CINCINNATI BELL INC
Form 10-K
February 28, 2013

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, 2012

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. o
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 $0.7 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2012, 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, 2013, there were 202,678,684 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive proxy statement relating to the Company's 2013 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
General
Cincinnati Bell Inc. and its consolidated subsidiaries ("Cincinnati Bell", "we", "our", "us" or the "Company") is a full-service regional provider of 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. We provide telecommunications service to businesses and consumers in the Greater Cincinnati and Dayton, Ohio areas primarily on our owned wireline and wireless networks with a well-regarded brand name and reputation for service.

As of December 31, 2012, we were also a full service provider of data center colocation services in the United States, London and Singapore. On January 24, 2013, we completed the initial public offering ("IPO") of CyrusOne Inc. ("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.

The Company is an Ohio corporation, incorporated under the laws of Ohio in 1983. Its principal executive offices are at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address http://www.cincinnatibell.com). The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC") under the Exchange Act 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.

As of December 31, 2012, the Company operated in four segments: Wireline, Wireless, IT Services and Hardware, and Data Center Colocation.

Wireline
The Wireline segment provides local voice, data, long distance, entertainment, voice over internet protocol ("VoIP"), and other services over its owned and other wireline networks. Local voice services include local telephone service, switched access, and value-added services such as caller identification, voicemail, call waiting, and call return. Data services include high-speed internet using digital subscriber line ("DSL") technology and over fiber using its gigabit passive optical network ("GPON"). Data services also provide data transport for businesses, including local area network ("LAN") services, dedicated network access, and metro ethernet and dense wavelength division multiplexing ("DWDM")/optical wave data transport, which principally are used to transport large amounts of data over private networks. Cincinnati Bell Telephone Company LLC ("CBT"), a subsidiary of the Company, is the incumbent local exchange carrier ("ILEC") for the approximate 25-mile radius around Cincinnati, Ohio which includes parts of northern Kentucky and southeastern Indiana. CBT has operated this ILEC territory for approximately 140 years, and approximately 95% of Wireline voice and data revenue for 2012 was generated within this ILEC territory. Long distance and VoIP services include long distance voice, audio conferencing, VoIP and other broadband services including private line and multi-protocol label switching ("MPLS"), a technology that enables a business customer to privately interconnect voice and data services at its locations. Entertainment services are comprised of television media through our Fioptics product suite, which covers approximately 26% of Greater Cincinnati, and DirecTV® commissioning over the Company’s entire operating area. Other services primarily include inside wire installation for business enterprises and rental revenue.

The Company has expanded its voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, through the operations of Cincinnati Bell Extended Territories LLC ("CBET"), a competitive local exchange carrier ("CLEC") and subsidiary of CBT. CBET provides voice and data services on either its own network or through purchasing unbundled network elements ("UNE-L" or "loops") from various incumbent local carriers. The ILEC and CLEC territories are linked through a Synchronous Optical Fiber Network ("SONET"), which provides route diversity between the two territories via two separate paths.

Voice services

The Wireline segment provides voice services over a digital circuit switch-based network to end users via access lines. In recent years, the Company’s voice access lines have decreased as its customers have increasingly employed wireless technologies in lieu of wireline voice services ("wireless substitution"), have migrated to competitors, including cable companies that offer VoIP solutions, or have been disconnected due to credit problems. The Wireline segment had 573,900 voice access lines in service on December 31, 2012, which is an 8% and 15% reduction in comparison to 621,300 and 674,100 access lines in service at December 31, 2011 and 2010, respectively.

In order to minimize access line losses and to provide greater value to its customers, the Company provides bundled offerings that enable customers to bundle two or more of the Company’s services, such as high-speed internet and a phone line, at a lower price than if the services were purchased individually. The Company has approximately 389,000 residential customers in Greater Cincinnati and Dayton, Ohio, 53% of which bundle two or more Company products and 18% of which bundle three or more Company products.

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

(1) increasing high-speed internet penetration, particularly with its Fioptics service;

(2) increasing entertainment revenue with more Fioptics fiber-to-the-home and internet protocol television ("IPTV") subscribers; and

(3) increasing the sale of audio conferencing, VoIP services and other fiber-based products to its enterprise-class customers.

Data

Data revenue consists of data transport, DSL high-speed internet access, Fioptics high-speed internet access, and LAN interconnection services. The Company’s wireline network includes the use of fiber optic cable, with SONET rings linking Cincinnati’s downtown with other area business centers. These SONET rings offer increased reliability and redundancy to CBT’s major business customers. CBT has an extensive business-oriented data network, including connection to approximately 3,600 buildings and towers throughout Greater Cincinnati, that offers high-speed and high capacity data transmission services over an interlaced ATM — Gig-E backbone network.

The Company had 202,600, 218,000, and 228,900 DSL high-speed internet subscribers at December 31, 2012, 2011, and 2010, respectively. In addition, the Company also had 56,800, 39,300, and 27,200 Fioptics high-speed internet customers at December 31, 2012, 2011, and 2010, respectively. The Company was able to provide DSL high-speed internet service to 96% of its ILEC territory and its fiber-based Fioptics high-speed internet to approximately 24% of its ILEC territory as of the end of 2012.

Long distance and VoIP services

The Company provides long distance and VoIP services primarily through its Cincinnati Bell Any Distance Inc. ("CBAD") and eVolve Business Solutions LLC ("eVolve") subsidiaries. These entities provide long distance and audio conferencing services to business and residential customers in the Greater Cincinnati and Dayton, Ohio areas as well as VoIP and other broadband services, including private line and MPLS, within and beyond its traditional territory to business customers. Residential customers can choose from a variety of long distance plans, which include unlimited long distance for a flat fee, purchase of minutes at a per-minute-of-use rate, or a fixed number of minutes for a flat fee. At December 31, 2012, CBAD had approximately 417,900 long distance subscribers, compared to 447,400 and 482,800 long distance subscribers at December 31, 2011 and 2010, respectively. The decrease in long distance subscribers from 2011 was primarily driven by an 8% decline in residential subscribers, consistent with the CBT access line loss.

VoIP services are provided to business customers in the Company’s traditional Greater Cincinnati and Dayton, Ohio operating territory and, to a lesser extent, to businesses outside of this area, primarily in Ohio, Indiana, Illinois, and Kentucky. The Company believes its VoIP operations will expand in Greater Cincinnati and Dayton, Ohio as business customers continue to look for alternatives to traditional ILEC-based operations and as the VoIP technology continues to improve. VoIP access line equivalents in Greater Cincinnati and Dayton totaled 20,400 at December 31, 2012 compared to 18,500 access line equivalents at December 31, 2011.

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Entertainment

The Company’s improvement of its wireline network over the last several years has included capital expenditures of approximately $50 million annually for fiber optic cable in limited areas. The large bandwidth of fiber optic cable allows the Company to provide customers with its Fioptics product suite of services, which include entertainment, high-speed internet and voice services, in areas in which fiber optic cable is laid. In 2011, the Company launched its IPTV platform. This technology generally involves fiber facilities to the neighborhood node, and then copper-based facilities for the "last mile" to the consumer household. Because Fioptics IPTV can make use of both fiber and existing copper network facilities, the average capital costs of passing households using IP-copper technology were about 60% of those using fiber-to-the-home technology. The Company first focused its fiber network expenditures on densely populated areas, such as apartments and condominium complexes as well as business office parks. As of December 31, 2012, the Fioptics product passes 205,000 entertainment eligible units and had 55,100 entertainment subscribers.

The success of the fiber investment is based in large part on the ability to attract a high percentage of customers that are passed with the fiber. The Company’s total penetration rate is approximately 28% of the total units that have been passed with the Fioptics network.

Fioptics offers the following as of December 31, 2012:

- 395 entertainment channels, including digital music, local, movie, and sports programming, as well as Indian and Spanish-language packages;
- 105 high-definition channels;
- Parental controls, HD DVR and Video-on-Demand;
- High-speed internet from 10 mbps to 100 mbps; and
- Local voice and long distance services.

In addition to providing entertainment through Fioptics to approximately 26% of Greater Cincinnati, the Company also is an authorized sales agent and offers DirecTV® satellite programming to customers in substantially all of its operating territory through its retail distribution outlets. The Company does not deliver satellite television services. Instead, DirecTV® pays the Company a commission for each subscriber and offers a bundle price discount directly to the Cincinnati Bell customers subscribing to its satellite television service. At December 31, 2012, 2011, and 2010, the Company had 36,300, 39,300, and 36,900 customers, respectively, that were subscribers to DirecTV®.

Other

The Company provides building wiring installation services to businesses in Greater Cincinnati and Dayton, Ohio on a project basis.

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

In August 2011, the Company sold substantially all of the assets associated with its home security monitoring business, Cincinnati Bell Complete Protection Inc. ("CBCP"). CBCP provided surveillance hardware and monitoring services to residential and business customers in the Greater Cincinnati area.

Wireless

Cincinnati Bell Wireless LLC ("CBW") provides advanced digital wireless voice and data communications services through the operation of a Global System for Mobile Communications/General Packet Radio Service ("GSM") network with a 3G Universal Mobile Telecommunications System ("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.

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The Company’s customers are also able to place and receive wireless calls nationally and internationally due to roaming agreements that the Company has with other carriers. The Company’s digital wireless network utilizes approximately 463 cell sites in its operating territory. The Company’s digital wireless network also 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. As of December 31, 2012, the Wireless segment served approximately 397,800 subscribers, of which 251,300 were postpaid subscribers who are billed monthly in arrears and 146,500 were prepaid i-wireless^{SM} subscribers who purchase service in advance.

The Wireless segment competes against all of the national wireless carriers by offering strong network quality, unique rate plans, which may be bundled with the Company’s wireline services, and conveniently located retail outlets. The Company’s unique rate plans and products include a smartphone family plan, an unlimited everyday calling plan to any Cincinnati Bell local voice, wireless or business customer and shared data plans. In addition, the Company also offers several family voice service plans, which allows the first subscriber to get a wireless voice service plan at the regular price and then each additional family member can be added at a lower price.

In 2011, the Company began to upgrade its network to 4G ("fourth generation") using HSPA+ technologies in response to the increasing need for customers to access large quantities of data through the wireless network, such as for streaming video and gaming applications. We continue to make upgrades to our network largely through software enhancements and additional fiber optic cable installations. National wireless providers Verizon and AT&T have already deployed more technologically advanced 4G LTE networks in our operating territory, and both T-Mobile and Sprint Nextel are expected to begin offering LTE service in our operating territory in 2013. The LTE technology provides higher-speed data transmission and capacity which is attractive to smartphone users. 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 do not carry the premium brand-name handsets, such as the iPhone^{TM}, which are very popular with smartphone users. As a result, the Company's wireless subscribers and annual revenue both decreased by 13% in 2012 compared to 2011. We anticipate that the wireless segment will continue to lose subscribers into the foreseeable future as it continues to operate in a challenging and competitive environment.

