

APPLE INC  
Form 10-Q  
January 28, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended December 28, 2013

or

**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: 000-10030

**APPLE INC.**

(Exact name of Registrant as specified in its charter)

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**California**  
(State or other jurisdiction)

**94-2404110**  
(I.R.S. Employer Identification No.)

of incorporation or organization)

**1 Infinite Loop**

**Cupertino, California**  
(Address of principal executive offices)

**95014**  
(Zip Code)

**Registrant's telephone number, including area code: (408) 996-1010**

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  No

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

Yes  No

Indicate by check mark 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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

891,989,000 shares of common stock issued and outstanding as of January 10, 2014

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**Apple Inc.**

**Form 10-Q**

**For the Fiscal Quarter Ended December 28, 2013**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In millions, except number of shares which are reflected in thousands and per share amounts)

	<b>Three Months Ended</b>	
	<b>December 28, 2013</b>	<b>December 29, 2012</b>
Net sales	\$ 57,594	\$ 54,512
Cost of sales	35,748	33,452
<b>Gross margin</b>	<b>21,846</b>	<b>21,060</b>
Operating expenses:		
Research and development	1,330	1,010
Selling, general and administrative	3,053	2,840
<b>Total operating expenses</b>	<b>4,383</b>	<b>3,850</b>
Operating income	17,463	17,210
Other income/(expense), net	246	462
Income before provision for income taxes	17,709	17,672
Provision for income taxes	4,637	4,594
Net income	\$ 13,072	\$ 13,078
Earnings per share:		
Basic	\$ 14.59	\$ 13.93
Diluted	\$ 14.50	\$ 13.81
Shares used in computing earnings per share:		
Basic	896,072	938,916
Diluted	901,452	947,217
Cash dividends declared per common share	\$ 3.05	\$ 2.65

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(In millions)

	<b>Three Months Ended</b>	
	<b>December 28, 2013</b>	<b>December 29, 2012</b>
Net income	\$ 13,072	\$ 13,078
Other comprehensive income/(loss):		
Change in foreign currency translation, net of tax	(67)	(26)
Change in unrecognized gains/losses on derivative instruments:		
Change in fair value of derivatives, net of tax	213	146
Adjustment for net (gains)/losses realized and included in net income, net of tax	72	112
Total change in unrecognized gains/losses on derivative instruments, net of tax	285	258
Change in unrealized gains/losses on marketable securities:		
Change in fair value of marketable securities, net of tax	(42)	(66)
Adjustment for net (gains)/losses realized and included in net income, net of tax	(11)	(53)
Total change in unrealized gains/losses on marketable securities, net of tax	(53)	(119)
Total other comprehensive income/(loss)	165	113
Total comprehensive income	\$ 13,237	\$ 13,191

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****APPLE INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions, except number of shares which are reflected in thousands)

	December 28, 2013	September 28, 2013
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 14,077	\$ 14,259
Short-term marketable securities	26,634	26,287
Accounts receivable, less allowances of \$94 and \$99, respectively	14,200	13,102
Inventories	2,122	1,764
Deferred tax assets	3,742	3,453
Vendor non-trade receivables	10,998	7,539
Other current assets	8,574	6,882
<b>Total current assets</b>	<b>80,347</b>	<b>73,286</b>
Long-term marketable securities	118,131	106,215
Property, plant and equipment, net	15,488	16,597
Goodwill	2,022	1,577
Acquired intangible assets, net	4,105	4,179
Other assets	5,091	5,146
<b>Total assets</b>	<b>\$ 225,184</b>	<b>\$ 207,000</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>		
Current liabilities:		
Accounts payable	\$ 29,588	\$ 22,367
Accrued expenses	15,824	13,856
Deferred revenue	8,357	7,435
<b>Total current liabilities</b>	<b>53,769</b>	<b>43,658</b>
Deferred revenue non-current	3,071	2,625
Long-term debt	16,961	16,960
Other non-current liabilities	21,699	20,208
<b>Total liabilities</b>	<b>95,500</b>	<b>83,451</b>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000 shares authorized; 892,447 and 899,213 shares issued and outstanding, respectively	20,559	19,764
Retained earnings	109,431	104,256
Accumulated other comprehensive income/(loss)	(306)	(471)
<b>Total shareholders' equity</b>	<b>129,684</b>	<b>123,549</b>

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Total liabilities and shareholders' equity	\$	225,184	\$	207,000
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See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****APPLE INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(In millions)

	<b>Three Months Ended</b>	
	<b>December 28, 2013</b>	<b>December 29, 2012</b>
Cash and cash equivalents, beginning of the period	\$ 14,259	\$ 10,746
Operating activities:		
Net income	13,072	13,078
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	2,144	1,588
Share-based compensation expense	681	545
Deferred income tax expense	1,253	1,179
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,098)	(668)
Inventories	(358)	(664)
Vendor non-trade receivables	(3,459)	(2,174)
Other current and non-current assets	(319)	413
Accounts payable	8,191	6,145
Deferred revenue	1,368	1,611
Other current and non-current liabilities	1,195	2,373
Cash generated by operating activities	22,670	23,426
Investing activities:		
Purchases of marketable securities	(48,397)	(37,192)
Proceeds from maturities of marketable securities	5,556	3,460
Proceeds from sales of marketable securities	30,302	23,002
Payments made in connection with business acquisitions, net	(525)	(284)
Payments for acquisition of property, plant and equipment	(1,985)	(2,317)
Payments for acquisition of intangible assets	(59)	(138)
Other	5	(52)
Cash used in investing activities	(15,103)	(13,521)
Financing activities:		
Proceeds from issuance of common stock	134	76
Excess tax benefits from equity awards	280	404
Taxes paid related to net share settlement of equity awards	(365)	(534)
Dividends and dividend equivalents paid	(2,769)	(2,493)
Repurchase of common stock	(5,029)	(1,950)
Cash used in financing activities	(7,749)	(4,497)
Increase/(decrease) in cash and cash equivalents	(182)	5,408
Cash and cash equivalents, end of the period	\$ 14,077	\$ 16,154



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Supplemental cash flow disclosure:

Cash paid for income taxes, net	\$	3,387	\$	1,890
Cash paid for interest	\$	161	\$	0

See accompanying Notes to Condensed Consolidated Financial Statements.

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**Apple Inc.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 1 Summary of Significant Accounting Policies**

Apple Inc. and its wholly-owned subsidiaries (collectively Apple or the Company ) designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac, and iPod compatible products, including application software, and various accessories through its online and retail stores. The Company sells to consumers; small and mid-sized businesses; and education, enterprise and government customers.

**Basis of Presentation and Preparation**

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company s annual consolidated financial statements and the notes thereto for the fiscal year ended September 28, 2013, included in its Annual Report on Form 10-K (the 2013 Form 10-K ). The Company s fiscal year is the 52 or 53-week period that ends on the last Saturday of September. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters. The Company s fiscal years 2014 and 2013 each include 52 weeks. Unless otherwise stated, references to particular years, quarters or months refer to the Company s fiscal years ended in September and the associated quarters or months of those fiscal years.

During the first quarter of 2014, the Company adopted updated accounting standards that (i) required disclosure of additional information about the amounts reclassified out of Accumulated Other Comprehensive Income ( AOCI ) by component and (ii) required gross and net disclosures about offsetting assets and liabilities. The adoption of these updated standards only impacted the disclosures in the Notes to the Condensed Consolidated Financial Statements; accordingly, the adoption had no impact on the Company s financial position or results of operations. The Company has provided these additional disclosures in this Form 10-Q in Note 8, Comprehensive Income and Note 2, Financial Instruments, respectively.

**Revenue Recognition**

In 2013, the Company s combined best estimates of selling price ( ESPs ) for the unspecified software upgrade rights and the rights to receive the non-software services included with its qualifying hardware devices ranged from \$5 to \$25. Beginning in the first quarter of 2014, the Company adjusted the combined ESPs for Mac from \$20 to \$40 to reflect additions to unspecified software upgrade rights related to expansion of bundled essential software.

**Table of Contents****Earnings Per Share**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan and unvested restricted stock units (RSUs). The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted earnings per share for the three months ended December 28, 2013 and December 29, 2012 (in thousands, except net income in millions and per share amounts):

	Three Months Ended	
	December 28, 2013	December 29, 2012
<b>Numerator:</b>		
Net income	\$ 13,072	\$ 13,078
<b>Denominator:</b>		
Weighted-average shares outstanding	896,072	938,916
Effect of dilutive securities	5,380	8,301
Weighted-average diluted shares	901,452	947,217
Basic earnings per share	\$ 14.59	\$ 13.93
Diluted earnings per share	\$ 14.50	\$ 13.81

Potentially dilutive securities representing 0.4 million and 3.7 million shares of common stock for the three months ended December 28, 2013 and December 29, 2012, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been antidilutive.

**Note 2 Financial Instruments****Cash, Cash Equivalents and Marketable Securities**

The following tables show the Company's cash and available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of December 28, 2013 and September 28, 2013 (in millions):

	December 28, 2013						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$ 8,404	\$ 0	\$ 0	\$ 8,404	\$ 8,404	\$ 0	\$ 0
Level 1 (a):							
Money market funds	2,236	0	0	2,236	2,236	0	0
Mutual funds	4,045	0	(248)	3,797	0	3,797	0

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Subtotal	6,281	0	(248)	6,033	2,236	3,797	0
Level 2 (b):							
U.S. Treasury securities	39,177	11	(62)	39,126	629	8,498	29,999
U.S. agency securities	16,087	7	(37)	16,057	1,016	3,854	11,187
Non-U.S. government securities	5,470	25	(141)	5,354	0	276	5,078
Certificates of deposit and time deposits	1,438	0	0	1,438	668	494	276
Commercial paper	2,212	0	0	2,212	1,122	991	99
Corporate securities	57,709	297	(221)	57,785	2	7,658	50,125
Municipal securities	6,246	49	(13)	6,282	0	1,021	5,261
Mortgage- and asset-backed securities	16,221	23	(93)	16,151	0	45	16,106
Subtotal	144,560	412	(567)	144,405	3,437	22,837	118,131
Total	\$ 159,245	\$ 412	\$ (815)	\$ 158,842	\$ 14,077	\$ 26,634	\$ 118,131

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	September 28, 2013							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities	
Cash	\$ 8,705	\$ 0	\$ 0	\$ 8,705	\$ 8,705	\$ 0	\$ 0	
Level 1 (a):								
Money market funds	1,793	0	0	1,793	1,793	0	0	
Mutual funds	3,999	0	(197)	3,802	0	3,802	0	
Subtotal	5,792	0	(197)	5,595	1,793	3,802	0	
Level 2 (b):								
U.S. Treasury securities	27,642	24	(47)	27,619	431	7,554	19,634	
U.S. agency securities	16,878	12	(52)	16,838	177	3,412	13,249	
Non-U.S. government securities	5,545	35	(137)	5,443	50	313	5,080	
Certificates of deposit and time deposits	2,344	0	0	2,344	1,264	844	236	
Commercial paper	2,998	0	0	2,998	1,835	1,163	0	
Corporate securities	54,586	275	(252)	54,609	0	8,077	46,532	
Municipal securities	6,257	45	(22)	6,280	4	1,114	5,162	
Mortgage- and asset-backed securities	16,396	23	(89)	16,330	0	8	16,322	
Subtotal	132,646	414	(599)	132,461	3,761	22,485	106,215	
Total	\$ 147,143	\$ 414	\$ (796)	\$ 146,761	\$ 14,259	\$ 26,287	\$ 106,215	

- (a) The fair value of Level 1 securities is estimated based on quoted prices in active markets for identical assets or liabilities.
- (b) The fair value of Level 2 securities is estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The net realized gains or losses recognized by the Company related to such sales were not significant during the three months ended December 28, 2013 and December 29, 2012. The maturities of the Company's long-term marketable securities generally range from one to five years.

As of December 28, 2013 and September 28, 2013, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant.

As of December 28, 2013, the Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates, and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. During the three months ended December 28, 2013 and December 29, 2012, the Company did not recognize any significant impairment charges.



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### **Derivative Financial Instruments**

The Company uses derivatives to partially offset its business exposure to foreign currency and interest rate risk. The Company may enter into forward contracts, option contracts, swaps, or other derivative instruments to offset some of the risk on expected future cash flows, on net investments in certain foreign subsidiaries, and on certain existing assets and liabilities.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company's subsidiaries whose functional currency is the U.S. dollar hedge a portion of forecasted foreign currency revenue. The Company's subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries functional currencies. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates.

To help protect against adverse fluctuations in interest rates, the Company may enter into interest rate swaps, options, or other instruments to offset a portion of the changes in income or expense due to fluctuations in interest rates.

The Company may also enter into foreign currency forward and option contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies. However, the Company may choose not to hedge certain foreign currency exchange exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these instruments is based on whether the instruments are designated as hedge or non-hedge instruments. The effective portions of cash flow hedges are recorded in AOCI until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in other comprehensive income (OCI) as a part of the cumulative translation adjustment. The ineffective portions of cash flow hedges and net investment hedges are recorded in other income and expense. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized as a component of other income/(expense), net in the same period as the related income or expense is recognized. The Company's hedged foreign currency transactions and hedged interest rate transactions as of December 28, 2013 are expected to occur within 12 months and five years, respectively.

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Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income and expense. Any subsequent changes in fair value of such derivative instruments are reflected in other income and expense unless they are re-designated as hedges of other transactions. The Company did not recognize any significant net gains or losses related to the loss of hedge designation on discontinued cash flow hedges during the three months ended December 28, 2013 and December 29, 2012.

The Company's unrealized net gains and losses on net investment hedges, included in the cumulative translation adjustment account of AOCI, were not significant as of December 28, 2013 and September 28, 2013. The ineffective portions and amounts excluded from the effectiveness test of net investment hedges are recorded in other income and expense.

The gain/loss recognized in other income and expense for foreign currency forward and option contracts not designated as hedging instruments was not significant during the three months ended December 28, 2013 and December 29, 2012.

The following table shows the notional principal amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of December 28, 2013 and September 28, 2013 (in millions):

	December 28, 2013		September 28, 2013	
	Notional Principal	Credit Risk Amounts	Notional Principal	Credit Risk Amounts
Instruments designated as accounting hedges:				
Foreign exchange contracts	\$ 23,553	\$ 331	\$ 35,013	\$ 159
Interest rate contracts	\$ 3,000	\$ 55	\$ 3,000	\$ 44
Instruments not designated as accounting hedges:				
Foreign exchange contracts	\$ 16,859	\$ 48	\$ 16,131	\$ 25

The notional principal amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company's exposure to credit or market loss. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date. The Company's gross exposure on these transactions may be further mitigated by collateral received from certain counterparties. The Company's exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional principal and credit risk amounts of the Company's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.



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The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values. As of December 28, 2013, the Company received \$165 million of cash collateral related to the derivative instruments under its collateral security arrangements, which were recorded as accrued expenses in the Condensed Consolidated Balance Sheet. As of September 28, 2013, the Company posted cash collateral related to the derivative instruments under its collateral security arrangements of \$164 million, which it recorded as other current assets in the Condensed Consolidated Balance Sheet. The Company did not have any derivative instruments with credit-risk related contingent features that would require it to post additional collateral as of December 28, 2013 or September 28, 2013.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. However, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in its Condensed Consolidated Balance Sheets. As of December 28, 2013 and September 28, 2013, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of \$356 million and \$333 million, respectively, resulting in net derivative liabilities of \$66 million and \$57 million, respectively.

The following tables show the Company's derivative instruments at gross fair value as reflected in the Condensed Consolidated Balance Sheets as of December 28, 2013 and September 28, 2013 (in millions):

	December 28, 2013		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	\$ 263	\$ 48	\$ 311
Interest rate contracts	\$ 55	\$ 0	\$ 55
Derivative liabilities (b):			
Foreign exchange contracts	\$ 231	\$ 36	\$ 267

	September 28, 2013		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (a):			
Foreign exchange contracts	\$ 145	\$ 25	\$ 170
Interest rate contracts	\$ 44	\$ 0	\$ 44
Derivative liabilities (b):			
Foreign exchange contracts	\$ 389	\$ 46	\$ 435

- (a) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Condensed Consolidated Balance Sheets.

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- (b) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

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The following table shows the pre-tax effect of the Company's derivative instruments designated as cash flow and net investment hedges in the Condensed Consolidated Statements of Operations for the three months ended December 28, 2013 and December 29, 2012 (in millions):

	Three Months Ended						
	Gains/(Losses) Recognized in OCI - Effective Portion		Gains/(Losses) Reclassified from AOCI into Net Income - Effective Portion		Gains/(Losses) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing Financial Statement		
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012	Line Item	December 28, 2013	December 29, 2012
Cash flow hedges:							
Foreign exchange contracts	\$ 264	\$ 205	\$ (74)	\$ (159)	Other income/(expense), net	\$ (3)	\$ 9
Interest rate contracts	21	0	(4)	0	Other income/(expense), net	0	0
Net investment hedges:							
Foreign exchange contracts	24	36	0	0	Other income/(expense), net	1	0
Total	\$ 309	\$ 241	\$ (78)	\$ (159)		\$ (2)	\$ 9

**Accounts Receivable**

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses, and education, enterprise and government customers that are not covered by collateral, third-party financing arrangements or credit insurance. There were no customers that accounted for 10% or more of the Company's trade receivables as of December 28, 2013. As of September 28, 2013, the Company had two customers that represented 10% or more of total trade receivables, one of which accounted for 13% and the other 10%. The Company's cellular network carriers accounted for 48% and 68% of trade receivables as of December 28, 2013 and September 28, 2013, respectively.

Additionally, the Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these manufacturing vendors who manufacture sub-assemblies or assemble final products for the Company. Vendor non-trade receivables from two of the Company's vendors accounted for 62% and 15% of total non-trade receivables as of December 28, 2013 and three of the Company's vendors accounted for 47%, 21% and 15% of total non-trade receivables as of September 28, 2013.

**Table of Contents****Note 3 Condensed Consolidated Financial Statement Details**

The following tables show the Company's condensed consolidated financial statement details as of December 28, 2013 and September 28, 2013 (in millions):

**Inventories**

	December 28, 2013	September 28, 2013
Components	\$ 523	\$ 683
Finished goods	1,599	1,081
<b>Total inventories</b>	<b>\$ 2,122</b>	<b>\$ 1,764</b>

**Property, Plant and Equipment**

	December 28, 2013	September 28, 2013
Land and buildings	\$ 3,625	\$ 3,309
Machinery, equipment and internal-use software	21,537	21,242
Leasehold improvements	4,126	3,968
Gross property, plant and equipment	29,288	28,519
Accumulated depreciation and amortization	(13,800)	(11,922)
<b>Net property, plant and equipment</b>	<b>\$ 15,488</b>	<b>\$ 16,597</b>

**Accrued Expenses**

	December 28, 2013	September 28, 2013
Accrued warranty and related costs	\$ 3,980	\$ 2,967
Accrued taxes	2,083	1,200
Deferred margin on component sales	1,475	1,262
Accrued marketing and selling expenses	1,143	1,291
Accrued compensation and employee benefits	1,002	959
Other current liabilities	6,141	6,177
<b>Total accrued expenses</b>	<b>\$ 15,824</b>	<b>\$ 13,856</b>

**Non-Current Liabilities**

	December 28, 2013	September 28, 2013
Deferred tax liabilities	\$ 18,306	\$ 16,489

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Other non-current liabilities		3,393		3,719
<b>Total other non-current liabilities</b>	<b>\$</b>	<b>21,699</b>	<b>\$</b>	<b>20,208</b>

**Other Income and Expense**

The following table shows the detail of other income and expense for the three months ended December 28, 2013 and December 29, 2012 (in millions):

	<b>Three Months Ended</b>	
	<b>December 28, 2013</b>	<b>December 29, 2012</b>
Interest and dividend income	\$ 427	\$ 421
Interest expense	(84)	0
Other expense, net	(97)	41
<b>Total other income/(expense), net</b>	<b>\$ 246</b>	<b>\$ 462</b>

**Table of Contents****Note 4 Goodwill and Other Intangible Assets**

The Company's acquired intangible assets with definite useful lives primarily consist of patents and licenses and are amortized over periods typically from three to seven years. The following table summarizes the components of gross and net intangible asset balances as of December 28, 2013 and September 28, 2013 (in millions):

	December 28, 2013			September 28, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived and amortizable acquired intangible assets	\$ 6,271	\$ (2,266)	\$ 4,005	\$ 6,081	\$ (2,002)	\$ 4,079
Indefinite lived and non-amortizable acquired intangible assets	100	0	100	100	0	100
Total acquired intangible assets	\$ 6,371	\$ (2,266)	\$ 4,105	\$ 6,181	\$ (2,002)	\$ 4,179

During the first quarter of 2014, the Company completed various business acquisitions. The aggregate cash consideration paid, net of cash acquired, was \$525 million, of which \$440 million was allocated to goodwill, \$156 million to acquired intangible assets and \$71 million to net liabilities assumed.

**Note 5 Income Taxes**

As of December 28, 2013, the Company recorded gross unrecognized tax benefits of \$3.0 billion, of which \$1.5 billion, if recognized, would affect the Company's effective tax rate. As of September 28, 2013, the total amount of gross unrecognized tax benefits was \$2.7 billion, of which \$1.4 billion, if recognized, would affect the Company's effective tax rate. The Company's total gross unrecognized tax benefits are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. The Company had \$643 million and \$590 million of gross interest and penalties accrued as of December 28, 2013 and September 28, 2013, respectively, which are classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between \$140 million and \$160 million in the next 12 months.

**Table of Contents****Note 6 Long-Term Debt**

In May 2013, the Company issued floating- and fixed-rate notes with varying maturities for an aggregate principal amount of \$17.0 billion (collectively the Notes). The Notes are senior unsecured obligations, and interest is payable in arrears, quarterly for the floating-rate notes and semi-annually for the fixed-rate notes.

