CINCINNATI BELL INC
Form 10-Q
November 08, 2018

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2018

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

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

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

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS

At October 31, 2018, there were 50,166,178 common shares outstanding.

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Form 10-Q Part I Cincinnati Bell Inc.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$386.7	$255.5	$979.2	$764.5
Costs and expenses				
Cost of services and products, excluding items below	197.7	127.0	499.4	380.0
Selling, general and administrative, excluding items below	85.7	53.2	220.2	162.3
Depreciation and amortization	75.5	47.3	177.6	140.1
Restructuring and severance related charges	—	—	4.9	29.2
Transaction and integration costs	13.3	12.1	18.2	14.4
Total operating costs and expenses	372.2	239.6	920.3	726.0
Operating income	14.5	15.9	58.9	38.5
Interest expense	33.7	18.8	96.3	54.9
Loss on extinguishment of debt	—	—	1.3	—
Other components of pension and postretirement benefit plans expense	3.0	3.0	9.5	9.4
Gain on sale of Investment in CyrusOne	—	—	—	(117.7)
Other (income) expense, net	(1.2)	4.5	(2.4)	3.5
(Loss) income before income taxes	(21.0)	(10.4)	(45.8)	88.4
Income tax (benefit) expense	(3.3)	0.6	(6.0)	36.5
Net (loss) income	(17.7)	(11.0)	(39.8)	51.9
Preferred stock dividends	2.6	2.6	7.8	7.8
Net (loss) income applicable to common shareowners	$(20.3)	$(13.6)	$(47.6)	$44.1
Basic net (loss) earnings per common share	$(0.41)	$(0.32)	$(1.06)	$1.05
Diluted net (loss) earnings per common share	$(0.41)	$(0.32)	$(1.06)	$1.04

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net (loss) income	$(17.7)	$(11.0)	$(39.8)	$51.9
Other comprehensive income (loss), net of tax:				
Unrealized gains on Investment in CyrusOne, net of tax of $4.4	—	—	—	8.3
Reclassification adjustment for gain on sale of Investment in CyrusOne included in net income, net of tax of ($41.3)	—	—	—	(76.4)
Foreign currency translation gain (loss)	1.7	0.1	(2.6)	0.1
Unrealized gain on cash flow hedge arising during the period, net of tax of $0.5, $0.1	1.6	—	0.1	—
Defined benefit plans:				
Amortization of prior service benefits included in net income, net of tax of ($0.1), ($0.4), ($0.5), ($1.2)	(0.6)	(0.8)	(1.8)	(2.2)
Amortization of net actuarial loss included in net income, net of tax of $1.1, $1.9, $3.5, $5.9	4.1	3.6	12.3	10.7
Total other comprehensive income (loss)	6.8	2.9	8.0	(59.5)
Total comprehensive loss	$(10.9)	$(8.1)	$(31.8)	$(7.6)

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

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

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$10.6	$17.8
Restricted cash	—	378.7
Receivables, less allowances of $9.8 and $10.4	286.0	239.8
Inventory, materials and supplies	44.7	44.3
Prepaid expenses	27.2	22.2
Other current assets	10.7	7.6
Total current assets	379.2	710.4
Property, plant and equipment, net	1,831.0	1,129.0
Goodwill	158.0	151.0
Intangible assets, net	173.9	132.3
Deferred income tax assets	60.6	12.2
Other noncurrent assets	56.8	52.7
Total assets	$2,659.5	$2,187.6
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$18.3	$18.4
Accounts payable	281.7	185.6
Unearned revenue and customer deposits	55.7	36.3
Accrued taxes	22.6	21.2
Accrued interest	25.0	29.9
Accrued payroll and benefits	44.0	28.7
Other current liabilities	27.6	37.2
Total current liabilities	474.9	357.3
Long-term debt, less current portion	1,909.4	1,729.3
Pension and postretirement benefit obligations	225.3	177.5
Deferred income tax liabilities	11.4	11.2
Other noncurrent liabilities	72.4	30.2
Total liabilities	2,693.4	2,305.5
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 $^{3}/_{4}$% Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2018 and December 31, 2017; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 96,000,000 shares authorized; 50,165,394 and 42,197,965 shares issued and outstanding at September 30, 2018 and December 31, 2017	0.5	0.4
Additional paid-in capital	2,681.3	2,565.6
Accumulated deficit	(2,679.4)	(2,639.6)
Accumulated other comprehensive loss	(165.7)	(173.7)
Total shareowners' deficit	(33.9)	(117.9)
Total liabilities and shareowners' deficit	$2,659.5	$2,187.6