Service revenue

A variety of monthly rate plans are available to postpaid subscribers. These plans can include a fixed or unlimited number of national minutes, an unlimited number of Cincinnati Bell mobile-to-mobile minutes (calls to and from the Company’s other Wireless subscribers), an unlimited number of calls to and from a CBT access line, and/or local minutes for a flat monthly rate. For plans with a fixed number of minutes, postpaid subscribers can purchase additional minutes at a per-minute-of-use rate. 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. As of December 31, 2012 and 2011, CBW had approximately 38,000 and 18,000 lifeline subscribers, respectively.

A variety of data plans are also available as bolt-ons to voice rate plans for both postpaid and prepaid subscribers. The Company has focused its efforts for the past several years on increasing its subscribers that use smartphones, which are able to browse the internet and use high-speed data services and high-level operating platforms. These smartphones require that subscribers purchase data plans, and, as a result, the Company’s 2012 data plan revenue per postpaid subscriber has increased by 18% compared to 2011. Smartphone prepaid and postpaid subscribers have increased from 125,000 at December 31, 2011 to 127,000 at December 31, 2012, and represent 32% of total subscribers at the end of 2012. Data offerings provided by the Company include text and picture messaging, mobile broadband, multi-media offerings, and location-based services.

Revenue from other wireless service providers for use of the Company’s wireless networks to satisfy the roaming requirements of the carrier’s own subscribers and reciprocal compensation for other carriers’ subscribers who terminate calls on CBW’s network, accounted for less than 1% of total 2012 segment revenue.

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 is increasingly using equipment contracts for its postpaid subscribers. 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.

As of December 31, 2012, 57% of postpaid customers were under contract. Sales take place at Company retail stores, on the Company's website, via business sales representatives, and in independent distributors' retail stores pursuant to agency agreements. CBW purchases handsets and accessories from a variety of manufacturers and maintains an inventory to support sales.

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, Cincinnati Bell Technology Solutions Inc. ("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.

Telecom and IT equipment

The Company's telecom and IT equipment distribution product line is a value-added equipment reseller operation. The Company maintains premium resale relationships with approximately eleven 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.

Managed and Professional services

Managed services include products and services that combine assets, either customer-owned or owned 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, and telephony management. These services can be bundled and contracted in several ways, either as separate services around a specific product such as storage backups, or 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.

Data Center Colocation

As of December 31, 2012, our Data Center Colocation segment was comprised of CyrusOne, a wholly-owned subsidiary. On January 24, 2013, we completed the IPO of CyrusOne. 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. As such, after the IPO we will recognize income from our investment in CyrusOne LP on the equity method and dividend income from our investment in CyrusOne.

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

CyrusOne is an owner, operator and developer of enterprise-class, carrier-neutral data center properties. These data center properties are purpose-built facilities with redundant power, cooling and telecommunications systems and are not network-specific, enabling customer interconnectivity to a range of telecommunications carriers.

CyrusOne provides mission-critical data center facilities that protect and ensure the continued operation of information technology ("IT") infrastructure for over 500 customers. CyrusOne's goal is to be the preferred global data center provider to the Fortune 1000. As of December 31, 2012, their customers included 9 of the Fortune 20 and 115 of the Fortune 1000 or private or foreign enterprises of an equivalent size.

CyrusOne cultivates long-term strategic relationships with its customers and provides them with solutions for their data center facilities and IT infrastructure challenges. Its offerings provide flexibility, reliability and security and are delivered through a tailored, customer service-focused platform that is designed to foster long-term relationships. The business focuses on attracting customers that have not historically outsourced their data center needs. CyrusOne believes its capabilities and reputation for serving the needs of large enterprises will allow it to capitalize on the growing demand for outsourced data center facilities in existing as well as new markets where its customers are located or plan to be located in the future.

As of December 31, 2012, CyrusOne's property portfolio included 24 operating data centers in ten distinct markets (Austin, Chicago, Cincinnati, Dallas, Houston, London, San Antonio, Phoenix, Singapore and South Bend), collectively providing approximately 932,000 colocation square feet ("CSF"). CSF represents the net rentable square feet at an operating data center facility that is currently leased or readily available for lease as colocation space, where customers locate their servers and other IT equipment. As of December 31, 2012, CyrusOne also had a data center under development in Houston and additional powered shell space in Phoenix that was under roof and in development. In addition, CyrusOne had approximately 140 acres of land available for future data center facility development. Its development properties and available acreage were selected based on extensive site selection criteria and the collective industry knowledge and experience of its management team. As a result, CyrusOne believes that the development portfolio contains properties that are located in markets with attractive supply and demand conditions and that possess suitable physical characteristics to support data center infrastructure.

CyrusOne's portfolio includes highly efficient, reliable facilities with advanced cooling capabilities and the security systems necessary to provide an environment suitable for some clients' most vital technology infrastructure. In its newest facilities, CyrusOne takes a "Massively Modular^{SM}" approach to site selection, design and construction such that it is able to deliver a range of power densities to its customers within a single facility. Its Massively Modular^{SM} design principles allow it to efficiently stage construction on a large scale and deliver capacity in a timeframe that it believes is one of the best in the industry.

CyrusOne acquires or builds a large powered shell capable of scaling with customers' power and colocation space needs. The powered shell can be acquired or constructed for a relatively inexpensive capital cost. Once the building shell is ready, CyrusOne can build individual data center halls in portions of the building space to meet the needs of customers on a modular basis. This modular data center hall construction can be completed in approximately 16 weeks to meet customers' immediate needs. This short construction timeframe ensures a very high utilization of the assets and minimizes the time between capital investment and the receipt of customer revenue, favorably impacting return on investment while also translating into lower costs for customers. CyrusOne's design principles also allow it to add incremental equipment to increase power densities as customers' power needs increase, which provides customers with a significant amount of flexibility to manage their IT demands. CyrusOne believes this Massively Modular^{SM} approach allows it to respond to rapidly evolving customer needs, to commit capital toward the highest return projects and to develop state-of-the-art data center facilities.

CyrusOne's expansion strategy focuses on developing new data centers in markets where its customers are located and in markets where its customers want to be located. It regularly meets with its customers to understand their business strategies and potential data center needs. It also conducts extensive analysis to ensure an identified market displays strong data center fundamentals, independent of the demand presented by any particular customer. CyrusOne believes that this approach significantly reduces the risk associated with expansion into new markets because it provides strong visibility into its anticipated cash flow and helps to ensure targeted returns on new developments. Its strategy for entering a new market will vary based on in-place real estate and data center infrastructure and could include greenfield construction projects as well as acquisitions.

Sales and Distribution Channels

The Company’s Wireline and Wireless segments utilize a number of distribution channels to acquire customers. As of December 31, 2012, the Company operated ten retail stores in its operating territory.

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.

Wireline and Wireless also utilize a business-to-business sales force and a call center organization to reach business customers in its 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. 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 the Fioptics products to residents.

Aside from Company resources, there are approximately 140 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.

IT Services and Hardware primarily sells to customers through its business-to-business sales force. Sales representatives develop customer leads through existing relationships with IT leaders of businesses, referrals from existing customers, and IT hardware vendors.

Our former Data Center Colocation segment also sold to customers primarily through its internal sales force. To a lesser extent, leads were also developed from third-party brokers and marketing sources, including web-based efforts.

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 services, 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 volume for handset manufacturers. 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, Wireline has 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 the vendor manufacturing location, but the Company does maintain warehouse facilities for replacement parts and equipment testing and staging.

Our former Data Center Colocation business primarily purchased general contracting services, building materials, and infrastructure components to construct data center facilities, such as generators, computer room air conditioner ("CRAC") cooling units, power distribution units, wiring, and environment monitoring equipment. CyrusOne partnered with local contractors and building suppliers and works closely with them as the data center construction progresses. Electricity is a large cost of operating a data center, and is generally purchased from the local utility.

Competition

The telecommunications industry is very competitive, and the Company competes against larger and better-funded 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 losses.

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, the Company's access lines decreased by 8% and long distance subscribers decreased by 7% in 2012 compared to 2011. In addition, the high-speed internet market is saturated in the Company's operating area, and competition will continue to be fierce for market share against competitors and alternative services.

The Wireless segment's operating territory is well saturated with competitors, including Verizon, AT&T, Sprint Nextel, T-Mobile, Leap, and TracFone. 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.

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. 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.

Our former Data Center Colocation segment competed with numerous developers, owners and operators of technology-related real estate and data centers, many of which own similar properties in the same markets, as well as various other public and privately-held companies that may provide data center colocation as part of a more expansive managed services offering, and local developers. In addition, competition may be faced from new entrants into the data center market.

Customers

Over the past five years, revenues from data center colocation services, business data transport and wireline entertainment has continued to grow, while revenue from the Company's legacy products, such as wireline residential voice service and wireless voice services, have decreased. The Company's revenue portfolio is becoming more diversified than in the past, as the following comparison between 2012 revenue and 2007 revenue demonstrates.

Percentage of revenue	2012		2007		Change	
Wireline local voice	17	%	31	%	(14	) pts
Wireless	16	%	21	%	(5	)
Data Center Colocation	15	%	2	%	13	
IT Services and Hardware	21	%	17	%	4	
Wireline data	20	%	19	%	1	
Wireline entertainment	2	%	0	%	2	
Other Wireline, including long distance	9	%	10	%	(1	)
Total	100	%	100	%		

The mix of customer demand for Wireless services is trending toward more data services and less voice services. For 2007, Wireless service revenues were comprised of 84% voice services and 16% data services. In 2012, revenue from data services were 36% of total Wireless service revenues, a 20 point increase from 2007.

Additionally, the Company's mix of business and residential customers is changing, as many of the Company's growth products, such as data center services and data transport services, are geared primarily toward business customers. In 2012, the Company's revenue mix was 68% to business customers and 32% to residential customers. By comparison, the Company's 2007 revenues were comprised of 57% to business customers and 43% to residential customers.

The Company has receivables with one large customer that exceed 10% of the Company's outstanding accounts receivable balance at December 31, 2012 and 2011.

As noted in the Data Center Colocation section above, our data center colocation marketing efforts were focused toward large enterprise customers. At December 31, 2012, CyrusOne had over 100 customers that are Fortune 1000 or comparably sized international and privately-held companies.