The principal amounts and associated effective interest rates of the Notes as of December 28, 2013, are as follows:

	Amount (in millions)	Effective Interest Rate
Floating-rate notes, due 2016	\$ 1,000	0.51%
Floating-rate notes, due 2018	2,000	1.10%
Fixed-rate 0.45% notes due 2016	1,500	0.51%
Fixed-rate 1.00% notes due 2018	4,000	1.08%
Fixed-rate 2.40% notes due 2023	5,500	2.44%
Fixed-rate 3.85% notes due 2043	3,000	3.91%
<b>Total</b>	<b>\$ 17,000</b>	

The floating-rate notes due 2016 and 2018 bear interest at the three-month London InterBank Offered Rate (LIBOR) plus 0.05% and 0.25%, respectively. To manage the risk of fluctuations in interest rates associated with the floating-rate notes, the Company entered into interest rate swaps with an aggregate notional amount of \$3.0 billion designated as cash flow hedges of its floating-rate notes. These hedges effectively convert the floating interest rate on the floating-rate notes to a fixed interest rate. The gains and losses related to changes in the fair value of the interest rate swaps are recorded in OCI with a portion reclassified to interest expense each period to offset changes in interest rates on the floating-rate notes. The effective rates for the Notes include the interest on the Notes, amortization of the discount and, if applicable, adjustments related to hedging. The Company recognized \$84 million of interest expense for the three months ended December 28, 2013. As of December 28, 2013, the aggregate unamortized discount for the Company's Notes was \$39 million.

Future principal payments for the Company's Notes as of December 28, 2013, are as follows (in millions):

2014	\$ 0
2015	0
2016	2,500
2017	0
2018	6,000
Thereafter	8,500
<b>Total</b>	<b>\$ 17,000</b>

As of December 28, 2013, the fair value of the Company's Notes, based on Level 2 inputs, was \$15.8 billion.

**Table of Contents****Note 7 Shareholders Equity****Preferred Stock**

The Company has five million shares of authorized preferred stock, none of which is issued or outstanding. Under the terms of the Company's Restated Articles of Incorporation, the Board of Directors is authorized to determine or alter the rights, preferences, privileges and restrictions of the Company's authorized but unissued shares of preferred stock.

**Dividend and Share Repurchase Program**

The Company declared and paid cash dividends per common share during the periods presented as follows:

	<b>Dividends Per Share</b>	<b>Amount (in millions)</b>
<b>2014:</b>		
First quarter	\$ 3.05	\$ 2,739
<b>2013:</b>		
Fourth quarter	\$ 3.05	\$ 2,763
Third quarter	3.05	2,789
Second quarter	2.65	2,490
First quarter	2.65	2,486
	\$ 11.40	\$ 10,528

Future dividends are subject to declaration by the Board of Directors.

In 2012, the Company's Board of Directors authorized a program to repurchase up to \$10 billion of the Company's common stock beginning in 2013. In April 2013, the Company's Board of Directors increased the share repurchase program authorization from \$10 billion to \$60 billion, of which \$28.0 billion had been utilized as of December 28, 2013. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act).

In August 2012, the Company entered into an accelerated share repurchase arrangement (ASR) with a financial institution to purchase up to \$1.95 billion of the Company's common stock in 2013. In the first quarter of 2013, 2.6 million shares were initially delivered to the Company. In April 2013, the purchase period for the ASR ended and an additional 1.5 million shares were delivered to the Company. In total, 4.1 million shares were delivered under the ASR at an average repurchase price of \$478.20 per share. The shares were retired in the quarters they were delivered, and the up-front payment of \$1.95 billion was accounted for as a reduction to shareholders' equity in the Company's Condensed Consolidated Balance Sheet in the first quarter of 2013.

In April 2013, the Company entered into a new ASR program with two financial institutions to purchase up to \$12 billion of the Company's common stock. In exchange for up-front payments totaling \$12 billion, the financial institutions committed to deliver shares during the ASR's purchase periods, which will end during 2014. The total number of shares ultimately delivered, and therefore the average price paid per share, will be determined at the end of the applicable purchase period based on the volume weighted-average price of the Company's stock during that period. During the third quarter of 2013, 23.5 million shares were initially delivered to the Company and retired. This does not represent the final number of shares to be delivered under the ASR. The up-front payments of \$12 billion were accounted for as a reduction to shareholders' equity in the Company's Condensed Consolidated Balance Sheet.

The Company reflected the ASRs as a repurchase of common stock for purposes of calculating earnings per share and as forward contracts indexed to its own common stock. The forward contracts met all of the applicable criteria for equity classification, and, therefore, were not accounted for as derivative instruments.



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During the three months ended December 28, 2013, the Company repurchased 9.5 million shares of its common stock in the open market at an average price of \$523.51 per share for a total of \$5.0 billion. These shares were retired upon repurchase.

**Table of Contents****Note 8 Comprehensive Income**

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Company's other comprehensive income consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges, and unrealized gains and losses on marketable securities classified as available-for-sale.

The following table shows the gross amounts reclassified from AOCI into the Condensed Consolidated Statements of Operations and the associated financial statement line item, for the three months ended December 28, 2013:

Comprehensive Income Components	Financial Statement Line Item	Amount (in millions)
Unrecognized gains/losses on derivative instruments:		
Foreign exchange contracts	Revenue	\$ 184
	Cost of Sales	(110)
	Other income/expense, net	10
Interest rate contracts	Other income/expense, net	4
		88
Unrealized gains/losses on marketable securities	Other income/expense, net	(17)
Total amounts reclassified from AOCI		\$ 71

The following table shows the changes in AOCI by component for the three months ended December 28, 2013 (in millions):

	Cumulative Foreign Currency Translation	Unrecognized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Securities	Total
September 28, 2013	\$ (105)	\$ (175)	\$ (191)	\$ (471)
Other comprehensive income/(loss) before reclassifications	(90)	261	(68)	103
Amounts reclassified from AOCI	0	88	(17)	71
Tax effect	23	(64)	32	(9)
Other comprehensive income/(loss)	(67)	285	(53)	165
December 28, 2013	\$ (172)	\$ 110	\$ (244)	\$ (306)

**Note 9 Benefit Plans****Restricted Stock Units**

A summary of the Company's RSU activity and related information for the three months ended December 28, 2013, is as follows:

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	Number of RSUs (in thousands)	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Balance at September 28, 2013	13,326	\$ 435.70	
RSUs granted	6,183	\$ 491.93	
RSUs vested	(2,256)	\$ 379.23	
RSUs cancelled	(216)	\$ 461.35	
Balance at December 28, 2013	17,037	\$ 463.23	\$ 9,543

RSUs that vested during the three months ended December 28, 2013 and December 29, 2012 had a fair value of \$1.1 billion and \$1.5 billion, respectively, as of the vesting date.

**Table of Contents****Stock Options**

A summary of the Company's stock option activity and related information for the three months ended December 28, 2013, is as follows:

	Number of Options (in thousands)	Weighted- Average Exercise Price	Outstanding Options Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance at September 28, 2013	4,094	\$ 139.65		
Options granted	1	\$ 66.26		
Options exercised	(1,308)	\$ 102.86		
Balance at December 28, 2013	2,787	\$ 156.89	1.2	\$ 1,124
Exercisable at December 28, 2013	2,768	\$ 157.56	1.1	\$ 1,114
Expected to vest after December 28, 2013	19	\$ 58.03	7.6	\$ 10

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the period in excess of the weighted-average exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options at the time of exercise was \$559 million and \$347 million for the three-months ended December 28, 2013 and December 29, 2012, respectively.

The Company had approximately 16.6 million shares reserved for future issuance under the Company's stock plans as of December 28, 2013. RSUs granted reduce the number of shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs granted. Similarly, RSUs cancelled increase the number of shares available for grant under the Company's stock plans utilizing a factor of two times the number of RSUs cancelled. Stock options count against the number of shares available for grant on a one-for-one basis.

**Share-based Compensation**

Share-based compensation cost for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant. Share-based compensation cost for stock options and employee stock purchase plan rights (stock purchase rights) is measured at the grant date and offering date, respectively, based on the fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM option-pricing model incorporates various assumptions including expected volatility, estimated expected life and interest rates. The Company recognizes share-based compensation cost over the award's requisite service period on a straight-line basis for time-based RSUs and on a graded basis for RSUs that are contingent on the achievement of performance metrics.

The weighted-average fair value per stock option granted during the three months ended December 28, 2013 was \$333.26. The Company did not grant any stock options during the three months ended December 29, 2012. The weighted-average fair value of stock purchase rights per share was \$103.99 and \$136.84 during the three months ended December 28, 2013 and December 29, 2012, respectively.

In conjunction with certain business combinations, the Company assumed 29,000 stock options with a weighted-average fair value per share of \$407.80 during the three months ended December 29, 2012. The Company did not assume any stock options during the three months ended December 28, 2013.

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The following table shows a summary of the share-based compensation expense included in the Condensed Consolidated Statements of Operations for the three months ended December 28, 2013 and December 29, 2012 (in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
Cost of sales	\$ 109	\$ 85
Research and development	289	224
Selling, general and administrative	283	236
Total share-based compensation expense	\$ 681	\$ 545

The income tax benefit related to share-based compensation expense was \$265 million and \$214 million for the three months ended December 28, 2013 and December 29, 2012, respectively. As of December 28, 2013, the total unrecognized compensation cost related to outstanding stock options and RSUs expected to vest was \$6.6 billion, which the Company expects to recognize over a weighted-average period of 3.2 years.

**Stock Plans***Rule 10b5-1 Trading Plans*

During the three months ended December 28, 2013, executive officers Timothy D. Cook, Peter Oppenheimer, D. Bruce Sewell, Philip W. Schiller, Daniel Riccio and Jeffrey E. Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act. An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including shares acquired pursuant to the Company's employee and director equity plans.

**Note 10 Commitments and Contingencies****Accrued Warranty and Indemnification**

The following table shows changes in the Company's accrued warranties and related costs for the three months ended December 28, 2013 and December 29, 2012 (in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
Beginning accrued warranty and related costs	\$ 2,967	\$ 1,638
Cost of warranty claims	(1,064)	(686)
Accruals for product warranty	2,077	1,358
Ending accrued warranty and related costs	\$ 3,980	\$ 2,310

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. However, the Company has not been required to make any significant payments resulting from such an infringement claim asserted against it or an indemnified third-party and, in the opinion of management, does not have a potential liability related to unresolved infringement claims subject to indemnification that would materially adversely affect its financial condition or operating results. Therefore, the Company did not record a liability for infringement costs related to indemnification as of either December 28, 2013 or September 28, 2013.

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The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations, and payments made under these agreements historically have not been material.

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**Concentrations in the Available Sources of Supply of Materials and Product**

Although most components essential to the Company's business are generally available from multiple sources, a number of components are currently obtained from single or limited sources. In addition, the Company competes for various components with other participants in the markets for mobile communication and media devices and personal computers. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant pricing fluctuations that can materially adversely affect the Company's financial condition and operating results.

The Company uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrated on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into various agreements for the supply of components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that can materially adversely affect its financial condition and operating results.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods up to 150 days.

**Other Off-Balance Sheet Commitments**

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are typically for terms not exceeding 10 years and generally provide renewal options for terms not exceeding five additional years. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of December 28, 2013, the Company's total future minimum lease payments under noncancelable operating leases were \$4.7 billion, of which \$3.5 billion related to leases for retail space.

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. As of December 28, 2013, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of \$16.1 billion.

In addition to the commitments mentioned above, the Company had additional off-balance sheet obligations of \$1.5 billion as of December 28, 2013, which were comprised mainly of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to advertising, research and development, Internet and telecommunications services and other obligations.

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**Contingencies**

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully adjudicated, certain of which are discussed in Part II, Item 1 of this Form 10-Q under the heading "Legal Proceedings" and in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

*Apple Inc. v. Samsung Electronics Co., Ltd, et al.*

On August 24, 2012, a jury returned a verdict awarding the Company \$1.05 billion in its lawsuit against Samsung Electronics Co., Ltd and affiliated parties in the United States District Court, Northern District of California, San Jose Division. The District Court upheld \$640 million of the jury's award and ordered a new trial as to the remainder. The retrial jury awarded an additional \$290 million, bringing the total verdict to \$930 million. Because the award is subject to entry of final judgment and appeal, the Company has not recognized the award in its results of operations.

*VirnetX, Inc. v. Apple Inc. et al.*

On August 11, 2010, VirnetX, Inc. filed an action against the Company alleging that certain of its products infringed on four patents relating to network communications technology. On November 6, 2012, a jury returned a verdict against the Company, and awarded damages of \$368 million. The Company is challenging the verdict, believes it has valid defenses and has not recorded a loss accrual at this time.

**Note 11 Segment Information and Geographic Data**

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan, Rest of Asia Pacific and Retail operations. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and Asian countries, other than those countries included in the Company's other operating segments. The results of the Company's geographic segments do not include results of the Retail segment. Each operating segment provides similar hardware and software products and similar services. The accounting policies of the various segments are the same as those described in Note 1, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2013 Form 10-K.

The Company evaluates the performance of its operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers, while Retail segment net sales are based on sales through the Company's retail stores. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the operating segments. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate marketing expenses, share-based compensation expense, income taxes, various nonrecurring charges, and other separately managed general and administrative costs and certain manufacturing period expenses. The Company does not include intercompany transfers between segments for management reporting purposes.



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The following table shows information by operating segment for the three months ended December 28, 2013 and December 29, 2012 (in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
<b>Americas:</b>		
Net sales	\$ 20,098	\$ 20,341
Operating income	\$ 7,266	\$ 7,349
<b>Europe:</b>		
Net sales	\$ 13,073	\$ 12,464
Operating income	\$ 4,576	\$ 4,409
<b>Greater China:</b>		
Net sales	\$ 8,844	\$ 6,830
Operating income	\$ 3,140	\$ 2,544
<b>Japan:</b>		
Net sales	\$ 4,948	\$ 4,443
Operating income	\$ 2,379	\$ 2,260
<b>Rest of Asia Pacific:</b>		
Net sales	\$ 3,633	\$ 3,993
Operating income	\$ 1,329	\$ 1,335
<b>Retail:</b>		
Net sales	\$ 6,998	\$ 6,441
Operating income	\$ 1,744	\$ 1,557

A reconciliation of the Company's segment operating income to the condensed consolidated financial statements for the three months ended December 28, 2013 and December 29, 2012 is as follows (in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
Segment operating income	\$ 20,434	\$ 19,454
Share-based compensation expense	(681)	(545)
Other corporate expenses, net	(2,290)	(1,699)
Total operating income	\$ 17,463	\$ 17,210

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This section and other parts of this Form 10-Q contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements also can be identified by words such as future, anticipates, believes, estimates, expects, intends, plans, predicts, will, would, could, can, may, and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading Risk Factors, which are incorporated herein by reference. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended September 28, 2013 (the 2013 Form 10-K) filed with the U.S. Securities and Exchange Commission (the SEC) and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references in this report to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months, or periods of those fiscal years. Each of the terms the Company and Apple as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

**Available Information**

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), are filed with the SEC. The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements, and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on the Company's website at [investor.apple.com/sec.cfm](http://investor.apple.com/sec.cfm) when such reports are available on the SEC's website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

**Overview and Highlights***Company Background*

The Company designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple TV®, a portfolio of consumer and professional software applications, the iOS and OS X® operating systems, iCloud®, and a variety of accessory, service and support offerings. The Company also sells and delivers digital content and applications through the iTunes Store®, App Store®, iBooks Store®, and Mac App Store®. The Company sells its products worldwide through its retail stores, online stores, and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. In addition, the Company sells a variety of third-party iPhone, iPad, Mac and iPod compatible products, including application software, and various accessories, through its online and retail stores. The Company sells to consumers; small and mid-sized businesses; and education, enterprise and government customers.

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### *Business Strategy*

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software and services. The Company's business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative design. The Company believes continual investment in research and development, marketing and advertising is critical to the development and sale of innovative products and technologies. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. As part of the iTunes Store, the Company's App Store and iBooks Store allow customers to discover and download applications and books through either a Mac or Windows-based computer or through iOS devices, namely iPhone, iPad and iPod touch®. The Company's Mac App Store allows customers to easily discover, download and install Mac applications. The Company also supports a community for the development of third-party software and hardware products and digital content that complement the Company's offerings. The Company believes a high-quality buying experience with knowledgeable salespersons who can convey the value of the Company's products and services greatly enhances its ability to attract and retain customers. Therefore, the Company's strategy also includes enhancing and expanding its own retail and online stores and its third-party distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience.

### *Business Seasonality and Product Introductions*

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product introductions can significantly impact net sales, product costs and operating expenses. Product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new product inventory following a product introduction, and often, channel inventory of a particular product declines as the next related major product launch approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction. However, neither historical seasonal patterns nor historical patterns of product introductions should be considered reliable indicators of the Company's future pattern of product introductions, future net sales or financial performance.

### *First Quarter Fiscal 2014 Highlights*

Net sales rose 6% or \$3.1 billion during the first quarter of 2014 compared to the same quarter in 2013. Net sales and unit sales increased for iPhone, iPad and Mac following the launches of new iPhone and iPad models and upgraded Macs, and net sales of iTunes, Software and Services increased due to increased revenue from sales of iOS Apps, AppleCare and licensing. Growth in net sales was particularly strong in Greater China and Japan, with both operating segments reporting double-digit year-over-year growth in net sales. Total channel inventory for iPhone and iPad increased during the first quarter of 2014 in support of new product launches and seasonal demand. Growth in net sales during the first quarter of 2014 was negatively impacted by the continuing decline of iPod net sales and by weakness in some foreign currencies, particularly the Japanese Yen.

During the first quarter of 2014, the Company introduced iPad Air™, its fifth generation iPad, iPad mini™ with Retina® display and a new Mac Pro®; released upgraded versions of MacBook Pro®; and expanded the rollout of iPhone 5s, iPhone 5c and upgraded versions of iMac® which were initially released in September 2013. In October 2013, the Company released OS X Mavericks and new iOS and Mac versions of its iLife and iWork Apps. While the Company still relies on outsourcing partners in Asia for final assembly of most of its hardware products, during the first quarter of 2014, an outsourcing partner began final assembly of the Company's new Mac Pro in the United States.

During the first quarter of 2014, the Company utilized \$5 billion to repurchase its common stock and paid dividends of \$2.7 billion or \$3.05 per common share.

**Table of Contents***Sales Data*

The following table shows net sales by operating segment and net sales and unit sales by product during the three months ended December 28, 2013 and December 29, 2012 (dollars in millions and units in thousands):

	Three Months Ended		
	December 28, 2013	December 29, 2012	Change
<b>Net Sales by Operating Segment:</b>			
Americas	\$ 20,098	\$ 20,341	(1)%
Europe	13,073	12,464	5%
Greater China (a)	8,844	6,830	29%
Japan	4,948	4,443	11%
Rest of Asia Pacific	3,633	3,993	(9)%
Retail	6,998	6,441	9%
Total net sales	\$ 57,594	\$ 54,512	6%
<b>Net Sales by Product:</b>			
iPhone (b)	\$ 32,498	\$ 30,660	6%
iPad (b)	11,468	10,674	7%
Mac (b)	6,395	5,519	16%
iPod (b)	973	2,143	(55)%
iTunes, Software and Services (c)	4,397	3,687	19%
Accessories (d)	1,863	1,829	2%
Total net sales	\$ 57,594	\$ 54,512	6%
<b>Unit Sales by Product:</b>			
iPhone	51,025	47,789	7%
iPad	26,035	22,860	14%
Mac	4,837	4,061	19%
iPod	6,049	12,679	(52)%

(a) Greater China includes China, Hong Kong and Taiwan.

(b) Includes deferrals and amortization of related non-software services and software upgrade rights.

(c) Includes revenue from sales on the iTunes Store, the App Store, the Mac App Store, and the iBooks Store, and revenue from sales of AppleCare, licensing and other services.

(d) Includes sales of hardware peripherals and Apple-branded and third-party accessories for iPhone, iPad, Mac and iPod.

**Table of Contents****Product Performance***iPhone*

The following table presents iPhone net sales and unit sales information for the first quarter of 2014 and 2013 (dollars in millions and units in thousands):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 32,498	\$ 30,660	6%
Percentage of total net sales	56%	56%	
Unit sales	51,025	47,789	7%

The year-over-year growth in iPhone net sales and unit sales resulted from the launch of new iPhones at the end of fiscal 2013. iPhone 5s was subject to supply constraints for much of the first quarter of 2014, and as supply and demand came into balance near the end of the quarter overall iPhone channel inventory increased from levels at the beginning of the quarter. Overall average selling prices ( ASPs ) for iPhone were relatively flat during the first quarter of 2014 compared to the first quarter of 2013.

*iPad*

The following table presents iPad net sales and unit sales information for the first quarter of 2014 and 2013 (dollars in millions and units in thousands):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 11,468	\$ 10,674	7%
Percentage of total net sales	20%	20%	
Unit sales	26,035	22,860	14%

The year-over-year growth in iPad net sales and unit sales resulted primarily from the launch of iPad Air and iPad mini with Retina display, which both became available in November 2013. iPad Air and iPad mini with Retina display were subject to supply constraints for much of the first quarter of 2014. Overall iPad channel inventory increased from the beginning to the end of the quarter, and iPads were near supply and demand balance by the end of the quarter. iPad ASPs declined approximately 6% during the first quarter of 2014 compared to the first quarter of 2013 primarily as a result of a price reduction on the iPad mini and a shift in mix towards iPad mini and iPad mini with Retina display.

**Table of Contents***Mac*

The following table presents Mac net sales and unit sales information for the first quarter of 2014 and 2013 (dollars in millions and units in thousands):

	<b>Three Months Ended</b>		<b>Change</b>
	<b>December 28, 2013</b>	<b>December 29, 2012</b>	
Net sales	\$ 6,395	\$ 5,519	16%
Percentage of total net sales	11%	10%	
Unit sales	4,837	4,061	19%

The year-over-year growth in Mac net sales and unit sales was driven by the launch of the upgraded iMac and strong performance of the MacBook Air. Additionally, Mac net sales and unit sales were negatively impacted throughout the first quarter of 2013 by supply constraints on new iMac models that were announced in October 2012 but did not ship until the final month of that quarter.

*iTunes, Software and Services*

The following table presents net sales information of iTunes, Software and Services for the first quarter of 2014 and 2013 (dollars in millions):

	<b>Three Months Ended</b>		<b>Change</b>
	<b>December 28, 2013</b>	<b>December 29, 2012</b>	
Net sales	\$ 4,397	\$ 3,687	19%
Percentage of total net sales	8%	7%	

The increase in net sales of iTunes, Software and Services in the first quarter of 2014 compared to the first quarter of 2013 was due to growth in net sales from the iTunes Store, AppleCare and licensing. The iTunes Store generated a total of \$2.4 billion in net sales during the first quarter of 2014 versus \$2.1 billion during the first quarter of 2013. Growth in the iTunes Store, which includes the App Store, the Mac App Store and the iBooks Store, was driven by increases in revenue from App sales reflecting continued growth in the installed base of iOS devices and the expansion in the number of third-party iOS Apps available. Net sales of digital content, including music, movies, TV shows and books, from the iTunes Store was relatively flat in the first quarter of 2014 compared to the first quarter of 2013.

