CINCINNATI BELL INC
Form 10-Q
May 09, 2018

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-8519
CINCINNATI BELL INC.

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

221 East Fourth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip Code)
(513) 397-9900
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

At April 30, 2018, there were 42,397,151 common shares outstanding.

TABLE OF CONTENTS

PART I. Financial Information

Table of Contents
Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenue	$295.7	$249.6
Costs and expenses		
Cost of services and products, excluding items below	149.4	124.1
Selling, general and administrative, excluding items below	68.4	55.3
Depreciation and amortization	51.2	45.8
Restructuring and severance related charges	0.3	25.6
Transaction and integration cost	2.2	0.6
Total operating costs and expenses	271.5	251.4
Operating income (loss)	24.2	(1.8)
Interest expense	30.8	18.0
Other components of pension and postretirement benefit plans expense	3.3	3.2
Gain on sale of Investment in CyrusOne	—	(117.7)
Other income, net	(0.4)	(0.4)
(Loss) income before income taxes	(9.5)	95.1
Income tax (benefit) expense	(1.2)	34.5
Net (loss) income	(8.3)	60.6
Preferred stock dividends	2.6	2.6
Net (loss) income applicable to common shareowners	$(10.9)	$58.0
Basic net (loss) earnings per common share	$(0.26)	$1.38
Diluted net (loss) earnings per common share	$(0.26)	$1.37

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

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net (loss) income	$(8.3)	$60.6
Other comprehensive income (loss), net of tax:		
Unrealized gains on Investment in CyrusOne, net of tax of $4.4	—	8.3
Reclassification adjustment for gain on sale of Investment in CyrusOne included in net income, net of tax of ($41.3)	—	(76.4)
Foreign currency translation loss	(1.8)	—
Defined benefit plans:		
Amortization of prior service benefits included in net income, net of tax of ($0.2), ($0.4)	(0.6)	(0.7)
Amortization of net actuarial loss included in net income, net of tax of $1.2, $2.0	4.1	3.5
Total other comprehensive income (loss)	1.7	(65.3)
Total comprehensive loss	$(6.6)	$(4.7)

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

Table of Contents
Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except share amounts)
(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$32.4	$17.8
Restricted Cash	379.8	378.7
Receivables, less allowances of $9.6 and $10.4	232.4	239.8
Inventory, materials and supplies	45.0	44.3
Prepaid expenses	23.7	22.2
Other current assets	9.4	7.6
Total current assets	722.7	710.4
Property, plant and equipment, net	1,118.8	1,129.0
Goodwill	150.7	151.0
Intangible assets, net	128.7	132.3
Deferred income tax assets	13.1	12.2
Other noncurrent assets	52.0	52.7
Total assets	$2,186.0	$2,187.6
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$18.2	$18.4
Accounts payable	195.7	185.6
Unearned revenue and customer deposits	39.3	36.3
Accrued taxes	18.0	21.2
Accrued interest	33.1	29.9
Accrued payroll and benefits	39.5	28.7
Other current liabilities	29.2	37.2
Total current liabilities	373.0	357.3
Long-term debt, less current portion	1,726.9	1,729.3
Pension and postretirement benefit obligations	173.2	177.5
Deferred income tax liabilities	12.2	11.2
Other noncurrent liabilities	28.6	30.2
Total liabilities	2,313.9	2,305.5
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 $^{3}/_{4}$% Cumulative Convertible Preferred Stock issued and outstanding at March 31, 2018 and December 31, 2017; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 96,000,000 shares authorized; 42,394,151 and 42,197,965 shares issued and outstanding at March 31, 2018 and December 31, 2017	0.4	0.4
Additional paid-in capital	2,562.2	2,565.6
Accumulated deficit	(2,647.9)	(2,639.6)
Accumulated other comprehensive loss	(172.0)	(173.7)
Total shareowners' deficit	(127.9)	(117.9)
Total liabilities and shareowners' deficit	$2,186.0	$2,187.6