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

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net (loss) income	$(39.8)	$51.9
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	177.6	140.1
Loss on extinguishment of debt	1.3	—
Gain on sale of Investment in CyrusOne	—	(117.7)
Provision for loss on receivables	5.2	5.6
Noncash portion of interest expense	3.7	1.5
Deferred income taxes	(7.9)	36.1
Pension and other postretirement payments (in excess of) less than expense	(7.4)	2.1
Stock-based compensation	4.5	5.2
Other, net	(3.3)	1.1
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in receivables	(20.2)	20.8
Decrease (increase) in inventory, materials, supplies, prepaid expenses and other current assets	1.5	(1.7)
Increase in accounts payable	16.4	2.4
(Decrease) increase in accrued and other current liabilities	(7.7)	11.1
(Increase) decrease in other noncurrent assets	(1.1)	1.0
Decrease in other noncurrent liabilities	—	(2.7)
Net cash provided by operating activities	122.8	156.8
Cash flows from investing activities		
Capital expenditures	(140.7)	(148.2)
Proceeds from sale of Investment in CyrusOne	—	140.7
Acquisitions of businesses, net of cash acquired	(216.8)	(9.6)
Other, net	(0.1)	0.3
Net cash used in investing activities	(357.6)	(16.8)
Cash flows from financing activities		
Net increase (decrease) in corporate credit and receivables facilities with initial maturities less than 90 days	194.2	(89.5)
Repayment of debt	(324.3)	(6.4)
Debt issuance costs	(11.0)	(1.3)
Dividends paid on preferred stock	(7.8)	(7.8)
Other, net	(2.1)	(1.0)
Net cash used in financing activities	(151.0)	(106.0)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(0.1)	—
Net (decrease) increase in cash, cash equivalents and restricted cash	(385.9)	34.0
Cash, cash equivalents and restricted cash at beginning of period	396.5	9.7
Cash, cash equivalents and restricted cash at end of period	$10.6	$43.7
Noncash investing and financing transactions:		
Stock consideration for merger of Hawaiian Telcom	$121.2	$—

Acquisition of property by assuming debt and other noncurrent liabilities	$6.8	$16.7
Acquisition of property on account	$36.6	$19.8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

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

The Company has 4,571 employees as of September 30, 2018. On July 2, 2018, the Company acquired Hawaiian Telcom Holdco, Inc. ("Hawaiian Telcom") and assumed a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 ("IBEW") that is effective through September 30, 2022. The agreement covers approximately 675 employees of the Hawaiian Telcom workforce.

The Company had receivables with General Electric Company that made up 10% of the outstanding accounts receivable balance as of December 31, 2017. As of September 30, 2018, the Company has receivables with Verizon Communications Inc. that make up 12% of the outstanding accounts receivable balance. Revenue derived from foreign operations is approximately 5% and 6% of consolidated revenue for the three and nine months ended September 30, 2018, respectively.