We expect our mix of revenues to change in 2013. Effective with the completion of the IPO of CyrusOne, we will no longer recognize data center colocation revenue in our consolidated financial statements. Rather, we will recognize income from our investment in CyrusOne LP on the equity method and dividend income from our investment in CyrusOne.

Employees

At December 31, 2012, the Company had approximately 3,100 employees, and approximately 24% 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.

Executive Officers

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

Business Segment Information

The amounts of revenue, intersegment revenue, operating income, expenditures for long-lived assets, and depreciation and amortization attributable to each of the Company's business segments for the years ended December 31, 2012, 2011, and 2010, and assets as of December 31, 2012, 2011, and 2010, are set forth in Note 15 to the Consolidated Financial Statements.

Item 1A. Risk Factors

Risks Related to our Indebtedness

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

The Company has a substantial amount of debt and has significant debt service obligations. As of December 31, 2012, the Company and its subsidiaries had outstanding indebtedness of $2,689.4 million, on which it incurred $218.9 million of interest expense in 2012, and had total shareowners' deficit of $698.2 million. In addition, at December 31, 2012, the Company and its subsidiaries had the ability to borrow additional amounts of $200.0 million under the Corporate revolving credit facility, $225.0 million under the CyrusOne revolving credit facility, and $32.3 million under its accounts receivable facility, subject to compliance with certain conditions. As of January 24, 2013, the Company completed the IPO of CyrusOne. As a result, it no longer has access to the CyrusOne revolving credit facility. The Company may incur additional debt from time to time, subject to the restrictions contained in its credit facilities and other debt instruments.

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

- the Company will be required to use a substantial portion of its cash flow from operations to pay principal and interest on its debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements;
- the Company's interest rate on its revolving credit facilities depends on the level of the Company's specified financial ratios, and therefore could increase if the Company's specified financial ratios require a higher rate;
- the Company's substantial debt will increase its vulnerability to adverse changes in the credit markets which could result in an increase in the Company's borrowing costs and may limit the availability of financing;
- the Company's debt service obligations could 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 maintenance of 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 operations and general obligations and could result in the Company's dissolution, bankruptcy, liquidation, or reorganization.

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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 credit facilities and other indebtedness impose significant restrictions on the Company.

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

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

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

The restrictions contained in the terms of the credit facilities and its other debt instruments could:

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

A breach of any of these restrictive covenants or the Company’s inability to comply with the required financial ratios would result in a default under some or all of the debt agreements. During the occurrence and continuance of a default, lenders may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. Additionally, under the credit facilities, the lenders may elect not to provide loans until such default is cured or waived. The Company’s debt instruments also contain cross-acceleration provisions, which generally cause each instrument to be subject to early repayment of outstanding principal and related interest upon a qualifying acceleration of any other debt instrument. Failure to comply with these covenants, if not cured or waived, could 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 revolving credit and accounts receivable facilities to provide for its financing requirements in excess of amounts generated by operations.

The Company depends on its revolving credit facility ("Corporate Credit Agreement") and accounts receivable securitization facility ("Receivables Facility") to provide for temporary financing requirements in excess of amounts generated by operations.

As of December 31, 2012, the Company had no outstanding borrowings or letters of credit under its Corporate Credit Agreement or CyrusOne Credit Agreement, leaving $425.0 million in additional borrowing availability under these facilities. With the completion of the CyrusOne IPO on January 24, 2013, the Company no longer has access to the CyrusOne Credit Agreement, reducing its borrowing capacity by the $225 million CyrusOne 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 could be adversely affected.

The original 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 to occur after the IPO of common stock of CyrusOne Inc. 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.

As of December 31, 2012, the Company had $52.0 million of borrowings and $6.3 million of letters of credit that were outstanding under its Receivables Facility. At that date, the Company had a borrowing availability under this Receivables Facility of $90.6 million and a maximum borrowing limit of $105.0 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, 2012, the Company had an unused borrowing availability of $32.3 million under the Receivables Facility.

In addition, the Company's ability to borrow under its Corporate Credit Agreement and Receivable Facility is subject to the Company's compliance with covenants, including covenants requiring compliance with specified financial ratios. Failure to satisfy these covenants would constrain or prohibit its ability to borrow under 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 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 Communications 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 could adversely impact the Company's revenues, earnings and cash flow from 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 could 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 lead to impairment losses on long-lived and intangible assets in the future.

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

The telecommunications industry is very competitive, and the Company competes against many larger and better-funded 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 and wireless subscribers 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. The Company believes this is the reason for the largest portion of the Company's 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 7% in 2012 compared to 2011. In addition, the high-speed internet market is saturated in CBT's operating area, and competition will continue to be fierce for market share against competitors and alternative services. If the Company is unable to effectively implement strategies to retain access lines, high-speed internet subscribers, 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 the Company's subsidiary, CBW, include national wireless service providers such as Verizon, AT&T, Sprint Nextel, T-Mobile, Leap and TracFone. Both Verizon and AT&T have implemented more technologically advanced LTE networks within our operating territory. In 2013, both T-Mobile and Sprint Nextel are expected to begin to offer LTE service in our operating territory. LTE provides higher-speed data transmission and capacity which is attractive to smartphone users. The Company has piloted a LTE network trial program in limited operating territories, and has not yet determined whether it will upgrade its network to LTE or, if it does upgrade, the timing of the LTE upgrade and the extent of its network that it will upgrade with LTE. 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 do not carry the premium brand-name handsets such as the iPhone™. 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.

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

The Company generates a substantial portion of its revenue by serving customers in the Greater Cincinnati and Dayton, Ohio areas. An economic downturn or natural disaster occurring in this limited operating territory could have a disproportionate effect on the Company's business, financial condition, results of operations, and cash flows compared to similar companies of a national scope and similar companies operating in different geographic areas.

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 could 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. Assurances cannot be given that changes in current or future regulations adopted by the FCC or state regulators, or other legislative, administrative, or judicial initiatives relating to the telecommunications industry, will not have a material adverse effect on the Company’s business, financial condition, results of operations, and cash flows.

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.

The Company has improved its wireline network over the past several years through increased capital expenditures for fiber optic cable in limited areas of its operating network. In 2011 and 2012, the Company 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 wireless industry continues to experience significant technological change, as evidenced by the ongoing improvements in network speeds. LTE currently offers the fastest data transmission speeds. Verizon and AT&T have deployed LTE wireless networks in our operating territory. T-Mobile and Sprint Nextel are expected to deploy their LTE networks in our territory in 2013. The Company has piloted a LTE network trial program in limited operating territories, and has not yet determined whether it will upgrade its network to LTE or, if it does upgrade, the timing of the LTE upgrade and the extent of its network that it will upgrade.

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

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

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

CBW uses spectrum licensed to the Company for its wireless network. On a long-term basis, introduction of new wireless products and services, combined with 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.

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, as other competitors may have exclusive agreements for those new products. New products and services are important to the Company's success as its industry is technologically driven, such that new technologies can offer alternatives to the Company's existing services. The development of new technologies and products could accelerate the Company's loss of access lines and increase wireless customer churn, which could have a material adverse effect on the Company's revenue, results of operations, and cash flows.

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

The Company's agreements with its customers contain various requirements regarding performance and levels of service. If the Company fails to provide the levels of service or performance required by its agreements, customers may be able to receive service credits for their accounts and other financial compensation, and also may be able to terminate their relationship with the Company. In 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.

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

As of December 31, 2012, the Company had receivables with one large customer that exceeded 10% of the Company's outstanding accounts receivable balance. Contracts with customers may not sufficiently reduce the inherent risk that customers 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 one or more large customers or if services purchased were significantly reduced. If one or more of the Company's larger customers were to default on its accounts receivable obligations, the Company could be exposed to potentially significant losses in excess of the provisions established. This could also negatively impact the available capacity under the Receivables Facility.

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.

The business could be negatively impacted by cybersecurity threats.

Cybersecurity threats could adversely affect the wireline or wireless networks, the electronic payment system, or the corporate network. Such threats could result in disruption of customer service, unauthorized access to or misappropriation of confidential customer data, or damage to our internal network. Preventative measures in place to mitigate such risks include use of dedicated private networks, strong user names and passwords, intrusion protection systems, anti-virus software, and encryption and authentication technology. Weekly system scans are performed on the most critical systems to identify potential vulnerabilities. These events could disrupt operations, result in a loss of customers, lead to adverse publicity, or require significant amounts of capital to remedy the cybersecurity breach.

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 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. CyrusOne LP units are exchangeable into common stock of CyrusOne on a one-to-one basis, or cash at the fair value of a share of CyrusOne common stock, at the option of CyrusOne, commencing January 17, 2014. The Company's direct and indirect interests in CyrusOne represent a 69% effective economic ownership of CyrusOne. Prior to the IPO of CyrusOne, there was no active market for CyrusOne's common stock. Our investment in CyrusOne is subject to volatility in the market price of its common stock. We may be unable to sell some or all of our investment in CyrusOne quickly or at all. The fair value of our investment in CyrusOne may decline which may adversely affect the realization of our investment.

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 will no longer set the strategies, select the management team, or control the operations of CyrusOne. CyrusOne may choose to pursue strategies which conflict with our business strategies. The Vice Chairman of our Board of Directors is also the Chairman of CyrusOne's Board of Directors. However, if a conflict of interest develops between the Company and CyrusOne, the CyrusOne Board is required to act for the benefit of its shareholders.

The Company has executed a non-compete agreement with CyrusOne where we have 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 which could have an adverse effect on our telecommunications business.

CyrusOne may encounter difficulties in executing its strategic plans for the data center colocation business.
CyrusOne may face potential challenges and difficulties in implementing its data center colocation expansion plan which may include: identifying and obtaining the use of locations in which it believes there is sufficient demand for expansion of its data center colocation services; generating sufficient cash flow from operations or through additional financings to support these expansion plans; construction of world-class data center facilities on a timely basis; sale of the available data center space to enable appropriate returns; recruiting and maintaining a motivated work force; and installing and implementing new financial and other systems, procedures and controls to support a standalone public company and its expansion plan with minimal delays.
These strategic actions could divert management's attention and strain operational and financial resources. Due to unforeseen difficulties, CyrusOne may be unable to execute its strategic plans for growing its data center business. Failure to do so would adversely affect its strategy of becoming a global data center colocation business, which in turn could have an adverse effect on our financial condition, results of operations, and cash flows.
A small number of customers account for a significant portion of CyrusOne's revenue. The loss or significant reduction
in business from one or more of its large customers could significantly harm its business, financial condition and results of operations, and impact the amount of cash available for distribution to its stockholders.