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)(Unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net (loss) income	$(8.3)	$60.6
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	51.2	45.8
Gain on sale of Investment in CyrusOne	—	(117.7)
Provision for loss on receivables	1.0	1.8
Noncash portion of interest expense	0.8	0.5
Deferred income taxes	(1.2)	34.5
Pension and Other postretirement payments less than expense	0.4	1.0
Stock-based compensation	1.2	2.9
Other, net	(2.0)	(1.2)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in receivables	6.5	14.6
Increase in inventory, materials, supplies, prepaid expenses and other current assets	(4.4)	(5.6)
Increase in accounts payable	3.6	5.8
Increase in accrued and other current liabilities	9.6	7.1
Decrease in other noncurrent assets	0.5	0.5
(Decrease) increase in other noncurrent liabilities	(0.4)	3.3
Net cash provided by operating activities	58.5	53.9
Cash flows from investing activities		
Capital expenditures	(32.7)	(55.1)
Proceeds from sale of Investment in CyrusOne	—	140.7
Acquisitions of businesses	(2.8)	(9.2)
Other, net	(0.1)	0.5
Net cash (used in) provided by investing activities	(35.6)	76.9
Cash flows from financing activities		
Net decrease in corporate credit and receivables facilities with initial maturities less than 90 days	—	(89.5)
Repayment of debt	(3.0)	(2.1)
Debt issuance costs	(0.4)	(0.5)
Dividends paid on preferred stock	(2.6)	(2.6)
Other, net	(2.0)	(1.1)
Net cash used in financing activities	(8.0)	(95.8)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.8	—
Net increase in cash, cash equivalents and restricted cash	15.7	35.0
Cash, cash equivalents and restricted cash at beginning of period	396.5	9.7
Cash, cash equivalents and restricted cash at end of period	$412.2	$44.7
Noncash investing and financing transactions:		
Acquisition of property by assuming debt and other noncurrent liabilities	$—	$6.9
Acquisition of property on account	$17.6	$27.3

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

Description of Business — Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") provides diversified telecommunications and technology services. The Company generates a large portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this, or a portion of this, limited operating territory could have a disproportionate effect on our business, financial condition, results of operations and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

The Company has receivables with one large customer, General Electric Company, that makes up 10% of the outstanding accounts receivable balance as of March 31, 2018 and December 31, 2017. Revenue derived from foreign operations is approximately 6% of consolidated revenue for the three months ended March 31, 2018.

Merger Activity - In July 2017, the Company announced its plans to acquire Hawaiian Telcom Holdco, Inc. (“Hawaiian Telcom”) through a merger. On April 30, 2018, the Hawaii Public Utilities Commission issued a decision and order approving the merger, subject to the parties’ compliance with certain conditions. Accordingly, the closing of the merger is subject only to the receipt of regulatory approval from the Federal Communications Commission and the satisfaction of other customary closing conditions. We expect the merger to close in the second quarter of 2018.

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

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

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

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

The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Company’s 2017 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results expected for the full year or any other interim period.

Business Combinations — In accounting for business combinations, we apply the accounting requirements of ASC 805, “Business Combinations,” which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, management analyzes a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets, and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets. In addition, any contingent consideration is presented at fair value at the date of acquisition and transaction costs are expensed as incurred. See Note 4 for required disclosures related to mergers and acquisitions.

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

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

Income and Operating Taxes

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

During 2017, the Company re-classed $14.9 million of Alternative Minimum Tax ("AMT") refundable tax credits from "Deferred income taxes, net" to "Receivables" as these credits are expected to be utilized during 2018. Acceleration of the AMT refundable tax credits was the result of the Company's decision to make an election on its 2017 federal income tax return to claim the credits in lieu of claiming bonus depreciation. In addition, new tax legislation enacted in 2017 repealed AMT for corporate tax payers. The balance of any remaining AMT credits will be refunded over the next 5 years beginning with the return filed in 2019. In the three months ended March 31, 2018, the Company re-classed $0.7 million from "Deferred income taxes, net" to "Receivables" as it expects to receive this portion of the remaining AMT credits in 2019.

