CINCINNATI BELL INC
Form 10-K
February 27, 2014

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

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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)

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 o
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 o 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 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 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. x

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	o
Non-accelerated filer	o	Smaller reporting company	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

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, 2013, the last trading day of the registrant's most recently completed second fiscal quarter. The Company has no non-voting common shares.

At January 31, 2014, there were 208,738,253 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the Company's 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

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

Part I

Item 1. Business

Overview and Strategy

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

Our goal is to transform Cincinnati Bell into a fiber-based entertainment, communications and IT solutions company with growing revenue, growing profits and significant cash flows. During 2013, we invested approximately $123 million in our strategic products, generating an 18% increase in our strategic revenues. Revenue from these high demand products totaled $370.6 during the year and offset the declines from our legacy products by 10%.

Wireline strategic revenue totaled $252.5 million, up 22% compared to the prior year, primarily due to growth in our Fioptics suite of products, which provides entertainment, high-speed internet and voice services using a combination of fiber to the home and fiber to the node technology. Fioptics revenue totaled $100.8 million, up 48% over the prior year, as we achieved record high net activations for both our entertainment and high-speed internet products. Strategic revenue from business customers was also up 8% in 2013 due to increased demand for metro-ethernet and Multi-Protocol Label Switching ("MPLS") products. The growth and demand for our strategic products continues to increasingly mitigate revenue declines from our legacy products. In total, Wireline revenue was down less than 1% in 2013, and we believe our strategic investments will result in full year 2014 Wireline revenue growth.

Our IT Services and Hardware segment revenue totaled $344.1 million, up 9% year over year. Strategic managed and professional services revenue totaled $118.1 million, up 8% due to increased demand for virtual data center products and staff augmentation resources. Telecom and IT equipment sales were up 9% year over year, and remain an important value added product to our existing customer base that requires very little capital.

The Wireless segment continues to be challenged by increased competitive pressures from national carriers. During the year, our revenues declined by 17% due to continued subscriber losses. We plan to continue to manage the business for cash flow and profitability as we consider strategic alternatives.

The Company was also able to take advantage of a favorable interest rate environment by amending its Corporate Credit Agreement to include a $540 million Tranche B Term Loan facility ("Tranche B Term Loan") with a 4.0% interest rate at December 31, 2013. The proceeds from the facility were used to redeem all of the Company's $500 million 8 1/4% Senior Notes due 2017 ("8 1/4% Senior Notes") on October 15, 2013 at a redemption price of 104.125%. It is expected that these refinancing activities will save approximately $20 million of interest payments in 2014.

On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne Inc. ("CyrusOne"), a former subsidiary which owns and operates our former data center colocation business. CyrusOne, which conducts its data center business through CyrusOne LP, an operating partnership, is a full service provider of data center colocation services to enterprise customers through its facilities with fully redundant power and cooling solutions that are currently located in the Midwest, Texas, Arizona, London and Singapore. Cincinnati Bell is the majority owner of CyrusOne (NASDAQ: CONE), a real estate investment trust ("REIT"), effectively owning approximately 69% of the economic interests of CyrusOne through the ownership of its common stock and partnership units of CyrusOne LP. However, effective January 24, 2013, we no longer have control over CyrusOne's operations and no longer consolidate CyrusOne in our consolidated financial statements. Our ownership in CyrusOne is now accounted for as an equity method investment.

We made significant strides in 2013 towards achieving our transformation goals for Cincinnati Bell. As we look forward to 2014, we will continue to focus on the following initiatives which will be the keys to our success:

Continue the expansion of our fiber network

- We expect to pass approximately 62,000 additional customer locations with Fioptics during 2014, with an emphasis on fiber directly to the home. Our goal remains to pass between 60% and 70% of Greater Cincinnati with this product.
- We will increase fiber-based product offerings to enterprise customers and finalize the integration of our Wireline business market with the IT Services and Hardware team.

Evaluate opportunities to monetize investment in CyrusOne

- We will give due consideration to, among other factors, CyrusOne's stock price, market performance of other REITs and overall market indicators. We will balance our objective of reducing the risk associated with owning any equity security, with the upside appreciation potential for our investment in CyrusOne.
- Proceeds from future CyrusOne monetization will be primarily used for debt repayment, in accordance with the terms in our amended Corporate Credit Agreement, to move toward achieving leverage ratios in line with other telecommunications companies.

Manage Wireless business for cash flows and profitability

- We will manage the wireless business for cash flows and profitability as we continue to explore strategic options for this business, including an outright sale. For the past several years, the Wireless business has been losing postpaid subscribers at an increasing rate as our customers continue to migrate to national carriers that offer premier handsets and "nation-wide" family talk plans on LTE networks.

Operations

As of December 31, 2013, the Company operated three segments: Wireline, IT Services and Hardware, and Wireless; and generally classifies the products and services from its Wireline and IT Services and Hardware segments into three distinct categories: Strategic, Legacy and Integration. Wireline and IT Services and Hardware products and services have been categorized based primarily on the underlying technology, as noted in the chart below:

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

(1) Dense Wavelength Division Multiplexing
(2) Digital Subscriber Line
(3) Voice over Internet Protocol
(4) Multi-Protocol Label Switching
(5) Time Division Multiplexing
(6) Digital Signal

Wireline

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

("CBAD") and eVolve Business Solutions LLC ("eVolve") subsidiaries.

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The Company continues the expansion of Fioptics which is designed to compete directly with the cable Multiple System Operators (MSO) serving the Company's ILEC market area. During 2013, the Company passed an additional 71,000 addresses with Fioptics and has experienced strong year-over-year growth, as outlined in the table:

	2013	2012	2011
Fioptics Revenue (in millions):	$100.8	$68.2	$46.9
Fioptics subscribers (in thousands):			
High-speed internet	79.9	56.8	39.3
Entertainment	74.2	55.1	39.6
Voice	53.3	40.8	29.2

Fioptics covers approximately 276,000 customer locations, or 35% of the Company's traditional operating geography, and has a 29% penetration rate.

Revenue growth from business customers is primarily generated through our metro-ethernet and VoIP products. The Company focuses the majority of its resources within its ILEC geography as well as in contiguous markets in the Midwest region. The Company is accelerating investment in fiber and IP-based core network technology to meet increased enterprise demand for high-bandwidth data transport products. We continue to evolve and optimize network assets to support the migration of legacy products to new technology. As of December 31, 2013, the Company has:

- connected approximately 4,200 commercial buildings with fiber-based services (also referred to as a lit building), including more than 500 multi-tenant units ("MTU's") lit with fiber;
- expanded the fiber network to span more than 5,700 route miles; and
- provided cell site back-haul services to more than 70% of the 1,100 cell sites in-market, of which approximately 550 are lit with fiber.

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

Voice - Local Service

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

- bundling two or more of the Company's other services at a lower price than if they were purchased individually;
- expanding the Fioptics network; which creates attach rates of more than 65% when Fioptics services and products are bundled with voice access lines; and
- increasing the sale of VoIP services and other fiber-based products to business customers (reported under the caption Long Distance and VoIP).

Data Services

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

Long Distance and VoIP

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

The Company has been investing in its next-generation VoIP network since 2006. This investment has created a platform capable of supporting a variety of customers ranging from small shops to large enterprise customers. Our VoIP products provide our customers access to widely disbursed communication platforms and access to our cloud based services and hosted unified communications product.

Entertainment

In 2009, the Company launched Fioptics and focused its fiber network expenditures on densely populated areas, such as apartments and condominiums. At the end of 2009, Fioptics was available to only 5% of Greater Cincinnati and had 11,100 entertainment subscribers. Today, Fioptics is available to approximately 35% of Greater Cincinnati, and we have 74,200 entertainment subscribers as of December 31, 2013. Our Fioptics customers enjoy access to over 400 entertainment channels, including digital music, local, movie, and sports programing, as well as Indian and Spanish-language packages, 120 high-definition channels, parental controls, HD DVR and video On-Demand.