CyrusOne currently depends, and expects to continue to depend, upon a relatively small number of customers for a significant percentage of their revenue. As a result of this customer concentration, CyrusOne's business, financial condition and results of operations, including the amount of cash available for distribution to its stockholders, could be adversely affected if it loses one or more of its larger customers, if such customers significantly reduce their business with CyrusOne or if it chooses not to enforce, or to enforce less vigorously, any rights that it may have now or in the future against these significant customers because of its desire to maintain relationships with them. A significant percentage of CyrusOne's customer base is also concentrated in industry sectors that may from time to time experience volatility including, in particular, the oil and gas sector. A downturn in the oil and gas industry could negatively impact the financial condition of one or more of its oil and gas company customers, including several of its larger customers. In an industry downturn, those customers could default on their obligations, delay the purchase of new services or decline to renew expiring leases, any of which could have an adverse effect on its business, financial condition and results of operations.

Additionally, if any customer becomes a debtor in a case under the U.S. Bankruptcy Code, applicable bankruptcy laws may limit its ability to terminate its contract with such customer solely because of the bankruptcy or recover any amounts owed to it under its agreements with such customer. In addition, applicable bankruptcy laws could allow the customer to reject and terminate its agreement with CyrusOne, with limited ability for CyrusOne to collect the full amount of its damages. CyrusOne's business, including its revenue and cash available for distribution to its stockholders, could be adversely affected if any of its significant customers were to become bankrupt or insolvent.
CyrusOne's performance and value are subject to risks associated with real estate assets and with the real estate industry.

CyrusOne's ability to make expected distributions to its stockholders depends on its ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond its control may decrease cash available for distribution and the value of its properties. These events include:

- local oversupply, increased competition or reduction in demand for technology-related space;
- inability to collect rent from customers;
- vacancies or its inability to rent space on favorable terms;
- inability to finance property development and acquisitions on favorable terms;

• increased operating costs to the extent not paid for by its customers;
• costs of complying with changes in governmental regulations;
• the relative illiquidity of real estate investments, especially the specialized real estate properties that CyrusOne holds and seeks to acquire and develop; and
• changing submarket demographics.

If CyrusOne fails to remain qualified as a REIT, it will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to its stockholders.

CyrusOne intends to operate in a manner that will allow it to qualify as a REIT commencing with its taxable year ending December 31, 2013. Its qualification as a REIT will depend on its satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Its ability to satisfy the asset tests depends upon its analysis of the characterization and fair market values of its assets, some of which are not susceptible to a precise determination.

If CyrusOne were to fail to remain qualified as a REIT in any taxable year, it would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates, and dividends paid to its stockholders would not be deductible by it in computing its taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to its stockholders, which in turn could have an adverse impact on the value of its common stock. Unless CyrusOne was entitled to relief under certain Internal Revenue Code provisions, it also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which it failed to qualify as a REIT.

CyrusOne's cash available for distribution to stockholders may not be sufficient to make distributions at expected levels.

Distributions made by CyrusOne will be authorized and determined by its board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and its capital requirements. CyrusOne may not be able to make or sustain distributions in the future. To the extent that it decides to make distributions in excess of its current and accumulated earnings and profits, such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder’s adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder’s adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder’s shares, they will be treated as gain from the sale or exchange of such stock.

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 could result in lower revenues and increases in the allowance for doubtful accounts, which would negatively affect the results of operations. Furthermore, the sales cycle could be further lengthened if business customers slow spending or delay decision-making on the Company's products and services, which could adversely affect revenues. If competitors lower prices as a result of economic conditions, the Company could 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.

In addition, investment returns of the Company's pension funds depend largely on trends in the U.S. and world securities markets and the U.S. and world economies in general. Future investment losses could cause a decline in the value of plan assets, which the Company would be required to recognize over the next several years under generally accepted accounting principles. Additionally, the Company's postretirement costs are adversely affected by increases in medical and prescription drug costs. If the Company incurs future investment losses or future investment gains that are less than expected, or if medical and prescription drug costs increase significantly, the Company would expect to face even higher annual net pension and postretirement costs.

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

As of December 31, 2012, the Company had net deferred income taxes of $434.6 million, which are primarily composed of deferred tax assets associated with U.S. federal net operating loss carryforwards of $352.0 million and state, local and foreign net operating loss carryforwards of $58.8 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 could be adversely affected.

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

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees, and one supplemental, nonqualified, unfunded plan for certain former executives. The Company's consolidated balance sheets indirectly reflect the value of all plan assets and benefit obligations under these plans. The accounting for employee benefit plans is complex, as is the process of calculating the benefit obligations under the plans. Further adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the Company's benefit obligations or a significant decrease of the asset values, without necessarily impacting the Company's net income. In addition, the Company's benefit obligations could increase significantly if it needs to unfavorably revise the assumptions used to calculate the obligations. These 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 $190 million of estimated cash contributions to its qualified pension plans for the years 2013 to 2020, of which $42 million is expected to be contributed in 2013. Further, adverse changes to plan assets could require the Company to contribute additional material amounts of cash to the plan or could accelerate the timing of required payments.

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

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

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

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

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

The 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. In addition, our former Data Center Colocation business contained both underground and aboveground fuel tanks for back-up generator use.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2012, we owned or maintained properties in Ohio, Texas, Kentucky, Indiana, Illinois, Arizona, England and Singapore. Principal office locations were in Cincinnati, Ohio and Carrollton, Texas.

Our property comprises telephone plant and equipment in its local telephone franchise area (i.e., Greater Cincinnati), the infrastructure associated with its wireless business in the Greater Cincinnati and Dayton, Ohio operating areas, and data center facilities. Each of the Company's subsidiaries maintains some investment in furniture and office equipment, computer equipment and associated operating system software, application system software, leasehold improvements, and other assets.

With regard to its local telephone operations, the Company owns substantially all of the central office switching stations and the land upon which they are situated. Some business and administrative offices are located in rented facilities, some of which are recorded as capital leases. 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 house 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, CBW leases ten company-run retail locations.

As of December 31, 2012, CyrusOne, our former Data Center Colocation segment, owned and leased the following properties:

Market	Owned	Leased	Data Center Colocation (sq. ft. in thousands)
Cincinnati	4	3	412
Houston	2	1	189
Dallas	1	4	171
Austin	—	2	57
San Antonio	1	—	36
Phoenix	1	—	36
Other	1	4	31

	10	14	932

23

As of December 31, 2012, CyrusOne also owned 140 acres of land for future expansion of its data centers located in Phoenix, Cincinnati and Houston. Data centers provide power, environmental controls, high-speed and high-bandwidth point-to-point optical network connections, and 24-hour monitoring of the customer’s computer equipment. The lease of certain data center facilities represents the "lease of the building shell," and the capital expenditures required to transform the leased building shells into top-tier data centers represent amounts that are several times the value of the leased building shells. 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 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, 2012, cannot be reasonably determined.

In 2011, the Company and certain directors and officers were named as defendants in a federal court and a state court shareholder derivative action. Plaintiffs' allegations, which defendants denied, in both the federal and state court actions, were that the director defendants breached their duty of loyalty in connection with 2010 executive compensation decisions and the officer defendants were unjustly enriched. On March 1, 2012, the parties to the case captioned: NECA-IBEW Pension Fund (The Decatur Plan) v. Cox, et al., Case No. 11-cv-00451, United States District Court, Southern District of Ohio, Western Division (“the Federal Action”), reached an agreement concerning the Federal Action. Pursuant to the agreement, the parties agreed to stipulate to the filing of an Amended Complaint, which was docketed with the court, and thereafter, the parties jointly moved the court to stay the Federal Action pending the entry of a judgment in the state court action, captioned:In re Cincinnati Bell Inc. Derivative Litigation, Case No. A1105305, Court of Common Pleas, Hamilton County, Ohio (“the State Action”). The Federal Action was stayed by the court. The parties to the State Action previously reached a settlement of that action which includes certain changes to the Company's corporate governance policies. On April 16, 2012, in the State Action, the court held a hearing to consider final approval of the settlement and fee and expense request by plaintiffs' counsel. The court on April 16, 2012 approved the settlement and the fees and expenses requested by plaintiffs' counsel, including counsel for plaintiff in the Federal Action, and entered an Order and Final Judgment, dismissing the State Action with prejudice. Subsequently, the Federal Action was dismissed with prejudice. The settlement and counsel fees and expenses were fully paid as of December 31, 2012.

The resolutions of the above claims did not individually, or in the aggregate, have a material effect on our financial position, results of operations or cash flows during the period ended December 31, 2012. 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
2012	High	$4.18	$4.07	$5.70	$5.75
	Low	$3.14	$3.36	$3.57	$4.87
2011	High	$3.12	$3.32	$3.60	$3.28
	Low	$2.46	$2.64	$2.84	$2.80

(b) Holders

As of January 31, 2013, the Company had 12,162 holders of record of the 202,678,684 outstanding common shares and the 155,250 outstanding shares of the 6 $^3/_4$% Cumulative Convertible Preferred Stock.

(c) Dividends

In 2012 and 2011, the Company paid $10.4 million million of dividends on its 6 $^3/_4$% Cumulative Convertible Preferred Stock. In 2012 and 2011, the Company did not pay any dividends on its common stock and does not intend to pay any common stock dividends in 2013.