**Table of Contents****Segment Operating Performance**

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its reportable operating segments, which are generally based on the nature and location of its customers, to be the Americas, Europe, Greater China, Japan, Rest of Asia Pacific and Retail. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and Asian countries, other than those countries included in the Company's other operating segments. The results of the Company's geographic segments do not include results of the Retail segment. Each operating segment provides similar hardware and software products and similar services. Further information regarding the Company's operating segments may be found in Note 11, Segment Information and Geographic Data in Notes to Condensed Consolidated Financial Statements of this Form 10-Q.

*Americas*

The following table presents Americas net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	<b>Three Months Ended</b>		<b>Change</b>
	<b>December 28, 2013</b>	<b>December 29, 2012</b>	
Net sales	\$ 20,098	\$ 20,341	(1)%
Percentage of total net sales	35%	37%	

The small decline in Americas net sales during the first quarter of 2014 compared to the first quarter of 2013 resulted from a decline in net sales of iPod and weakness in foreign currencies relative to the U.S. dollar. This decline was partially offset by increases in net sales of Mac and iTunes, Software and Services. iPhone net sales and unit sales declined slightly during the first quarter of 2014, which the Company believes is largely attributable to some carriers beginning to restrict early upgrades and supply constraints on iPhone 5s. While iPad unit sales in the Americas increased, iPad net sales declined slightly as a result of the decline in iPad ASPs, and iPad channel inventory increased from the prior quarter to support the launch of new iPad models and seasonal demand.

*Europe*

The following table presents Europe net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	<b>Three Months Ended</b>		<b>Change</b>
	<b>December 28, 2013</b>	<b>December 29, 2012</b>	
Net sales	\$ 13,073	\$ 12,464	5%
Percentage of total net sales	23%	23%	

The increase in Europe net sales during the first quarter of 2014 compared to the first quarter of 2013 reflects increases in net sales and unit sales in all of the Company's primary product categories except iPod, reflecting the impact of the Company's recent product launches. Net sales growth was driven primarily by increased demand in emerging markets within the Europe segment and by the favorable impact of strength in certain European currencies versus the U.S. dollar. Both iPhone and iPad channel inventory increased sequentially during the quarter to support recent product launches and seasonal demand.

**Table of Contents***Greater China*

The following table presents Greater China net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 8,844	\$ 6,830	29%
Percentage of total net sales	15%	13%	

During the first quarter of 2014, Greater China experienced year-over-year increases in net sales and unit sales of iPhone, iPad and Mac, significantly higher than those experienced by the Company overall. Higher iPhone net sales and unit sales resulted from the launch of new iPhones in Greater China at the end of fiscal 2013, whereas iPhone 5 was not launched in China during the first quarter of 2013 until mid-December 2012. Net sales were also favorably impacted by the launch of iPad Air and iPad mini with Retina display in China during the first quarter of 2014 without comparable product launches in China during the first quarter of 2013. iPad channel inventory increased from the prior quarter to support the launch of new iPad models and seasonal demand.

*Japan*

The following table presents Japan net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 4,948	\$ 4,443	11%
Percentage of total net sales	9%	8%	

The increase in Japan net sales during the first quarter of 2014 compared to the first quarter of 2013 reflects higher net sales and unit sales of iPhone and iPad, reflecting the impact of the Company's recent product launches. First quarter 2014 iPhone unit sales were particularly strong in Japan following the launch of new iPhones. Both iPhone and iPad channel inventory increased sequentially during the quarter to support new product launches, seasonal demand and the addition of a significant new carrier. The increase in sales of iPhone and iPad were partially offset by a significant adverse impact on net sales due to weakness in the Japanese Yen relative to the U.S. dollar.

*Rest of Asia Pacific*

The following table presents Rest of Asia Pacific net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 3,633	\$ 3,993	(9)%
Percentage of total net sales	6%	7%	

During the first quarter of 2014, the Rest of Asia Pacific segment experienced year-over-year declines in net sales in all major product areas except Mac. Net sales were negatively affected by several factors including the adverse impact on net sales from weakness in several currencies relative to the U.S. dollar, including the Australian dollar, and a decline in net sales of iPod. Additionally, supply and demand balance in certain countries was achieved for iPhone 5s later in the first quarter of 2014 than it was for iPhone 5 in the first quarter of 2013. Both iPhone and iPad channel inventory increased sequentially during the quarter to support recent product launches and seasonal demand.





**Table of Contents***Retail*

The following table presents Retail net sales information for the first quarter of 2014 and 2013 (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Net sales	\$ 6,998	\$ 6,441	9%
Percentage of total net sales	12%	12%	
U.S. stores	254	251	
International stores	166	150	
Total store count	420	401	

The increase in Retail net sales during the first quarter of 2014 compared to the first quarter of 2013 resulted from increases in net sales in all of the Company's primary product categories except iPod, and reflects increases in unit sales of iPhone, iPad and Mac. With an average of 418 and 396 stores open during the first quarter of 2014 and 2013, respectively, average revenue per store increased to \$16.7 million in the first quarter of 2014 from \$16.3 million in the first quarter of 2013.

The Retail segment reported operating income of \$1.7 billion during the first quarter of 2014 as compared to \$1.6 billion during the first quarter of 2013. The year-over-year increase in Retail operating income during the first quarter of 2014 was primarily attributable to the overall increase in net sales and better leverage on operating expenses. As of December 28, 2013, the Retail segment had approximately 43,700 full-time equivalent employees.

**Gross Margin**

Gross margin for the first quarter of 2014 and 2013 was as follows (dollars in millions):

	Three Months Ended	
	December 28, 2013	December 29, 2012
Net sales	\$ 57,594	\$ 54,512
Cost of sales	35,748	33,452
Gross margin	\$ 21,846	\$ 21,060
Gross margin percentage	37.9%	38.6%

The decrease in the gross margin percentage during the first quarter of 2014 compared to the first quarter of 2013 was driven by multiple factors including higher cost structures on new products, price reductions on certain products, higher expenses associated with warranty costs and the adverse impact of changes in some foreign currency exchange rates. The impact of these factors was partially offset by lower costs for some components.

The Company anticipates gross margin during the second quarter of 2014 to be between 37% and 38%. The foregoing statement regarding the Company's expected gross margin percentage in the second quarter of 2014 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential

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strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, financial results can be significantly affected in the short-term by fluctuations in exchange rates.

**Table of Contents****Operating Expenses**

Operating expenses for the first quarter of 2014 and 2013 were as follows (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
Research and development expense	\$ 1,330	\$ 1,010	32%
Percentage of net sales	2.3%	1.9%	
Selling, general and administrative expense	\$ 3,053	\$ 2,840	8%
Percentage of net sales	5.3%	5.2%	
Total operating expenses	\$ 4,383	\$ 3,850	14%
Percentage of net sales	7.6%	7.1%	

*Research and Development ( R&D ) Expense*

The growth in R&D expense during the first quarter of 2014 compared to the first quarter of 2013 was driven primarily by an increase in headcount and related expenses to support expanded R&D activities. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy. As such, the Company expects to make further investments in R&D to remain competitive.

*Selling, General and Administrative ( SG&A ) Expense*

The growth in SG&A expense during the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the Company's continued expansion of its Retail segment, increased headcount and related expenses, and higher spending on professional services.

**Other Income and Expense**

Other income and expense for the first quarter of 2014 and 2013 was as follows (dollars in millions):

	Three Months Ended		Change
	December 28, 2013	December 29, 2012	
and	\$ 427	\$ 421	
l	(84)	0	
, net	(97)	41	
	—	200,000	200,000
	—	1,848,275	(68,863)
	10,000	2,500,000	2,500,000
T.	206,000	100,000	—121,252
worth	206,000	100,000	— 8,165
	206,000	100,000	435,417
ent,	200,000	75,000	—109,840
	200,000	75,000	— 9,636
ent,	169,231	50,000	—193,151
	169,231	50,000	— 8,530
or	169,231	50,000	420,912
ons	169,231	50,000	420,912

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The 2015 amounts reflect the grant-date fair value of the performance share-based awards issued in 2015 to Messrs. Torbeck, Fox, Simpson, Wilson and Duckworth for the 2015-2017 performance cycle. The 2014 amounts reflect the grant-date fair value of the performance share-based awards issued in 2014 to Messrs. Torbeck, Fox and Duckworth for the 2014-2016 performance cycle. The 2013 amounts, excluding Mr. Torbeck's grant, reflect the grant-date fair value of the performance share-based awards issued in 2013 to Messrs. Fox, Wilson and Duckworth for the 2013-2015 performance cycle. Mr. Torbeck's amount is the combination of a restricted stock grant and the grant-date fair value of performance share-based awards issued in 2013. All amounts assume payout at target. For further discussion of these awards, see Note 15 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. The table below shows the amounts if the maximum payout is earned based on the stock price at date of grant.

Name	Stock Awards (\$)		
	2015	2014	2013
Theodore H. Torbeck (1)	2,625,000	2,475,000	1,275,000
Leigh R. Fox	562,500	525,000	429,750
Thomas E. Simpson	300,000	—	—
Christopher J. Wilson	480,000	—	300,000
Joshua T. Duckworth	150,000	112,500	75,000

The 2013 amount for Mr. Torbeck's grant reflects the grant-date fair value of the performance share-based awards issued in 2013 for the 2013-2015 performance cycle and a restricted common share grant. The 2013 restricted common share grant was made in accordance with Mr. Torbeck's employment agreement and the restricted common share grant vests one-third per year at the end of each one-year period.

The 2013 amounts shown reflect the aggregate grant date fair value of performance-based options granted to Messrs. Torbeck, and Wilson. For all awards, the grant date fair value was computed in accordance with Accounting Standards Codification ("ASC") 718. For further discussion of the assumptions utilized to value these awards, see Note 15 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. The amounts shown in the Summary Compensation Table above reflect payout at (b) target, which is the maximum amount that can be earned. Performance was measured based on the achievement of cumulative unlevered cash return on asset targets over the three-year period 2013-2015. The material terms of the options granted are: grant-type - non-incentive; exercise price - fair market value of common stock on grant date; vesting - 50% on the first anniversary of the original grant date and 25% on the second anniversary and 25% on the third anniversary; term of grant - 10 years; termination - except in the case of death, disability, or retirement, any unvested awards will be canceled 90 days following termination of employment.

Non-equity incentive plan compensation represents amounts earned for annual performance-based cash incentives, long-term incentive performance plan cash-settled awards and Data Center Performance Plan awards. The Data Center Performance Plan was established in 2010 and was fully paid out in 2013. Messrs. Simpson and Wilson (c) were granted cash-settled long term incentive awards for the 2014-2016 performance period. Actual award payments, if any, will be made in 2017 based on the achievement of company metrics for the 2014-2016 performance period. The table below shows the amounts earned for each of these awards:

Name	Year	Annual Performance-Based Cash Incentive (\$)	Long-Term Cash-Settled Performance Units (\$)(1)	Data Center Performance Plan Cash Incentive (\$)(2)	Total (\$)
Theodore H. Torbeck	2015	951,080	—	—	951,080
	2014	928,800	—	—	928,800
	2013	949,950	—	2,231,840	3,181,790
Leigh R. Fox	2015	472,472	—	—	472,472
	2014	419,440	77,591	—	497,031
	2013	306,623	36,064	714,189	1,056,876
Thomas E. Simpson	2015	248,835	—	—	248,835
	2014	145,051	—	—	145,051
Christopher J. Wilson	2015	398,578	—	—	398,578
	2014	252,456	—	—	252,456
	2013	268,132	—	1,580,143	1,848,275
Joshua T. Duckworth	2015	121,252	—	—	121,252
	2014	109,840	—	—	109,840
	2013	86,023	—	107,128	193,151

The amounts shown above for long-term cash-settled performance units earned by Mr. Fox represent the amounts earned in 2014 and paid in 2015 for the 2012-2014 performance cycle related to cash-payment performance awards (1) granted in January 2012; and the amounts earned in 2013 and paid in 2014 for the 2012-2013 performance cycle related to cash-payment performance awards granted in January 2012.

(2) The amounts shown above represent the amounts paid in 2013 for the long-term Data Center Performance Plan.

(d) The amounts shown in this column for Messrs. Fox, Simpson and Wilson represent the one-year change in the value of their qualified defined benefit plan and nonqualified excess plan for 2015, 2014 and 2013, respectively, projected forward to age 65 for each executive with interest credited at 3.5%, which is the rate a terminated participant would then be given (such interest rate was increased to 4.0% effective as of March 2, 2012) and then discounted back to the respective year at the discount rate (3.8% for 2015, 3.4% for 2014 and 4.2% for 2013)

required under ASC 960. The present value of the accrued pension benefits decreased in 2015 primarily due to an increase in the applicable discount rate. The Company froze its qualified pension plan for management employees in 2009; therefore, Mr. Torbeck and Mr. Duckworth are not entitled to any benefits under this plan. None of the executives receive any preferential treatment or above-market interest under the Company's retirement plans.

For each NEO, the amount represents the Company's 401(k) match. Under the terms of the Cincinnati Bell Inc.

(e) Retirement Savings Plan, the Company's matching contribution is equal to 100% on the first 3% and 50% on the next 2% of contributions made to the plan by the participant. Eligible compensation includes base wages plus any incentive paid to eligible participants. The maximum Company matching contribution is \$10,400.

(f) Mr. Torbeck was appointed Chief Executive Officer on January 31, 2013.

(g) Mr. Fox was appointed Chief Financial Officer on October 1, 2013.

(h) Mr. Simpson was appointed Chief Technology Officer of Cincinnati Bell Telephone Company, LLC on July 31, 2014. Mr. Simpson was named Chief Technology Officer of the Company on January 27, 2015.

(i) Mr. Duckworth was appointed Vice President, Investor Relations and Controller on July 9, 2013.

Grants of Plan-Based Awards

The following table sets forth information concerning equity grants to the NEOs during the year ended December 31, 2015 as well as estimated future payouts under cash incentive plans:

Grants of Plan-Based Awards in 2015 Fiscal Year

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (a)			All Other Stock Awards: Number of Shares of Stock or Units (b)	All Other Option Awards: Number of Underlying Options (#)	Exercise Price or Award Price (\$/Sh)	Closing Price of Company Stock on Grant Date (\$)	Grant Date
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)					
Theodore H. Torbeck												
Performance-based shares	1/27/2015	—	—	—	283,171	566,343	849,514	—	—	—	—	—
Annual cash incentive		387,500	775,000	1,162,500	—	—	—	—	—	—	—	—
Leigh R. Fox												
Performance-based shares	1/27/2015	—	—	—	60,679	121,359	182,038	—	—	—	—	—
Annual cash incentive		192,500	385,000	577,500	—	—	—	—	—	—	—	—
Thomas E. Simpson												
Performance-based awards	1/27/2015	—	—	—	32,362	64,724	97,086	—	—	—	—	—
Annual cash incentive		101,384	202,767	304,151	—	—	—	—	—	—	—	—
Christopher J. Wilson												
Performance-based awards	1/27/2015	—	—	—	51,779	103,559	155,338	—	—	—	—	—
Annual cash incentive		176,800	353,600	530,400	—	—	—	—	—	—	—	—
Joshua T. Duckworth												
Performance-based shares	1/27/2015	—	—	—	16,181	32,362	48,543	—	—	—	—	—
Annual cash incentive		51,500	103,000	154,500	—	—	—	—	—	—	—	—

(a) Amounts reflect shares issuable under the long-term performance-based incentive plan. Performance will be measured based on achievement of the defined targets over the three-year period 2015-2017. See pages 25 - 28 for further details. For further discussion of assumptions and valuation, refer to Note 15 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

(b) No restricted shares/units or stock options were granted in 2015.





## Discussion of Summary Compensation Table and Grants of Plan-Based Awards Table

### Employment Agreements

During 2015, all of the NEOs were employed pursuant to agreements with the Company. Each employment agreement sets forth, among other things, the NEO's base salary, bonus opportunities, entitlement to participate in the Company's benefit and pension plans and to receive equity awards and post-termination benefits and obligations.

Based on the agreements in place at December 31, 2015:

Mr. Torbeck's employment agreement provides for the employment and retention of Mr. Torbeck for a one-year term subject to automatic one-year extensions. Mr. Torbeck's agreement provides for both a minimum base salary of \$750,000 and a minimum bonus target of \$750,000 per year.

Mr. Fox's employment agreement provides for the employment and retention of Mr. Fox for a one-year term subject to automatic one-year extensions. Mr. Fox's employment agreement provides for both a minimum base salary of \$350,000 and a minimum bonus target of \$350,000 per year.

Mr. Simpson's employment agreement provides for the employment and retention of Mr. Simpson for a one-year term subject to automatic one-year extensions. Mr. Simpson's employment agreement provides for a minimum base salary of \$370,000 and a minimum bonus target of \$259,000 per year.

Mr. Wilson's employment agreement provides for the employment and retention of Mr. Wilson for a one-year term subject to automatic one-year extensions. Mr. Wilson's employment agreement provides for a minimum base salary of \$353,600 per year and a minimum bonus target of \$353,600 per year.

Mr. Duckworth's employment agreement provides for the employment and retention of Mr. Duckworth for a one-year term subject to automatic one-year extensions. Mr. Duckworth's employment agreement provides for a minimum base salary of \$206,000 and a minimum bonus target of \$103,000 per year.

Each of the NEOs, except for Mr. Torbeck and Mr. Duckworth, participate in the Management Pension Plan, which contains both a qualified defined benefit plan and a nonqualified excess benefit provision (the provision for this excess benefit is contained in the qualified defined benefit pension plan document), which applies the same benefit formula to that portion of the base wages and annual bonus payment that exceeds the maximum compensation that can be used in determining benefits under a qualified defined benefit pension plan.

Except as noted below, all eligible salaried employees of the Company participate in the Management Pension Plan on the same basis with benefits being earned after a three-year cliff-vesting period. Covered compensation for purposes of calculating benefits include base wages including any applicable overtime wages paid plus annual bonus payments. Upon separation from employment, vested benefits are payable either as a lump-sum, a single life annuity or, for married participants, a 50% joint and survivor, which provides a reduced benefit for the employee in order to provide a benefit equal to 50% of that amount if the employee dies before his/her spouse. However, a 2009 amendment to the Management Pension Plan generally provided that only "grandfathered participants" and no other participants would accrue additional plan benefits based on their compensation and service after December 31, 2018. For purposes of the plan, a "grandfathered participant" is a Plan participant who has continuously been an employee of the Company or any of its subsidiaries since before 2009 and either: (i) was at least age 50 by January 1, 2009; or (ii) had been eligible for and accepted or declined a 2007 early retirement offer of the Company. Also, the plan was further amended to reduce the benefits accrued by grandfathered participants based on their compensation and service after December 31, 2011 by approximately one-half from the prior accrual rate. In addition, the Management Pension Plan was amended to stop accruals based on compensation paid after June 30, 2013 or services after the pay period ended June 29, 2013. The Management Pension Plan benefits for the NEO's are shown on pages 39 - 40.

After retirement or other termination of employment, a participant under the Management Pension Plan is entitled to elect to receive a benefit under the plan in the form of a lump sum payment or as an annuity, generally based on the balance credited to the participant's cash balance account under the plan when the benefit begins to be paid (but also subject to certain transition or special benefit formula rules in certain situations).

Each of the employment agreements also provide for severance payments upon termination of employment as a result of death or disability, termination by the Company without cause or termination upon a change in control. The payments to the NEOs upon termination or a change in control as of December 31, 2015 are described beginning on page 41.



## Long-term Incentives

In 2015, the NEOs long-term incentives were awarded as performance unit grants. The Compensation Committee made the decision to solely use performance units to (i) provide an opportunity for the NEO to be rewarded based on the Company achieving its more objective quantitative operating results that are consistent with its long-term business strategy and (ii) to more closely align such actions with shareholders' interests. The long-term incentives granted to the NEOs are described in the Compensation Discussion and Analysis that begins on page 19.

In 2016, the Compensation Committee approved the use of time-based units as a retention component. For the 2016 - 2018 long-term incentive grant targets, 25% will be time-based units and 75% will be performance-based units.

## Salary and Cash Incentive Awards in Proportion to Total Compensation

In 2015, the percentage of total compensation for each NEO represented by the sum of their salary plus bonus and non-equity incentive plan compensation as shown in the summary compensation table on page 34 was as follows:

Mr. Torbeck - 50%, Mr. Fox - 69%, Mr. Simpson - 76%, Mr. Wilson - 71% and Mr. Duckworth - 75%.

## Outstanding Equity Awards at Fiscal Year End

The following table sets forth information concerning options and other equity awards held by the NEOs at December 31, 2015:

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Option (#) Exercisable	Number of Securities Underlying Unexercised Option (#) Unexercisable (a)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (a)	Option Exercise Price (\$)	Option Expiration Date (b)	Number of Shares or Units of Stocks That Have Not Vested (#) (c)	Market Value of Shares or Units of Stocks That Have Not Vested (\$) (c)	Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#) (d)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$) (e)
Theodore H. Torbeck	89,541	29,848	—	4.75	1/31/2023	53,860	193,896	—	—
Leigh R. Fox	1,500	—	—	2.91	1/29/2020	—	—	1,584,213	5,703,167
Thomas E. Simpson	—	—	—	—	—	—	—	380,952	1,371,427
Christopher J. Wilson	71,633	23,878	—	4.75	1/31/2023	—	—	114,691	412,888
Joshua T. Duckworth	1,800	—	—	2.48	8/23/2020	—	—	186,917	672,901
						—	—	91,141	328,108

(a) These awards are performance-based and vest 50% on the first anniversary and 25% on the second and third anniversaries if the performance condition is achieved.

