributions for postretirement benefits. Although the Company currently expects to continue operating the plans past 2009, its contractual obligation related to postretirement benefits only extends through the end of 2009. Amounts for 2010 through 2017 include $203 million of estimated cash contributions to its qualified pension plans, with $8 million expected to be contributed in 2010. The Company s expected qualified pension plan contributions are based on current plan design, legislation and current actuarial assumptions. Any changes in plan design, the legislation or actuarial assumptions will also affect the expected contribution amount.
(5) Includes contractual obligation payments primarily related to restructuring reserves, asset removal obligations, long-term disability obligations, workers compensation liabilities, long-term incentive plan obligations, an acquisition and liabilities for unrecognized tax benefits. Payments for unrecognized tax benefits are assumed to occur within three to five years.

The contractual obligations table is presented as of December 31, 2009. The amount of these obligations can be expected to change over time as new contracts are initiated and existing contracts are completed, terminated, or modified.

Contingencies

In the normal course of business, the Company is subject to various regulatory and tax proceedings, lawsuits, claims, and other matters. The Company believes adequate provision has been made for all such asserted and unasserted claims in accordance with accounting principles generally accepted in the United States. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance.

Anthem Demutualization Claim

In November 2007, a class action complaint was filed against the Company and Wellpoint Inc., formerly known as Anthem, Inc. The complaint alleges that the Company improperly received stock as a result of the demutualization of Anthem and that a class of insured persons should have received the stock instead. In February 2008, the Company filed a response in which it denied all liability and raised a number of defenses. In February 2009, the Company filed a motion for summary judgment on all claims asserted against it. In March 2009, the case was dismissed.

Off-Balance Sheet Arrangements

Indemnifications

During the normal course of business, the Company makes certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. These include (a) intellectual property indemnities to customers in connection with the use, sales, and/or license of products and services, (b) indemnities to customers in connection with losses incurred while performing services on their premises, (c) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct of the Company, (d) indemnities involving the representations and warranties in certain contracts, and (e) outstanding letters of credit which totaled $24.5 million as of December 31, 2009. In addition, the Company has made contractual commitments to several employees providing for payments upon the occurrence of certain prescribed events. The majority of these indemnities, commitments, and guarantees do not provide for any limitation on the maximum potential for future payments that the Company could be obligated to make. Except for indemnification amounts recorded in relation to the sale of its national broadband business in 2003, the Company has not recorded a liability for these indemnities, commitments, and other guarantees in the Consolidated Balance Sheets.

Warrants

As part of the March 2003 issuance of the 16% Senior Subordinated Discount Notes due 2009 (16% Notes), the purchasers of the 16% Notes received 17.5 million common stock warrants, which expire in March 2013, to purchase one share of Cincinnati Bell Inc. common stock at $3.00 each. Of the total gross proceeds

received for the 16% Notes, $47.5 million was allocated to the fair value of the warrants using the Black-Scholes option-pricing model. This value less applicable issuance costs was recorded to Additional paid-in capital in the Consolidated Balance Sheet. There were no exercises of warrants in 2009, 2008, or 2007.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses. Additionally, the Company s senior management has discussed the critical accounting policies and estimates with the Audit and Finance Committee. The Company s significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements.

The discussion below addresses major judgments used in:

- revenue recognition;
- accounting for allowances for uncollectible accounts receivable;
- reviewing the carrying values of goodwill and indefinite-lived intangible assets;
- reviewing the carrying values of property, plant and equipment;
- accounting for business combinations;
- accounting for taxes;
- accounting for pension and postretirement expenses; and
- accounting for termination benefits.

Revenue Recognition The Company adheres to revenue recognition principles described in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 605, Revenue Recognition. Under ASC 605, revenue is recognized when there is persuasive evidence of a sale arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Service revenue The Company recognizes service revenue as services are provided. Revenue from local telephone, special access and data and internet product services, which are billed monthly prior to performance of service, and from prepaid wireless service, which is collected in advance, is not recognized upon billing or cash receipt but rather is deferred until the service is provided. Postpaid wireless, long distance, switched access and reciprocal compensation are billed monthly in arrears. The Company bills service revenue in regular monthly cycles, which are spread throughout the days of the month. As the last day of each billing cycle rarely coincides with the end of the Company s reporting period for usage-based services such as postpaid wireless, long distance, and switched access, the Company must estimate service revenues earned but not yet billed. The Company bases its estimates upon historical usage and adjusts these estimates during the period in which the Company can determine actual usage, typically in the following reporting period.

Initial billings for Wireline service connection and activation are deferred and amortized into revenue on a straight-line basis over the average customer life. The associated connection and activation costs, to the extent of the upfront fees, are also deferred and amortized on a straight-line basis over the average customer life.

Data center and managed services consist primarily of recurring revenue streams from collocation, interconnection, and managed infrastructure services. These recurring revenue streams are billed monthly and recognized ratably over the term of the contract. Data center and managed services can also include revenues from non-recurring revenue streams such as installation revenues. Certain non-recurring installation fees, although generally paid in lump sum upon installation, are also deferred and recognized ratably over the term of the contract. Agreements with data center customers require certain levels of service or performance. Although the occurrence is rare, if the Company fails to meet these levels, customers may be able to receive service credits for their accounts. The Company records these credits against revenue when an event occurs that gives rise to such credits. In multi-year data center and managed services arrangements with increasing or decreasing monthly billings, revenues are recognized on a straight-line basis. Revenue for leased data center assets is also recognized on a straight-line basis over the contract term.

Technology Solutions professional services, including product installations, are recognized as the service is provided. Technology Solutions also provides maintenance services on telephony equipment under one to four year contract terms. This revenue is deferred and recognized ratably over the term of the underlying customer contract.

Product revenue The Company recognizes equipment revenue upon the completion of contractual obligations, such as shipment, delivery, installation, or customer acceptance. Wireless handset revenue and the related activation revenue are recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Wireless equipment costs are also recognized upon handset sale and are in excess of the related handset and activation revenue.

The Company is a reseller of IT and telephony equipment and considers the gross versus net revenue recording criteria of ASC 605, such as title transfer, risk of product loss, and collection risk. Based on this criteria, these equipment revenues and associated costs have generally been recorded on a gross basis, rather than recording the revenues net of the associated costs. The Company benefits from vendor rebate plans, particularly rebates on hardware sold by Technology Solutions. If the rebate is earned and the amount is determinable based on the sale of the product, the Company recognizes the rebate as an offset to costs of products sold upon sale of the related equipment to the customer.

With respect to arrangements with multiple deliverables, the Company determines whether more than one unit of accounting exists in an arrangement. To the extent that the deliverables are separable into multiple units of accounting, total consideration is allocated to the individual units of accounting based on their relative fair value, determined by the price of each deliverable when it is regularly sold on a stand-alone basis. Revenue is recognized for each unit of accounting as delivered or as service is performed depending on the nature of the deliverable comprising the unit of accounting.