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

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

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

On January 1, 2018, the Company changed the composition of its operating segments to align more closely with the Company's broader strategy and how it manages business operations. With the exception of consumer long distance revenue, this strategy groups Competitive Local Exchange Carrier ("CLEC") revenue, which was previously included as part of the Entertainment and Communications segment, as part of the IT Services and Hardware segment in order to consolidate all company-wide VoIP sales. Accordingly, the Company recast the previously reported 2017 segment disclosures. See Note 14 for further disclosures. In July 2018, the Company acquired Hawaiian Telcom. Based on the product or service, Hawaiian Telcom results were integrated into either the Entertainment and Communications segment or the IT Services and Hardware segment.

The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full year or any other interim period.

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

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

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

Income and Operating Taxes

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

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

The Company filed its 2017 federal income tax return during the quarter ended June 30, 2018 and confirms that the accounting for the income tax effects of the Tax Cuts and Jobs Act signed into law on December 22, 2017 is now complete.

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

Derivative Financial Instruments — The Company accounts for derivative financial instruments by recognizing derivative instruments as either assets or liabilities in the Condensed Consolidated Balance Sheets at fair value and recognizing the resulting gains or losses as adjustments to the Condensed Consolidated Statements of Operations or "Accumulated Other Comprehensive Income (Loss)". The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of "Accumulated Other Comprehensive Income (Loss)" in stockholder's equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. Derivatives that do not qualify as hedges are adjusted to fair value through earnings in the current period.

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Recently Issued Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the requirements in ASU 350-40 for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted in any interim period after issuance of the update. The Company is in the process of evaluating the timing of adoption and the impact of this ASU on the Company's condensed consolidated financial statements.

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the hedge accounting model to facilitate financial reporting that more closely reflects a company's risk management activities. The FASB's new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the update. The Company early-adopted the guidance effective April 1, 2018.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU requires entities to disaggregate the current service cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement. The other components shall be presented elsewhere in the income statement and outside of income from operations, if such a subtotal is presented, on a retrospective basis as of the date of adoption. In addition, only the service cost component of net benefit cost is eligible for capitalization on a prospective basis. The ASU is effective for public business entities for annual periods beginning after December 15, 2017. The Company retrospectively adopted the standard effective January 1, 2018. The Company re-classed $1.5 million of other components of net benefit cost from both "Cost of services and products" and "Selling, general and administrative" to a new line below Operating income, "Other components of pension and postretirement benefit plans expense," on the Condensed Consolidated Statements of Operations for the three months ended September 30, 2017. The Company re-classed $4.8 million and $4.6 million of other components of net benefit cost from "Cost of services and products" and "Selling, general and administrative," respectively, to a new line below Operating income, "Other components of pension and postretirement benefit plans expense," on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2017.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flow - Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The FASB issued the ASU with the intent of reducing diversity in practice. The ASU is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material effect on the Company’s Consolidated Statement of Cash Flows.

In February 2016, the FASB issued ASU 2016-02, Leases, which represents a wholesale change to lease accounting. The standard introduces a lessee model that brings most leases on the balance sheet, as well as aligns certain underlying principles of the new lessor model with those in ASC 606. The ASU is effective for public entities for fiscal years beginning after December 15, 2018. As issued, the standard requires lessors and lessees to use a modified retrospective transition method for existing leases. ASU 2016-02 was amended in January 2018 by the provisions of ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842,” and in July 2018 by the provisions of ASU 2018-10, “Codification Improvements to Topic 842, Leases,” and ASU 2018-11, “Targeted Improvements.” We plan to adopt ASU 2016-02, as amended, effective January 1, 2019.

The Company has substantially completed procedures to identify the existing lease population to which the new standard is applicable. The Company is also in the process of implementing changes to accounting policies, processes, systems, and internal controls. The Company procured a third-party lease accounting software solution to facilitate the ongoing accounting and financial reporting requirements of the ASU. The new standard will result in increases to the assets and liabilities on the Company’s consolidated balance sheets. The Company is currently evaluating the full impact of adopting the new standard.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. The Company adopted the new standard and all subsequent amendments as of January 1, 2018. The Company utilized the full retrospective method; therefore, each prior reporting period presented was adjusted beginning with the issuance of the Company’s 2018 interim financial statements.