In addition, we recently rolled out features that deliver high customer satisfaction, including whole-home DVR, Fioptics TV Everywhere ™, HBO Go ™, and Apple applications to control Fioptics features.

Other Revenues

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

IT Services and Hardware

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

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

Managed and Professional Services

Managed Services include products and services that combine assets, either owned by the customer or by the Company, with management and monitoring from its network operations center, and skilled technical resources to provide a suite of offerings around voice and data infrastructure management. Service offerings include, but are not limited to, network management, electronic data storage management, disaster recovery, data security management, telephony management and server management. These services can be purchased individually or bundled by combining multiple products, services, and assets into a utility or as a service model for enterprise customers.

Professional Services include staff augmentation and professional IT consulting by highly technical, certified employees. These engagements can be short-term IT implementation and project-based work as well as longer term staffing and permanent placement assignments. The Company utilizes a team of experienced recruiting and hiring personnel to provide its customers a wide range of skilled IT professionals at competitive hourly rates.

Telecom and IT equipment

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

Wireless

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

The Company's digital wireless network utilizes approximately 460 cell sites in its operating territory. The Company's digital wireless network utilizes 50 MHz of licensed wireless spectrum in the Cincinnati area and 40 MHz of licensed spectrum in the Dayton area. The Company owns the licenses for the spectrum that it uses in its network operations.

Service revenue

A variety of monthly rate plans are available to postpaid subscribers. These plans can include a fixed or unlimited number of national 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. Postpaid subscribers are billed monthly in arrears.

Prepaid i-wireless^{SM} subscribers pay in advance for use with pay per minute, pay by day, pay by week, or pay by month rate plans. Weekly and monthly smartphone plans are also available for prepaid i-wireless^{SM} subscribers. In 2011, CBW began offering prepaid service plans utilizing lifeline subsidies from Ohio and Kentucky, which are discounted versions of our standard prepaid service plans to certain customers who receive government assistance.

Equipment revenue

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 has approximately 59% of its postpaid subscribers under equipment contracts. These contracts require the customer to use the CBW monthly service for a minimum period of two years in exchange for a deeply discounted wireless handset.

Equity Method Investment in CyrusOne

At December 31, 2013, we owned approximately 1.9 million shares of CyrusOne's common stock and are a limited partner in CyrusOne LP, owning approximately 42.6 million partnership units. Although we effectively own approximately 69% of CyrusOne through our ownership of its common stock and partnership units of CyrusOne LP, we no longer control its operations. As such, effective January 24, 2013, we no longer consolidate CyrusOne in our consolidated financial statements and now account for our ownership in CyrusOne as an equity method investment. At December 31, 2013, the fair value of this investment was $993.2 million based on the quoted market price of CyrusOne's common stock.

CyrusOne specializes in highly reliable enterprise-class, carrier-neutral data center properties. The company provides mission-critical data center facilities that protect and ensure the continued operation of IT infrastructure for more than 600 customers, including nine of the Fortune 20 and more than 125 of the Fortune 1000 companies. CyrusOne's data center offerings provide the flexibility, reliability, and security that enterprise customers require and are delivered through a tailored, customer service-focused platform designed to foster long-term relationships.

The following diagram depicts the ownership interest in CyrusOne upon completion of the IPO:

Sales and Distribution Channels

The Company’s Wireline and Wireless segments utilize a number of distribution channels to acquire customers. As of December 31, 2013, the Company operated seven retail stores in its operating territory, down from ten in the prior year.

The Company works to locate retail stores in high traffic but affordable areas, with a distance between each store that considers optimal returns per store and customer convenience. As stores are added or closed from time to time, certain stores may be transitioned to local agents for marketing of the Company's products and services. The Company also offers fully-automated, end-to-end web-based sales of wireless phones, accessories and various other Company services. In addition, the Company utilizes a door-to-door sales force that targets the sale of Fioptics to residents.

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

Aside from Company resources, there are approximately 130 third-party agent locations that sell Wireline and Wireless products and services at their retail locations. The Company supports these agents with discounted prices for wireless handsets and other equipment and commission structures. The Company also sells wireline and wireless capacity on a wholesale basis to independent companies, including competitors that resell these services to end-users.

Suppliers and Product Supply Chain

Wireline’s primary purchases are for network equipment, software, and fiber cable to maintain and support the growth of Fioptics, as well as copper-based electronics and cable. Wireless primarily purchases handsets and accessories, wireless cell site and network equipment, and software. Wireless often partners with other regional carriers and wholesale distributors to build requisite volumes for discounts. The Company generally subjects these purchases to competitive bids and selects its vendors based on price, service level, delivery, quality of product and terms and conditions.

The Company maintains facilities and operations for storing cable, handsets and other equipment, product distribution and customer fulfillment. Wireless also has long-term lease commitments on towers used in its wireless network operations.

In addition, we have long-term commitments to outsource various services, such as certain information technology functions, cash remittance and accounts payable functions, call center operations, and maintenance services. Similar to the purchase of materials, competitive bids are obtained for such vendors and are subject to a rigorous evaluation and approval process.

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

Competition

The telecommunications industry is very competitive, and the Company competes against larger, well-capitalized national providers. The Company has lost, and will likely continue to lose, access lines and wireless subscribers as a part of its customer base utilizes the services of competitive wireline or wireless providers in lieu of the Company’s services.

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband, and internet service providers. Wireless providers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for the Company’s access lines. The Company believes this is the reason for the largest portion of the Company’s access line and long-distance line losses.

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

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

The Wireless segment's operating territory is saturated with competitors. Many of these competitors offer more advanced networks and brand-name handsets which are not available to us and are a factor in attracting and retaining customers. All of our competitors are larger and have more resources to devote to advertising and promotional pricing to attract new customers. As a result, our postpaid subscriber base has decreased by 19% and 21%, respectively, over the past two years. We believe it is likely that the trend of subscriber losses will continue, and we plan to operate the business for profitability and cash flow while we investigate strategic alternatives.

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

Customers

The following table demonstrates how the Company's revenue portfolio has changed over the past three years, excluding CyrusOne, which is no longer consolidated in our financial results. During 2012 and 2011, CyrusOne represented 15% and 13% of our revenue, respectively.

Percentage of revenue	2013		2012		2011		2013 vs 2012 Change		2012 vs 2011 Change	
Voice - local service	18	%	20	%	21	%	(2	) pts	(1	) pts
Data	25	%	24	%	22	%	1		2	
Long distance and VoIP	9	%	9	%	9	%	—		—	
Entertainment	4	%	2	%	2	%	2		—	
Other Wireline	1	%	1	%	2	%	—		(1	)
Total Wireline	57	%	56	%	56	%	1		—	
Managed and professional services	10	%	9	%	7	%	1		2	
Telecom and IT equipment sales	17	%	16	%	16	%	1		—	
Total IT Services and Hardware	27	%	25	%	23	%	2		2	
Wireless	16	%	19	%	21	%	(3	)	(2	)
Total (excluding CyrusOne)	100	%	100	%	100	%	—		—	

In 2013, the Company's revenue mix was 63% to business customers and 37% to residential customers. By comparison, the Company's 2012 revenues were comprised of 62% to business customers and 38% to residential customers, excluding CyrusOne. If our Wireless segment were also excluded, our revenue mix would be 72% to business customers and 28% to residential customers in 2013, and strategic revenues would account for 35% of our total revenue. During 2013, strategic Wireline revenue accounted for 35% of total Wireline revenue compared to 28% in 2012. Strategic IT Services and Hardware revenue totaled 34% of total IT Services and Hardware revenue in 2013 compared to 35% in 2012.