- (b) All options granted are for a maximum period of ten years from the date of grant and vest over a three-year period.
- (c) This award represents restricted shares granted to Mr. Torbeck on January 2, 2013. The value is based on the closing price of the Company's common shares as of December 31, 2015 (\$3.60).
- Amounts in the column include the performance shares granted for the 2013-2015 performance cycle, reflected at the maximum level payout less shares earned and vested on January 27, 2014 and January 27, 2015; performance shares granted for the 2014-2016 performance cycle, at the maximum level payout; and performance shares granted for the 2015-2017 performance cycle, at the maximum level payout.
- (d) Assuming the maximum number of shares is earned, amounts represent the equity incentive plan awards not yet vested. The value is based on the closing price of the Company's common shares as of December 31, 2015 (\$3.60).
- (e)

## Option Exercises and Stock Vested

The following table sets forth information concerning the exercise of options and the vesting of stock held by the NEOs during the year ended December 31, 2015:

## Option Exercises and Stock Vested in 2015

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (a)	Value Realized on Exercise (\$) (b)	Number of Shares Acquired on Vesting (#) (c)	Value Realized on Vesting (\$) (d)
Theodore H. Torbeck	—	—	258,968	810,201
Leigh R. Fox	—	—	43,389	134,072
Thomas E. Simpson	—	—	6,256	19,331
Christopher J. Wilson	129,870	51,299	51,398	158,820
Joshua T. Duckworth	—	—	3,908	12,076

(a) The amounts shown represent shares issued upon exercise of both stock options and share-settled stock appreciation rights.

(b) The value realized on exercise is based upon the closing price of a share of our common stock on the date of exercise compared to the exercise or strike price of the option or stock appreciation award.

(c) The amount shown for Mr. Torbeck represents vesting of one-third of the restricted shares granted on January 3, 2012 and January 2, 2013 and shares issued on January 27, 2015 upon vesting of long-term performance plan awards. The amounts shown for Messrs. Fox, Simpson, Wilson and Duckworth represent shares issued on January 27, 2015 upon vesting of long-term performance plan awards.

(d) The amounts represent the value realized upon vesting based on the closing price of a share of our common stock on the respective vesting dates. For Mr. Torbeck, the vesting dates of his restricted share awards were 53,860 shares on January 2, 2015 (\$3.24) and 191,082 shares on January 5, 2015 (\$3.10). For Mr. Torbeck, the vesting date of his 14,026 shares of his long-term performance plan award was January 27, 2015 (\$3.09). For Messrs. Fox, Simpson, Wilson and Duckworth, the vesting date of their long-term performance plan awards was January 27, 2015 (\$3.09).

## Pension Benefits

In February 2009, the Company made significant changes to the Management Pension Plan. The Company froze pension benefits for plan participants who were not grandfathered participants (as previously described on page 37). Thereafter, the Company amended the Management Pension Plan to stop accruals based upon compensation paid after June 30, 2013 or services after the pay period ended June 29, 2013 for all participants, including grandfathered participants. Messrs. Fox, Simpson, and Wilson are not grandfathered participants and no longer accrue additional benefits under such plan based on current compensation or service. In addition, any employee hired on or after January 1, 2009 was not eligible to participate in the Management Pension Plan. As a result, Mr. Torbeck and Mr. Duckworth are not eligible to participate in the Management Pension Plan.

The following table sets forth information regarding pension benefits:

Name	Plan Name	Number of Years Credited Service (#) (a)	Present Value of Accumulated Benefit (\$ (b)(c)	Payments During Last Fiscal Year (\$)
Leigh R. Fox	Qualified Defined Benefit Plan (d)	9	97,597	—
	Non-Qualified Excess Plan (e)	—	—	—
	Total		97,597	
Thomas E. Simpson	Qualified Defined Benefit Plan (d)	8	85,593	—
	Non-Qualified Excess Plan (e)	—	—	—
	Total		85,593	
Christopher J. Wilson	Qualified Defined Benefit Plan (d)	10	296,867	—
	Non-Qualified Excess Plan (e)	10	120,540	—
	Total		417,407	

This column reflects years of credited service under the plans rather than actual years of service with the Company, (a) which are higher for each of the NEOs noted. Participants were no longer credited years of service upon the freezing of pension benefits.

Amounts in this column represent the accumulated benefit obligations computed using the same assumptions as (b) used for financial reporting purposes, described in more detail in Note 12 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

If any of the above-identified executive officers had retired on December 31, 2015, they would have been entitled to a benefit equal to the balance then credited to them, without any reduction, under the Management Pension Plan (c) (both the tax-qualified defined benefit plan portion and the non-qualified excess plan portion) as of that date. They may elect a lump-sum or equivalent annuity form of payment subject to any payment restrictions in place due to the funding status.

(d) Management Pension Plan.

(e) Nonqualified ERISA Excess Provisions of the Management Pension Plan.

A participant's account under the Management Pension Plan is also generally credited with assumed interest for each calendar year at a certain interest rate. Such interest rate for 2015 was 4.0% per annum.

#### Nonqualified Deferred Compensation

The following table sets forth information concerning compensation deferred by the NEOs:

Nonqualified Deferred Compensation for 2015 Fiscal Year

Name	Executive Contributions (\$)	Company Contributions (\$)	Aggregate Earnings (\$ (a)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at December 31, 2015 (\$)
Theodore H. Torbeck	—	—	—	—	—
Leigh R. Fox	—	—	—	—	—
Thomas E. Simpson	—	—	—	—	—
Christopher J. Wilson	—	—	53,300	—	468,000
Joshua T. Duckworth	—	—	—	—	—

For Mr. Wilson, the amount shown includes the difference between the closing price of the Company's stock (a) (\$3.19) on December 31, 2014 and the closing price of the Company's stock (\$3.60) on December 31, 2015 with respect to deferrals made prior to 2015.

Effective October 20, 2015, the Board approved the termination of the Cincinnati Bell Inc. Executive Deferred Compensation Plan (the "Executive Deferred Compensation Plan"). The Executive Deferred Compensation Plan's termination, liquidation and distributions will be accomplished in compliance with Section 409A of the Internal Revenue Code and the Treasury Regulations issued thereunder. In accordance with the Internal Revenue Code, no

new deferrals are permitted and all outstanding account balances will be distributed to the participants on November 7, 2016.

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The Executive Deferred Compensation Plan generally permitted under its policies, for any calendar year, each employee who had an annual base rate of pay and target bonus above a certain high dollar amount and has been designated by the Company or a subsidiary of the Company as a “key employee” for purposes of the plan (for 2015 a key employee for purposes of the plan generally has annual pay of more than \$260,000) to defer receipt of up to 75% of his or her base salary, up to 100% of his or her cash bonuses (including annual incentive awards and non-performance-based cash awards under the 2007 Long Term Incentive Plan (collectively with predecessor plans, the “Long Term Incentive Plans”)) and up to 100% of any performance-based common share awards (not including awards of stock options or restricted stock after 2005) provided under the Long Term Incentive Plans or the Short Term Incentive Plan.

For all key employees who participated in the Executive Deferred Compensation Plan, there was also a Company “match” on the amount of base salary and cash bonuses deferred under the plan for any calendar year. In general, the match was equal to the lesser of 66 2/3% of the base salary and cash bonuses deferred or 4% of the base salary and cash bonuses for a year that exceed the annual compensation limit.

Amounts deferred by any participating key employee under the Executive Deferred Compensation Plan and any related Company “match” were credited to the account of the participant under the plan and are assumed to be invested in various mutual funds or other investments (including common shares) as designated by the participant.

The accounts under the Executive Deferred Compensation Plan are not funded in a manner that would give any participant a secured interest in any funds, and benefits are paid from the assets of the Company and its subsidiaries (or from a trust that the Company has established and that remains subject to the Company's creditors).

The Executive Deferred Compensation Plan must comply with the requirements of the American Jobs Creation Act of 2004 in order to retain its ability to defer federal income tax on certain amounts credited to a participant's account under the plan. The Company has amended the plan to meet the requirements of the American Jobs Creation Act of 2004.

#### Potential Payments upon Termination of Employment or a Change in Control

The following table shows potential payments to our NEOs directly and indirectly on their behalf under existing contracts, agreements, plans or arrangements, whether written or unwritten, for various scenarios involving a change in control or termination of employment, assuming a December 31, 2015 termination or change in control date and, where applicable, using the closing price of our common shares on December 31, 2015 of \$3.60.

## Potential Payments upon Termination of Employment or a Change in Control: 2015

Name	Executive Payment on Termination	Involuntary Not for Cause Termination (\$)	Change in Control (\$)	Death (\$)	Disability (\$)
Theodore H. Torbeck	Base Salary	1,550,000	2,317,250	—	—
	Annual Incentive Target Opportunity	—	2,317,250	951,080	951,080
	Long Term Incentives — Performance Based (a)	1,715,908	3,754,742	3,754,742	3,754,742
	Long Term Incentives — Restricted Shares	193,896	193,896	193,896	193,896
	Basic Benefits (b)	31,452	31,452	—	31,452
	Total	3,491,256	8,614,590	4,899,718	4,931,170
Leigh R. Fox	Base Salary	770,000	962,500	—	—
	Annual Incentive Target Opportunity	—	962,500	472,472	472,472
	Long Term Incentives — Performance Based (a)	415,667	852,556	852,556	852,556
	Basic Benefits (b)	29,554	29,554	—	29,554
	Total	1,215,221	2,807,110	1,325,028	1,354,582
Thomas E. Simpson	Base Salary	740,000	925,000	—	—
	Annual Incentive Target Opportunity	—	925,000	248,835	248,835
	Long Term Incentives — Performance Based (a)	172,814	405,821	405,821	405,821
	Basic Benefits (b)	27,577	27,577	—	27,577
	Total	940,391	2,283,398	654,656	682,233
Christopher J. Wilson	Base Salary	707,200	884,000	—	—
	Annual Incentive Target Opportunity	—	884,000	398,578	398,578
	Long Term Incentives — Performance Based (a)	361,490	734,303	734,303	734,303
	Basic Benefits (b)	29,135	29,135	—	29,135
	Total	1,097,825	2,531,438	1,132,881	1,162,016
Joshua T. Duckworth	Base Salary	412,000	515,000	—	—
	Annual Incentive Target Opportunity	—	257,500	121,252	121,252
	Long Term Incentives — Performance Based (a)	89,039	205,542	205,542	205,542
	Basic Benefits (b)	28,521	28,521	—	28,521
	Total	529,560	1,006,563	326,794	355,315

Performance based includes shares and cash awards that are based on the attainment of target performance metrics (a) in the 2016 performance year. These awards have been included in the table at target; however, the actual payouts based on attainment of the metrics could range from zero to 150% of the target amount.

Basic benefits consist of medical, dental, vision and group term life insurance similar to such benefits provided by (b) the Company to other employees. In June 2014, the Company changed the benefits under the long-term disability plan to include continuation of benefits for up to 24 months after the date of disability.

If any of the executives elects to voluntarily terminate employment with the Company, or if they are terminated by the Company for cause, they are entitled to no payments from the Company other than those benefits which they have a non-forfeitable vested right to receive (the “vested amounts”), which include any shares of stock they own outright, vested options which may be exercisable for a period of 90 days following termination, deferred compensation amounts and vested amounts under the Company's long-term incentive, pension and savings plans.

In addition to any applicable “vested amounts,” an executive will be entitled to receive certain additional benefits if one of the four termination scenarios detailed in the above table and discussed below occurs. Regardless of the termination scenario, Messrs. Torbeck, Fox, Simpson, Wilson and Duckworth will continue to be bound by the non-disclosure, non-compete and non-solicitation provisions of their employment agreements.

If an executive is terminated by the Company without cause (an involuntary not for cause termination), the executive will be entitled to the following:

A payment equal to 2.0 times the executive's base salary;

A payment equal to the present value of an additional two years of participation in the Company's Management Pension Plan, if applicable, as though the executive had remained employed at the same base rate of pay and target bonus;

Continued medical, dental, vision and life insurance benefits during the two-year period following the executive's termination of employment on the same basis as any active salaried employee provided any required monthly contributions are made;

Continued treatment as an active employee during the two-year period following termination with respect to any outstanding long-term incentive cycles the executive may be participating in and any unvested stock options will continue to vest under the normal vesting schedule as though the executive was still an active employee; and

The ability to exercise any vested options for an additional 90 days after the end of the two-year period.

If an executive is terminated within the one-year period following a change in control, the executive will be entitled to the following:

A payment equal to 2.5 times the sum of his base salary and annual bonus target in the case of Messrs. Fox, Simpson, Wilson and Duckworth and 2.99 times in the case of Mr. Torbeck;

If eligible to participate in the Management Pension Plan, a payment equal to the present value of an additional two years of participation in the Plan as though the executive had remained employed at the same base rate of pay and target bonus;

Continued medical, dental, vision and life insurance coverage during the two-year period following the executive's termination of employment on the same basis as other active employees provided any required monthly contributions are made;

Full vesting of any options, restricted shares and/or other equity awards and the ability to exercise such options for the two-year period following termination; and

Full vesting and payout at target amounts of any awards granted under long-term incentive plan.

If an executive is "terminated" because of his or her death, the executive's beneficiary will be entitled to the following:

A payment equal to the bonus accrued and payable to the deceased executive for the current year;

Full vesting of all options held by the deceased executive and the ability to exercise such options for the one-year period following the date of the executive's death; and

Full vesting and payout at target amounts of any awards granted to the deceased executive under long-term incentive plans.

If an executive is terminated by reason of disability, the executive will be entitled to the following:

A payment equal to the bonus accrued and payable to the disabled executive for the current year completed;

Continued vesting of all options held by the disabled executive on their normal schedule and the ability to exercise such vested options so long as the disabling conditions exist;

Continued participation by the disabled executive in any outstanding long-term incentive plans; and

Continued consideration of the disabled executive as an employee for all other benefits so long as the disabling condition that resulted in the disability-based termination is present for up to 24 months after the date of disability.

Under all of the termination scenarios in the preceding table, as of December 31, 2015, Messrs. Fox, Simpson, Wilson and Duckworth had certain "vested amounts" to which they were entitled as follows: Mr. Fox - \$65,391, Mr. Simpson - \$56,429, Mr. Wilson - \$784,389 and Mr. Duckworth - \$2,016.

## Item 2 - Advisory Approval of the Company's Executive Compensation

As required by the Dodd-Frank Act and pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, the Company is submitting to its shareholders a vote for the advisory approval of the Company's executive compensation ("say-on-pay vote"). The Board of Directors determined that it would submit a say-on-pay vote to our shareholders annually. This year's say-on-pay vote addresses our executive compensation as disclosed in the Compensation Discussion and Analysis section ("CD&A") beginning on page 19 and the Executive Compensation section beginning on page 34.

The guiding principles of the Company's compensation policies and decisions include aligning each executive's compensation with the Company's business strategy and providing incentives needed to attract, motivate and retain key executives who are important to our long-term success. Consistent with this philosophy, a significant portion of the total compensation for each of our executives is directly related to the Company's revenues, earnings and other performance factors that measure our progress against the goals of our strategic plan as well as performance against our peer companies. The Compensation Committee and the Board believe that our compensation design and practices are effective in implementing our strategic goals. For the above reasons, we ask our shareholders to vote "FOR" the following resolution:

"RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED."

The say-on-pay vote is advisory and, therefore, not binding on the Company, the Compensation Committee or the Board. However, our Board and our Compensation Committee value the opinions of our shareholders and to the extent there is any significant vote against the named executive officers' compensation as disclosed in this Proxy Statement, we will seek to determine the causes of any significant negative voting results in an effort to better understand shareholder issues and concerns with our executive compensation.

### Vote Required

Approval of this proposal requires the affirmative vote of the holders of a majority of the common shares and 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares, voting as one class, present in person or represented by proxy at the Annual Meeting and entitled to vote on this proposal. Under the rules of the NYSE, brokers are prohibited from giving proxies to vote on executive compensation matters unless the beneficial owner of such shares has given voting instructions on the matter. This means that, if your broker is the recordholder of your shares, you must give voting instructions to your broker with respect to this Item 2 if you want your broker to vote your shares on this matter. Proxies submitted without direction pursuant to this solicitation will be voted for the approval of the compensation of our named executive officers, as disclosed in this Proxy Statement. Abstentions will have the same effect as a vote against this proposal. Broker non-votes are not considered shares entitled to vote on this proposal and will have no impact on the outcome of this proposal.

### Our Recommendation

The Board recommends that shareholders vote "FOR" the advisory approval of the Company's executive compensation of its named executive officers as disclosed in the CD&A and Executive Compensation sections of this Proxy Statement.

Item 3 - Approval of an Amendment to the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors  
The Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors (the “2007 Directors Plan”), as amended, permits stock options and restricted stock awards to be granted to those directors of the Company who are not employees of the Company or any of its subsidiaries (the “non-employee directors”).

Under the current terms of the 2007 Directors Plan, up to 1,000,000 common shares may in the aggregate be the subject of awards granted during the life of the plan, either as stock option awards or restricted stock grants. More details about the awards issued under the 2007 Directors Plan can found on pages 9 - 11.

At this Annual Meeting, the shareholders of the Company will be asked to approve an amendment of the 2007 Directors Plan. On January 28, 2016, the Board approved an amendment to the 2007 Directors Plan, subject to shareholder approval to:

• Increase the maximum number of common shares available for issuance under the plan by 500,000 common shares from 1,000,000 common shares to 1,500,000 common shares;

• Increase the aggregate award limit for stock options permitted under the plan by 500,000 common shares from 1,000,000 common shares to 1,500,000 common shares; and

• Increase the aggregate award limit for restricted stock permitted under the plan by 500,000 common shares from 1,000,000 common shares to 1,500,000 common shares.

The number of shares available for issuance under the 2007 Directors Plan has been substantially depleted. The 500,000 additional shares will provide sufficient capacity to complete the remaining life of the 2007 Directors Plan.

The Board adopted this amendment because it believes that:

- Additional shares are necessary to attract new non-employee directors; and
- Additional shares are needed to provide the annual equity grant to non-employee directors.

If the shareholders do not approve the amendment, the proposed increases will not take effect, and only a limited amount of awards may be granted under the 2007 Directors Plan (except for previously awarded shares that might in the future be returned to the 2007 Directors Plan as a result of cancellations or expiration of the prior awards).

#### Aggregate Past Grants Under the 2007 Directors Plan

As of February 29, 2016, awards (net of canceled or expired awards) covering an aggregate of 863,804 common shares have been granted under the 2007 Directors Plan. Consequently, in addition to any shares that might in the future be returned to the 2007 Directors Plan as a result of cancellations or expirations of awards, only 136,196 common shares remain available for future grants under the 2007 Directors Plan as of February 29, 2016.

With respect to options granted under the 2007 Directors Plan, as of February 29, 2016, all common shares subject to such outstanding options are currently underwater and have no value (based on the closing sale price of \$3.46 for the Company’s common shares as reported on the NYSE on such date). As of February 29, 2016, no shares had been issued upon exercise of any stock options granted under the 2007 Directors Plan.

#### Summary of the Plan

THE FULL TEXT OF THE 2007 DIRECTORS PLAN, AS PROPOSED TO BE AMENDED, IS SET FORTH IN APPENDIX I OF THIS PROXY STATEMENT AND THE FOLLOWING DISCUSSION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH TEXT. THE REVISIONS ARE INDICATED BY UNDERLINE AND STRIKE THROUGH.

The purposes of the 2007 Directors Plan are (i) to attract and retain the services of experienced and knowledgeable independent directors of the Company for the benefit of the Company and its shareholders and (ii) to provide further incentive for such directors to continue to work for the best interests of the Company and its shareholders. The plan was originally approved by the Company’s shareholders on May 3, 2007, and an amendment to the plan was approved by the Company’s shareholders on May 1, 2012.

The principal provisions of the 2007 Directors Plan are as follows:

1. Administration. The 2007 Directors Plan is administered by the Board. Subject to the limits and terms of the plan, the Board (i) makes awards under the plan, (ii) interprets the terms of the plan, and (iii) performs all other administrative actions necessary for the plan.
2. Non-Employee Directors Eligible to Receive Awards. Only a member of the Board who is not an employee of the Company or any subsidiary of the Company (a "non-employee director") is eligible to be granted an award under the 2007 Directors Plan. There are currently eight non-employee directors eligible to participate in the 2007 Directors Plan.
3. Types of Awards. The awards to be granted under the 2007 Directors Plan may consist of (i) stock options, (ii) restricted stock and/or (iii) restricted stock units. No award may be granted under the plan after May 2, 2017.
  - (a) A stock option represents an option to purchase, over a certain time period not to exceed ten years, a number of common shares at a fixed purchase price. The fixed purchase price of any common share acquired under any stock option will not be less than 100% of the fair market value of a common share on the grant date of the option. No stock option granted under the plan may be an incentive stock option (a special type of stock option that can provide special tax advantages for employees).
  - (b) Restricted stock constitutes common shares that may not be disposed of by the non-employee director to whom they are awarded until certain restrictions lapse (and that will ultimately be forfeited to the extent such restrictions are not satisfied). In general, and subject to certain exceptions in the 2007 Directors Plan, such restrictions will not lapse in full unless the non-employee director serves as a director of the Company for at least three years after the award's grant or unless the non-employee director's service as a Company director ends in special circumstances (such as his or her death, disability, or retirement after attaining the age of 68). The restrictions that apply to any restricted stock award may lapse as to a portion of the common shares subject to the award if the non-employee director meets some but not all of the imposed restrictions. Unless the Board otherwise determines, the recipient of restricted stock has all rights of a shareholder of the Company with respect to the restricted common shares, including the right to vote and to receive cash dividends.
  - (c) Restricted stock units represent the right of the non-employee director to common shares upon the satisfaction of the vesting conditions set forth in the Plan and award. To become vested, a non-employee director must continuously serve as a director of the Company for at least one year after the award's grant, unless the non-employee director's services as a Company director ends in special circumstances (such as his or her death, disability, or retirement after attaining the age of 68). Unless the Board otherwise determines, the recipient of restricted stock has all rights of a shareholder of the Company with respect to the restricted common shares, including the right to vote and to receive cash dividends.
4. Grants of Awards. The 2007 Directors Plan provides that each non-employee director of the Company may, at the discretion of the Board, be granted a stock option for a number of common shares, a number of restricted common shares, and/or a number of restricted stock units on the date of each annual meeting if such director first became a non-employee director before the date of such annual meeting and continues in office as a non-employee director after such meeting (or, for a new non-employee director, on the first day of his or her term as a director of the Company). The Board is to exercise its discretion when taking any action described above with the intent that the awards it makes under the 2007 Directors Plan, together with other compensation provided the non-employee directors that is either paid in the form of common shares or has its value determined in relation to the value of common shares ("equity-based compensation"), provides equity-based compensation for the non-employee directors that each year is approximately equal to the median level of the value of equity-based compensation provided by a group of comparable peer group companies to their non-employee directors.
5. Shares Reserved For Issuance. Subject to adjustment in the case of certain changes in the capital structure of the Company, the following limits apply to the number of common shares that may be issued or paid under or with respect to awards granted under the 2007 Directors Plan.
  - (a) The maximum number of common shares of the Company which may be issued or paid under or with respect to all of the awards (considered in the aggregate) granted under the plan during the plan's entire existence is 1,000,000 common shares but, as has been noted above, has been amended by the Board (subject to shareholder approval) to be 1,500,000 common shares. This is a change in the 2007 Directors Plan for which shareholder approval is being

requested.