(d) Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2012 regarding securities of the Company to be issued and remaining available for issuance under the equity compensation plans of the Company:

Plan Category	Number of securities to be issued upon exercise of outstanding stock options, awards, warrants and rights		Weighted-average exercise price of outstanding stock options, awards, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)		(b)	(c)
Equity compensation plans approved by security holders	12,522,782	(1)	$ 3.82	4,793,601
Equity compensation plans not approved by security holders	249,275	(2)	—	—
Total	12,772,057		$ 3.82	4,793,601

(1) Includes 9,538,031 outstanding stock options and stock appreciation rights not yet exercised, 1,297,515 shares of time-based restricted stock, and 1,687,236 shares of performance-based awards, restrictions on which have not expired as of December 31, 2012. 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 2012, 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, 2012 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, 2007 (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, 2012:

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)*
10/1/2012 - 12/31/2012	—	$—	—	$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)	2012	2011	2010 (a)	2009	2008
Operating Data					
Revenue	$1,473.9	$1,462.4	$1,377.0	$1,336.0	$1,403.0
Cost of services and products, selling, general and administrative, depreciation, and amortization expense	1,181.5	1,139.9	1,054.9	1,030.7	1,078.7
Other operating costs and losses (b)	22.3	63.0	22.8	9.8	19.1
Operating income	270.1	259.5	299.3	295.5	305.2
Interest expense	218.9	215.0	185.2	130.7	139.7
Loss (gain) on extinguishment of debt	13.6	—	46.5	10.3	(14.1)
Net income	$11.2	$18.6	$28.3	$89.6	$102.6
Earnings per common share					
Basic	$0.00	$0.04	$0.09	$0.37	$0.39
Diluted	$0.00	$0.04	$0.09	$0.37	$0.38
Dividends declared per common share	$—	$—	$—	$—	$—
Weighted-average common shares outstanding					
Basic	197.0	196.8	201.0	212.2	237.5
Diluted	204.7	200.0	204.0	215.2	242.7
Financial Position					
Property, plant and equipment, net	$1,587.4	$1,400.5	$1,264.4	$1,123.3	$1,044.3
Total assets	2,872.4	2,714.7	2,653.6	2,064.3	2,086.7
Total long-term obligations (c)	3,215.2	3,073.5	2,992.7	2,395.1	2,472.2
Other Data					
Cash flow provided by operating activities	$212.7	$289.9	$300.0	$265.6	$403.9
Cash flow used in investing activities	(371.8)	(244.7)	(675.5)	(93.8)	(250.5)
Cash flow provided by/(used in) financing activities	109.0	(48.8)	429.8	(155.5)	(172.8)
Capital expenditures	(367.2)	(255.5)	(149.7)	(195.1)	(230.9)

(a) Results for 2010 include the acquisition of CyrusOne from the acquisition date of June 11, 2010 to the end of the year. See Note 3 to the Consolidated Financial Statements.

(b) Other operating costs and losses consist of restructuring charges, transaction costs, curtailment losses/(gains), goodwill impairment, asset impairments, (gain)/loss on sale or disposal of assets, and an operating tax settlement.

(c) Total long-term obligations comprise long-term debt less current portion, pension and postretirement benefit obligations, and other noncurrent liabilities. See Notes 7, 10 and 11 to the Consolidated Financial Statements for discussions related to 2012 and 2011.

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

For the year ended December 31, 2012, the Company was a full-service regional provider of data and voice communications services over wireline and wireless networks, a full-service provider of data center colocation and related managed services, and a reseller of IT and telephony equipment.

In 2012, we continued to execute on our plan to expand our growth products, comprised of our Fioptics, strategic enterprise data and VoIP, and data center offerings. The additional revenue generated from these growth products more than offset the lower revenue from declining access line and wireless subscribers, and as a result, the Company's total revenue in 2012 increased by 1% year-over-year to approximately $1.5 billion, its highest level in ten years. Operating income in 2012 was $270 million, up 4% compared to the prior year, driven primarily by a $50.3 million goodwill write-down in 2011 partially offset by $14.2 million of asset impairments in 2012.

During the fourth quarter of 2012, CyrusOne and CyrusOne Finance Corp., as co-issuers, issued $525 million of 6.375% Senior Notes due 2022 and used $480 million of the net proceeds of $511 million to repay intercompany payables to CBI. CyrusOne retained approximately $31 million of the net proceeds to fund its data center expansion and other expenses. The Company used the $480 million of proceeds to repay the outstanding balances under its 7% Senior Notes due 2015, outstanding borrowings under the former revolving credit facility, $73 million of the CBT Notes, $91 million of the 8.375% Senior Notes due 2020, and associated premiums and expenses.

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. After the IPO, we own approximately 1.9 million shares, or 8.6%, of CyrusOne's common stock and are a limited partner in CyrusOne LP, owning approximately 42.6 million, or 66%, of its partnership units. The Company may redeem its CyrusOne LP units into common stock of CyrusOne on a one-to-one basis, or for cash at the fair value of a share of CyrusOne common stock, at the option of CyrusOne, commencing on January 17, 2014. 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.

Further details of this transaction are provided in Note 20 to the Consolidated Financial Statements of this Form 10-K report.

Highlights for 2012 were as follows:

Wireline

Wireline revenue in 2012 was $730.5 million, comparable to $732.1 million in 2011, as the impact of higher revenue generated from its growing Fioptics and enterprise data and VoIP product lines continues to mitigate the reductions in voice revenue caused by continued ILEC access line losses. The Company ended the year with 573,900 total access lines compared to 621,300 access lines at December 31, 2011, a loss of 8% that is consistent with the 2011 losses. Fioptics continued its strong growth during 2012, and as of December 31, 2012, the Company had “passed” and is now able to provide its Fioptics suite of products to 205,000 homes and businesses, or approximately 26% of the Greater Cincinnati market.

Operating income of $212.9 million in 2012 declined by $15.6 million compared to 2011, due largely to the loss of high-margin access lines combined with additional costs to acquire new Fioptics customers.

Wireless

Wireless revenue of $241.8 million in 2012 decreased by 13% compared to 2011, driven by a 13% decrease in the Company's subscriber base. The Company believes it continued to lose subscribers in 2012 due to customer preference for its competitors' premium handsets on competitors' LTE networks. Our postpaid smartphone subscriber base continues to be instrumental to increasing data revenue per subscriber (e.g., text messaging, emails, and internet service) as this increase mitigates the decline in voice revenue, resulting in a stable average revenue per subscriber.

Operating income of $51.2 million increased by $47.9 million compared to 2011 due primarily to the $50.3 million goodwill impairment loss that was recognized in 2011. Although the Wireless revenue decline of $35.8 million was substantial, the Company was able to mostly offset this decline with the favorable impact of lower operating expenses. Management believes it will not be able to offset the declining Wireless revenues with cost reductions in 2013 to the extent it was able to achieve in 2012.

IT Services and Hardware

IT Services and Hardware revenue in 2012 was $315.7 million, up 5% compared to 2011, driven by an increase of $16.6 million, or 18%, in revenue from managed and professional services due to higher customer demand for IT outsourcing and consulting projects. This increased revenue was partially offset by slightly lower sales of telecom and IT equipment that is largely attributable to the cyclical nature of capital spending by enterprise customers.

Operating income of $10.3 million in 2012 increased by $0.5 million over 2011 primarily due to lower restructuring charges.

Data Center Colocation

Data Center Colocation revenue was $221.3 million in 2012, up 20% compared to 2011, on sales of incremental space and power to both new and existing customers. Total data center capacity increased by 22% from the prior year to 932,000 square feet as of December 31, 2012, compared to a total of 763,000 square feet of capacity at December 31, 2011. CyrusOne's utilization at the end of 2012 was 78% compared to 88% at the end of 2011. This decrease in utilization resulted from the significant construction of new space in 2012 that is now available for sale.

Operating income for the year totaled $30.4 million, a decrease of $16.0 million over 2011, due largely to a $13.3 million impairment loss associated with the segment's 2007 GramTel acquisition.

Consolidated Results of Operations
2012 Compared to 2011
Service revenue was $1,272.8 million in 2012, an increase of $22.0 million compared to 2011. Data center revenue increased by $36.6 million due to sales of new data center space and power, while managed and professional services revenue increased by $16.6 million in 2012 as a result of increased IT outsourcing and consulting projects. These increases were partially offset by lower wireless service revenue which declined by $27.9 million in 2012 compared to 2011. Growth in Wireline Fioptics, VoIP and audio conferencing service revenue was offset by declines in local voice, long distance and DSL revenues.
Product revenue totaled $201.1 million in 2012, a decrease of $10.5 million, or 5%, compared to 2011. This decrease was largely due to lower sales of wireless handsets which drove a $7.9 million decrease in sales compared to 2011. In addition, sales of telecommunications and IT hardware decreased by $1.4 million compared to 2011, a reflection of the cyclical nature of capital spending by enterprise customers.
Cost of services was $489.9 million in 2012 compared to $464.3 million in 2011, an increase of $25.6 million, or 6%. Contract services increased by $10.7 million over 2011 driven largely by increased use of outside contractors to support the growth in data center operations and Fioptics, business data and VoIP services, and also due to positioning CyrusOne to operate as a stand-alone publicly-traded company. Operating taxes increased by $7.0 million from 2011 driven largely by higher regulatory rates and higher franchise taxes resulting from increased Fioptics revenue and higher property taxes from our increased data center footprint. Payroll and employee-related costs also increased by $4.0 million compared to 2011, due primarily to the addition of new personnel to support growth in data center

operations and the higher demand for professional and managed IT services.
Cost of products sold was $204.7 million in 2012 compared to $213.0 million in the prior year, a decrease of $8.3 million, or 4%, that was mainly driven by lower sales of wireless handsets and IT equipment, as discussed above.
Selling, general and administrative ("SG&A") expenses were $269.5 million in 2012, an increase of $6.4 million, or 2%, compared to 2011. The increase was largely due to stock compensation mark-to-market expense of $7.9 million, up from $0.6 million in 2011, primarily associated with an 81% increase in the Company's stock price during 2012. The Company grants stock-based compensation, some of which are cash-payment awards indexed to the Company's stock price.

Depreciation and amortization was $217.4 million in 2012, an increase of $17.9 million compared to the prior year. The higher depreciation and amortization was primarily the result of new assets placed in service for our data center facilities.

Restructuring charges were $3.4 million in 2012 compared to $12.2 million in the prior year. In 2012, restructuring charges represented severance associated with employee separations and lease abandonments. In 2011, restructuring costs were incurred for employee separations, lease abandonments and contract terminations. Such costs were lower in 2012 as we completed certain restructuring activities begun in the prior year.

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 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 was realized primarily from the sale of copper cables no longer utilized in our Wireline network. 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. During 2011, the Company recognized goodwill impairment losses totaling $50.3 million that were related to the Wireless segment.

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.

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 LP and CyrusOne Finance Corp 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.

2011 Compared to 2010

Service revenue was $1,250.8 million in 2011, an increase of $51.5 million compared to 2010. Data center revenues increased by $59.4 million primarily due to expansion of data center facilities and the acquisition of Cyrus Networks in June 2010. Managed and professional services revenue increased by $14.7 million compared to 2010. These increases were partially offset by declines in local voice revenues from access line losses and wireless service revenues from lower postpaid subscribers.

Product revenue was $211.6 million in 2011, up $33.9 million compared to 2010. The increase was primarily related to increased sales of telecommunications and IT hardware of $31.1 million, driven by higher spending by customers.