The most significant impact of adopting the new standard is the change to the treatment of hardware revenue in the Infrastructure Solutions category from recording hardware revenue as a principal (gross) to recording revenue as an agent (net). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record hardware sales net of the related cost of products. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations focusing on a control model rather than a risk and reward model. As a result of adopting ASU 2014-09, revenue and cost of products for the three and nine months ended September 30, 2017, decreased by $33.6 million and $96.8 million, respectively. Changes in accounting policies related to variable consideration or rebates did not have a material effect on the Company's financial statements. Fulfillment and acquisition costs that are now recorded as an asset and amortized on a monthly basis decreased expense for the three and nine months ended September 30, 2017 by $0.2 million and $0.8 million, respectively. This change to expense for fulfillment and acquisition costs increased basic and diluted earnings per share for the three months ended September 30, 2017 by $0.01 and increased basic and diluted earnings per share for the nine months ended September 30, 2017 by $0.02 and $0.01, respectively. An incremental asset related to fulfillment and acquisition costs of $32.3 million was recorded on the balance sheet as of December 31, 2017, with an offsetting reduction in "Accumulated deficit." As a result of the entry, the total contract asset related to fulfillment and acquisition costs was $32.4 million as of December 31, 2017. The impact of these adjustments resulted in a decrease of $7.1 million to "Deferred income tax assets" as of December 31, 2017, with the offset to "Accumulated deficit." See Note 3 for additional disclosures as a result of adopting ASC Topic 606.

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

2. Earnings Per Common Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Numerator:				
Net (loss) income	$(17.7)	$(11.0)	$(39.8)	$51.9
Preferred stock dividends	2.6	2.6	7.8	7.8
Net (loss) income applicable to common shareowners - basic and diluted	$(20.3)	$(13.6)	$(47.6)	$44.1
Denominator:				
Weighted average common shares outstanding - basic	50.1	42.2	45.0	42.1
Stock-based compensation arrangements	—	—	—	0.2
Weighted average common shares outstanding - diluted	50.1	42.2	45.0	42.3
Basic net (loss) earnings per common share	$(0.41)	$(0.32)	$(1.06)	$1.05
Diluted net (loss) earnings per common share	$(0.41)	$(0.32)	$(1.06)	$1.04

For the three and nine months ended September 30, 2018, the Company had a net loss available to common shareholders and, as a result, all common stock equivalents were excluded from the computation of diluted EPS as their inclusion would have been anti-dilutive. For the three months ended September 30, 2017, the Company had a net loss available to common shareholders and, as a result, all common stock equivalents were excluded from the computation of diluted EPS as their inclusion would have been anti-dilutive. For the nine months ended September 30, 2017, awards under the Company's stock-based compensation plans for common shares of 0.2 million were excluded from the computation of diluted EPS as the inclusion would have been anti-dilutive. For all periods presented, preferred stock convertible into 0.9 million common shares was excluded as it was anti-dilutive.

In conjunction with the merger of Hawaiian Telcom, the Company issued 7.7 million Common Shares as a part of the merger consideration. In addition, the Company granted 0.1 million time-based restricted stock units to certain Hawaiian Telcom employees under the Hawaiian Telcom 2010 Equity Incentive Plan.

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3. Revenue

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

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

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

The Company has elected the practical expedient described in ASC 606-10-32-18 that allows an entity to not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects that the period of time between the transfer of a promised good or service to the customer and when the customer pays for such good or service will be one year or less. Customers are typically billed immediately upon the rendering of services or the delivery of products. Payment terms for customers are between 30 and 180 days. Subsequent to the merger of Hawaiian Telcom, the Company began recognizing a financing component associated with the up-front payments for services to be delivered under indefeasible right of use ("IRU") contracts for fiber circuit capacity. The IRU contracts are associated with the SEA-US. The IRU contracts typically have a duration ranging from 15 to 25 years.