The Company's mix of customer demand for Wireless services is trending toward more data services and less voice services. For 2011, Wireless service revenues were comprised of 68% voice services and 32% data services. By 2013, revenue from data services was 40% of total Wireless service revenues, an 8 point increase from 2011.

The Company has receivables with one large customer that exceed 10% of the Company's outstanding accounts receivable balance at December 31, 2013 and 2012.

Employees

At December 31, 2013, the Company had approximately 2,900 employees, and approximately 30% of its employees are covered under a collective bargaining agreement with the Communications Workers of America (“CWA”), which is affiliated with the AFL-CIO. This agreement expires on August 9, 2014.

Website Access and Other Information

The Company is an Ohio corporation and was 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 of 1934 (the "Exchange Act"). These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington, D.C. 20549. Information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy statements, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is http://www.sec.gov. The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), proxy statements and other information, free of charge, at the Investor Relations section of its website.

Executive Officers

During 2013, the Company experienced relatively significant changes within the executive leadership team. Refer to Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Annual Report on Form 10-K for information regarding executive officers of the registrant.

Business Segment Information

The amounts of revenue, intersegment revenue, operating income, expenditures for long-lived assets, and depreciation and amortization attributable to each of the Company’s business segments for the years ended December 31, 2013, 2012, and 2011, and assets as of December 31, 2013 and 2012 are set forth in Note 15 to the consolidated financial statements.

Item 1A. Risk Factors

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

Risks Related to our Indebtedness

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

The Company has a substantial amount of debt and has significant debt service obligations. As of December 31, 2013, the Company and its subsidiaries had outstanding indebtedness of $2,265.2 million, on which it incurred $182.0 million of interest expense in 2013, and had total shareowners’ deficit of $676.7 million. At December 31, 2013, the Company and its subsidiaries had no remaining borrowing availability under its accounts receivable securitization facility ("Receivables Facility"), but had the ability to borrow up to an additional $160.0 million under the Corporate Credit Agreement, subject to compliance with certain conditions. In addition, the Company's ability to incur additional debt from time to time is subject to the restrictions contained in its credit facilities and other debt instruments.

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

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

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

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

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

In addition, the Company’s Corporate Credit Agreement and debt instruments include restrictive covenants that may materially limit the Company’s ability to prepay debt and preferred stock. The agreements governing the Corporate Credit Agreement also require the Company to achieve and maintain compliance with specified financial ratios.
The restrictions contained in the terms of the Corporate Credit Agreement and its other debt instruments could:

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

A breach of any of the debt's restrictive covenants or the Company’s inability to comply with the required financial ratios would result in a default under some or all of the debt agreements. During the occurrence and continuance of a default, lenders may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. Additionally, under the 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. Failure to comply with these covenants, if not cured or waived, would limit the cash required to fund operations and its general obligations and could result in the Company’s dissolution, bankruptcy, liquidation, or reorganization.
The Company depends on its Corporate Credit Agreement and Receivables Facility to provide for its short-term financing requirements in excess of amounts generated by operations, and the availability of those funds may be reduced or limited.
The Company depends on the revolving credit facility under its Corporate Credit Agreement and Receivables Facility to provide for temporary financing requirements in excess of amounts generated by operations.
As of December 31, 2013, the Company had $40.0 million of outstanding borrowings under its Corporate Credit Agreement, leaving $160.0 million in additional borrowing availability under this facility. The $200 million Corporate Credit Agreement is funded by various financial institutions. If one or more of these banks is not able to fulfill its funding obligations, the Company’s financial condition would be adversely affected.
The revolving commitments under the Corporate Credit Agreement will be permanently reduced by the lesser of (i) the amount of net cash proceeds from the first sale by the Company of its equity interests in CyrusOne or CyrusOne LP and (ii) $50.0 million, provided that such sale occurs by December 31, 2014. If such sale has not occurred by that date, the original revolving commitments will be permanently reduced to $150.0 million. In addition, the original revolving commitments will be further reduced to $125.0 million on December 31, 2015.

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As of December 31, 2013, the Company had $106.2 million of borrowings and $5.2 million of letters of credit that were outstanding under its Receivables Facility. At that date, the Company had a borrowing capacity under this Receivables Facility of $111.4 million and a maximum borrowing limit of $120.0 million. The available borrowing capacity is calculated monthly based on the quantity and quality of outstanding accounts receivable and thus may be lower than the maximum borrowing limit. If the quality of the Company’s accounts receivables deteriorates, this will negatively impact the available capacity under this facility. As of December 31, 2013, the Company had no remaining borrowing availability under its Receivables Facility.

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

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

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

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

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

Risk Factors Related to our Business and Operations

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

The Company generates a substantial portion of its revenues by delivering voice and data services over access lines. The Company's local telecommunications subsidiary, CBT, has experienced substantial access line losses over the past several years due to a number of factors, including increased competition and wireless and broadband substitution. The Company expects access line losses to continue into the foreseeable future. Failure to retain access lines without replacing such losses with an alternative source of revenue would adversely impact the Company's revenues, earnings and cash flow from operations.

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

The Company may be unable to grow our revenues and cash flows despite the initiatives we have implemented.
We must produce adequate revenues and cash flows that, when combined with cash on hand and funds available under our Corporate Credit Agreement and Receivables Facility, will be sufficient to service our debt, fund our capital expenditures, pay our taxes, fund our pension and other employee benefit obligations and pay preferred dividends pursuant to our dividend policy. We have identified some potential areas of opportunity and implemented several growth initiatives, including increasing marketing promotions and related expenditures and launching new products and services with a focus on areas that are growing such as Fioptics and enterprise fiber-based service offerings. We cannot assure you that these opportunities will be successful or that these initiatives will improve our financial position or our results of operations.
The Company's wireless subscribers are decreasing in number. If the Company continues to experience subscriber losses similar to the past several years, its revenues, earnings and cash flows from operation may be adversely affected.
The Company's wireless telecommunications subsidiary, CBW, has experienced substantial subscriber losses over the past several years due to a number of factors, including competitors' investment in more technologically advanced LTE networks, which the Company does not have, and consumer preferences for national carriers and competitors' handsets. The Company expects these subscriber losses to continue into the foreseeable future. Failure to retain subscribers would adversely impact the Company's revenues, earnings and cash flows from operations. In addition, failure to retain subscribers may result in the inability to realize our investment in this business and would lead to impairment losses on long-lived and intangible assets in the future.
Failure to anticipate the need for and introduce new products and services or to compete with new technologies may compromise the Company’s success in the telecommunications industry.
The Company’s success depends, in part, on being able to anticipate the needs of current and future business, carrier, and residential customers. The Company seeks to meet these needs through new product introductions, service quality, and technological superiority. New products are not always available to the Company because other competitors may have exclusive agreements for those new products. New products and services are important to the Company’s success because its industry is technologically driven, such that new technologies can offer alternatives to the Company’s existing services. The development of new technologies and products could accelerate the Company’s loss of access lines and increase wireless customer churn, which would have a material adverse effect on the Company’s revenue, results of operations, and cash flows.
The Company's failure to meet performance standards under its agreements could result in customers terminating their relationships with the Company or customers being entitled to receive financial compensation, which would lead to reduced revenues and/or increased costs.
The Company's agreements with its customers contain various requirements regarding performance and levels of service. If the Company fails to provide the levels of service or performance required by its agreements, customers may be able to receive service credits for their accounts and other financial compensation and also may be able to terminate their relationship with the Company. In order to provide these levels of services, the Company is required to protect against human error, natural disasters, equipment failure, power failure, sabotage and vandalism, and have disaster recovery plans available for disruption of services. The failure to address these or other events may result in a disruption of services. In addition, any inability to meet service level commitments or other performance standards could reduce the confidence of customers and could consequently impair the Company's ability to attract and retain customers, which would adversely affect both the Company's ability to generate revenues and operating results.
The Company generates a substantial portion of its revenue by serving a limited geographic area.
The Company generates a substantial portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this limited operating territory would have a disproportionate effect on the Company's business, financial condition, results of operations, and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

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

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

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

As of December 31, 2013, the Company had receivables with one large customer that exceeded 10% of the Company's outstanding accounts receivable balance. Contracts with this customer may not sufficiently reduce the inherent risk that the customer may terminate or fail to renew their relationships with the Company. As a result of customer concentration, the Company's results of operations and financial condition could be materially affected if the Company lost this large customer or if services purchased were significantly reduced. If this customer were to default on its accounts receivable obligations, the Company would be exposed to potentially significant losses in excess of the provisions established. This would also negatively impact the available capacity under the Receivables Facility.