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(b) The maximum number of common shares of the Company which may be issued or paid under or with respect to all stock options (considered in the aggregate but separately from all restricted stock awards) granted under the plan during the plan's entire existence is 1,000,000 common shares but, as has been noted above, has been amended by the Board (subject to shareholder approval) to be 1,500,000 common shares. This is a change in the 2007 Directors Plan for which shareholder approval is being requested.

(c) The maximum number of common shares of the Company which may be issued or paid under or with respect to all restricted stock awards and restricted stock unit awards (considered in the aggregate but separately from all stock option awards) granted under the plan during the plan's entire existence is currently 1,000,000 common shares but, as has been noted above, has been amended by the Board (subject to shareholder approval) to be 1,500,000 common shares. This is a change in the 2007 Directors Plan for which shareholder approval is being requested.

6. **Change in Control.** In the event a change in control of the Company occurs, then, in general terms and among other things (unless otherwise prescribed by the terms of the applicable award): (i) all then outstanding stock options that were granted under the 2007 Directors Plan will become exercisable in full; (ii) the restrictions still then in force and applicable to any common shares that have been awarded under the plan as restricted stock shall lapse; and (iii) the vesting conditions still then in force and applicable will be deemed satisfied.

In addition, unless otherwise prescribed by the Board in an award, in the event of a change in control of the Company, the Board will have discretion to pay in cash (in lieu of the right to exercise) the then value of any then outstanding stock option provided that the then fair market value of the common shares that are subject to such option exceeds such option's purchase price as to such shares.

7. **Adjustments for Stock Dividends, Stock Splits, and Other Corporate Transactions.** In the event of any change affecting the common shares of the Company by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, combination or exchange of shares, or other corporate change in the Company, or any distributions to common shareholders of the Company other than cash dividends, the Board will make such adjustments in the aggregate number or class of common shares which may be distributed under the 2007 Directors Plan and in the number, class, and purchase or other price of shares on which the outstanding awards granted under the plan are based as it determines to be necessary or appropriate to prevent any rights provided under the plan and its awards from being enlarged or diluted by such event.

8. **Fair Market Value of Common Shares.** For purposes of the 2007 Directors Plan, the fair market value of a Company common share on any date shall generally be deemed to be the closing price of a Company common share on the NYSE on such date (or, if no trading in any stocks occurred at all on such exchange on such date, on the next subsequent date on which trading of stocks occurred on such exchange). If, however, common shares are not listed or traded at all on the NYSE on any date as of which a Company common share's fair market value is needed to be determined for purposes of the plan, then the fair market value of a common share on such date will be determined by the Board in good faith.

9. **Amendment and Termination.** The 2007 Directors Plan may generally be amended or terminated by the Board, provided that no such action shall impair the rights of a non-employee director with respect to a previously granted award without the non-employee director's consent.

However, the 2007 Directors Plan provides that no amendment to the plan shall be made without approval of the Company's shareholders: (i) if such amendment would increase the total number of common shares reserved for issuance under all awards that may be granted under the plan; (ii) if such amendment would change the class of persons eligible for awards under the plan; or (iii) if such amendment would make any other change in the plan that is required by applicable law to be approved by the Company's shareholders in order to be effective. In addition, the rules of the NYSE require shareholder approval to material amendments to the plan.

Further, the purchase or other similar price applicable to any award granted under the 2007 Directors Plan, including a stock option granted under the plan, cannot be reduced by any amendment to the award, by the cancellation of the award and the granting of a new award, or by any other means unless such reduction is approved by the Company's shareholders.

10. **Federal Income Tax Consequences.** The following describes, in very general terms, the federal income tax consequences arising with respect to awards granted under the 2007 Directors Plan.

A stock option that is granted to a non-employee director will generally create no tax consequences for the director or the Company at the time of the grant of the award. Further, upon exercising any stock option, the non-employee director generally must recognize ordinary income equal to the amount by which the fair market value of the common shares that are subject to the portion of the option being exercised, as determined on the date of exercise, exceeds the purchase price of such common shares, and the Company will be entitled to a deduction for the same amount.

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The treatment to a non-employee director of a disposition of common shares acquired through the exercise of a stock option depends on how long the common shares have been held. Generally, there will be no tax consequence to the Company in connection with a disposition of common shares acquired under a stock option.

With respect to a restricted stock award and a restricted stock unit award granted under the 2007 Directors Plan to a non-employee director, the non-employee director generally must recognize ordinary income equal to the fair market value of the common shares provided under the award at the first time such common shares are not subject to a substantial risk that they will be forfeited; and the Company will be entitled to a deduction for the same amount.

In certain cases, such as an award to a non-employee director of restricted stock, the non-employee director may have the right under Section 83(b) of the Internal Revenue Code to elect to recognize as ordinary income the value of the award when issued instead of when no further substantial risk of forfeiture exists with respect to the award. In the event of such an election, the Company will be entitled to a deduction for such value at the same time.

The foregoing tax rules may be slightly adjusted for an award granted to a non-employee director who is subject to Section 16 of the Securities Exchange Act of 1934.

11. Miscellaneous. The 2007 Directors Plan generally requires that any purchase price or tax withholding obligations that apply to a non-employee director with respect to an award granted under the plan to him or her must be satisfied by the non-employee director when the award is exercised or when the award's common shares are no longer subject to a substantial risk of forfeiture. The plan gives several different methods that the Board can use or permit to ensure that such purchase price and tax withholding requirements are satisfied.

In no event shall the Company ever be obligated to issue or deliver any common shares in connection with an award granted under the 2007 Directors Plan unless and until the Company determines that such issuance or delivery will not constitute a violation of the provisions of any applicable law (or regulation issued under such law) or the rules of any securities exchange on which common shares are listed.

#### Vote Required

Approval of the amendment to the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors requires the affirmative vote of the holders of a majority of the common shares and 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares, voting as one class, present in person or represented by proxy at the Annual Meeting and entitled to vote on this proposal. Abstentions will have the same effect as votes against the proposal. Since the Company believes this proposal to be "non-routine," brokers will not have discretion to vote on this proposal without your instruction.

#### Our Recommendation

The Board recommends a vote "FOR" the approval of the amendment to the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors.

Item 4 - Re-Approval of the Material Terms of the Performance Goals Under the Cincinnati Bell Inc. 2011 Short-Term Incentive Plan

The Board is requesting shareholder re-approval of the material terms of the performance goals that may be used in setting conditions for the payment of certain awards made under the Cincinnati Bell Inc. 2011 Short-Term Incentive Plan (the “2011 Short Term Incentive Plan”). The Company's shareholders previously approved the 2011 Short Term Incentive Plan, including the material terms of the performance goals, at the 2011 annual meeting of the Company's shareholders. The re-approval is necessary so that certain awards to be granted under the plan may comply with Section 162(m) of the Internal Revenue Code (the “Code”). No changes are being made to the terms of the 2011 Short Term Incentive Plan in connection with the requested shareholder re-approval of the material terms of the plan's performance goals.

To explain, Section 162(m) of the Code generally provides that any publicly traded corporation may not deduct for federal income tax purposes, with respect to any tax year of the corporation, compensation paid to an employee who is a “covered employee” for such tax year to the extent such compensation exceeds \$1,000,000.

For purposes of Section 162(m) of the Code and as currently interpreted in guidance issued by the Internal Revenue Service, a “covered employee” of a publicly traded corporation generally means, with respect to any tax year of the corporation, (i) the employee who, as of the close of the tax year, is or is acting as the corporation's principal executive officer and (ii) any other officer whose total compensation for that tax year is required to be reported to the corporation's shareholders under the Securities Exchange Act of 1934 by reason of the officer being among the three highest compensated officers for the tax year (other than the principal executive officer or the principal financial officer).

However, Code Section 162(m) generally provides that compensation that is payable to such a covered employee for a tax year only if certain pre-established objective performance goals based on business criteria are met

(“performance-based compensation”) will be exempt from such tax deduction limits if the material terms of such performance goals (i.e., the employees eligible to receive such compensation, the business criteria on which such performance goals are based, and the maximum amount of such performance-based compensation that could be paid to any employee) are disclosed to and approved by the applicable corporation's shareholders.

In order to give the Company the ability to deduct, without regard to the deduction limits of Section 162(m) of the Code, the performance-based compensation payable under any awards that are granted under the plan to covered employees on or after the Company's 2016 annual shareholder meeting, the Company's shareholders must re-approve the material terms of such performance goals at the 2016 annual shareholder meeting (which is five years from 2011 when the Company's shareholders last approved the material terms of such performance goals). However, even if the shareholders re-approve the material terms of the performance goals of the 2011 Short Term Incentive Plan, the Company cannot guarantee that an award that is intended to provide performance-based compensation to a covered employee will avoid being subject to the deduction limits of Section 162(m) of the Code. Nevertheless, the Company wants the opportunity to deduct for federal income tax purposes, without regard to the deduction limits of Section 162(m), performance-based compensation provided by the Company under the 2011 Short Term Incentive Plan to executives whose compensation is otherwise subject to such deduction limits.

Because of this, the 2011 Short Term Incentive Plan contains rules that should permit certain parts of awards granted under the plan (which parts provide for performance-based compensation) to be exempt from the deduction limits of Section 162(m) of the Code, provided that the Company's shareholders re-approve the material terms of the performance goals of the plan. Without such shareholder re-approval, no parts of the awards granted under the plan after the Company's 2016 annual shareholder meeting will be able to avoid being subject to the deduction limits of Section 162(m) of the Code.

As indicated above, the Company is asking for shareholder re-approval of the material terms of the performance goals under which performance-based compensation can be paid under the 2011 Short Term Incentive Plan.

Material Terms of Performance Goals

The following is a summary of the material terms of the performance goals under which compensation can be paid under the 2011 Short Term Incentive Plan. THE FULL TEXT OF THE 2011 SHORT TERM INCENTIVE PLAN IS SET FORTH IN APPENDIX II OF THIS PROXY STATEMENT AND THE FOLLOWING DISCUSSION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH TEXT.



1. Employees Eligible to Receive Awards. Awards may be granted under the 2011 Short Term Incentive Plan to, and only to, key employees of the Company. A key employee refers, for purposes of the plan, to a person who is both (i) employed and classified as an employee by the Company and (ii) an officer of the Company who is subject to the disclosure requirements of Section 16 of the Securities Exchange Act of 1934.

The 2011 Short Term Incentive Plan will be administered by the Board's Compensation Committee (for purposes of this discussion as to the 2011 Short Term Incentive Plan, the "Committee").

Subject to the limits and terms of the 2011 Short Term Incentive Plan, the Committee will (i) select the key employees to whom awards under the plan will be granted, (ii) make the awards under the plan, in such amounts and on such conditions as it determines, (iii) interpret the terms of the plan and adopt administrative guidelines and rules in connection with the plan's operation, (iv) appoint certain employees to act on its behalf as its representatives, and (v) perform all other actions necessary for the plan's administration.

However, notwithstanding that the Committee generally has the right to make awards under the 2011 Short Term Incentive Plan, any award under the plan that is set by the Committee for Cincinnati Bell Inc.'s Chief Executive Officer must be approved by the Board in order to be effective.

2. Awards. Any award granted under the 2011 Short Term Incentive Plan to a key employee will be made with respect to a specific Cincinnati Bell Inc. tax year for federal income tax purposes (the award's "award year") and will be composed of one or more parts. No more than one award may be granted to a key employee under the plan with respect to any award year.

Each part of an award granted under the 2011 Short Term Incentive Plan to a key employee is referred to in this discussion as an "award part." An award part will be payable only if certain Company performance goals or individual performance goals that are made applicable to that award part by the Committee are met.

The total amount payable under an award granted pursuant to the 2011 Short Term Incentive Plan will be equal to the sum of the amounts, if any, payable under each award part of the award and paid in a lump sum cash amount after the end of the award's award year, but no later than the 15th day of the third month that follows the end of the award year. The amount payable under a 2011 Short Term Incentive Plan award that relates to any award part of the award will equal such award part's target share if certain (or a certain level) of the Company performance goals or individual performance goals, as the case may be, applicable to the award part are met, but such amount may be more or less than such target share if additional or fewer (or if a higher or lower level) of the performance goals applicable to the award part are determined to be met.

In no event may the amount payable by reason of any award part of an award granted under the 2011 Short Term Incentive Plan exceed 200% of the award part's target share, and in no event may the total amount payable under any award granted under the plan (including all of its award parts) exceed \$3,000,000.

Note that the Committee (or the Board with respect to an award granted to Cincinnati Bell Inc.'s Chief Executive Officer) may, prior to any payment being made under a 2011 Short Term Incentive Plan award and in its discretion and for any reason, reduce the amount payable by reason of any award part of the award that is based on a Company performance goal below the amount that would otherwise be payable by reason of such award part (although the Committee and the Board do not have discretion to increase the amount that would otherwise be payable under such award part).

Notwithstanding the foregoing, the amount that is otherwise payable under an award granted for an award year under the 2011 Short Term Incentive Plan to a key employee who incurs one of the situations described below is generally reduced on a pro rata basis to reflect:

- a. the portion of such year during which he or she is not a key employee of the Company because he or she only became a key employee after the start of such year or ceased to be a key employee prior to the end of such year for a reason other than his or her retirement or death;
- b. the portion of such year during which the key employee received disability benefits under a plan of the Company (if such benefits were received for more than three months in the year); or
- c. the portion of such year during which the key executive was on a leave of absence approved by the Company (if such leave of absence lasted for more than three months in such year).



Also, notwithstanding the foregoing, a key employee to whom an award is granted for any award year under the 2011 Short Term Incentive Plan will not in any event be entitled to receive any amount by reason of the award unless he or she both:

- a. either is an employee of the Company on the last day of the year or had his or her employment with the Company end during such year because of his or her disability, his or her retirement, or his or her death; and
- b. had at least three months of active service for the Company during the year (not including any time the key employee was absent from active service during such award year by reason of any leave of absence or for any other reason, including an absence on account of disability).

For purposes of the immediately preceding two paragraphs, a key employee to whom an award is granted for any award year under the 2011 Short Term Incentive Plan will be deemed to have left employment with the Company by reason of “retirement” only if he or she ceases to be an employee of the Company after either (i) both attaining age 60 and completing at least ten years of continuous service as an employee with the Company or (ii) completing at least 30 years of continuous service as an employee with the Company.

As was noted above and notwithstanding any other provision contained in the 2011 Short Term Incentive Plan, the amount to be received by a key employee by reason of any award that is granted to the key employee under the plan with respect to any award year will not in any event exceed \$3,000,000.

If a key employee is entitled to receive a payment under any award granted to him or her under the 2011 Short Term Incentive Plan, but he or she dies before such payment is made to him or her, then such payment will be made to the key employee’s beneficiary (as determined under the provisions of the plan).

3. **Company Performance Goals.** The Company performance goals that may be set by the Committee with respect to any award part of an award granted under the 2011 Short Term Incentive Plan to a key employee may be based on, and only on, one or more of the following criteria applicable to the Company:

- a. free cash flow (defined as cash generated by operating activities, minus capital expenditures and other investing activities, dividend payments and proceeds from the issuance of equity securities, and proceeds from the sale of assets);
- b. earnings before interest, taxes, depreciation, and amortization;
- c. earnings per share;
- d. operating income;
- e. total shareholder returns;
- f. profit targets;
- g. revenue targets;
- h. profitability targets as measured by return ratios;
- i. net income;
- j. return on sales;
- k. return on assets;
- l. return on equity; and
- m. corporate performance indicators (indices based on the level of certain services provided to customers).

The Company performance goal criteria that will apply to any award granted under the 2011 Short Term Incentive Plan to a key employee with respect to an award year will be criteria that will be able to be objectively determined by the Committee, measured or determined on the basis of the award year, and set by the Committee either prior to the start of the award year or within the first 90 days of the award year (and provided that the Company performance criteria is not in any event set after 25% or more of the award year has elapsed).

Further, the Committee may provide in the terms of an award granted under the 2011 Short Term Incentive Plan that any factor used to help determine any Company performance goal criteria identified above will be taken into account only to the extent it exceeds or, conversely, is less than a certain amount.



The Committee may also provide in the terms of an award granted under the 2011 Short Term Incentive Plan that, in determining whether any Company performance goal criteria identified above has been attained, certain special or technical factors will be ignored or, conversely, taken into account, in whole or in part, including but not limited to any one or more of the following factors:

- a. a gain, loss, income, or expense resulting from changes in generally accepted accounting principles that become effective during the award's award year;
- b. a gain, loss, income, or expense that is extraordinary in nature;
- c. an impact of other specified nonrecurring events;
- d. a gain or loss resulting from, and the direct expense incurred in connection with, the disposition of a business, in whole or in part, the sale of investments or non-core assets, or discontinued operations, categories, or segments of businesses;
- e. a gain or loss from claims and/or litigation and insurance recoveries relating to claims or litigation;
- f. an impact of impairment of tangible or intangible assets;
- g. an impact of restructuring activities, including, without limitation, reductions in force;
- h. an impact of investments or acquisitions made during the applicable award year;
- i. a loss from political and legal changes that impact operations, as a consequence of war, insurrection, riot, terrorism, confiscation, expropriation, nationalization, deprivation, seizure, business interruption, or regulatory requirements;
- j. retained and uninsured losses from natural catastrophes;
- k. currency fluctuations;
- l. an expense relating to the issuance of stock options and/or other stock-based compensation;
- m. an expense relating to the early retirement of debt; and/or
- n. an impact of the conversion of convertible debt securities.

Each of the adjustments will be determined in accordance with generally accepted accounting principles and standards, unless another objective method of measurement is designated by the Committee.

In addition, any Company performance goal criteria identified above may be measured or determined for Cincinnati Bell Inc., for any organization that is a part of the Company, for the Company in the aggregate, or for any group of corporations or organizations that are included in the Company.

Any such performance criteria may also be measured and determined in an absolute sense and/or in comparison to the analogous performance criteria of other publicly traded companies (that are selected for such comparison purposes by the Committee).

The Committee will verify that the Company performance goal that must be met for any specific payment to be made by reason of any award part of an award granted under the 2011 Short Term Incentive Plan has been met before such payment is permitted.

Note that, to the extent that any amount that becomes payable under an award granted under the 2011 Short Term Incentive Plan is attributable to an award part of such award that required that a Company performance goal had to be met, such amount is intended to constitute performance-based compensation that can be exempt from the deduction limits of Section 162(m) of the Code.

4. Individual Performance Goals. The individual performance goals that may be set by the Committee with respect to any award part of an award granted under the 2011 Short Term Incentive Plan to a key employee may be based on any criteria it deems appropriate for judging the performance of the key employee in fulfilling his or her duties for the Company.

The individual performance goals that may be set by the Committee with respect to any award part of an award granted under the 2011 Short Term Incentive Plan to a key employee may be based on any criteria it deems appropriate for judging the performance of the key employee in fulfilling his or her duties for the Company. Such individual performance goals may be set at any time by the Committee, including after the end of the award year applicable to the award. The individual performance goal criteria may be either subjective or objective at the discretion of the Committee.



When an award under the 2011 Short Term Incentive Plan is granted to Cincinnati Bell Inc.'s Chief Executive Officer, however, the Board will have final approval as to the determination of whether such officer has met any such individual performance criteria.

Note that, to the extent that any amount that becomes payable under an award granted under the 2011 Short Term Incentive Plan is attributable to an award part of such award that required that individual performance goals had to be met, such amount will not constitute performance-based compensation and hence will, regardless of shareholder approval of the Plan, be subject to the deduction limits of Section 162(m) of the Code.

5. **Change of Control.** In the event that a "change in control" (as is defined in the 2011 Short Term Incentive Plan) of Cincinnati Bell Inc. occurs, then, in general terms, the following actions apply to awards that were previously granted under the plan but have not yet been paid.

First, the amount payable under any award that was granted under the 2011 Short Term Incentive Plan with respect to Cincinnati Bell Inc.'s tax year that immediately precedes Cincinnati Bell Inc.'s tax year in which the change in control occurs will, if such award has not yet been paid, be paid within five business days after the date of the change in control.

If the amount of such award has not been determined by the Committee by the date of the change in control, its amount will be deemed to be equal to the award's target.

Second, a pro rata portion of any award granted under the 2011 Short Term Incentive Plan with respect to Cincinnati Bell Inc.'s tax year in which the change in control occurs will be paid within five business days after the date of the change in control.

Such pro rata portion will generally be based on the award's target multiplied by a fraction that has a numerator equal to the number of full and partial months from the first day of the tax year in which the change in control occurs to the date of the change in control and a denominator equal to twelve.

6. **Amendment and Termination.** The 2011 Short Term Incentive Plan may be amended or terminated by the Board, provided that no such action will impair the rights of a key employee with respect to a previously granted award without the key employee's consent and provided that no amendment may be made without approval of Cincinnati Bell Inc.'s shareholders if such amendment would make any change in the plan that is required by law to be approved by the shareholders in order to become effective.

7. **Federal Income Tax Consequences.** In general, any key employee who receives an amount that is paid by reason of an award granted under the 2011 Short Term Incentive Plan must recognize, for federal income tax consequences and at the time of the payment, ordinary compensation income equal to such amount.

In general, the Company will be entitled to a deduction for the same amount; but, when the key employee is an officer whose compensation is subject to the deduction limits of Code Section 162(m), such amount will, when combined with other compensation payable by the Company to the officer, be subject to such deduction limits with respect to any award part of the award that is based on individual performance goals or which otherwise fails to avoid such limits.