Method of Adoption

The Company adopted ASC Topic 606 on January 1, 2018, using the full retrospective method. The comparative periods for 2018 and 2017 are reported in accordance with ASC Topic 606. The adoption of ASC Topic 606 primarily affected product revenue and cost of products on our Consolidated Financial Statements. Based on the Company’s assessment of ASC Topic 606 as it relates to the sale of hardware within the Infrastructure Solutions category, the Company considers itself an agent (net) versus as a principal (gross). Based on our assessment of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), issued by the FASB in March 2016, the Company acts as an agent and as such will record revenue associated with the sale of hardware net of the related cost of products. This conclusion is based on the Company not obtaining control of the inventory since in most cases the Company does not take possession of the inventory, does not have the ability to direct the product to anyone besides the purchasing customer, and does not integrate the hardware with any of our own goods or services. In situations where the Company does take possession, the Company assesses if we act as the principal or the agent in such circumstances. While the Company does perform installation services in certain cases, those services involve installing the hardware into the customer’s existing technology. Installation is considered a separate performance obligation as it is capable of being distinct, and is distinct, within the context of the contract. The reduction to "Revenue" and "Cost of services and products" related to recording these contracts on a net basis is $33.6 million and $96.8 million for the three and nine months ended September 30, 2017, respectively.

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

Performance Obligations

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

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

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

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

As of September 30, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially unsatisfied) is $29.8 million. Approximately 80% of this revenue is related to IRU contracts associated with the SEA-US (see Note 9). Certain IRU contracts extend for periods of up to 30 years and are invoiced at the beginning of the contract term. The revenue from such contracts is recognized over time as services are provided over the contract term. The expected revenue to be recognized for existing IRU contracts is as follows:

(dollars in millions)	
Three months ended December 31, 2018	$0.4
2019	1.5
2020	1.5
2021	1.5
2022	1.6
Thereafter	23.3
Total	$29.8

Entertainment and Communications

The Company has identified four distinct performance obligations in the Entertainment and Communications segment, namely Data, Voice, Video and Other. For each of the Data, Voice and Video services, service is delivered to the customer continuously and in a substantially similar manner for each period of the agreement, the customer takes full control over the services as the service is delivered, and as such Data, Voice and Video are identified to be a series of distinct services. Services provided by the Entertainment and Communications segment can be categorized into three main categories that include Consumer/SMB, Enterprise Fiber and Legacy, each of which may include one or more of the aforementioned performance obligations. Data services include high-speed internet access, digital subscriber lines, ethernet, routed network services, SONET (Synchronous Optical Network), dedicated internet access, wavelength, digital signal and IRU revenue. Voice services include traditional and fiber voice lines, switched access, digital trunking and consumer long distance calling. Video services are offered through our fiber network to consumer and enterprise customers based on various standard plans with the opportunity to add premium channels. To receive video services, customers are required to use the Company's set top boxes that are billed as part of the monthly recurring service. Set top boxes are not considered a separate performance obligation from video because the equipment is necessary for the service to operate and the customer has no alternative use for the equipment.

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

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

IT Services and Hardware

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

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

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

For hardware sales, revenue is recognized net of the cost of product. For hardware sales within Infrastructure Solutions, revenue is recognized when the hardware is shipped. For certain projects within Communications and Consulting, revenue is recognized when the customer communicates acceptance of the services performed. For contracts with freight on board shipping terms, management has elected to account for shipping and handling as activities to fulfill the promise to transfer the good, and therefore, has not evaluated whether shipping and handling activities are promised services to its customers.