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

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

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband, and internet service providers. Wireless providers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for the Company’s access lines and long distance lines. The Company believes wireless substitution accounts for the largest portion of its access line losses. Also, cable competitors that have existing service relationships with CBT’s customers also offer substitution services, such as VoIP and long distance voice services in the Company's operating areas. Partially as a result of wireless substitution and increased competition, CBT’s access lines decreased by 8% and long distance subscribers decreased by 6% in 2013 compared to 2012.

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

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

Wireless competitors to CBW include national wireless providers that have already deployed and are continuing with their build-out of more technologically advanced 4G LTE networks in our operating territory. In addition, our limited handset offerings are also a factor in our ability to attract and retain customers. Although we believe our handsets are technologically equivalent to those being offered by the national carriers, we only offer a limited selection of the premium brand-name handsets which are very popular with smartphone users. These competitive factors will likely result in a continued loss of wireless subscribers and adversely affect our wireless revenues and operating margins.

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

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

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

Over the past several years, the Company has improved its wireline network through increased capital expenditures for fiber optic cable in limited areas of its operating network and has also upgraded a portion of its wireless network to 4G, using HSPA+ technologies.

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

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

The wireless industry continues to experience significant technological change, as evidenced by the ongoing improvements in network speeds. The majority of the national wireless providers have already deployed and are continuing with their build-out of more technologically advanced 4G LTE networks in our operating territory. LTE currently offers the fastest data transmission speeds in the industry, which is attractive to smartphone users. The Company has determined that it will not upgrade its network to LTE as it currently believes that this investment is not economically viable considering, among other factors, the significant capital requirement and the recent unfavorable trends of its wireless customer base. The Company's decision not to upgrade its network to LTE may result in the Company being unable to meet the needs of its customers, which could have a material adverse impact on the Company's market share and its ability to generate revenue.

If the Company is unable or fails to adequately maintain or expand its networks to meet customer needs, there would be a material adverse impact on the Company's market share and its ability to generate revenue.

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

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

Alternatively, we may choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in areas experiencing congestion, and these actions could negatively affect customer experience and increase customer churn.

While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This would result in an adverse impact to our results of operations and financial condition.

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

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

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

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

Maintenance of CBW’s wireless network and growth in data usage 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 wireless network. Continued growth in data usage, 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 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.

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

Several of the Company’s subsidiaries are subject to regulatory oversight of varying degrees at both the state and federal levels, which may differ from the regulatory scrutiny faced by the Company’s competitors. A significant portion of CBT’s revenue is derived from pricing plans that require regulatory overview and approval. These regulated pricing plans limit the rates CBT charges for some services while 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 would result in lower profitability and cash flows for the Company. In addition, different regulatory interpretations of existing regulations or guidelines may affect the Company’s revenues and expenses in future periods.

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

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. Further, if CBW ceases offering wireless services, its wireless licenses could revert back to the FCC.

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

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

A significant portion of our wireless subscriber base is enrolled under the FCC's low-income Lifeline program which imposes strict compliance requirements on both consumers and carriers. This could result in the Company incurring significant compliance costs or fines and penalties if the Company fails to comply with these requirements.

The FCC's Lifeline program provides carriers like us with Universal Service Fund ("USF") support to reduce the cost of wireline and wireless services to low-income consumers. At December 31, 2013, approximately 35% of the Company's prepaid subscriber base was enrolled in the Lifeline program. The compliance requirements that govern the enrollment of low-income subscribers under this Lifeline program are stringent, and, in the event that consumers fail to meet any of these requirements, such consumers may opt to terminate their wireless services which could have a material adverse impact on the revenues that we generate. In addition, the Company could also incur significant costs to comply with these requirements or could incur material fines and penalties if the FCC determines that it did not adequately comply with such requirements. The occurrence of any of these factors would result in an adverse impact to our results of operations and financial condition.

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

The Company depends on third-party providers to supply products and services. For example, many of the Company's information technology and call center functions are performed by third-party providers, and network equipment is purchased from and maintained by vendors. In addition, almost half of the wireless towers used by CBW are managed by a single independent service provider. Any failure on the part of suppliers to provide the contracted services, additional required services, or additional products could impede the Company's business and cause financial results to suffer.

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

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

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

The Company is a party to collective bargaining agreements with its labor union, which represents a significant number of its employees, and these collective bargaining agreements are set to expire in August 2014. 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 would have a material adverse effect on the business.

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

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

Risk Factors Related to Our Investment in CyrusOne

The Company no longer controls the operations of CyrusOne

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

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

The Company has a significant investment in CyrusOne

On January 24, 2013, the Company completed the IPO of CyrusOne. As a result, the Company now holds 1,890,000 shares of common stock of CyrusOne and 42,586,835 partnership units of CyrusOne LP, the operating partnership. The Company's direct and indirect interests in CyrusOne represent a 69% effective economic ownership of CyrusOne, valued at $993.2 million as of December 31, 2013. Prior to the IPO of CyrusOne, there was no active market for CyrusOne's common stock. The value of our investment is subject to CyrusOne executing on their strategic plan and other factors beyond CyrusOne's control, such as stock market volatility and fluctuations in the valuation of companies perceived by investors to be comparable to CyrusOne, all of which could cause significant changes in the market price of CyrusOne's common stock. The fair value of our investment in CyrusOne may decline which may adversely affect the realization of our investment. In addition, the stock's float may not allow us to monetize our shares in a timely manner. As a result, we may be unable to monetize any or all of our investment in CyrusOne, which would therefore not allow us to repay debt and achieve a leverage ratio comparable to our peers thereby limiting our opportunity to significantly increase cash flow. Our inability to liquidate our investment in CyrusOne could ultimately limit the cash to fund operations and our general obligations and could result in the Company's dissolution, bankruptcy, liquidation, or reorganization.

Refer to the CyrusOne 2013 form 10-K for additional risk disclosures specific to that entity.

Other Risk Factors

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

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

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

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

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

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

As of December 31, 2013, the Company had net deferred income taxes of $395.0 million, which are primarily composed of deferred tax assets associated with U.S. federal net operating loss carryforwards of $388.4 million and state, local and foreign net operating loss carryforwards of $63.9 million. The Company has recorded valuation allowances against deferred tax assets related to certain state, local and foreign net operating losses and other deferred tax assets due to the uncertainty of the Company’s ability to utilize the assets within the statutory expiration period.

The use of the Company's deferred tax assets enables it to satisfy current and future tax liabilities without the use of the Company's cash resources. If the Company is unable for any reason to generate sufficient taxable income to fully realize its deferred tax assets, or if the use of its net operating loss carryforwards is limited by Internal Revenue Code Section 382 or similar state statute, the Company's net income, shareowners' deficit, and future cash flows would be adversely affected.