#### Re-approval of Material Terms of Performance Goals

As indicated above, we are seeking shareholder re-approval of the material terms of the performance goals under which compensation may be paid under the 2011 Short Term Incentive Plan in order to permit any awards granted under the plan to covered employees which are intended to provide performance-based compensation to be deducted by the Company without regard to the deduction limits of Section 162(m) of the Code.

Without such re-approval by the Company's shareholders at their 2016 Annual Meeting, awards that are granted under the 2011 Short Term Incentive Plan to covered employees on or after such meeting may be subject to the deduction limits of Section 162(m) of the Code, thereby possibly increasing the taxes that will have to be paid by the Company in connection with compensation paid to the covered employees.

Even if the Company's shareholders fail to re-approve the material terms of the performance goals set forth under the plan, the Company retains the right to grant awards, including performance-based compensation awards both under the 2011 Short Term Incentive Plan and outside such plan. The Company has no current definitive policy as to awards it may grant to covered employees either under or outside the 2011 Short Term Incentive Plan should the Company's shareholders fail to re-approve the material terms of the performance goals set forth under the plan. The failure of the shareholders to re-approve such terms and the resulting inability of such awards to avoid the deduction limits of

Section 162(m) of the Code would be a factor in determining future awards to covered employees made by the Company.

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The only certain result if the Company's shareholders fail to re-approve the material terms of the performance goals set forth under the 2011 Short Term Incentive Plan would be that no compensation payable by reason of future awards granted under the plan to covered employees will be able to avoid being subject to the deduction limits of Section 162(m) of the Code even if such avoidance would be beneficial to the Company and its shareholders.

#### Vote Required

Re-approval of the material terms of the performance goals under which compensation can be paid under the 2011 Short Term Incentive Plan requires the affirmative vote of the holders of a majority of the common shares and 6 ¾% Cumulative Convertible Preferred Shares, voting as one class, present in person or represented by proxy at the Annual Meeting and entitled to vote on this proposal. Abstentions will have the same effect as votes against the proposal. Since the Company believes this proposal to be “non-routine,” brokers will not have discretion to vote on this proposal without your instruction.

#### Our Recommendation

The Board recommends that shareholders vote “FOR” the re-approval of the performance goals under which compensation can be paid under the 2011 Short Term Incentive Plan.

#### Equity Compensation Plan Information

The following table provides information as of December 31, 2015 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 stock options, awards, warrants and rights (a)	Weighted-average exercise price of outstanding stock options, awards, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	7,720,718	(1) \$3.62	5,647,918 (3)
Equity compensation plans not approved by security holders	166,721	(2) —	136,196
Total	7,887,439	\$3.62	5,784,114 (3)

(1) Includes 3,879,678 outstanding stock options not yet exercised, 234,308 shares of time-based restricted stock and restricted stock units, and 3,606,732 shares of performance-based awards, restrictions on which have not expired as of December 31, 2015. Awards were granted under various incentive plans approved by Cincinnati Bell shareholders. There are no outstanding unexercised share-settled stock appreciation rights. The number of performance-based shares assumes the maximum awards that can be earned if the performance conditions are achieved.

(2) The shares to be issued relate to deferred compensation in the form of previously received special awards and annual awards to non-employee directors pursuant to the “Deferred Compensation Plan for Outside Directors.” From 1997 through 2004, the directors received an annual award of phantom stock equivalent to a number of common shares. For years beginning after 2004, the annual award is the equivalent of 6,000 common shares. As a result of a plan amendment effective as of January 1, 2005, upon termination of Board service, non-employee directors are required to take distribution of all annual phantom stock awards in cash. The number of actual shares of common stock to be issued pursuant to the plan as of December 31, 2015 is approximately 11,500. 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.

(3) If the amendment to the 2007 Directors Plan being voted upon at the 2016 Annual Meeting is approved by the shareholders, an additional 500,000 securities will be available for issuance under equity compensation plans approved by shareholders.



#### Audit Matters

Any general statement that incorporates this Proxy Statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 shall not be deemed to incorporate by reference this Audit and Finance Committee Report and related disclosure. Except to the extent the Company specifically incorporates such Report and related disclosure by reference, this information shall not otherwise be deemed to have been filed under such Acts.

#### Audit and Finance Committee Report

The Audit and Finance Committee of the Board has reviewed and discussed the Company's audited financial statements with the management of the Company and has reviewed a report from management assessing the Company's internal controls. The Audit and Finance Committee has discussed with Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche LLP"), the Company's Independent Registered Public Accounting Firm for the fiscal year ended December 31, 2015, the matters required to be discussed by the Statement on Auditing Standard No. 16, Communications with Audit Committees, and Related and Transitional Amendments to PCAOB Standards and as adopted by the Public Company Accounting Oversight Board ("PCAOB"). The Audit and Finance Committee has also received the written disclosures and letter from the Independent Registered Public Accounting Firm required by applicable standards of the PCAOB, has discussed with Deloitte & Touche LLP their independence with respect to the Company, and has considered the question of whether the auditors' provision of non-audit services was compatible with the Independent Registered Public Accounting Firm maintaining their independence.

Based on its review and discussions referred to in the preceding paragraph, the Audit and Finance Committee recommended to the Board that the audited financial statements for the Company's fiscal year ended December 31, 2015 be included in the Company's Annual Report on Form 10-K for the Company's fiscal year ended December 31, 2015.

The Board has determined that each member of the Audit and Finance Committee satisfies the independence requirements of the rules and regulations of the SEC and the independence and other requirements of the rules and listing standards of the NYSE. The Board has determined that Lynn A. Wentworth and Jakki L. Haussler are audit committee financial experts as defined in the rules and regulations of the SEC and that each member of the Committee is financially literate as defined by the rules and listing standards of the NYSE.

#### AUDIT AND FINANCE COMMITTEE

Lynn A. Wentworth, Chair

Phillip R. Cox

Jakki L. Haussler

Craig F. Maier

Russel P. Mayer

John M. Zrno

## Other Audit Information

## Audit Fees

Deloitte & Touche LLP was the Company's Independent Registered Public Accounting Firm for the 2015 and 2014 fiscal years. Aggregate fees for professional services rendered by Deloitte & Touche LLP for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Audit fees	\$1,367,800	\$1,420,000
Audit related fees	500,604	32,000
Tax fees	2,700	7,500
All other fees	—	—
Total	\$1,871,104	\$1,459,500

## Audit fees

The audit fees for the years ended December 31, 2015 and 2014 were for services rendered in connection with the audit of the Company's annual financial statements, review of quarterly financial statements included in the Company's reports filed with the SEC and services related to requirements established by the Sarbanes-Oxley Act of 2002.

## Audit related fees

The audit related fees for the years ended December 31, 2015 and 2014 were for various accounting consultations and due diligence projects.

## Tax fees

Tax fees for the years ended December 31, 2015 and 2014 were for the preparation of various tax filings and tax consultations.

## All other fees

None.

## Engagement of the Independent Registered Public Accounting Firm and Pre-Approval Policy

In accordance with its charter, the Audit and Finance Committee has the sole authority and responsibility to select, evaluate and, if necessary, replace the Independent Registered Public Accounting Firm. The Audit and Finance Committee has the sole authority to approve all audit engagement fees and terms. In addition, the Audit and Finance Committee, or the Chairperson of the Audit and Finance Committee between regularly scheduled meetings, must pre-approve all services provided to the Company by the Company's Independent Registered Public Accounting Firm. Pursuant to Section 202 of the Sarbanes-Oxley Act of 2002, the Audit and Finance Committee pre-approved every engagement of Deloitte & Touche LLP to perform audit or non-audit services on behalf of the Company or any of its subsidiaries during the years ended December 31, 2015 and 2014.



#### Item 5 - Ratification of Appointment of Independent Registered Public Accounting Firm

The Company's Audit and Finance Committee Charter provides that the Committee shall have the sole authority and responsibility to select, evaluate and, if necessary, replace the Company's Independent Registered Public Accounting Firm.

On January 27, 2016, the Audit and Finance Committee retained Deloitte & Touche LLP as its Independent Registered Public Accounting Firm to audit the financial statements of the Company for the fiscal year ending December 31, 2016.

The Company is asking the shareholders to ratify the Committee's appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm of the Company for the fiscal year ending December 31, 2016. If the shareholders do not ratify this appointment, the Audit and Finance Committee will consider the results of the vote and determine whether to appoint a different independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending December 31, 2016.

One or more members of the firm of Deloitte & Touche LLP will attend the Annual Meeting, will have an opportunity to make a statement and will be available to answer questions.

#### Vote Required

Ratification of the appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm of the Company requires the affirmative vote of the holders of a majority of the common shares and 6 ¾% Cumulative Convertible Preferred Shares, voting as one class, present or represented at the Annual Meeting, in person or by proxy, and entitled to vote on this proposal. Abstentions will have the effect of a vote against the proposal. Since the Company believes this proposal to be "routine," broker non-votes will likely be voted by the organizations holding such shares in their discretion.

#### Our Recommendation

The Board recommends a vote "FOR" such ratification of the appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm for the year 2016.

#### Questions and Answers about the Proxy Materials and the Annual Meeting

Q: Why am I receiving these proxy materials?

A: The Company's Board is providing these proxy materials to you in connection with the Annual Meeting of Shareholders, which will take place on April 29, 2016. As a shareholder, you are invited to attend the meeting and are entitled to vote on the proposals described in this Proxy Statement.

Q: What information is contained in the package of materials that I received?

A: The Company's combined Proxy Statement, Summary 2015 Annual Report and Annual Report on Form 10-K for the year ended December 31, 2015, which includes our 2015 consolidated financial statements, contains information relating to the proposals to be voted on at the meeting, the voting process, the compensation of directors and certain officers and certain other information required by the rules and regulations of the SEC and the rules and listing standards of the NYSE. Although you are encouraged to vote either by the internet or by telephone, these materials, if received in printed form, also include a proxy card or voting instruction card for your use in voting by mail or at the Annual Meeting.

Q: What proposals will be voted on at the meeting?

A1: The election of nine directors to serve a one-year term ending in 2017;

A2: The advisory approval of the Company's executive compensation;

A3: The approval of an amendment to the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors (the "2007 Directors Plan");

A4: The re-approval of the material terms of the performance goals under the Cincinnati Bell Inc. 2011 Short-Term Incentive Plan (the "2011 Short-Term Incentive Plan"); and

A5: The ratification of the appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm to audit the financial statements of the Company for the year 2016.

Q: What is the Board of Directors' voting recommendation?

A: The Board recommends that you vote your shares:

•"FOR" each of the nominees to the Board;

•"FOR" the advisory approval of the Company's executive compensation;

•"FOR" the approval of an amendment to the 2007 Directors Plan;

•"FOR" the re-approval of the material terms of the performance goals under the 2011 Short-Term Incentive Plan; and

•"FOR" the ratification of the appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm to audit the financial statements of the Company for the year 2016.

Q: Why did I receive a one-page notice in the mail regarding the internet availability of proxy materials instead of a full set of proxy materials?

A: Pursuant to the rules of the SEC, the Company has elected to provide access to our proxy materials over the internet. Accordingly, we sent a Notice to our shareholders of record and beneficial owners, which instructs them as to how they may submit their proxy on the internet. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice. In addition, you may request to receive proxy materials in printed form by mail or by email on an ongoing basis.

Q: How can I get electronic access to the proxy materials?

A: Instructions regarding how to view the proxy materials for the Annual Meeting on the internet and to instruct the Company to send future proxy materials to you via email or in printed form are included in the Notice and on the website. If you elect to receive future proxy materials by email, the Company will save the cost of printing and mailing the proxy materials. You will also receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. The election to receive proxy materials by email will remain in effect until you terminate it.

Q: What shares can I vote?

A: You may vote all Company common shares and 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares that you own (or for which you have been given the right to provide instructions as to how such shares should be voted) as of the close of business on the Record Date. This includes: (i) shares held directly in your name as the shareholder of record, including common shares purchased through the Cincinnati Bell Employee Stock Purchase Plan; (ii) shares that are held by a trust used in connection with a Company employee or director plan pursuant to which the value of such shares has been credited to your account under such plan; and (iii) shares held for you as the beneficial owner through a broker or other nominee.

Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?

A: Many Cincinnati Bell shareholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

#### Shareholder of Record

If your shares are registered directly in your name with Cincinnati Bell's transfer agent, Computershare Investor Services, LLC, you are considered the shareholder of record for those shares. As a shareholder of record, you may grant your voting proxy over the internet, by mail, by telephone or you may vote your shares in person at the meeting.

#### Beneficial Owner

If your shares are held in a stock brokerage account or by another nominee (including a trust used in connection with a Company employee or director plan), you are considered the beneficial owner of shares held in street name, and your broker or nominee is considered to be the shareholder of record. If you are a participant in the Cincinnati Bell Inc. Retirement Savings Plan or the Cincinnati Bell Inc. Savings and Security Plan, you are the beneficial owner of the shares credited to your account. As the beneficial owner, a Notice and/or proxy card was forwarded to you by the shareholder of record. As the beneficial owner, you may direct and provide voting instructions to your broker or nominee to vote the shares held in your account by proxy over the internet or by telephone by following the instructions provided in the Notice or the proxy card. You can also mail your proxy to the Company by following the instructions provided in the proxy card (if forwarded by your broker or nominee). You are also invited to attend the Annual Meeting. However, since you are not the shareholder of record, you may not vote these shares in person at the meeting unless you obtain a signed proxy from the shareholder of record authorizing you to vote the shares.

Q: How can I attend and vote my shares at the meeting?

A: Shares held directly in your name as the shareholder of record may be voted in person at the Annual Meeting. If you choose to attend the meeting and vote in person, you will need to provide proof of identification and then you will be presented a proxy card. Beneficial shares, held either in street name or credited to your account under a Company employee or director plan, cannot be voted at the Annual Meeting unless you obtain a signed proxy from the shareholder of record authorizing you to vote these shares.

Q: How can I vote my shares without attending the meeting?

A: The methods for voting without attending the meeting are:

By Internet - If you have internet access, you may submit your vote from any location by following the instructions provided in the Notice or the proxy card.

By Telephone - If you live in the United States or Canada, you may submit your vote by following the "Vote by Phone" instructions provided in the Notice or the proxy card.

By Mail - You may vote by mail by completing and signing your proxy card and mailing it in the accompanying enclosed, pre-addressed postage-paid envelope.

Q: What happens if I don't give specific voting instructions?

A: The effect of not providing specific voting instructions depends on if you are the shareholder of record or the beneficial owner of the shares.

#### Shareholder of Record

If you are a shareholder of record and (i) you indicate when voting on the internet or by telephone that you wish to vote as recommended by the Board, or (ii) you sign and return a proxy without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by our Board on each of the matters presented in this proxy statement for which you did not provide specific voting instructions, and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

#### Beneficial Owner

If you are deemed to be the beneficial owner of shares and do not provide the broker or nominee that holds your shares with specific voting instructions, the broker or nominee that holds such shares may generally vote on routine matters but cannot vote on non-routine matters, as provided by the rules of the NYSE. If the broker or nominee that holds such shares does not receive instructions on how to vote on a non-routine matter, the broker or nominee will inform the Inspector of Elections that it does not have authority to vote on such matter with respect to such shares. This is generally referred to as a "broker non-vote." The Company encourages you to provide voting instructions to the broker or nominee that holds such shares by carefully following the instructions provided in the proxy card or as described above.

Q: Which ballot measures are considered "routine" or "non-routine"?

A: Proposal 1 (election of directors), Proposal 2 (advisory approval of the Company's executive compensation), Proposal 3 (approval of an amendment to the 2007 Directors Plan), and Proposal 4 (re-approval of the material terms under the performance goals of the 2011 Short-Term Incentive Plan) are considered non-routine matters, and your broker or nominee cannot vote your shares without your specific voting instructions. Proposal 5 (ratification of the

Independent Registered Public Accounting Firm) is considered a routine matter, which generally allows your broker or nominee to vote your shares on this matter even if you do not provide specific voting instructions.

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Q: How are abstentions treated?

A: Abstentions are counted for the purpose of determining whether a quorum is present. For the purpose of determining whether shareholders have approved Proposal 1 (election of directors), abstentions are not treated as votes cast affirmatively or negatively, and therefore have no effect on the outcome of such proposal. For the purpose of determining whether shareholders have approved Proposal 2 (advisory approval of the Company's executive compensation), Proposal 3 (approval of an amendment to the 2007 Directors Plan), Proposal 4 (re-approval of the material terms of the performance goals under the 2011 Short-Term Incentive Plan) or Proposal 5 (ratification of the Independent Registered Public Accounting Firm), abstentions will have a negative effect on the outcome of such proposals.

Q: Can I change my vote?

A: Yes. You may change your voting instructions at any time prior to the vote at the Annual Meeting. You may change your vote by either: (i) granting a new proxy or voting instructions bearing a later date (which automatically revokes the earlier proxy or voting instructions) whether made on the internet, by telephone or by mail; (ii) if you are a shareholder of record, notifying the Company's Secretary in writing that you want to revoke your earlier proxy; or (iii) if you are a shareholder of record attending the Annual Meeting, giving notice of your proxy revocation in open meeting and voting in person. Please note that in order to revoke your previously granted proxy at the Annual Meeting, you must specifically request the revocation of your previous proxy.

Q: What does it mean if I receive more than one Notice or more than one proxy card?

A: It means that your shares are registered differently or are in more than one account. Please provide voting instructions for all Notices and proxy cards that you receive.

Q: Where can I find the voting results of the meeting?

A: We will announce preliminary voting results at the meeting and publish final results in the Company's Current Report on Form 8-K, which will be filed on or before May 4, 2016.

Q: What happens if additional proposals are presented at the meeting?

A: Other than the proposals described in this Proxy Statement, we do not expect any matters to be presented for a vote at the Annual Meeting. If you grant a proxy, the persons named as proxy holders, Phillip R. Cox, Lynn A. Wentworth and John M. Zrno, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason any of the nominees are not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

Q: What classes of shares are entitled to be voted?

A: Each common share and each 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Share outstanding as of the close of business on the Record Date is entitled to vote on all items being voted upon at the Annual Meeting. You are entitled to one vote for each common share and one vote for each 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Share you own of record on the Record Date or to provide instructions on how to vote such shares in which you have a beneficial interest. The 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares will vote with the common shares as one class on each of the proposals described in this Proxy Statement. There are no cumulative voting rights for either class of shares. On the Record Date, we had 210,018,609 outstanding common shares and 155,250 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares outstanding.

Q: What is the quorum requirement for the meeting?

A: The quorum requirement for holding the meeting and transacting business is the presence, in person or by proxy, of a majority of the common and preferred shares issued and outstanding on the Record Date and entitled to vote at such meeting. However, if any particular action requires more than a simple majority because of the law, the NYSE rules, the Company's Amended Articles of Incorporation or the Company's Amended Regulations, that particular action will not be approved unless the required percentage of affirmative votes has been obtained or the required number of votes has been cast.

Abstentions are counted as present for the purpose of determining the presence of a quorum. If a routine matter is to be voted upon, broker non-votes are also counted as present for the purpose of determining the presence of a quorum. Since there is a routine matter to be voted upon this year, broker non-votes will be counted for determining the existence of a quorum.

Q: Who will count the votes?

A: A representative of Broadridge Financial Solutions, Inc. (“Broadridge”) will tabulate the votes and act as the Inspector of Elections.

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Q: Is my vote confidential?

A: Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects voting privacy. Your vote will not be disclosed either within the Company or to third parties except (i) as necessary to meet applicable legal requirements, (ii) to allow for the tabulation of votes and certification of the vote, or (iii) to facilitate a successful proxy solicitation by the Board. Occasionally, shareholders provide written comments on their proxy card, which are forwarded to the Company's management.

Q: Who will bear the cost of soliciting votes for the meeting?

A: The Company is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing the proxy materials. If you choose to access the proxy materials and/or vote via the internet, you are responsible for any internet access charges you may incur. In addition to the costs of mailing the proxy materials, the Company may also incur costs to provide additional copies of these proxy materials (if requested) and for its directors, officers and employees to solicit proxies or votes in person, by telephone or by electronic communication. Our directors, officers and employees will not receive any additional compensation for such activities. We have hired Georgeson Inc. to solicit proxies for approximately \$11,000 plus expenses. We have also hired Broadridge for a fee of approximately \$10,000 plus expenses to assist us in facilitating the voting of proxies over the internet and serving as the Inspector of Elections. We will also reimburse brokerage houses and other nominees for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders.

Q: What percentage of the Company's issued and outstanding voting shares do our directors and executive officers beneficially own?

A: Our directors and executive officers owned 1.1% of our voting shares as of the Record Date.

Q: Do any of our shareholders hold more than 5% of the issued and outstanding shares of any class of the Company's voting stock?

A: As of the Record Date or an earlier date, if indicated, each of the following entities (together with their affiliates) indicated that it held more than 5% of the issued and outstanding common shares of the Company: GAMCO Investors, Inc. and affiliates, Blackrock, Inc., The Vanguard Group, and Pinnacle Associates, Ltd. GAMCO Investors, Inc. and affiliates also indicated it holds more than 5% of the 6 <sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred shares of the Company. See page 18 for more details on the number of shares owned and percentage ownership as of the Record Date or an earlier date, if indicated.

Q: What is householding?

A: Householding is a process that allows the Company to reduce costs and increase efficiencies by mailing only one copy of Company communications to multiple shareholders who reside at the same household mailing address. If you and other shareholders at the same household mailing address are currently receiving only one copy of Company communications but would like to receive separate copies or are currently receiving multiple copies of Company communications but would like to participate in our householding program, please see the instructions on page 63.

Communications and Other Shareholder's Proposals

Mailing Address of Principal Executive Office

The mail address of our principal executive office is:

Cincinnati Bell Inc.

221 East Fourth Street

Cincinnati, OH 45202

Shareholder Proposals for Next Year's Annual Meeting

Shareholder proposals intended for inclusion in next year's Proxy Statement should be sent to Christopher J. Wilson, Vice President, General Counsel and Secretary, Cincinnati Bell Inc., 221 East Fourth Street, Cincinnati, Ohio 45202, and must be received by November 18, 2016. Any such proposal must comply with Rule 14a-8 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. If the Company does not receive written notice by February 1, 2017 of a proposal from a shareholder who intends to propose any other matter to be acted upon at the 2017 Annual Meeting, the persons named in the Company's proxy for the 2017 Annual Meeting will be allowed to exercise their discretionary authority to vote upon any such proposal.