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

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

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

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU requires entities to disaggregate the current service cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement. The other components shall be presented elsewhere in the income statement and outside of income from operations, if such a subtotal is presented, on a retrospective basis as of the date of adoption. In addition, only the service cost component of net benefit cost is eligible for capitalization on a prospective basis. The ASU is effective for public business entities for annual periods beginning after December 15, 2017. The Company retrospectively adopted the standard effective January 1, 2018. The Company re-classed $1.7 million and $1.5 million of other components of net benefit cost from "Cost of Services" and "Selling, general and administrative," respectively, to a new line below Operating income, "Other components of pension and postretirement benefit plans expense," on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2017.
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow - Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice. The ASU is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material effect on the Company's Consolidated Statement of Cash Flows.
In February 2016, the FASB issued ASU 2016-02, Leases, which represents a wholesale change to lease accounting. The standard introduces a lessee model that brings most leases on the balance sheet as well as aligns certain underlying principles of the new lessor model with those in ASC 606. The ASU is effective for public entities for fiscal years beginning after December 15, 2018. As issued, the standard requires lessors and lessees to use a modified retrospective transition method for existing leases. On January 5, 2018, the FASB issued a proposed ASU that would allow entities to elect a practical expedient when adopting the guidance to not restate their comparative periods in transition as well as providing lessors with a practical expedient to not separate lease and nonlease components if certain criteria are met. Once the ASU is final, the Company plans to elect both practical expedients upon adoption. The Company is in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Company adopted the new standard and all subsequent amendments as of January 1, 2018 using the full retrospective method which requires each prior reporting period presented to be adjusted beginning with this issuance of the Company's 2018 interim financial statements.
The most significant impact of adopting the new standard is the change to the treatment of hardware revenue in the Infrastructure Solutions category from recording hardware revenue as a principal (gross) to recording revenue as an agent (net). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record hardware sales net of the related cost of products. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations focusing on a control model rather than a risk and reward model. As a result of adopting ASU 2014-09, revenue and cost of products for the three months ended March 31, 2017 decreased by $28.6 million. Changes in accounting policies related to variable consideration or rebates did not have a material effect on the financial statements. Fulfillment and acquisition costs that are now recorded as an asset and amortized on a monthly basis decreased expense for the three months ended March 31, 2017 by $0.3 million and increased basic earnings per share for the three months ended March 31, 2017 by $0.01. An incremental asset

related to fulfillment and acquisition costs of $32.3 million was recorded on the balance sheet as of December 31, 2017, with an offsetting reduction in "Accumulated deficit." As a result of the entry, total contract asset related to fulfillment and acquisition costs was $32.4 million as of December 31, 2017. The impact of these adjustments resulted in a decrease of $7.1 million to "Deferred income tax assets" as of December 31, 2017, with the offset to "Accumulated deficit." See Note 3 for required disclosures as a result of adopting ASC Topic 606.

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

2. Earnings Per Common Share

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

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

	Three Months Ended March 31,	
(in millions, except per share amounts)	2018	2017
Numerator:		
Net (loss) income	$(8.3)	$60.6
Preferred stock dividends	2.6	2.6
Net (loss) income applicable to common shareowners - basic and diluted	$(10.9)	$58.0
Denominator:		
Weighted average common shares outstanding - basic	42.3	42.1
Stock-based compensation arrangements	—	0.2
Weighted average common shares outstanding - diluted	42.3	42.3
Basic net (loss) earnings per common share	$(0.26)	$1.38
Diluted net (loss) earnings per common share	$(0.26)	$1.37

For the three months ended March 31, 2018, the Company had a net loss available to common shareholders and, as a result, all common stock equivalents were excluded from the computation of diluted EPS as their inclusion would have been anti-dilutive. For the three months ended March 31, 2017, awards under the Company's stock-based compensation plans for common shares of 0.2 million were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods presented, preferred stock convertible into 0.9 million common shares was excluded as it was anti-dilutive.

3. Revenue

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

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

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

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

Method of Adoption

The Company adopted ASC Topic 606 on January 1, 2018, using the full retrospective method. The comparative periods for 2018 and 2017 are reported in accordance with ASC Topic 606. The adoption of ASC Topic 606 primarily affected product revenue and cost of products on our Consolidated Financial Statements. Based on the Company's assessment of ASC Topic 606 as it relates to the sale of hardware within the Infrastructure Solutions category, the Company considers itself an agent (net) versus as a principal (gross). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record revenue associated with the sale of hardware net of the related cost of products. This conclusion is based on the Company not obtaining control of the inventory since in most cases the Company does not take possession of the inventory, does not have the ability to direct the product to anyone besides the purchasing customer, and does not integrate the hardware with any of our own goods or services. In situations where the Company does take possession the Company assesses if we act as the principal or the agent. While the Company does perform installation services in certain cases, those services involve installing the hardware into the customer's existing technology. Installation is considered a separate performance obligation as it is capable of being distinct, and is distinct, within the context of the contract. The reduction to "Revenue" and "Cost of services and products" related to recording these contracts on a net basis is $28.6 million for the three months ended March 31, 2017.