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

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees, and one supplemental, nonqualified, unfunded plan for certain former executives. The Company's Consolidated Balance Sheets indirectly reflect the value of all plan assets and benefit obligations under these plans. The accounting for employee benefit plans is complex, as is the process of calculating the benefit obligations under the plans. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the Company's benefit obligations or a significant decrease of the asset values, without necessarily impacting the Company's net income. In addition, the Company's benefit obligations could increase significantly if it needs to unfavorably revise the assumptions used to calculate the obligations. These adverse changes could have a further significant negative impact on the Company's shareowners' deficit. In addition, with respect to the Company's pension plans, the Company expects to make approximately $108 million of estimated cash contributions to its qualified pension plans for the years 2014 to 2021, of which $33 million is expected to be contributed in 2014. Additionally, the Company's postretirement costs are adversely affected by increases in medical and prescription drug costs. Further, adverse changes to plan assets, or if medical and prescription drug costs increase significantly, the Company could be required to contribute additional material amounts of cash to the plan or could accelerate the timing of required payments.

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

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 would divert the Company's management and key personnel from its business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Resolution of claims of intellectual property infringement might also require the Company to enter into costly license agreements. Likewise, the Company may not be able to obtain license agreements on acceptable terms. The Company also may be subject to significant damages or injunctions against development and sale of certain of its products. Further, the Company often relies on licenses of third-party intellectual property for its businesses. The Company cannot ensure these licenses will be available in the future on favorable terms or at all.

We could be subject to a significant amount of litigation, which could require us to pay significant damages or settlements.

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, we owned or maintained properties in Ohio, Kentucky and Indiana. Principal office locations are in Cincinnati, Ohio.

Our property comprises telephone plant and equipment in our local telephone franchise area (i.e., Greater Cincinnati) and the infrastructure associated with its wireless business in the Greater Cincinnati and Dayton, Ohio operating areas. 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. The Company’s out-of-territory Wireline network assets include a fiber network plant, internet protocol and circuit switches and integrated access terminal equipment.

In its wireless operations, CBW primarily leases the locations that contain its switching and messaging equipment. CBW 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, we lease seven company-run retail locations.

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

Item 3. Legal Proceedings

We are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations in the normal course of business. We believe the liabilities accrued for legal contingencies in our consolidated financial statements, as prescribed by generally accepted accounting principles ("GAAP"), are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, tax examinations, and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in our consolidated financial statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2013, cannot be reasonably determined.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

(a) Market Information

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013	High	$5.57	$3.66	$3.51	$3.63
	Low	$2.94	$2.92	$2.72	$2.63
2012	High	$4.18	$4.07	$5.70	$5.75
	Low	$3.14	$3.36	$3.57	$4.87

(b) Holders

As of January 31, 2014, the Company had 11,647 holders of record of the 208,738,253 outstanding common shares and the 155,250 outstanding shares of the 6 $^{3}/_{4}$% Cumulative Convertible Preferred Stock.

(c) Dividends

In 2013 and 2012, the Company paid $10.4 million of dividends on its 6 $^{3}/_{4}$% Cumulative Convertible Preferred Stock. In 2013 and 2012, the Company did not pay any dividends on its common stock and does not intend to pay any common stock dividends in 2014.

(d) Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013 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	8,709,867	(1)	$ 3.70	3,753,662
Equity compensation plans not approved by security holders	249,275	(2)	—	—
Total	8,959,142		$ 3.70	3,753,662

(1) Includes 6,127,548 outstanding stock options and stock appreciation rights not yet exercised, 1,044,811 shares of time-based restricted stock, and 1,537,508 shares of performance-based awards, restrictions on which have not expired as of December 31, 2013. 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 2011, the directors received an annual award of phantom stock equivalent to a number of common shares. In 2013, no such award was granted. 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, 2013 is approximately 14,000. 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, 2008 (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, 2013:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs *	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (in millions)*
10/1/2013 - 12/31/2013	—	$—	—	$129.2

* In February 2010, the Board of Directors approved an additional plan for the repurchase of the Company’s outstanding common stock in an amount up to $150 million. The Company may repurchase shares when management believes the share price offers an attractive value and to the extent its available cash is not needed for growth opportunities. This new plan does not have a stated maturity.

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)	2013 (a)	2012	2011	2010 (b)	2009
Operating Data					
Revenue	$1,256.9	$1,473.9	$1,462.4	$1,377.0	$1,336.0
Cost of services and products, selling, general and administrative, depreciation, and amortization expense	1,033.4	1,181.5	1,139.9	1,054.9	1,030.7
Other operating costs and losses (c)	59.7	22.3	63.0	22.8	9.8
Operating income	163.8	270.1	259.5	299.3	295.5
Interest expense	182.0	218.9	215.0	185.2	130.7
Loss on extinguishment of debt	29.6	13.6	—	46.5	10.3
Loss from CyrusOne equity method investment (d)	10.7	—	—	—	—
Net (loss) income	$(54.7)	$11.2	$18.6	$28.3	$89.6
Basic and diluted (loss) earnings per common share	$(0.32)	$0.00	$0.04	$0.09	$0.37
Dividends declared per common share	$—	$—	$—	$—	$—
Weighted-average common shares outstanding					
Basic	205.9	197.0	196.8	201.0	212.2
Diluted	205.9	204.7	200.0	204.0	215.2
Financial Position					
Property, plant and equipment, net	$902.8	$1,587.4	$1,400.5	$1,264.4	$1,123.3
Total assets	2,107.3	2,872.4	2,714.7	2,653.6	2,064.3
Total long-term obligations (e)	2,529.7	3,215.2	3,073.5	2,992.7	2,395.1
Other Data					
Cash flow provided by operating activities	$78.8	$212.7	$289.9	$300.0	$265.6
Cash flow used in investing activities	(185.4)	(371.8)	(244.7)	(675.5)	(93.8)
Cash flow provided by (used in) financing activities	87.6	109.0	(48.8)	429.8	(155.5)
Capital expenditures	(196.9)	(367.2)	(255.5)	(149.7)	(195.1)

(a) Results for 2013 include the revenues and expenses of CyrusOne, our former data center business, for the period January 1, 2013 through January 23, 2013. Effective January 24, 2013, the date of the CyrusOne IPO, we no longer include CyrusOne's operating results in our consolidated financial statements. See Notes 1 and 3 to the consolidated financial statements.

(b) Results for 2010 include the acquisition of CyrusOne from the acquisition date of June 11, 2010 to the end of the year.

(c) Other operating costs and losses consist of restructuring charges, transaction-related compensation, curtailment (gains) loss, loss (gain) on disposal of assets - net, impairment of goodwill and other assets, and transaction costs.

(d) We effectively own approximately 69% of CyrusOne and account for our investment using the equity method as we no longer control its operations. These losses from CyrusOne represent our equity method share of CyrusOne's losses.

(e) Total long-term obligations comprise long-term debt less current portion, pension and postretirement benefit obligations, and other noncurrent liabilities. See Notes 7, 8, 10 and 11 to the consolidated financial statements for discussions related to 2013 and 2012.

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

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

Executive Summary

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

For the year ended December 31, 2013, the Company was a full-service regional provider of entertainment, data and voice communications services over wireline and wireless networks, a provider of managed and professional information technology services, and a reseller of information technology ("IT") and telephony equipment. In addition, enterprise customers across the United States rely on CBTS, a wholly-owned subsidiary, for efficient, scalable communications systems and end-to-end IT solutions.

On January 24, 2013, we completed the IPO of CyrusOne, which owns and operates our former data center colocation business. CyrusOne conducts its data center business through CyrusOne LP, an operating partnership. Although we effectively own approximately 69% of the economic interests of CyrusOne through our ownership of its common stock and partnership units of CyrusOne LP, we no longer control its operations. Effective January 24, 2013, we no longer consolidate the accounts of CyrusOne in our consolidated financial statements, but account for our ownership in CyrusOne as an equity method investment. Due to the change in presentation of CyrusOne, our results of operations and cash flows for the year ended December 31, 2013 are not comparable to prior periods.