Cost of services was $464.3 million in 2011, up $50.4 million, or 12%, compared to 2010. Payroll and payroll related costs increased by $20.1 million compared to 2010 due to overtime as well as personnel added to support growth in IT services and data center operations. Other data center costs increased by $18.7 million primarily due to expansion of data center facilities and the acquisition of Cyrus Networks in 2010. Network costs increased by $7.2 million in 2011 due to growth in Fioptics, audio conferencing and VoIP services, and increased data usage. Contract services increased by $2.3 million in 2011 primarily due to a large number of telephony installations and out-of-territory support performed by outside contractors.

Cost of products sold was $213.0 million in 2011, an increase of $22.4 million from the prior year. This increase resulted from higher sales of telecommunications and IT hardware in 2011.

SG&A expenses were $263.1 million in 2011 compared to $270.9 million in the prior year, a decrease of $7.8 million. Lower payroll expense, contract services, advertising and bad debt expense were incurred in 2011 compared to the prior year. Partially offsetting these savings were higher legal and consulting costs and non-employee commissions. Also, the release of a previously established indemnification liability lowered 2011 SG&A costs by $1.2 million.

Depreciation and amortization was $199.5 million in 2011, up $20.0 million compared to 2010. Higher depreciation and amortization was incurred in 2011 due to tangible and intangible assets acquired with Cyrus Networks in June 2010, as well as the expansion of several data center facilities.

Restructuring charges were $12.2 million in 2011 and $13.7 million in 2010. In both periods, restructuring charges included costs associated with employee separations, lease abandonments and contract terminations. In 2011, pension curtailment losses of $4.2 million resulted from reductions in future pension service credits which arose from a new contract with bargained employees. In 2011, the sale of assets associated with our home security monitoring business resulted in a gain of $8.4 million. In 2011, goodwill impairment losses of $50.3 million were recorded related to the Wireless segment. Asset impairment losses, excluding goodwill, were $2.1 million in 2011, resulting from abandonment of certain facilities, equipment, and capital projects. Acquisition costs of $2.6 million were incurred in 2011, as acquisition opportunities were investigated in 2011 but none were completed. In 2010, acquisition costs of $9.1 million were incurred due to the completion of the Cyrus Networks acquisition.

Interest expense increased to $215.0 million in 2011 compared to $185.2 million in 2010. Average debt outstanding was higher in 2011 compared to the prior year primarily due to the acquisition of Cyrus Networks. In addition, the average interest rate on outstanding debt was also higher in 2011. In 2010, a loss on debt extinguishment of $46.5 million was recognized upon the refinancing of the Company's 8 $^{3}/_{8}$% Senior Notes due 2014 and repayment of the Tranche B Term Loan.

Income tax expense was $25.0 million in 2011 compared to $38.9 million in the prior year. The lower tax provision reflects a decrease in pre-tax income in 2011 and the effects of one-time discrete adjustments related to 2010. 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 refunds of $1.2 million in 2011.

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. 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 local voice, data, long distance, entertainment, VoIP, and other services over its owned and other wireline networks. Local voice services include local telephone service, switched access, and value-added services such as caller identification, voicemail, call waiting, and call return. Data services include high-speed internet using DSL technology and over fiber using its GPON. Data services also provide data transport for businesses, including LAN services, dedicated network access, and metro ethernet and DWDM/optical wave data transport, which principally are used to transport large amounts of data over private networks. These services are provided to customers in southwestern Ohio, northern Kentucky, and southeastern Indiana through the operations of CBT, an ILEC in its operating territory of an approximate 25-mile radius of Cincinnati, Ohio.

CBT's network has full digital switching capability and can provide data transmission services to approximately 96% of its in-territory access lines via DSL.
Outside of the ILEC territory, the Wireline segment provides these services through CBET, which operates as a CLEC in the communities north of CBT's operating territory including the Dayton, Ohio market. CBET provides voice and data services for residential and business customers on its own network and by purchasing unbundled network elements from the ILEC. The Wireline segment links the Cincinnati and Dayton, Ohio geographies through its SONET, which provides route diversity via two separate paths.
In 2012, the Company continued to expand its Fioptics product suite of services, which are fiber-based entertainment, high-speed internet and voice services. At year end 2012, the Company passed and can provide Fioptics service to 205,000 homes and businesses, or approximately 26% of Greater Cincinnati. The penetration rate of this product is approximately 28% of the total units that have been passed with the Fioptics network. The Wireline segment also includes long distance, audio conferencing, other broadband services including private line and MPLS.
Wireline continued

(dollars in millions, except for operating metrics)	2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011	2010	$ Change 2011 vs. 2010	% Change 2011 vs. 2010
Revenue:							
Voice - local service	$255.4	$280.3	$(24.9)	(9)%	$311.9	$(31.6)	(10)%
Data	306.9	291.5	15.4	5%	283.3	8.2	3%
Long distance and VoIP	113.9	111.3	2.6	2%	104.4	6.9	7%
Entertainment	35.4	26.6	8.8	33%	16.7	9.9	59%
Other	18.9	22.4	(3.5)	(16)%	26.2	(3.8)	(15)%
Total revenue	730.5	732.1	(1.6)	0%	742.5	(10.4)	(1)%
Operating costs and expenses:							
Cost of services and products	283.8	270.0	13.8	5%	256.8	13.2	5%
Selling, general and administrative	125.6	126.7	(1.1)	(1)%	140.1	(13.4)	(10)%
Depreciation and amortization	106.0	102.4	3.6	4%	103.9	(1.5)	(1)%
Restructuring charges	3.5	7.7	(4.2)	(55)%	8.2	(0.5)	(6)%
Curtailment loss	—	4.2	(4.2)	n/m	—	4.2	n/m
Gain on sale or disposal of assets	(1.8)	(8.4)	6.6	79%	—	(8.4)	n/m
Asset impairments	0.5	1.0	(0.5)	(50)%	—	1.0	n/m
Total operating costs and expenses	517.6	503.6	14.0	3%	509.0	(5.4)	(1)%
Operating income	$212.9	$228.5	$(15.6)	(7)%	$233.5	$(5.0)	(2)%
Operating margin	29.1%	31.2%		(2.1) pts	31.4%		(0.2) pts
Capital expenditures	$114.2	$112.6	$1.6	1%	$98.6	$14.0	14%
Metrics information (in thousands):							
Local access lines	573.9	621.3	(47.4)	(8)%	674.1	(52.8)	(8)%
High-speed internet subscribers							
DSL subscribers	202.6	218.0	(15.4)	(7)%	228.9	(10.9)	(5)%
Fioptics internet subscribers	56.8	39.3	17.5	45%	27.2	12.1	44%
	259.4	257.3	2.1	1%	256.1	1.2	0%
Long distance lines	417.9	447.4	(29.5)	(7)%	482.8	(35.4)	(7)%
	55.1	39.6	15.5	39%	28.1	11.5	41%

Fioptics entertainment
subscribers

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2012 Compared to 2011

Revenues

Voice local service revenue includes local service, value added services, digital trunking, switched access, and information services. Voice local service revenue was $255.4 million in 2012, down $24.9 million, or 9%, compared to 2011. 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 41,400, or 7%, to 511,000 at December 31, 2012 from 552,400 at December 31, 2011. The Company had 62,900 CLEC access lines at December 31, 2012 compared to 68,900 access lines 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.

Data revenue consists of Fioptics and DSL high-speed internet access, data transport, and LAN interconnection services. Data revenue was $306.9 million in 2012, up $15.4 million, or 5%, compared to 2011. Data transport and LAN services increased by $13.0 million, or 7%, year-over-year primarily as a result of increased demand by business customers for higher speed connections. Revenue from Fioptics high-speed internet service increased to $18.1 million in 2012, up from $12.5 million in the prior year due to increased subscribers. As of December 31, 2012, the Company had 56,800 high-speed internet Fioptics customers, which is an increase of 17,500 subscribers, or 45%, compared to December 31, 2011. These revenue increases were partially offset by lower DSL revenue as DSL subscribers decreased by 7% to 202,600 subscribers at the end of 2012.

Long distance and VoIP revenue was $113.9 million in 2012, an increase of $2.6 million, or 2%, compared to 2011. This increase was primarily due to an increase in VoIP and audio conferencing services, driven by a larger number of subscribers and higher usage. Partially offsetting this favorable trend was a decrease in long distance residential revenue which declined by $3.6 million in 2012. As of December 31, 2012, long distance subscriber lines totaled 417,900, a 7% decrease compared to the prior year. Long distance subscriber lines have continued to decline as consumers opt to utilize wireless and VoIP services.

Entertainment revenue was $35.4 million in 2012, up $8.8 million, or 33%, compared to the prior year driven primarily by the growth in Fioptics entertainment. Fioptics entertainment revenue grew by $9.1 million over 2011, driven by a 39% increase in the number of Fioptics entertainment subscribers. As of December 31, 2012, the segment had 55,100 Fioptics entertainment subscribers. The Company continues to expand its Fioptics service area as there is strong consumer demand for this service.

Other revenue was $18.9 million in 2012, a decrease of $3.5 million compared to the prior year. 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, curtailment losses of $4.2 million were recognized from 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 are incurred to maintain the wireline network, expand the Company's Fioptics product suite, and upgrade its DSL network. Capital expenditures 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.

2011 Compared to 2010

Revenues

Voice local service revenue was $280.3 million in 2011, a decrease of 10% compared to the prior period. The decrease in revenue was driven by access line loss from the prior year. Access lines decreased by 52,800, or 8% compared to 2010.

Data revenue was $291.5 million in 2011, up $8.2 million compared to the same period in 2010. Revenue from Fioptics high-speed internet service increased to $15.8 million in 2011, up from $10.2 million in the prior year. As of December 31, 2011, the Company had 39,300 high-speed internet Fioptics subscribers, which is an increase of 12,100 subscribers, or 44%, from the December 31, 2010 total of 27,200 subscribers. These increases were primarily offset by lower DSL revenue resulting from a 5% decline in subscribers from 2010.

Long distance and VoIP revenue was $111.3 million in 2011, an increase of $6.9 million, or 7%, compared to 2010. The increase was primarily attributable to an increase in VoIP and audio conferencing services provided to additional subscribers. This increase was partially offset by a $4.1 million decrease in long distance residential revenue. As of December 31, 2011, long distance subscriber lines were 447,400, a 7% decline from 2010.

Entertainment revenue was $26.6 million in 2011, up $9.9 million, or 59%, compared to 2010. Fioptics entertainment subscribers totaled 39,600 at December 31, 2011, an increase of 41% compared to December 31, 2010. The increase in entertainment subscribers is related to expansions of the Fioptics network and high customer demand.