In addition to the changes discussed above as result of recognizing hardware revenue on a net basis, additional contract assets related to fulfillment costs and costs of acquisition of $32.3 million were recorded to "Other noncurrent assets" as of December 31, 2017, with an offsetting reduction in "Accumulated deficit." As a result of the entry, total contract assets related to fulfillment and acquisition costs were $32.4 million as of December 31, 2017. Under the new standard, the Company defers all incremental sales incentives and other costs incurred in order to obtain a contract with a customer. The Company amortizes the contract asset related to both fulfillment costs and cost of acquisition over the period of time the services under the contract are expected to be delivered to the customer.

Performance Obligations

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

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

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

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

Entertainment and Communications

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

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

The Company uses multiple methods to determine stand-alone selling prices in the Entertainment and Communications segment. For Fioptics Data, Video and Voice, market rate is the primary method used to determine stand-alone selling prices. For Enterprise Fiber Data and Legacy Voice, Data, and Other, stand-alone selling prices are determined based on a list price, discount off of list price, a tariff rate, a margin percentage range, or a minimum margin percentage.

IT Services and Hardware

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

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

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

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

Table of Contents
Form 10-Q Part I Cincinnati Bell Inc.

Contract Balances

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

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

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

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

	Fulfillment Costs			Cost of Acquisition			Total Contract Assets		
(dollars in millions)	Entertainment and Communications	IT Services and Hardware	Total Company	Entertainment and Communications	IT Services and Hardware	Total Company	Entertainment and Communications	IT Services and Hardware	Total Company
Balance as of January 1, 2016	$15.0	$ 1.5	$ 16.5	$12.7	$ 1.4	$ 14.1	$27.7	$ 2.9	$ 30.6
Additions	14.5	1.1	15.6	7.3	0.7	8.0	21.8	1.8	23.6
Amortization	(12.5)	(1.0)	(13.5)	(7.9)	(0.8)	(8.7)	(20.4)	(1.8)	(22.2)
Balance as of December 31, 2016	17.0	1.6	18.6	12.1	1.3	13.4	29.1	2.9	32.0
Additions	13.7	1.6	15.3	6.8	1.1	7.9	20.5	2.7	23.2
Amortization	(13.2)	(1.2)	(14.4)	(7.3)	(1.1)	(8.4)	(20.5)	(2.3)	(22.8)
Balance as of December 31, 2017	17.5	2.0	19.5	11.6	1.3	12.9	29.1	3.3	32.4
Additions	3.1	0.4	3.5	1.6	0.4	2.0	4.7	0.8	5.5
Amortization	(3.3)	(0.3)	(3.6)	(1.7)	(0.2)	(1.9)	(5.0)	(0.5)	(5.5)
Balance as of March 31, 2018	$17.3	$ 2.1	$ 19.4	$11.5	1.5	$ 13.0	$28.8	$ 3.6	$ 32.4

Disaggregated Revenue

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

(dollars in millions)	Three months Ended March 31, 2018	2017
Data	$84.9	$84.4
Video	39.2	35.9
Voice	47.0	51.7
Other	3.1	3.1
Total Entertainment and Communications	174.2	175.1
Consulting	38.1	16.7
Cloud	22.6	20.9
Communications	40.6	36.5
Infrastructure Solutions	26.3	6.9
Total IT Services and Hardware	127.6	81.0
Intersegment revenue	(6.1)	(6.5)
Total revenue	$295.7	$249.6

The following table presents revenues disaggregated by contract type.

	Entertainment and Communications		IT Services and Hardware		Intersegment revenue elimination		Total	
	Three months ended		Three months ended		Three months ended		Three months ended	
(dollars in millions)	March 31,		March 31,		March 31,		March 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
Products and Services transferred at a point in time	$ 4.8	$ 5.1	$35.3	$10.7	$—	$—	$40.1	$15.8
Products and Services transferred over time	164.2	164.6	91.4	69.2	—	—	255.6	233.8
Intersegment revenue	5.2	5.4	0.9	1.1	(6.1)	(6.5)	—	—
Total revenue	$ 174.2	$ 175.1	$127.6	$81.0	$(6.1)	$(6.5)	$295.7	$249.6