On a consolidated basis, revenue for the year totaled $1,256.9 million. Excluding the results of our former data center segment, revenue for 2013 totaled $1,241.7 million, down 1% from the prior year. Revenue from our strategic products totaled $358.6 million in 2013, up 17% compared to 2012, and continues to increasingly mitigate the revenue declines from our legacy Wireline products and the loss of revenue from a declining postpaid Wireless subscriber base.

Operating income in 2013 was $163.8 million, down from $270.1 million in the prior year due in part to the deconsolidation of CyrusOne, which accounted for $27.2 million of the decrease. Operating income was also negatively impacted by continued loss of postpaid Wireless subscribers and higher margin access lines, in addition to the $42.6 million of transaction-related compensation paid as a result of the successful IPO of CyrusOne.

During the third quarter of 2013, the Company amended and restated its Corporate Credit Agreement, originally dated as of November 20, 2012, to include a $540 million Tranche B Term Loan that matures on September 10, 2020. Net proceeds of $529.8 million were used to redeem all of the Company's $500 million 8 1/4% Senior Notes due 2017 on October 15, 2013 at a redemption price of 104.125%.

Consolidated Results of Operations

2013 Compared to 2012

Service revenue was $1,039.3 million in 2013, a decrease of $233.5 million compared to 2012, primarily due to the deconsolidation of CyrusOne, which accounted for $199.7 million of the decline. Wireless service revenue was down $39.6 million from the prior year as a result of continued postpaid subscriber losses. Wireline service revenue declined by only $2.7 million compared to 2012 as the growth in our strategic products continues to increasingly mitigate the loss from access line, long-distance and DSL subscriber declines. IT Services and Hardware service revenue was up $8.5 million from a year ago due to strong demand from enterprise customers for managed and professional services.

Product revenue totaled $217.6 million in 2013, up 8%, compared to 2012. The increase was largely due to a $17.9 million increase in sales of telecommunications and IT hardware. These increases were partially offset by slight declines in both Wireline and Wireless product revenue.

Cost of services was $427.1 million in 2013, compared to $489.9 million in 2012, which included CyrusOne costs of services totaling $73.0 million. Excluding CyrusOne, cost of services increased year-over-year primarily to support the growth in Fioptics and managed and professional services. Wireline cost of services was up $7.5 million compared to the prior year and IT Services and Hardware costs were up $8.9 million. Wireless cost of services was down $10.8 million as a result of a declining subscriber base.

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

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

Depreciation and amortization was $169.6 million in 2013, a decrease of $47.8 million compared to the prior year, primarily due to the deconsolidation of CyrusOne. In 2012, CyrusOne's depreciation and amortization expense totaled $70.6 million compared to $5.2 million in 2013. Wireline depreciation and amortization increased by $6.2 million due to the expansion of Fioptics and our fiber-based network. IT Services and Hardware was $1.9 million higher than the prior year as a result of new assets placed in service to support growth in managed and professional service revenue. Wireless depreciation and amortization expense totaled $41.2 million in 2013, up $9.3 million compared to the prior year. In the first quarter of 2013, the useful lives assigned to network software was shortened resulting in $8.5 million of higher depreciation charges. In the fourth quarter of 2013, the remaining useful life for all property, plant and equipment, and finite-lived intangible assets was reduced to 30 months as of December 31, 2013. This change in estimate resulted in additional depreciation and amortization expense of $3.0 million in the fourth quarter and is expected to increase depreciation expense by approximately $36 million in 2014. The useful life change in the fourth quarter of 2013 also resulted in the acceleration of the deferred gain associated with the 2009 tower sale. In 2013, the amortization of the deferred gain associated with the tower sale totaled $3.3 million, compared to approximately $14 million expected to be recognized in 2014.

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

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

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

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

There were no asset impairments recorded in 2013 compared to $14.2 million in 2012. In 2012, CyrusOne recorded impairment losses of $13.3 million on a customer relationship intangible asset and property and equipment that was primarily associated with our 2007 acquisition of GramTel. Wireline and Wireless asset impairments were $0.5 million and $0.4 million, respectively, during 2012.

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

Interest expense was $182.0 million in 2013 compared to $218.9 million in 2012, a decrease of $36.9 million. The deconsolidation of CyrusOne resulted in a $7.0 million decrease and the November 2012 redemptions of the 7% Senior Notes due 2015, certain CBT Notes and a portion of the 8 $^3/_8$% Senior Notes due 2020 reduced interest expense by $27.3 million year-over-year. In the fourth quarter of 2013, the Company redeemed all of the $500 million of 8 $^1/_4$% Senior Notes due 2017 at a redemption price of 104.125% using proceeds from the $540 million Tranche B Term Loan facility that was issued on September 10, 2013. The refinancing of the 8$^1/_4$% Senior Notes with the more economical Tranche B Term Loan resulted in $1.8 million additional interest savings in 2013. The remaining difference was primarily due to lower amortization of note issuance costs.

The redemption of the 8 $^1/_4$% Senior Notes due 2017 in the fourth quarter of 2013 resulted in loss on extinguishment of debt totaling $29.6 million. Redemptions of the 7% Senior Notes due 2015, certain CBT Notes and a portion of the 8 $^3/_8$% Senior Notes due 2020 in the fourth quarter of 2012 resulted in a loss on extinguishment of debt totaling $13.6 million.

Loss from CyrusOne equity method investment totaled $10.7 million in 2013 and represents the Company's share of CyrusOne's net loss which, effective with the IPO date of January 24, 2013, is now recorded using the equity method.

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

An income tax benefit of $2.5 million in 2013 was the result of pre-tax losses. 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 2013, income tax expense includes a valuation allowance provision of $10.7 million for Texas margin credits which, effective with CyrusOne's IPO on January 24, 2013, are uncertain of being realized before their expiration date. In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses associated with the Broadband Securities. The Company used federal and state net operating losses to defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments, net of refunds, of $2.8 million in 2013.

2012 Compared to 2011

Service revenue was $1,272.8 million in 2012, an increase of $22.0 million compared to 2011. Data center revenues increased by $32.3 million primarily due to the expansion of data center facilities. IT Services and Hardware revenue increased by $16.1 million compared to 2011 due to the growth in managed and professional services. Wireline service revenue was up $1.5 million over the prior year as a result of accelerated growth in VoIP and audio conferencing services. Growth in Fioptics and other business fiber-based products was more than offset by declines in legacy local voice, long distance and DSL revenue. Wireless service revenues were down $27.9 million as a result of fewer postpaid subscribers.

Product revenue was $201.1 million in 2012, down $10.5 million compared to 2011. The decrease was largely due to lower sales of wireless handsets which drove a $7.9 million decrease in sales compared to 2011. IT Services and Hardware sales of telecommunications and IT hardware decreased $3.4 million compared to the prior year, a reflection of the cyclical nature of capital spending of enterprise customers. These declines were partially offset by a $0.8 million increase in Wireline product revenue.

Cost of services was $489.9 million in 2012, up $25.6 million, or 6%, compared to 2011, primarily due to $14.6 million and $13.3 million increases in the IT Services and Hardware and Data Center Colocation segments, respectively, to support the growth in these operations. Wireline costs were up $9.4 million due primarily to increased programming costs associated with the growth of Fioptics and increased operating taxes resulting from higher regulatory rates and higher franchise taxes. Wireless costs were down $11.7 million primarily due to lower network costs as a result of a declining subscriber base.

Cost of products sold was $204.7 million in 2012, a decrease of $8.3 million from the prior year, primarily due to a $9.3 million decrease in Wireless costs of products sold as a result of lower handset sales. IT Services and Hardware cost of products sold was down $0.1 million from the prior year as opposed to Wireline costs, which were up $1.1 million.