Other revenue was $22.4 million for 2011, down $3.8 million from 2010. The sale of the Company's home security monitoring business decreased revenues by $2.1 million in 2011. Fewer wire installation jobs also contributed to lower revenues compared to the prior year.

Costs and Expenses

Cost of services and products was $270.0 million, an increase of $13.2 million, or 5%, compared to 2010. Payroll related costs and contract services were up $6.6 million and $2.7 million, respectively, primarily due to overtime associated with the start-up of Fioptics IPTV, as well as higher volumes of repair work resulting from record rainfall in our operating territory. Network costs also increased by $6.0 million in 2011 compared to 2010 as a result of growth in audio conferencing, VoIP, and Fioptics services.

SG&A expenses were $126.7 million, a decrease of $13.4 million, or 10%, compared to 2010. Payroll and other employee related costs were down $10.1 million due to lower headcount. Contract services and advertising costs were down $2.8 million and $1.5 million, respectively, compared to 2010. Partially offsetting these favorable variances were higher legal and consulting costs and non-employee commissions in 2011.

Depreciation and amortization was $102.4 million in 2011, down $1.5 million compared to 2010.

Restructuring charges in 2011 were $7.7 million, a decrease of $0.5 million compared to 2010. Employee separation costs were $3.5 million in 2011 and $4.9 million in 2010. Lease abandonment costs were $2.5 million and $3.3 million in 2011 and 2010, respectively. Contract termination costs were $1.7 million in 2011, with no such costs incurred in the prior year.

In 2011, curtailment losses of $4.2 million were recognized from the reduction of future pension benefits for certain bargained employees. The sale of substantially all the assets associated with our home security business in 2011 resulted in a gain of $8.4 million. Asset impairment losses were $1.0 million 2011, with no such losses in 2010. Asset impairment losses arose from abandoned leasehold improvements related to vacated office space and the write-down to fair value of certain assets held for sale.

Capital Expenditures

Capital expenditures were $112.6 million in 2011, an increase of $14.0 million, or 14%, compared to 2010. Spending to expand the Company's Fioptics service area increased by $22.1 million from 2010 to 2011.

Wireless

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

(dollars in millions, except for operating metrics)	2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011	2010	$ Change 2011 vs. 2010	% Change 2011 vs. 2010
Revenue:							
Postpaid service	$174.6	$199.2	$(24.6)	(12)%	$214.6	$(15.4)	(7)%
Prepaid service	49.9	53.2	(3.3)	(6)%	54.6	(1.4)	(3)%
Equipment and other	17.3	25.2	(7.9)	(31)%	20.0	5.2	26 %
Total revenue	241.8	277.6	(35.8)	(13)%	289.2	(11.6)	(4)%
Operating costs and expenses:							
Cost of services and products	113.0	134.2	(21.2)	(16)%	137.4	(3.2)	(2)%
Selling, general and administrative	43.7	55.2	(11.5)	(21)%	61.1	(5.9)	(10)%
Depreciation and amortization	31.9	33.5	(1.6)	(5)%	33.4	0.1	0 %
Restructuring charges	1.6	—	1.6	n/m	1.0	(1.0)	n/m
Impairment of goodwill	—	50.3	(50.3)	n/m	—	50.3	n/m
Impairment of assets, excluding goodwill	0.4	1.1	(0.7)	(64)%	—	1.1	n/m
Total operating costs and expenses	190.6	274.3	(83.7)	(31)%	232.9	41.4	18 %
Operating income	$51.2	$3.3	$47.9	n/m	$56.3	$(53.0)	(94)%
Operating margin	21.2 %	1.2 %		20.0 pts	19.5 %		(18.3) pts
Capital expenditures	$15.8	$17.6	$(1.8)	(10)%	$11.7	$5.9	50 %
Metrics information:							
Postpaid ARPU*	$51.29	$50.06	$1.23	2 %	$49.79	$0.27	1 %
Prepaid ARPU*	$28.48	$28.58	$(0.10)	0 %	$29.58	$(1.00)	(3)%
Postpaid subscribers (in thousands)	251.3	311.0	(59.7)	(19)%	351.2	(40.2)	(11)%
Prepaid subscribers (in thousands)	146.5	148.0	(1.5)	(1)%	157.8	(9.8)	(6)%
Average postpaid churn	2.5 %	2.2 %		0.3 pts	2.1 %		0.1 pts

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

2012 Compared to 2011

Revenue

Postpaid service revenue was $174.6 million in 2012, a decrease of $24.6 million, or 12%, compared to a year ago. The decrease in postpaid service revenue was driven by a 19% decrease in postpaid subscribers combined with a decrease in voice minutes of use, partially offset by higher data usage. The subscriber losses are attributed to competitive pressure resulting from, among other factors, competitors' premium handsets and competitors' service on new LTE networks.

Total postpaid ARPU for 2012 increased to $51.29 from $50.06 in 2011 driven primarily by the higher data ARPU, but partially offset by a 4% year-over-year decrease in voice ARPU due to fewer minutes used by postpaid subscribers.

At December 31, 2012, the Company had 101,000 postpaid smartphone subscribers, a 5% decrease compared to 106,000 such subscribers at December 31, 2011. As of December 31, 2012, these postpaid smartphone subscribers represented 40% of the total postpaid subscriber base, up from 34% at the end of 2011. The higher smartphone penetration drove a data ARPU of $17.11 for 2012, up 18% compared to 2011.

Prepaid service revenue was $49.9 million in 2012, a decrease of $3.3 million compared to the prior year. The number of prepaid subscribers at December 31, 2012 was 146,500, a decrease of 1% compared to the prior year. During 2012, higher data usage by prepaid smartphone users was largely offset by lower voice rates resulting in a prepaid ARPU of $28.48, comparable to $28.58 generated in 2011.

Equipment and other revenue for 2012 decreased by $7.9 million to $17.3 million in 2012 primarily as a result of the continued postpaid subscriber losses which drove fewer activations and upgrades in 2012, combined with the impact of a large nonrecurring equipment sale to a wholesale distributor in 2011.

Costs and Expenses

Cost of services and products consists largely of network operation costs, interconnection expenses with other telecommunications providers, roaming expense (which is incurred for subscribers to use their handsets in the territories of other wireless service providers), and cost of handsets and accessories sold. The total cost of services and products was $113.0 million in 2012, a decrease of $21.2 million compared to 2011. This decrease was primarily due to $9.0 million of lower network related costs resulting from renegotiated roaming rates with other wireless carriers, lower network access expenses due to a reduced subscriber base, and the continued impact of the Company's cost containment efforts. Cost of goods sold decreased by an additional $9.0 million over the prior year, driven largely by the impact of fewer sales of wireless handsets and related accessories. In addition, contract services and other costs of providing service decreased by $3.1 million year-over-year due largely to the Company's cost containment efforts which led to reduced call center, network software and cell site maintenance expenses.

SG&A expense in 2012 decreased by $11.5 million year-over-year to $43.7 million, largely reflecting the impact of cost containment initiatives combined with a $2.8 million reduction in bad debt expense. The closing of three retail stores and associated headcount reductions in 2012 resulted in lower payroll costs of $2.5 million compared to the prior year, while other selling and marketing expenses and advertising expenses also decreased by $2.1 million and $1.7 million, respectively, driven by the Company's cost containment efforts.

Depreciation and amortization was $31.9 million in 2012, a decrease of $1.6 million from 2011 due largely to the closing of three retail stores in 2012.

Restructuring charges of $1.6 million incurred in 2012 were related to employee separation costs as well as lease abandonments from the closing of the three retail stores in 2012. In 2011, no restructuring charges were recognized.

In 2011, Wireless recognized a goodwill impairment loss of $50.3 million that resulted from declines in the segment's revenue and wireless subscribers. In 2012 and 2011, other asset impairments were $0.4 million and $1.1 million, respectively, related to the write-off of canceled or abandoned capital projects.

Capital Expenditures

Capital expenditures were $15.8 million in 2012, comparable to $17.6 million in 2011, as the Company continues to support increasing data usage on its network.

2011 Compared to 2010

Revenue

Postpaid service revenue was $199.2 million for 2011, a decrease of $15.4 million, or 7%, compared to 2010 due to an 11% decrease in subscribers and a decrease in voice minutes of use, partially offset by higher data usage. At December 31, 2011, the Company had 106,000 postpaid smartphone subscribers compared to 96,000 postpaid smartphone subscribers at December 31, 2010, a 10% increase from 2010. The increase in smartphone subscribers increased data usage, and the Company earned $14.54 of data ARPU in 2011 compared to $11.69 in 2010.

Prepaid service revenue was $53.2 million in 2011, a decrease of $1.4 million, or 3%, compared to 2010. Prepaid subscribers were 148,000 at December 31, 2011, down 6% from a year earlier, due to aggressive competitor promotions on prepaid service.

Equipment and other revenue in 2011 was $25.2 million, up $5.2 million compared to 2010 primarily due to higher revenue per smartphone handset sales to consumers and increased sales to a wholesale distributor.

Costs and Expenses

Cost of services and products was $134.2 million, a decrease of $3.2 million, or 2%, compared to 2010. The decrease was primarily attributable to lower handset subsidies and contract services compared to 2010, which was partially offset by higher cost of goods sold due to the increase in equipment revenue and higher network operation costs resulting from increased smartphone penetration and data usage.

SG&A expenses were $55.2 million in 2011, a decrease of $5.9 million, or 10%, compared to 2010, primarily due to a $2.8 million decrease in third-party service provider and payroll costs and a $2.6 million decrease in advertising and promotional expenses due to cost reduction initiatives.

Depreciation and amortization was $33.5 million for 2011, essentially flat compared to 2010. In 2011, Wireless began amortizing its trademark license which added $1.5 million of amortization expense. The increase in amortization was offset by a decrease in depreciation on tangible assets.

In 2011, Wireless recognized a goodwill impairment loss of $50.3 million and asset impairment losses of $1.1 million. The goodwill impairment loss arose from declines in revenues and wireless subscribers. Asset impairments were recognized for canceled capital projects. In 2010, Wireless incurred a $1.0 million restructuring charge primarily for employee separation costs.

Capital Expenditures

Capital expenditures were $17.6 million in 2011, up $5.9 million, or 50%, compared to 2010. During 2011, Wireless deployed software upgrades and incurred additional fiber costs to begin its network upgrade to 4G using HSPA+ technology.