Shareholders may propose director candidates for consideration by the Governance and Nominating Committee of the Board. Any such recommendations should be directed to Christopher J. Wilson, Vice President, General Counsel and Secretary, Cincinnati Bell Inc., 221 East Fourth Street, Cincinnati, Ohio 45202, and must be received no later than November 18, 2016 for the 2017 Annual Meeting of Shareholders.

Other Matters to Come Before the Meeting

At the time this Proxy Statement was released to the shareholders on March 18, 2016, the Company knew of no other matters that might be presented for action at the meeting. If any other matters properly come before the meeting, it is intended that the voting shares represented by proxies will be voted with respect thereto in accordance with the judgment of the persons voting them.

Financial Statements and Corporate Governance Documents Available

The Company has elected to provide access to its Proxy Statement, Annual Report on Form 10-K and Summary Annual Report over the internet. We sent the Notice of Internet Availability to our shareholders and beneficial owners, which provides information and instructions on how to access our proxy materials over the internet or to request printed copies of our proxy materials. You may also obtain a copy of any of the following corporate governance documents from the Company's website identified below:

Corporate Governance Document	Website
Audit and Finance Committee Charter	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/af_charter">www.cincinnati-bell.com/aboutus/corporate_governance/af_charter</a>
Compensation Committee Charter	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/compensation_committee_charter">www.cincinnati-bell.com/aboutus/corporate_governance/compensation_committee_charter</a>
Governance and Nominating Committee Charter	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/gn_committee_charter">www.cincinnati-bell.com/aboutus/corporate_governance/gn_committee_charter</a>
Code of Business Conduct	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/code_of_conduct">www.cincinnati-bell.com/aboutus/corporate_governance/code_of_conduct</a>
Code of Ethics for Senior Financial Officers	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/code_of_ethics">www.cincinnati-bell.com/aboutus/corporate_governance/code_of_ethics</a>
Code of Ethics for Directors	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/code_of_ethics">www.cincinnati-bell.com/aboutus/corporate_governance/code_of_ethics</a>
Corporate Governance Guidelines	<a href="http://www.cincinnati-bell.com/aboutus/corporate_governance/corporate_governance_guidelines">www.cincinnati-bell.com/aboutus/corporate_governance/corporate_governance_guidelines</a>





#### Proxy Statements for Shareholders Sharing the Same Household Mailing Address

As part of the Company's efforts to reduce costs and increase efficiency, when possible, only one copy of the Notice of Internet Availability and, as appropriate, the proxy materials has been delivered to multiple shareholders sharing the same household mailing address, unless the Company has received contrary instructions from one or more of the shareholders at that address.

Upon written or oral request, the Company will promptly provide a separate copy of the Notice of Internet Availability and, as appropriate, the proxy materials to a shareholder at a shared address to which a single copy was delivered. If your household mailing address is shared with other shareholders and you did not receive a Notice of Internet Availability or, as appropriate, the proxy materials, but would like to receive a separate copy of this item as well as future Company communications, please contact the following:

For beneficial owners, please contact your broker.

For shareholders of record, please contact our transfer agent, Computershare, at the following address:

Computershare Investor Services, LLC

Shareholder Services

7530 Lucerne Drive, Suite 305

Cleveland, Ohio 44130-6557

Phone: (888) 294-8217

If shareholders residing at the same household mailing address are currently receiving multiple copies of Company communications but would like to receive only one in the future, please send written notice to your broker (for beneficial owners) or to Computershare (for shareholders of record) at the above address. In the written notice, please indicate the names of all accounts in your household, and you will be forwarded the appropriate forms for completion. Each shareholder participating in the householding program will, however, continue to receive a separate proxy card or voting instruction card.

#### Electronic Delivery of Materials

Shareholders can also enroll for electronic delivery of the Company's future proxy materials by registering directly or with your broker through our website, [investor.cincinnati-bell.com](http://investor.cincinnati-bell.com) in the Electronic Shareholder Communications Enrollment section of the Company's Investor Relations webpage.

Each shareholder participating in the electronic delivery of materials will, however, continue to receive a separate Notice, proxy card or voting instruction card.

#### Shareholder Communications with the Board of Directors

Shareholders or other interested parties may communicate with the Board, any individual director, the non-management directors as a group, or the director who presides at meetings of the non-management directors. The Company has established procedures for such shareholder communications. Shareholders and other interested parties should send any communications to Christopher J. Wilson, Vice President, General Counsel and Secretary, Cincinnati Bell Inc., 221 East Fourth Street, Cincinnati, Ohio 45202, and identify the intended recipient or recipients. All communications addressed to the Board or any identified director or directors will be forwarded to the identified person or persons.

By Order of the Board of Directors

Christopher J. Wilson  
Vice President, General Counsel and  
Secretary

March 18, 2016



## Annex A

Cincinnati Bell Inc.

## Reconciliation of GAAP and Non-GAAP Financial Measures

The Company reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP" or referred to herein as "reported"). However, management believes that certain non-GAAP financial measures provide users with additional meaningful financial information that should be considered when assessing our ongoing performance. Management uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating the Company's performance. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

Management also believes non-GAAP financial measures should not be construed as being more important than comparable GAAP measures. We ceased operations of our wireless business as of March 2015. As a result, wireless financial results are now presented as discontinued operations.

For additional details regarding the reconciliation of GAAP and non-GAAP financial measures below, see the Company's Current Report on Form 8-K filed with the SEC on February 18, 2016. This information is also available in the "Investor Relations" section of the Company's website, [www.cincinnati-bell.com](http://www.cincinnati-bell.com).

(dollars in millions)	Twelve Months Ended	
	December 31,	
	2015	2014
Net Income (GAAP)	\$353.7	\$75.6
Less:		
Income (loss) from discontinued operations, net of tax	62.9	(42.1 )
Income from continuing operations (GAAP)	290.8	117.7
Add:		
Income tax expense	159.8	81.4
Interest expense	103.1	145.9
Loss from CyrusOne investment	5.1	7.0
Gain on sale of CyrusOne investment	(449.2 )	(192.8 )
Loss on extinguishment of debt	20.9	19.6
Other income, net	(2.5 )	(1.9 )
Operating Income (GAAP)	\$128.0	\$176.9
Add:		
Depreciation and amortization	141.6	127.6
Restructuring charges (reversals)	6.0	(0.4 )
Loss (gain) on sale or disposal of assets	0.8	(0.3 )
Transaction costs	1.4	1.2
Employee contract termination costs	2.8	2.0
Curtailed loss	0.3	—
Impairment of assets	—	4.6
Pension and other retirement plan expenses	21.2	18.0
Adjusted EBITDA (Non-GAAP)	\$302.1	\$329.6

	Twelve Months Ended December 31,	
(dollars in millions)	2015	2014
Reconciliation of Operating Cash Flow (GAAP) to Adjusted Unlevered Operating Cash Flows (Non-GAAP):		
Operating cash flow (GAAP)	\$ 110.9	\$ 175.2
Interest payments	108.5	153.1
Unlevered operating cash flows (Non-GAAP)	219.4	328.3
Add:		
Transaction costs	1.4	4.4
Assumed negative synergies from wireless and other	27.4	—
Wireless tower decommissioning	4.9	—
Accelerated pension payments	8.0	—
Adjusted unlevered operating cash flows (Non-GAAP)	\$ 261.1	\$ 332.7
	Twelve Months Ended December 31,	
(dollars in millions)	2015	2014
Reconciliation of GAAP Cash Flow to Free Cash Flow (as defined by the Company)		
Net increase (decrease) in cash and cash equivalents	\$(50.5 )	\$ 53.3
Less adjustments:		
Net increase in corporate credit and receivables facilities with initial maturities less than 90 days	1.6	127.0
Proceeds from sale of CyrusOne investment	(643.9 )	(355.9 )
Repayment of debt	531.7	376.5
Debt issuance costs	0.4	0.9
Decommissioning of wireless towers	4.9	—
Transaction costs	1.4	1.2
Discontinued operations*	27.6	(219.3 )
Free cash flow (as defined by the Company)	\$(126.8 )	\$(16.3 )

\*For the twelve months ended December 31, 2015 and 2014, our wireless business generated free cash flow of (\$27.6) million and \$24.9 million, respectively. The twelve months ended December 31, 2014 also included \$194.4 million of proceeds from the sale of wireless spectrum licenses. Wireless operations are now reported as discontinued operations within the consolidated financial statements.

Adjusted EBITDA provides a useful measure of operational performance. The Company defines Adjusted EBITDA as GAAP operating income plus depreciation, amortization, restructuring charges, (gain) loss on sale or disposal of assets, transaction costs, curtailment gain (loss), asset impairments, components of pension and other retirement plan costs (including interest costs, asset returns, and amortization of actuarial gains and losses), and other special items. Adjusted EBITDA should not be considered as an alternative to comparable GAAP measures of profitability and may not be comparable with the measure as defined by other companies.

Unlevered Operating Cash Flow provides a useful measure of operational performance and liquidity. The Company defines unlevered operating cash flow as cash flows provided by (used in) operating activities plus cash paid for interest and other special items.

Free Cash Flow provides a useful measure of operational performance, liquidity and financial health. The Company defines free cash flow as cash provided by (used in) operating, financing and investing activities, adjusted for the issuance and repayment of debt, debt issuance costs, the repurchase of common stock, and the proceeds from the sale or the use of funds from the purchase of business operations, including transaction costs. Free cash flow should not be considered as an alternative to net income (loss), operating income (loss), cash flow from operating activities, or the change in cash on the balance sheet and may not be comparable with free cash flow as defined by other companies. Although the Company feels that there is no comparable GAAP measure for free cash flow, the foregoing financial information reconciles free cash flow to the net increase (decrease) in cash and cash equivalents.

## Schedule 1

Cincinnati Bell Inc.

General Industry Peer Group

The companies comprising the General Industry Peer Group in the CD&amp;A are set forth below:

A.O. Smith	G&K Services	Pall
Accellent	GAF Materials	Parsons
Aimia*	GENCO	PHH
Allegion	Glatfelter	Plexus
American Greetings	Graco	Polymer Group
Americas Styrenics	Group General Atomics	Purdue Pharma
AMSTED Industries	H.B. Fuller	Rackspace
Ansell	Harsco	Rayonier
Arby's Restaurant	Hercules Offshore	Recreational Equipment
Armstrong World Industries	Herman Miller	Regal-Beloit
Arup USA*	Hexcel	Revlon
BBA Aviation*	HNI	Rowan Companies
Beam Suntory	HomeServe USA*	Sage Software*
Bob Evans Farms	Hubbell	Sanderson Farms
Boise Cascade	Husky Injection Molding Systems*	SAS Institute
Brembo*	IDEXX Laboratories	Schwan Food Company
Broadridge Financial Solutions	Intercontinental Hotels Group*	Scripps Networks Interactive
Carmeuse North America Group*	International Flavors & Fragrances	Sensata Technologies
CDI	International Game Technology	ServiceMaster Company
Chemtura	Irvine Company	ShawCor
Chico's FAS	ITT Corporation	Sigma-Aldrich
Citrix Systems	Jack in the Box	Snap-On
Clearwater Paper Corporation	K. Hovnanian Companies	Spirit Airlines
Columbia Sportswear	KB Home	Steelcase
Cooper Standard Automotive	Kennametal	SunCoke Energy
Covance	Knowles	TeleTech Holdings
Cracker Barrel Old Country Stores	KodakAlaris	Teradata
Crown Castle	Leprino Foods	Toro
Cubic	Lifetouch	Tribune
Curtiss-Wright	LinkedIn	Tronox
Cytec Industries	Magellan Midstream Partners	Tupperware Brands
Deluxe	Makino*	UBM*
Dentsply	Markit*	Under Armour
Donaldson	Meredith	Underwriters Laboratories
DST Systems	MFA Oil Company	United Launch Alliance
DSW	Milacron	Vertex Pharmaceuticals
Eastman Kodak	NBTY	VistaPrint
Edwards Lifesciences	NewPage	Vulcan Materials
Equifax	Nortek	Wendy's Group
Esterline Technologies	OM Group	West Pharmaceutical Services
Exterran	Outerwall	Worthington Industries
Follett Corporation	P.F. Chang's China Bistro	XO Communications

\*Subsidiary





Schedule 2

Cincinnati Bell Inc.

Telecommunications Peer Group

The companies comprising the Telecommunications Peer Group are listed below:

Atlantic-Tele-Network, Inc.

Centurylink, Inc.

Consolidated Communications Holdings, Inc.

EarthLink Inc.

Fairpoint Communications, Inc.

Frontier Communications Corp.

General Communications Inc.

IDT Corp.

Level 3 Communications Inc.

SBA Communications Corp.

Spok Holdings, Inc.

Telephone & Data Systems Inc.

Time Warner Inc.

T-Mobile US, Inc.

TW Telecom Inc.

United States Cellular Corp.

Vonage Holdings Corp.

Windstream Corp.

Appendix I

CINCINNATI BELL INC.

2007 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

(As adopted and originally effective as of May 3, 2007)

(As amended and effective on May 1, 2012, as subsequently amended, and as further amended and effective upon shareholder approval on April 29, 2016)

1. Introduction to Plan.

1.1 Name and Sponsor of Plan. The name of this Plan is the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors, and its sponsor is CBI.

1.2 Purposes of Plan. The purposes of this Plan are (i) to attract and retain the services of experienced and knowledgeable persons to serve as independent directors of CBI for the benefit of CBI and its shareholders and (ii) to provide additional incentive for such directors to continue to work for the best interests of CBI and its shareholders.

1.3 Effective Date and Duration of Plan.

(a) The Plan is effective as of the Effective Date (May 3, 2007), subject to the Plan's approval by a majority of the voting shares present or represented and entitled to vote on the Plan at the 2007 annual meeting of CBI's shareholders.

(b) The Plan shall remain in effect thereafter until the earliest of (i) the date on which the Plan is terminated in accordance with section 14 hereof, (ii) the date on which the maximum number of Common Shares which may be issued or paid under or with respect to all of the awards granted under the Plan during the Plan's entire existence (as determined under the other provisions of the Plan) have been issued or paid, or (iii) May 2, 2017. Upon the termination of the Plan, no awards may be granted under the Plan after the date of such termination but any award granted under the Plan on or prior to the date of such termination shall remain outstanding in accordance with the terms of the Plan and the terms of the award.

2. General Definitions. For all purposes of the Plan, the following terms shall have the meanings indicated below when used in the Plan, unless the context clearly indicates otherwise.

2.1 "Board" means the Board of Directors of CBI.

2.2 "CBI" means Cincinnati Bell Inc. (and, except for purposes of determining whether a Change in Control has occurred, any legal successor to Cincinnati Bell Inc. that results from a merger or similar transaction).

2.3 "Change in Control" means the occurrence of any of the events described in subsection 11.3 hereof.

2.4 "Code" means the Internal Revenue Code of 1986, as it exists as of the Effective Date and as it may thereafter be amended. A reference to a specific section of the Code shall be deemed to be a reference both (i) to the provisions of such section as it exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded (by future legislation) and (ii) to the provisions of any government regulation that is issued under such section as of the Effective Date or as of a later date.

2.5 "Common Shares" means common shares, par value \$0.01 per share, of CBI.

2.6 "Company" means, collectively, (i) CBI, (ii) each other corporation that is part of a controlled group of corporations (within the meaning of Section 1563(a) of the Code, but determined without regard to Code Section 1563(a)(4) and (e)(3)(C)) that includes CBI, and (iii) each other organization (a partnership, sole proprietorship, etc.) that is under common control (within the meaning of Section 414(b) of the Code) with CBI.

2.7 "Effective Date" means May 3, 2007.

2.8 "Exchange Act" means the Securities Exchange Act of 1934, as it exists as of the Effective Date and as it may thereafter be amended. A reference to a specific section of the Exchange Act shall be deemed to be a reference both (i) to the provisions of such section as it exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded (by future legislation) and (ii) to the provisions of any government regulation or rule that is issued under such section as of the Effective Date or as of a later date.

- 2.9 “Outside Director” means any member of the Board who is not an employee (on an employee payroll) of the Company.
- 2.10 “Plan” means this document, named the “Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors,” as set forth herein and as it may be amended.
- 2.11 “Regulation 1.83-3(i)” means Treasury Regulation Section 1.83-3(i) issued by the Department of the Treasury under Section 83 of the Code, as such regulation exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded.
- 2.12 “Retirement” means, with respect to any Outside Director, the Outside Director's ceasing to be a director of CBI either (i) after he or she has attained at least age 68, (ii) after he or she has completed at least three full years of service as a director of CBI (with one year of service being credited to the Outside Director for this purpose for each twelve months as a CBI director, whether or not consecutive), or (iii) with the express consent of the Board that such cessation will be treated as the Outside Director's retirement for purposes of the Plan.
- 2.13 “Rule 16b-3” means Rule 16b-3 issued by the Securities and Exchange Commission under Section 16 of the Exchange Act, as such rule exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded.
3. Administration of Plan. The Plan shall be administered by the Board. The Board shall have the sole and complete authority to grant awards to Outside Directors in accordance with the provisions of section 5 hereof and, subject to the limitations and other provisions of the Plan, to interpret the Plan, to adopt, amend, and rescind administrative guidelines and other rules and regulations relating to the Plan, and to make all other determinations and to take all other actions it deems necessary or advisable for the proper administration of the Plan. Except to the extent otherwise required by applicable law, the Board's determinations on any matter within its authority shall be conclusive and binding on CBI, all Outside Directors, and all other parties.
4. Class of Persons Eligible for Plan. Awards may be granted under the Plan to, and only to, Outside Directors.
5. Awards under Plan.
- 5.1 Type of Awards. Awards under the Plan may be granted in any or all of the following forms, all of which shall be based on Common Shares: (i) stock options; (ii) restricted stock; and (iii) restricted stock units. The subsequent provisions of the Plan provide certain rules and conditions that apply to each of such award forms.
- 5.2 Grant of Awards. The Board may, in its discretion, grant under the Plan stock option, restricted stock, and/or restricted stock awards to any Outside Director on the first date of such individual's first term of office as an Outside Director and/or on the date of any annual meeting of the shareholders of CBI. The Board shall exercise its discretion when determining whether to grant any such awards as of any such date with the intent that the awards that are granted to the Outside Directors under the Plan, together with other compensation that is either paid in the form of Common Shares or has its value determined in relation to the value of Common Shares (such awards and such other compensation referred to in this subsection 5.2 as “equity-based compensation”) and taking into account the fair market value of a Common Share when granting or providing such equity-based compensation, provide equity-based compensation for the Outside Directors that each year is approximately equal to the median level of the value of equity-based compensation provided by a group of comparable peer group companies to their non-employee directors.
- 5.3 Common Shares To Be Issued Under Awards. Any Common Shares that are to be issued or paid under any award granted under the Plan may consist, in whole or in part, of Common Shares that are authorized but unissued or Common Shares that are treasury shares.
6. Limits on Shares Subject to Plan Awards.
- 6.1 Common Share Limit. Subject to the following provisions of this subsection 6.1 and the provisions of subsections 6.2 and 12.1 hereof, the following limits set forth in paragraphs (a) through (c) of this subsection 6.1 (which generally involve the maximum number of Common Shares that may be issued or paid under the Plan and its various types of awards during the Plan's entire existence) shall apply to the grant of awards under the Plan. No award may be granted under the Plan to the extent it would cause any of the following limits to be violated.
- (a) The maximum number of Common Shares which may be issued or paid under or with respect to all of the awards (considered in the aggregate) granted under the Plan during the Plan's entire existence shall be equal to 1,000,000 1,500,000 Common Shares.



(b) The maximum number of Common Shares which may be issued or paid under or with respect to all stock option awards (considered in the aggregate but separately from all restricted stock and restricted stock unit forms of awards) granted under the Plan during the Plan's entire existence shall be equal to 1,000,000 1,500,000 Common Shares.

(c) The maximum number of Common Shares which may be issued or paid under or with respect to all restricted stock and restricted stock unit awards (considered in the aggregate but separately from all stock option forms of awards) granted under the Plan during the Plan's entire existence shall be equal to 1,000,000 1,500,000 Common Shares.

6.2 Rules For Applying Award Limits. For purposes of applying the award limits set forth in subsection 6.1 hereof and for all other purposes of the Plan, the following provisions of this subsection 6.2 shall apply.

(a) If any award or portion thereof granted under the Plan is forfeited, expires, or in any other manner terminates without the payment of Common Shares or any other amount or consideration, the number of Common Shares on which such award or portion of an award was based (i) shall again be available to be issued or paid under the Plan and to be the basis on which other awards may be granted under the Plan and (ii) thus shall not be counted as Common Shares that were issued or paid under the Plan in determining whether any of the limits set forth in subsection 6.1 hereof are met.

(b) Any Common Shares that would be issued or paid under an award granted under the Plan but are withheld in payment of any exercise price, purchase price, or tax withholding requirements (in accordance with the provisions of section 13 hereof) (i) shall not again be deemed to be available to be issued or paid under the Plan or to be the basis on which other awards may be granted under the Plan and (ii) thus shall be counted as Common Shares that were issued or paid under the Plan in determining whether any of the limits set forth in subsection 6.1 hereof are met.

7. Stock Option Awards. Any awards granted under the Plan in the form of stock options shall be subject to the following terms and conditions of this section 7.

7.1 Nature of Stock Option. A stock option means an option to purchase any number of Common Shares, up to a fixed maximum number of Common Shares, in the future at a fixed price (for purposes of this section 7, the "Exercise Price") that applies to the Common Shares to which the purchase relates. Stock options granted under the Plan to any Outside Director shall be stock options that are not incentive stock options (within the meaning of Section 422 of the Code).

7.2 Terms and Conditions of Stock Option To Be Determined by Board. Subject to the other provisions of this section 7 and the other sections of the Plan, the terms and conditions of any stock option granted under the Plan shall be determined by the Board. The grant of a stock option shall be evidenced by a written agreement signed by the Board or a representative thereof, which agreement shall contain the terms and conditions of the stock option (as set by the Board).

7.3 Exercise Price of Stock Option. Unless otherwise prescribed by the Board to be higher, the Exercise Price with respect to any number of Common Shares that are subject to a stock option granted under the Plan shall be 100% (and may not in any event be less than 100%) of the fair market value of such number of Common Shares (disregarding lapse restrictions as defined in Regulation 1.83-3(i)) on the date the stock option is granted.