SG&A expenses were $269.5 million in 2012 compared to $263.1 million in the prior year, an increase of $6.4 million. Corporate costs were up $5.7 million compared to the prior year primarily due to a $7.3 million increase in stock compensation mark-to-market expense resulting from the 81% increase in stock price. These increases were offset by decreased payroll related expense due to cost-out initiatives. Data Center Colocation and IT Services and Hardware costs were up $7.2 million and $5.7 million, respectively, due to increased payroll costs. In addition to increased payroll costs, Data Center Colocation marketing and legal costs were up $1.5 million and $1.4 million, respectively. These increases were partially offset by an $11.5 million decrease in Wireless SG&A due to cost containment initiatives combined with a $2.8 million reduction in bad debt expense. Wireline SG&A was down $0.7 million from the prior year.

Depreciation and amortization was $217.4 million in 2012, up $17.9 million compared to 2011. Data Center Colocation depreciation and amortization was $15.8 million higher due to new assets placed in service for data center facilities. Wireline expenses were up $3.6 million as a result of expanding our fiber network. Wireless depreciation and amortization was down $1.6 million due to fewer new assets being placed in service as a result of a declining subscriber base. IT Services and Hardware and Corporate expenses were relatively unchanged.

In 2012, restructuring costs were incurred for employee separations totaling $2.5 million primarily related to Wireline and Wireless. Lease abandonment charges were $0.9 million in 2012. In 2011, the Wireline segment recognized $7.7 million of restructuring charges. Wireline employee separation charges totaled $3.5 million, lease abandonments totaled $2.5 million and contract terminations were $1.7 million. In addition the IT Services and Hardware and Corporate recognized employee separation charges of $1.9 million and $2.6 million, respectively, in 2011.

In 2011, the Company ratified a new labor agreement which curtails future pension service credits for certain employees. As a result of this event, the bargained employees' pension plan was remeasured and a curtailment loss of $4.2 million was recognized in the Wireline segment. In 2012, no events occurred to trigger a remeasurement of our pension plans or curtailment loss.

Gain on sale or disposal of assets was $1.6 million in 2012, down from $8.4 million in 2011. In 2012, a gain of $1.8 million was realized primarily from the sale of copper cables no longer utilized in our Wireline network. The Data Center Colocation segment recognized a $0.2 million gain on sale of generators following an equipment upgrade at a Texas data center. In 2011, a gain of $8.4 million was recognized as a result of selling substantially all of the assets associated with our home security monitoring business.

Asset impairment losses amounted to $14.2 million in 2012 compared to $52.4 million in 2011. In 2012, impairment losses were largely driven by $13.3 million of impairment losses in the Data Center Colocation segment on a customer relationship intangible asset and property and equipment that was primarily associated with our 2007 acquisition of GramTel. Wireline and Wireless asset impairments totaled $0.5 million and $0.4 million, respectively, in 2012. During 2011, the Company recognized goodwill impairment losses totaling $50.3 million that were related to the

Wireless segment. Impairment of assets, excluding goodwill, totaling $1.1 million in 2011 related to the write-off of canceled or abandoned Wireless capital projects. The Wireline segment recorded impairment of assets excluding goodwill in 2011 of $1.0 million related to abandoned leasehold improvements on vacated office space and the write-down to fair value of certain assets that were held for sale.

Transaction costs of $6.3 million were incurred in 2012, up from $2.6 million incurred in 2011. In 2012, these costs represented legal and consulting costs incurred to restructure our legal entities in preparation for the proposed IPO of the common stock of CyrusOne and to prepare CyrusOne to be a real estate investment trust. In 2011, transaction costs represented legal and consulting costs to investigate acquisition opportunities. Transaction costs are reported as Corporate expenses.

Interest expense was $218.9 million in 2012 compared to $215.0 million in 2011, an increase of $3.9 million. The increase was largely due to the issuance by CyrusOne of $525 million of 6 $^{3}/_{8}$% Senior Notes due 2022 in the fourth quarter of 2012 which increased interest expense by $3.8 million, higher interest costs of $2.4 million from lease obligations, as well as $0.8 million of lower capitalized interest. The impact of these increases was partially offset by lower interest expense from the redemptions of the 7% Senior Notes due 2015, certain CBT Notes and a portion of the 8 $^{3}/_{8}$% Senior Notes due 2020.

Loss on extinguishment of debt of $13.6 million was a result of the debt repayment and partial redemptions made during the fourth quarter of 2012 as discussed in the preceding paragraph. No debt extinguishment occurred in 2011.

Other expense of $1.7 million in 2012, increased by $0.8 million compared to 2011, primarily due to a loss recorded on the termination of a lease financing arrangement.

Income tax expense was $24.7 million in 2012, substantially the same as the prior year. Pre-tax income was lower in 2012 but was largely offset by a higher effective tax rate. 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 federal and state net operating losses to defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments, net of refunds, of $0.1 million in 2012.

Discussion of Operating Segment Results

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

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

Wireline

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

(dollars in millions, except for operating metrics)	2013	2012	$ Change 2013 vs. 2012	% Change 2013 vs. 2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011
Revenue:							
Voice - local service	$229.1	$255.4	$(26.3)	(10)%	$280.3	$(24.9)	(9)%
Data	317.8	306.9	10.9	4%	291.5	15.4	5%
Long distance and VoIP	107.2	113.9	(6.7)	(6)%	111.3	2.6	2%
Entertainment	55.2	35.4	19.8	56%	26.6	8.8	33%
Other	15.5	18.9	(3.4)	(18)%	22.4	(3.5)	(16)%
Total revenue	724.8	730.5	(5.7)	(1)%	732.1	(1.6)	0%
Operating costs and expenses:							
Cost of services and products	287.2	283.8	3.4	1%	270.0	13.8	5%
Selling, general and administrative	127.8	125.6	2.2	2%	126.7	(1.1)	(1)%
Depreciation and amortization	112.2	106.0	6.2	6%	102.4	3.6	4%
Restructuring charges	9.1	3.5	5.6	n/m	7.7	(4.2)	(55)%
Curtailment (gain) loss	(0.6)	—	(0.6)	n/m	4.2	(4.2)	n/m
Gain on sale or disposal of assets	(1.1)	(1.8)	0.7	39%	(8.4)	6.6	79%
Asset impairments	—	0.5	(0.5)	n/m	1.0	(0.5)	(50)%
Total operating costs and expenses	534.6	517.6	17.0	3%	503.6	14.0	3%
Operating income	$190.2	$212.9	$(22.7)	(11)%	$228.5	$(15.6)	(7)%
Operating margin	26.2%	29.1%		(2.9) pts	31.2%		(2.1) pts
Capital expenditures	$162.6	$114.2	$48.4	42%	$112.6	$1.6	1%
Metrics information (in thousands):							
Fioptics units passed	276.0	205.0	71.0	35%	134.0	71.0	53%
High-speed internet subscribers							
DSL	188.5	202.6	(14.1)	(7)%	218.0	(15.4)	(7)%
Fioptics	79.9	56.8	23.1	41%	39.3	17.5	45%
Total high-speed internet subscribers	268.4	259.4	9.0	3%	257.3	2.1	1%
Fioptics entertainment subscribers	74.2	55.1	19.1	35%	39.6	15.5	39%
Local access lines	530.7	573.9	(43.2)	(8)%	621.3	(47.4)	(8)%

Long distance lines	394.1	417.9	(23.8)	(6)%	447.4	(29.5)	(7)%

2013 Compared to 2012

Revenues

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

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

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

Entertainment revenue was $55.2 million in 2013, up $19.8 million compared to the prior year and was driven by the growth in Fioptics. Fioptics entertainment revenue grew by $19.4 million in 2013, primarily due to a 35% increase in Fioptics entertainment subscribers. As of December 31, 2013, the segment had 74,200 Fioptics entertainment subscribers. The Company continues to expand its Fioptics service area as there is strong consumer demand for this service.