IT Services and Hardware

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

(dollars in millions)	2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011	2010	$ Change 2011 vs. 2010	% Change 2011 vs. 2010
Revenue:							
Telecom and IT equipment distribution	$204.6	$206.0	$(1.4)	(1)%	$174.9	$31.1	18%
Managed and professional services	111.1	94.5	16.6	18%	79.8	14.7	18%
Total revenue	315.7	300.5	15.2	5%	254.7	45.8	18%
Operating costs and expenses:							
Cost of services and products	255.7	243.0	12.7	5%	202.6	40.4	20%
Selling, general and administrative	42.3	37.4	4.9	13%	37.7	(0.3)	(1)%
Depreciation and amortization	8.6	8.4	0.2	2%	7.3	1.1	15%
Restructuring charges (reversals)	(1.2)	1.9	(3.1)	n/m	2.8	(0.9)	(32)%
	305.4	290.7	14.7	5%	250.4	40.3	16%

Total operating costs and expenses							
Operating income	$10.3	$9.8	$0.5	5 %	$4.3	$5.5	n/m
Operating margin	3.3 %	3.3 %		— pts	1.7 %		1.6 pts
Capital expenditures	$9.0	$6.8	$2.2	32 %	$8.3	$(1.5)	(18)%

2012 Compared to 2011

Revenue

Revenue from telecom and IT equipment distribution represents the sale, installation, and maintenance of major, branded IT and telephony equipment. Telecom and IT equipment distribution revenue was $204.6 million in 2012, a decrease of $1.4 million, or 1%, compared to 2011. The decrease in 2012 compared to 2011 primarily reflects the cyclical fluctuation in capital spending by enterprise customers which may be influenced by, among other factors, the timing of customers' capital spend, the size of customers' capital budgets, as well as general economic conditions.

Managed and professional services revenue consists of managed VoIP solutions and IT services that include network management, electronic data storage, disaster recovery and data security management, as well as both long and short-term IT outsourcing and consulting engagements. In 2012, managed and professional services revenue was $111.1 million, an increase of $16.6 million, or 18%, compared to the prior year due largely to increased customer demand for staff augmentation and higher sales to one of the Company's largest customers.

Costs and Expenses

Cost of services and products was $255.7 million in 2012, an increase of $12.7 million, or 5%, compared to 2011. The increase was largely driven by higher payroll, contract services and other costs incurred to support the growth in managed and professional services revenue.

SG&A expenses were $42.3 million in 2012, an increase of $4.9 million, or 13%, from the prior year. This increase is largely attributable to the integration of certain functions associated with the Cincinnati-based data center business into the Data Center Colocation segment in 2012, which resulted in comparatively higher payroll costs being incurred by IT Services and Hardware.

Depreciation and amortization expense for 2012 of $8.6 million was comparable to that in 2011.

In 2012, a reversal of previously recognized expense of $1.2 million was recognized due to changes in estimates of employee separation costs recognized in the prior year. Restructuring charges of $1.9 million were recorded in 2011 primarily related to employee separation obligations associated with the continued integration of certain functions into the Wireline segment.

Capital Expenditures

Capital expenditures were $9.0 million in 2012 compared to $6.8 million in 2011. Capital expenditures were higher in 2012 due to increased managed service projects.

2011 Compared to 2010

Revenue

Revenue from telecom and IT equipment distribution was $206.0 million in 2011, an increase of $31.1 million, or 18%, compared to 2010. The increase in 2011 versus 2010 was primarily attributable to higher equipment sales arising from increased capital spending by enterprise customers.

In 2011, managed and professional services revenue was $94.5 million, an increase of $14.7 million, or 18%, compared to the same period a year ago. The increase in revenue was attributable to increased managed services provided to one of the Company's largest customers and increased demand for professional services from existing customers in 2011.

Costs and Expenses

Cost of services and products was $243.0 million in 2011, an increase of $40.4 million, or 20%, compared to 2010. Cost of equipment sold increased $25.1 million as a result of the higher revenue from telecom and IT equipment distribution. Additionally, increased demand for managed and professional services drove an increase in payroll and payroll related costs and contract service expenses from 2010 of $13.3 million.

SG&A expenses were $37.4 million in 2011, a decrease of $0.3 million, or 1%, from 2010. SG&A was relatively flat despite higher revenues due to cost reduction initiatives.

The $1.1 million increase in depreciation and amortization expense for 2011 compared to 2010 was primarily due to the assets placed in service to support the expansion of managed and professional services projects.

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The IT Services and Hardware segment incurred employee separation charges of $1.9 million and $2.8 million in 2011 and 2010, respectively, associated with the integration of certain functions with the Wireline segment.

Capital Expenditures

Capital expenditures were $6.8 million in 2011, down $1.5 million compared to 2010, due to projects in 2010 which required additional capital spending.

Data Center Colocation

The Data Center Colocation segment provided large enterprise customers with outsourced data center operations, including all necessary redundancy, security, power, cooling, and interconnection. As of December 31, 2012, our data center operations were operated under CyrusOne, a wholly-owned subsidiary. On January 24, 2013, we completed the IPO of CyrusOne's common stock. After the IPO, we effectively own approximately 69% of the economic interests of CyrusOne through our ownership of its common stock and partnership units of CyrusOne LP, but we no longer control its operations. Accordingly, after the IPO, we will recognize income from our investment in CyrusOne LP on the equity method and dividend income from our investment in CyrusOne.

(dollars in millions, except for operating metrics)	2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011	2010	$ Change 2011 vs. 2010	% Change 2011 vs. 2010
Revenue	$221.3	$184.7	$36.6	20 %	$125.3	$59.4	47 %
Operating costs and expenses:							
Cost of services	75.7	59.7	16.0	27 %	39.2	20.5	52 %
Selling, general and administrative	31.0	23.8	7.2	30 %	15.9	7.9	50 %
Depreciation and amortization	70.6	54.8	15.8	29 %	34.6	20.2	58 %
Restructuring charges	0.5	—	0.5	n/m	1.4	(1.4)	n/m
Gain on sale of assets	(0.2)	—	(0.2)	n/m	—	—	n/m
Asset impairments	13.3	—	13.3	n/m	—	—	n/m
Total operating costs and expenses	190.9	138.3	52.6	38 %	91.1	47.2	52 %
Operating income	$30.4	$46.4	$(16.0)	(34)%	$34.2	$12.2	36 %
Operating margin	13.7 %	25.1 %		(11.4) pts	27.3 %		(2.2) pts
Capital expenditures	$228.2	$118.5	$109.7	93 %	$31.1	$87.4	n/m
Metrics information:							
Data center capacity (in square feet)	932,000	763,000	169,000	22 %	639,000	124,000	19 %
Utilization rate*	78 %	88 %		(10) pts	88 %		— pts

* The utilization rate is calculated by dividing data center square footage that is committed contractually to customers, if built, by total data center square footage. Some data center square footage that is committed contractually may not yet be billing to the customer.

2012 Compared to 2011

Revenue

Data center service revenue consisted of recurring colocation rents and nonrecurring revenue for installation of customer equipment. Data center revenue was $221.3 million in 2012, up $36.6 million, or 20%, compared to 2011 primarily due to sales of additional space, power, and related colocation products to new and existing customers.

Our data center capacity increased to 932,000 square feet at December 31, 2012, a net increase of 22% compared to the same period last year. During 2012, we completed construction on 199,000 square feet of new data center capacity but also decommissioned 30,000 square feet of old, low-value legacy space in the Cincinnati market, resulting in a net increase in capacity of 169,000 square feet. The amount of new space contractually committed to customers totaled 92,000 square feet in

2012. As a result, the utilization rate of the data center facilities was 78% at December 31, 2012, down from 88% in the prior year. Of the 199,000 square feet of new capacity added during 2012, 66% was completed and commissioned during the second half of 2012.

Costs and Expenses

Cost of services in 2012 of $75.7 million increased by $16.0 million compared to 2011. Substantially all property operating costs increased as a result of the expansion of our data center facilities. Payroll, electricity, contract services, rent and property taxes all increased as additional data center space was commissioned for service.

SG&A costs were $31.0 million in 2012, an increase of $7.2 million compared to 2011. Payroll and other employee-related costs increased by $8.6 million as CyrusOne built and strengthened the quality of personnel in their finance function and senior management. Marketing costs increased by $1.5 million as CyrusOne increased their brand awareness through advertising, trade shows and other promotional activities, and consulting and legal costs increased by $1.4 million. The impact of these increases was partially offset by a decrease in other SG&A costs from the integration of the Cincinnati-based sales and back office functions into the Data Center Colocation segment in 2012.

The $15.8 million increase in depreciation and amortization expense for 2012 compared to 2011 was primarily due to new data center facilities placed into service in 2011 and 2012.

Restructuring charges of $0.5 million in 2012 were primarily related to the the separation of a member of the senior management team. No restructuring costs were incurred in 2011.

Gain on sale of assets of $0.2 million was realized from the sale of generators following an equipment upgrade at a Texas data center.

Asset impairments of $13.3 million in 2012 related to a long-lived assets write-down of $11.8 million and a $1.5 million impairment of customer relationship intangibles, both of which were primarily associated with the 2007 acquisition of GramTel. No such losses were incurred in 2011.

Capital Expenditures

Capital expenditures were $228.2 million in 2012, an increase of $109.7 million compared to the prior year. During 2012, CyrusOne continued its development of real estate, completing construction on 199,000 square feet of new space primarily at its Houston, Carrollton, San Antonio, Phoenix, Austin and Lewisville facilities. At December 31, 2012, expansions of data centers are ongoing in London, Phoenix and Houston.

2011 Compared to 2010

Revenue

Data center revenue in 2011 was $184.7 million, an increase of $59.4 million, or 47%, compared to 2010. The increase in revenue was primarily related to the acquisition of Cyrus Networks in June 2010 and new business earned in 2011. Changes to presentation of certain customers' utility billings in 2011 also added $7.6 million to revenue for the year.

The Data Center Colocation business had 763,000 square feet of data center space at December 31, 2011, up 19% from a year earlier, primarily from the acquisition of Cyrus Networks in June 2010. At December 31, 2011 the utilization rate of the Company's data center facilities was 88%, consistent with the prior year.

Costs and Expenses

Cost of services was $59.7 million for 2011, up $20.5 million, or 52%, compared to 2010. The increase is primarily related to the acquisition of Cyrus Networks and expansion of the Cincinnati-based operations. Cost of services increased by $13.4 million compared to the prior year. The change in the presentation of certain customers' utility billings, described above, also increased cost of services by $7.6 million.

SG&A expenses were $23.8 million for 2011, up $7.9 million, or 50%, versus the prior year. The increase is primarily related to the acquisition of Cyrus Networks. In addition, legal and consulting costs increased in 2011 related to start-up costs associated with new locations and advertising costs.