4. Mergers and Acquisitions

Acquisition of OnX Holdings LLC

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

The purchase price for OnX consisted of the following:

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

The cash portion of the purchase price was funded through borrowings under the Credit Agreement (see Note 6). The cash consideration includes $77.6 million related to existing debt that was repaid in conjunction with the close of the acquisition. In addition, a working capital adjustment of $2.8 million was paid during the three months ended March 31, 2018. The Company spent $8.6 million in acquisition expenses related to the OnX acquisition, of which $0.5 million was recorded in the three months ended March 31, 2018. No expenses were recorded in the prior year comparable period related to the OnX acquisition. These expenses are recorded in "Transaction and integration costs" on the Consolidated Statements of Operations.

Purchase Price Allocation and Other Items

The determination of the final purchase price allocation to specific assets acquired and liabilities assumed is incomplete for OnX. The purchase price allocations may change in future periods as customary post-closing reviews are concluded during the measurement period, and the fair value estimates of assets and liabilities and certain tax aspects of the transaction are finalized.

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

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

Long-term debt, less current portion	76.7	
Other noncurrent liabilities	1.5	
Total liabilities assumed	203.7	
Net assets acquired	$	166.4

Table of Contents

During the three months ended March 31, 2018, the Company recorded a purchase price allocation adjustment of $0.2 million to "Goodwill" related to the payment of the working capital adjustment. In addition, the Company recorded purchase price allocation adjustments of $0.1 million to "Deferred income tax liabilities" and $0.4 million to "Other noncurrent liabilities" related to the finalization of certain tax aspects of the acquisition. The offset of these adjustments were recorded as an increase to "Goodwill."

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

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

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

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

Pro Forma Information (Unaudited)

The following table provides the unaudited pro forma results of operations for the three months ended March 31, 2017 as if OnX had been acquired as of the beginning of fiscal year 2016. Revenue has been retrospectively adjusted for the adoption of ASC 606 to reflect hardware revenue in the Infrastructure Solutions category net of related cost of products. These results include adjustments related to the financing of the acquisition, to increase depreciation and amortization associated with the higher values of property, plant and equipment and intangible assets, to increase interest expense for the additional debt incurred to complete the acquisition, and to reflect the related income tax effect and change in tax status. The pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the annual reporting period indicated nor is it necessarily indicative of future operating results. The pro forma information does not include any (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

(dollars in millions, except per share amounts)	Three Months Ended March 31, 2017
Revenue	$ 298.5
Net income applicable to common shareholders	54.1
Earnings per share:	
Basic and diluted earnings per common share	1.28

Other Acquisition Activity

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

5. Goodwill and Intangible Assets
Goodwill
The changes in the Company's goodwill consisted of the following:

(dollars in millions)	IT Services and Hardware	Entertainment and Communications	Total Company
Goodwill, balance as of December 31, 2017	$ 148.8	$ 2.2	$ 151.0
Activity during the year			
Adjustments to prior year acquisitions	0.7	—	0.7
Currency translations	(1.0)	—	(1.0)
Goodwill, balance as of March 31, 2018	$ 148.5	$ 2.2	$ 150.7

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

No impairment losses were recognized in goodwill for the three months ended March 31, 2018 and 2017.
Intangible Assets
The Company’s intangible assets consisted of the following:

	March 31, 2018		December 31, 2017	
(dollars in millions)	Gross Carrying Amount (a)	Accumulated Amortization	Gross Carrying Amount (a)	Accumulated Amortization
Customer relationships	$115.4	$ (10.8)	$116.0	$ (8.9)
Trade names	15.5	(0.8)	15.9	(0.4)
Technology	9.9	(0.5)	9.9	(0.2)
Total	$140.8	$ (12.1)	$141.8	$ (9.5)

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

Amortization expense for intangible assets subject to amortization was $2.6 million for the three months ended March 31, 2018. Amortization expense for the three months ended March 31, 2017 was insignificant. No impairment losses were recognized for the three months ended March 31, 2018 and 2017.

6. Debt

The Company's debt consists of the following:

(dollars in millions)	March 31, 2018	December 31, 2017
Current portion of long-term debt:		
Credit Agreement - Tranche B Term Loan due 2024	$ 6.0	$ 6.0
Capital lease obligations and other debt	12.2	