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

Costs and Expenses

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

SG&A expenses were $127.8 million in 2013, an increase of $2.2 million compared to the prior year. This increase was mainly driven by higher Fioptics advertising costs and non-employee commission fees.

Depreciation and amortization was $112.2 million in 2013, reflecting an increase of $6.2 million compared to the prior year primarily due to assets placed in service in connection with the expansion of our fiber network. Restructuring charges were $9.1 million in 2013 compared to $3.5 million in the prior year. The Company continues to manage and reduce the legacy cost structure of this business. Employee separation costs amounted to $4.6 million and $3.2 million in 2013 and 2012, respectively, while lease abandonment costs were $3.9 million in 2013 and $0.3 million in 2012. Contract termination costs were $0.6 million in 2013, with no such costs incurred in 2012.

The curtailment gain of $0.6 million was due to the remeasurement of the Company's projected benefit obligation following an amendment to the management pension plan during the second quarter of 2013 that eliminated all future pension service credits as of July 1, 2013. The gain on sale of assets of $1.1 million in 2013 was due to a $2.0 million gain from the sale of copper cabling that was no longer in use, partially offset by $0.9 million loss on network equipment with no resale value that was removed from service during the second quarter. During 2012, the segment recognized a gain on sale of assets of $1.8 million primarily from the sale of copper cabling that was no longer in use. Asset impairments of $0.5 million in 2012 relate primarily to the write-off of an out-of-territory fiber network. No such impairments occurred in 2013.

Capital Expenditures

Capital expenditures incurred to expand the Company's strategic fiber network and maintain its legacy copper-based network totaled $162.6 million in 2013, an increase of $48.4 million compared to 2012. During 2013, we invested $113.0 million in our strategic products, of which $79.5 million was used for Fioptics as we passed an additional 71,000 units during the year. Based on the continued demand from consumers and business customers for increased bandwidth and faster data speeds, the Company expects to continue to build out Fioptics and expand its fiber network over the next few years.

2012 Compared to 2011

Revenues

Voice local service revenue was $255.4 million in 2012, down $24.9 million compared to 2011. Strategic voice service revenue was $13.6 million in 2012, up $4.0 million compared to 2011, primarily due to the 40% growth in Fioptics voice lines, which totaled 40,800 at December 31, 2012. This is primarily due to the expansion of our fiber network. Legacy voice service revenue was $234.1 million in 2012, down $27.6 million compared to 2011. The decrease in legacy revenue is primarily due to fewer local access lines compared to a year ago. Access lines within the segment’s ILEC territory decreased by 41,400, or 7%, to 511,000 at December 31, 2012 down from 552,400 at December 31, 2011. The Company had 62,900 CLEC access lines at December 31, 2012 compared to 68,900 at December 31, 2011. The segment continues to lose access lines as a result of, among other factors, customers electing to solely use wireless service in lieu of traditional local wireline service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The remaining decrease is due to a $1.3 million reduction in integration voice service revenue in 2012 compared to 2011.

Data revenue was $306.9 million in 2012, up $15.4 million compared to 2011. Strategic data revenue was $98.7 million in 2012, up $24.0 million compared to 2011. Fioptics high-speed internet revenue totaled $18.1 million, up 44% from the prior year, and consistent with the 45% increase in our subscriber base. The remaining increase is primarily due to increases in strategic data for business customers which was up 30% year-over-year and totaled $80.6 million in 2012. Legacy data revenue was $208.2 million in 2012, down $8.6 million compared to the prior year, primarily due to a 7% decrease in our legacy DSL subscriber base.

Long distance and VoIP revenue was $113.9 million in 2012, an increase of $2.6 million compared to 2011. Strategic long distance and VoIP revenue was $51.6 million in 2012, an increase of $4.3 million compared to 2011. The increase was primarily due to an increase in VoIP and audio conferencing services, driven by a larger number of subscribers and higher usage. Legacy long distance and VoIP revenue was $57.1 million, down $2.7 million compared to 2011 due primarily to a 7% decrease in long distance subscriber lines. The remaining increase is due to a $1.0 million increase in integration long distance and VoIP revenue in 2012 compared to 2011.

Fioptics entertainment revenue was $35.4 million in 2012, up $8.8 million compared to 2011, driven by a 39% increase in Fioptics entertainment subscribers. As of December 31, 2012, the segment had 55,100 Fioptics entertainment subscribers.

Other revenue was $18.9 million in 2012, a decrease of $3.5 million compared to the prior year. Strategic other revenue was $7.1 million in 2012, up $2.0 million compared to 2011. Legacy other revenue was $9.8 million in 2012, down $5.5 million compared to 2011. The decrease was primarily related to the sale of the Company's home security monitoring business in 2011.

Costs and Expenses

Cost of services and products was $283.8 million in 2012, an increase of $13.8 million, or 5%, compared to 2011. This increase was largely attributable to a $14.6 million increase in costs, including contract services and network-related costs, associated with the growth in Fioptics, audio conferencing and VoIP services. In addition, operating taxes increased by $4.1 million compared to 2011 primarily due to higher regulatory rates and higher franchise taxes resulting from increased Fioptics revenue. The impact of these cost increases was partially offset by a $5.2 million reduction in payroll and rent expenses as a result of our cost reduction initiatives.

SG&A expenses were $125.6 million in 2012, a decrease of $1.1 million, or 1%, compared to the prior year. This decrease was mainly driven by lower consulting and advertising costs, as well as the impact of our cost reduction initiatives.

Depreciation and amortization was $106.0 million in 2012, reflecting an increase of $3.6 million compared to the prior year. Assets placed in service in connection with the expansion of our Fioptics network drove the higher depreciation expense.

Restructuring charges were $3.5 million in 2012 compared to $7.7 million in the prior year. The Company continues to manage and reduce the legacy cost structure of this business. Employee separation costs amounted to $3.2 million and $3.5 million in 2012 and 2011, respectively, while lease abandonment costs were $0.3 million in 2012 and $2.5 million in 2011. Contract termination costs were $1.7 million in 2011 but none were incurred in 2012.

During 2011, a curtailment loss of $4.2 million was recognized due to the reduction of future pension benefits for certain bargained employees, and a gain of $8.4 million was recognized from the sale of substantially all of the assets associated with our home security monitoring business. During 2012, the segment recognized a gain on sale of assets of $1.8 million primarily from the sale of copper cabling that was no longer in use.

Asset impairments of $0.5 million in 2012 relate primarily to the write-off of an out-of-territory fiber network. The impairment losses in 2011 of $1.0 million were related to abandoned leasehold improvements on vacated office space and the write-down to fair value of certain assets that were held for sale.

Capital Expenditures

Capital expenditures incurred to maintain the wireline network, expand the Company's Fioptics product suite, and upgrade its DSL network were $114.2 million in 2012, an increase of $1.6 million, compared to 2011. As of December 31, 2012, the Company's Fioptics service passed 205,000 homes and businesses, representing approximately 26% of the Greater Cincinnati market. The Company intends to expand its Fioptics footprint over the next few years.

Wireless

The Wireless segment provides 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)	2013	2012	$ Change 2013 vs. 2012	% Change 2013 vs. 2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011
Revenue:							
Postpaid service	$139.1	$174.6	$(35.5)	(20)%	$199.2	$(24.6)	(12)%
Prepaid service	45.8	49.9	(4.1)	(8)%	53.2	(3.3)	(6)%
Equipment and other	16.6	17.3	(0.7)	(4)%	25.2	(7.9)	(31)%
Total revenue	201.5	241.8	(40.3)	(17)%	277.6	(35.8)	(13)%
Operating costs and expenses:							
Cost of services and products	98.1	113.0	(14.9)	(13)%	134.2	(21.2)	(16)%
Selling, general and administrative	40.3	43.7	(3.4)	(8)%	55.2	(11.5)	(21)%
Depreciation and amortization	41.2	31.9	9.3	29%			