Contract Balances

The Company recognizes incremental fulfillment costs as an asset when installation expenses are incurred as part of performing the agreement for Voice, Video and Data product offerings in the Entertainment and Communications segment in which the contract life is longer than one year. These fulfillment costs are amortized ratably over the expected life of the customer, which is representative of the expected period of benefit of the asset capitalized. The expected life of the customer is determined utilizing the average churn rate for each product. The Company calculates average churn based on the historical average customer life. We also recognize an asset for incremental fulfillment costs for certain Communications services in the IT Services and Hardware segment that require us to incur installation and provisioning expenses. The asset recognized for Communication services is amortized over the average contract life. Churn rates and average contract life are reviewed on an annual basis. Fulfillment costs are capitalized to “Other noncurrent assets.” The related amortization expense is recorded to “Cost of services and products.”

The Company recognizes an asset for the incremental costs of acquiring a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive programs related to

Voice, Video, Data and certain Communications and Cloud services meet the requirements to be capitalized. The contract asset established for the costs of acquiring a contract are recorded to “Other noncurrent assets.” Sales incentives are amortized ratably over the period that services are delivered using either an average churn rate or average contract term, both representative of the expected period of benefit of the asset capitalized. Customer churn rates and average contract term assumptions are reviewed on an annual basis. The related amortization expense is recorded to “Selling, general and administrative.”

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

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

(dollars in millions)	Fulfillment Costs			Cost of Acquisition			Total Contract Assets		
	Entertainment and Communications	IT Services and Hardware	Total Company	Entertainment and Communications	IT Services and Hardware	Total Company	Entertainment and Communications	IT Services and Hardware	Total Company
Balance as of December 31, 2017	$17.5	$ 2.0	$ 19.5	$11.6	$ 1.3	$ 12.9	$29.1	$ 3.3	$ 32.4
Additions	3.1	0.4	3.5	1.6	0.4	2.0	4.7	0.8	5.5
Amortization	(3.3)	(0.3)	(3.6)	(1.7)	(0.2)	(1.9)	(5.0)	(0.5)	(5.5)
Balance as of March 31, 2018	17.3	2.1	19.4	11.5	1.5	13.0	28.8	3.6	32.4
Additions	3.0	0.4	3.4	1.8	0.3	2.1	4.8	0.7	5.5
Amortization	(3.3)	(0.3)	(3.6)	(1.6)	(0.2)	(1.8)	(4.9)	(0.5)	(5.4)
Balance as of June 30, 2018	17.0	2.2	19.2	11.7	1.6	13.3	28.7	3.8	32.5
Additions	3.2	0.6	3.8	2.3	0.6	2.9	5.5	1.2	6.7
Amortization	(3.2)	(0.4)	(3.6)	(1.6)	(0.3)	(1.9)	(4.8)	(0.7)	(5.5)
Balance as of September 30, 2018	$17.0	$ 2.4	$ 19.4	$12.4	$ 1.9	$ 14.3	$29.4	$ 4.3	$ 33.7

The Company recognizes a liability for cash received upfront for IRU contracts. At September 30, 2018, $1.5 million of contract liabilities were included in "Other current liabilities" and $28.3 million of contract liabilities were included in "Other noncurrent liabilities."

Disaggregated Revenue

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

(dollars in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Data	$116.0	$85.3	$285.3	$259.8
Video	52.4	37.7	131.3	110.5
Voice	76.8	48.9	169.8	151.1
Other	8.2	3.1	15.1	9.7
Total Entertainment and Communications	253.4	175.0	601.5	531.1
Consulting	42.1	16.1	120.0	49.3
Cloud	26.2	17.4	71.8	57.5
Communications	47.0	43.9	129.1	120.7
Infrastructure Solutions	25.8	9.6	76.1	25.3
Total IT Services and Hardware	141.1	87.0	397.0	252.8
Intersegment revenue	(7.8)	(6.5)	(19.3)	(19.4)
Total revenue	$386.7	$255.5	$979.2	$764.5

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The following table presents revenues disaggregated by contract type.

(dollars in millions)	Three Months Ended September 30,							
	Entertainment and Communications		IT Services and Hardware		Intersegment revenue elimination		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Products and Services transferred at a point in time	$ 7.9	$						