7.4 Expiration of Stock Option.

(a) Unless otherwise prescribed by the Board, any stock option granted under the Plan shall be exercisable in whole or in part at any time after the date on which it is granted. However, subject to the provisions of paragraph (b) of this subsection 7.4, a stock option granted under the Plan shall not in any event be exercisable after the expiration of ten years after the date on which it is granted (or after any earlier expiration date that is otherwise prescribed for the stock option by the Board).

(b) Unless otherwise prescribed by the Board and subject in any event to the provisions of paragraph (a) of this subsection 7.4, if an Outside Director ceases to be a director of CBI other than for death or Retirement when still eligible to exercise a stock option granted to him or her under the Plan (to the extent such stock option has not previously been exercised), such stock option shall no longer be exercisable after the earlier of the expiration of ten years after the date on which the stock option was granted or the expiration of six months after the date on which the Outside Director ceased to be a director of CBI; except that, if such Outside Director dies after he or she ceased to be a director of CBI but prior to the expiration of six months after the date on which he or she ceased to be a director of CBI, the first reference in this paragraph (b) to "six months" shall be deemed to be a reference to "one year."



7.5 Procedures for Exercise of Stock Option.

(a) With respect to each exercise of a stock option granted under the Plan, written notice of the exercise must be given and the purchase price for the Common Shares being purchased upon the exercise and any taxes required to be withheld upon the exercise must be paid in full at the time of the exercise. The procedures for meeting such requirements shall be established under the provisions of section 13 hereof.

(b) As soon as administratively practical after the receipt of the written notice and full payment applicable to the exercise of any stock option granted under the Plan in accordance with the procedures established under the provisions of section 13 hereof, CBI shall deliver to the applicable Outside Director (or such other person who is exercising the stock option) a certificate or certificates representing the acquired Common Shares.

8. Restricted Stock Awards. Any awards granted under the Plan in the form of restricted stock shall be subject to the following terms and conditions of this section 8.

8.1 Nature of Restricted Stock.

(a) Restricted stock shall constitute Common Shares that may not be disposed of by the Outside Director to whom the restricted stock is granted until certain restrictions and conditions established by the Board lapse. Such restrictions shall include but not necessarily be limited to restrictions that provide that the Outside Director must, in order to dispose of all of the Common Shares reflected in a restricted stock award granted under the Plan, complete at least three full years of service as a director of CBI (with one year of service being credited to the Outside Director for this purpose for each twelve months as a CBI director, whether or not consecutive) or terminate service with CBI in special circumstances (such as upon the Outside Director's death, disability, or Retirement that occurs after he or she has attained at least age 68). Any restrictions imposed under a restricted stock award shall also similarly restrict the ability of the Outside Director to dispose of other rights issued with respect to such restricted stock.

(b) Any restricted stock award granted under the Plan may provide that the satisfaction of certain but not all (or a certain level but not the highest level) of the restrictions and conditions applicable to such restricted stock will permit the lapse of the applicable restrictions and conditions that restrict the right to dispose of such restricted stock as to a percentage (that is reasonably related to the percentage of all or the highest level of the restrictions and conditions applicable to the entire restricted stock award that have been satisfied), but not the maximum number, of the Common Shares reflected by such restricted stock.

8.2 Terms and Conditions of Restricted Stock To Be Determined by Board. Subject to the other provisions of this section 8 and the other sections of the Plan, all of the restrictions and other terms and conditions that apply to any restricted stock awarded under the Plan shall be determined by the Board. The grant of any restricted stock under the Plan shall be evidenced by a written agreement signed by the Board or a representative thereof, which agreement shall contain the restrictions and other terms and conditions of the restricted stock (as set by the Board) and shall be referenced on the certificates representing the Common Shares that constitute such restricted stock.

8.3 Procedures for Payment of Taxes Upon Vesting of Restricted Stock. Any taxes required to be withheld upon the lapse of any restrictions applicable to any restricted stock granted under the Plan (and, if applicable, any minimum purchase price for the restricted stock that may be required by applicable law) must be paid in full at the time such restrictions lapse. The procedures for meeting such requirements shall be established under the provisions of section 13 hereof.

8.4 Right of Participant Under Restricted Stock. Any Outside Director who has been granted restricted stock under the Plan shall have, during the period in which restrictions on his or her ability to dispose of such stock apply, all of the rights of a shareholder of CBI with respect to the Common Shares awarded as restricted stock (other than the right to dispose of such shares), including the right to vote the shares and the right to receive any cash or stock dividends, unless the Board shall otherwise provide in the terms of the applicable restricted stock award and except as may otherwise be provided in subsection 8.5 hereof.

8.5 Restrictions for Additional Common Shares Issued under Stock Split or Dividend. Any Common Shares issued with respect to restricted stock as a result of a stock split, stock dividend, or similar transaction shall be restricted to the same extent as the applicable restricted stock, unless otherwise provided by the Board in the terms of the applicable restricted stock award.





8.6 Forfeiture of Restricted Stock. If any restrictions or conditions on an Outside Director's ability to dispose of any restricted stock granted to him or her are not satisfied in accordance with the terms of such restricted stock award, such restricted stock shall be forfeited (subject to such exceptions, if any, as are authorized by the Board). For instance, if an Outside Director to whom restricted stock has been granted under the Plan terminates his or her service with CBI during the period in which restrictions on his or her ability to dispose of such stock apply (and prior to the satisfaction of the requirements applicable to such restrictions), such restricted stock shall be forfeited (subject to such exceptions, if any, as are authorized by the Board as to a termination of service that reflects the Outside Director's death, disability, or Retirement that occurs after the Outside Director has attained at least age 68 or as to other special circumstances).

8A. Restricted Stock Unit Awards. Any awards granted under the Plan in the form of restricted stock units shall be subject to the following terms and conditions of this section 8A.

8A.1 Restricted Stock Unit. Any restricted stock unit award that is granted to an Outside Director will award the Outside Director with a fixed number of restricted stock units. Each restricted stock unit that is awarded under a restricted stock unit award shall constitute a right that the Outside Director (or, in the event of his or her death prior to payment, the executor, administrator, or other personal representative of his or her estate) will receive one Common Share if the vesting conditions set forth under such award are met.

(a) The vesting conditions that apply to the restricted stock units that are awarded under a restricted stock unit award granted to an Outside Director pursuant to the Plan shall require, subject to the other sections and subsections of the Plan (including section 11 hereof that concerns the effect of a Change in Control on awards granted under the Plan), either:

(1) that the Outside Director must continuously be a CBI director from the date on which the restricted stock award is granted until the first annual anniversary of the date on which the award is granted (or, if earlier and if the first annual meeting of CBI shareholders after the date on which the restricted stock unit award is granted occurs before but no more than two weeks before the first annual anniversary of the date on which the restricted stock unit award is granted, until such first annual meeting of CBI shareholders), in which case the Outside Director shall be vested in all of the restricted stock units included in such restricted stock unit award; or

(2) that the Outside Director must, while still a CBI director and prior to the date he or she becomes vested in all of the restricted stock units included in such restricted stock unit award under paragraph (a)(1) of this subsection 8A.1, either die or become disabled, in which case the Outside Director shall be vested in a number of restricted stock units (rounded up to the nearest whole unit) that bears the same ratio to the total number of the restricted stock units included in such restricted stock unit award as the number of days in the period that begins on the date on which the award is granted and ends on the earlier of his or her death or becoming disabled bears to the number of days in the period that begins on date on which the award is granted and ends on the first annual anniversary of the date on which the award is granted.

(b) For purposes of this subsection 8A.1, an Outside Director shall be deemed to be "disabled" and to have a "disability" if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months. The Outside Director's disability must be determined by the Board, which determination shall be based on medical evidence provided to it by the Outside Director or obtained by the Board on its own initiative and which in either case is deemed reasonable, satisfactory, and credible by the Board. Further, if an Outside Director fails to reasonably cooperate with the Board's attempt to determine whether he or she is disabled, then, notwithstanding any other evidence of disability that exists, the Board shall have the right to determine that no condition of disability exists as to the Outside Director.

8A.2 Terms and Conditions of Restricted Stock Units To Be Determined by Board. The terms and conditions that apply to any restricted stock units awarded under the Plan shall be consistent with the other provisions of this section 8A and the other sections of the Plan and shall, to the extent such other provisions do not require a specific term or condition, be determined by the Board. The grant of any restricted stock unit award under the Plan shall be evidenced by a written agreement signed by the Board or a representative thereof, which agreement shall contain the vesting conditions and other terms and conditions of the restricted stock units (as set by the other provisions of this section 8A and the other sections of the Plan or, if applicable, by the Board).



8A.3 Procedures for Payment of Restricted Stock Units and of Applicable Taxes.

(a) If an Outside Director becomes vested in any restricted stock units that are awarded under a restricted stock unit award granted to him or her pursuant to the Plan, then CBI shall distribute to the Outside Director (or, in the event of his or her death before the payment, the executor, administrator, or other personal representative of his or her estate) a number of Common Shares equal to the number of such restricted stock units in which he or she so becomes vested (but subject to the tax withholding requirements of paragraph (b) of this subsection 8A.3 being satisfied at the time of such distribution). Such distribution shall be made on a date that is within the 60 day period that begins on the earliest of (i) the date of the Outside Director's death, (ii) the date on which the Outside Director becomes disabled, or (iii) the first annual anniversary of the date on which the restricted stock unit award is granted, with the specific date within such 60 consecutive day period on which such distribution will be made being chosen by the Board in its discretion.

(b) Any taxes required to be withheld upon an Outside Director (or the executor, administrator, or other personal representative of his or her estate) becoming entitled to the distribution of any Common Shares in connection with restricted stock units awarded to the Outside Director under a restricted stock unit award granted under the Plan must be paid in full at the time of such distribution. The procedures for meeting such requirements shall be established under the provisions of section 13 hereof.

8A.4 Forfeiture of Restricted Stock Units. If any vesting conditions required to be met before any payment can be made with respect to any restricted stock units awarded to an Outside Director under a restricted stock unit award granted pursuant to the Plan are not satisfied in accordance with the terms of this Plan, such restricted stock units shall be forfeited by the Outside Director and neither he or she, his or her estate, or any other person attempting to claim rights under the Plan through the Outside Director shall have any rights to Common Shares or other amounts by reason of such forfeited restricted stock units.

9. Fair Market Value of Common Shares. For purposes of the Plan, the fair market value of a Common Share on any date (for purposes of this section 9, the "subject date") shall be deemed to be the closing price of a Common Share on the New York Stock Exchange on the subject date (or, if no trading in any stocks occurred at all on such exchange on the subject date, on the next subsequent date on which trading of stocks occurred on such exchange). Notwithstanding the foregoing, if Common Shares are not listed or traded at all on the New York Stock Exchange on the date as of which a Common Share's fair market value for the subject date is to be determined under the terms of the immediately preceding sentence, then the fair market value of a Common Share on the subject date shall be determined by the Board in good faith pursuant to methods and procedures established by the Board.

10. Nonassignability of Awards. Except as may be required by applicable law, no award granted under the Plan to an Outside Director may be assigned, transferred, pledged, or otherwise encumbered by the Outside Director otherwise than by will, by designation of a beneficiary to take effect after the Outside Director's death, or by the laws of descent and distribution. Each stock option award shall be exercisable during the Outside Director's lifetime only by the Outside Director (or, if permissible under applicable law, by the Outside Director's guardian or legal representative). Notwithstanding the foregoing provisions of this section 10, the Board may, in its discretion, permit transfers of stock option awards by gift or otherwise, subject to such terms and conditions as the Board may prescribe.

11. Provisions Upon Change in Control.

11.1 Effect of Change in Control on Awards. In the event a Change in Control occurs on or after the Effective Date, then, notwithstanding any other provision of the Plan and unless otherwise prescribed by the Board in the terms of an applicable award:

(a) all outstanding stock options granted under the Plan to an Outside Director shall immediately become exercisable in full upon the date of the Change in Control;

(b) the restrictions still then in force and applicable to any Common Shares awarded as restricted stock under the Plan to an Outside Director shall immediately lapse upon the date of the Change in Control; and

(c) the vesting conditions that are required to be met before the Outside Director vests in all of the restricted stock units that have been awarded to an Outside Director under a restricted stock unit award under which no restricted stock units have previously become vested or forfeited shall immediately be deemed satisfied upon the date of the Change in Control and CBI shall, within the 60 day period that begins on the date of the Change in Control, distribute to the Outside Director (or, in the event of his or her death before the payment, the executor, administrator, or other personal representative of his or her estate) a number of Common Shares equal to the number of such restricted stock

units in which he or she so becomes vested (but subject to the tax withholding requirements of subsection 8A.3(b) hereof being satisfied at the time of such distribution).

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#### 11.2 Cashout of Stock Options and Restricted Stock Units.

(a) In addition, unless the Board shall otherwise prescribe in the terms of a stock option that was awarded under the Plan to an Outside Director, in the event of a Change in Control the Board shall have discretion to cause a cash payment to be made to the Outside Director (or, if applicable, such other person who then holds such stock option), in lieu of the right to exercise such stock option or any portion thereof, provided (i) that such stock option is still outstanding as of the Change in Control and (ii) that the aggregate fair market value (on the date of the Change in Control) of the Common Shares that are subject to such stock option exceeds the aggregate exercise price of such Common Shares under such stock option. In the event the Board exercises its discretion to cause such cash payment to be made, the amount of such cash payment shall be equal to the amount by which (i) the aggregate fair market value (on the date of the Change in Control) of the Common Shares that are subject to such stock option exceeds (ii) the aggregate exercise price of such Common Shares under such stock option.

(b) Similarly, unless the Board shall otherwise prescribe in the terms of a restricted stock unit award that was granted under the Plan to an Outside Director, in the event of a Change in Control the Board shall have discretion to cause a cash payment to be made to the Outside Director (or, if applicable, the executor, administrator, or other personal representative of his or her estate) in payment of any restricted stock unit that is subject to such award and in which the Outside Director is vested (in an amount equal to the fair market value of a Common Share as of the date of the Change in Control), in lieu of a payment of a Common Share being made with respect to such restricted stock unit, provided that no payment or forfeiture of such restricted stock unit has occurred before the Change in Control.

11.3 Definition of Change in Control. For purposes of the Plan, a “Change in Control” means the occurrence of any one of the events described in the following paragraphs of this subsection 11.3.

(a) A majority of the Board as of any date not being composed of Incumbent Directors. For purposes of this subsection 11.3, as of any date, the term “Incumbent Director” means any individual who is a director of CBI as of such date and either: (i) who was a director of CBI at the beginning of the 24 consecutive month period ending on such date; or (ii) who became a CBI director subsequent to the beginning of such 24 consecutive month period and whose appointment, election, or nomination for election was approved by a vote of at least two-thirds of the CBI directors who were, as of the date of such vote, Incumbent Directors (either by a specific vote or by approval of the proxy statement of CBI in which such person is named as a nominee for director). It is provided, however, that no individual initially appointed, elected, or nominated as a director of CBI as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall ever be deemed to be an Incumbent Director.

(b) Any “person,” as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act, being or becoming “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of CBI representing 20% or more of the combined voting power of CBI's then outstanding securities eligible to vote for the election of the Board (for purposes of this subsection 11.3, the “CBI Voting Securities”). It is provided, however, that the event described in this paragraph (b) shall not be deemed to be a Change in Control if such event results from any of the following: (i) the acquisition of any CBI Voting Securities by the Company, (ii) the acquisition of any CBI Voting Securities by any employee benefit plan (or related trust) sponsored or maintained by the Company, (iii) the acquisition of any CBI Voting Securities by any underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a Non-Qualifying Transaction (as defined in paragraph (c) of this subsection 11.3).

(c) The consummation of a merger, consolidation, statutory share exchange, or similar form of corporate transaction involving the Company (for purposes of this paragraph (c), a “Reorganization”) or sale or other disposition of all or substantially all of the assets of CBI to an entity that is not an affiliate of CBI (for purposes of this paragraph (c), a “Sale”), that in each case requires the approval of CBI's shareholders under the law of CBI's jurisdiction of organization, whether for such Reorganization or Sale (or the issuance of securities of CBI in such Reorganization or Sale), unless immediately following such Reorganization or Sale:

- (1) more than 60% of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of (i) the entity resulting from such Reorganization or the entity which has acquired all or substantially all of the assets of CBI (for purposes of this paragraph (c) and in either case, the “Surviving Entity”), or (ii) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of more than 50% of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of the Surviving Entity (for purposes of this paragraph (c), the “Parent Entity”), is represented by CBI Voting Securities that were outstanding immediately prior to such Reorganization or Sale (or, if applicable, is represented by shares into which such CBI Voting Securities were converted pursuant to such Reorganization or Sale), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such CBI Voting Securities among the holders thereof immediately prior to the Reorganization or Sale;
- (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Entity or the Parent Entity or the related trust of any such plan) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of the outstanding voting securities of the Parent Entity (or, if there is no Parent Entity, the Surviving Entity); and
- (3) at least a majority of the members of the board of directors (or similar officials in the case of an entity other than a corporation) of the Parent Entity (or, if there is no Parent Entity, the Surviving Entity) following the consummation of the Reorganization or Sale were, at the time of the approval by the Board of the execution of the initial agreement providing for such Reorganization or Sale, Incumbent Directors (any Reorganization or Sale which satisfies all of the criteria specified in subparagraphs (1), (2), and (3) of this paragraph (c) being deemed to be a “Non-Qualifying Transaction” for purposes of this subsection 11.3).
- (d) The shareholders of CBI approving a plan of complete liquidation or dissolution of CBI. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the CBI Voting Securities as a result of the acquisition of CBI Voting Securities by CBI which reduces the number of CBI Voting Securities outstanding; provided that, if after such acquisition by CBI such person becomes the beneficial owner of additional CBI Voting Securities that increases the percentage of outstanding CBI Voting Securities beneficially owned by such person, a Change in Control shall then occur.

## 12. Adjustments.

### 12.1 Adjustments for Stock Dividends, Stock Splits, and Other Corporate Transactions.

- (a) In the event of any change affecting the Common Shares by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, combination or exchange of shares, or other corporate change, or any distributions to common shareholders other than cash dividends, then, subject to the provisions of paragraph (b) of this subsection 12.1, the Board shall make such substitution or adjustment in the aggregate number or class of shares which may be distributed under the Plan and in the number, class, and exercise price or other price of shares on which the outstanding awards granted under the Plan are based as it determines to be necessary or appropriate in order to prevent the enlargement or dilution of rights under the Plan or under awards granted under the Plan.
- (b) The Board shall not take any action under the provisions of paragraph (a) of this subsection 12.1 with respect to any specific award granted under the Plan to the extent it determines that such action would otherwise cause such award to become subject to the requirements of Code Section 409A when such award would not be subject to such requirements in the absence of such adjustment.

12.2 Adjustments To Correct Errors or Omissions. The Board shall be authorized to correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any award granted under the Plan in the manner and to the extent it shall determine is needed to reflect the intended provisions of the Plan or that award or to meet any law that is applicable to the Plan (or the provisions of any law which must be met in order for the normal tax consequences of the award to apply).

### 13. Procedures For Satisfying Payment and Withholding Requirements.

13.1 Board May Develop Payment/Withholding Procedures. The Board may, in its discretion, establish procedures governing the exercise of, lapse of restrictions under, and/or payment of any award granted under the Plan and to compel under such procedures that, to the extent applicable under such award, any purchase price for Common Shares being obtained under such award and/or taxes required to be withheld by the terms of such award or under applicable law (with any such purchase price and/or tax withholding requirements being referred to in this section 13 as the “payment/withholding requirements”) be paid in full. The Board may provide for different rules as to the satisfying of the payment/withholding requirements with respect to each type of award granted under the Plan and even among awards of the same type that are granted under the Plan. The Board's procedures applicable to the satisfaction of any payment/withholding requirements that apply to an award granted under the Plan may, in the discretion of the Board, include commonly accepted electronic or telephonic notices given via the internet or an interactive voice response system to a third party broker which is designated by the Board to facilitate and/or administer the exercise, issuance, or payment of any awards granted under the Plan.

13.2 Default Payment/Withholding Procedures. Unless the Board otherwise prescribes in the written agreement by which an award is granted under the Plan, any Outside Director to whom an award under the Plan is granted (or, if applicable, such other person who is exercising the award) may, in his or her sole discretion, satisfy the payment/withholding requirements that apply to such award by using any one or more of the following methods or any combination of the following methods:

- (a) by making a payment to CBI of an amount in cash (which, for purposes of the Plan, shall be deemed to include payment in U.S. currency or by certified check, bank draft, cashier's check, or money order) equal to the amount of such payment/withholding requirements;
- (b) by making a payment to CBI in Common Shares which are previously owned by the Outside Director (or such other person) and have a fair market value on the date of payment equal to the amount of such payment/withholding requirements;
- (c) by having CBI retain Common Shares which are otherwise being purchased, issued, or paid under the award and have a fair market value on the date of payment equal to the amount of such payment/withholding requirements; and/or
- (d) by having CBI retain an amount of cash that is payable under any other compensation applicable to the Outside Director (or such other person) and equal to the amount of such payment/withholding requirements.

13.3 Right of CBI To Retain Amount To Meet Payment/Withholding Requirements If Requirements Are Not Otherwise Met. If any Outside Director (or other person) who is responsible for satisfying any payment/withholding requirements that apply to an award granted under the Plan otherwise fails to satisfy such payment/withholding requirements under the procedures or other rules set forth in the foregoing provisions of this section 13, CBI shall have the right to retain from such award or the payment thereof (or from any other amount that is payable as compensation to the Outside Director or such other person), as appropriate, a sufficient number of Common Shares or cash otherwise applicable to the award (or otherwise applicable to such other compensation amount) in order to satisfy such payment/withholding requirements.

### 14. Amendment or Termination of Plan.

14.1 Right of Board To Amend or Terminate Plan. Subject to the provisions of paragraph (b) of subsection 1.3 hereof but notwithstanding any other provision hereof to the contrary, the Board may amend or terminate the Plan or any portion or provision thereof at any time, provided that no such action shall materially impair the rights of an Outside Director with respect to a previously granted Plan award without the Outside Director's consent.

Notwithstanding the foregoing, the Board may not in any event, without the approval of CBI's shareholders, adopt an amendment to the Plan which shall: (i) increase the total number of Common Shares which may be issued or paid during the existence of the Plan; (ii) change the class of persons eligible to receive awards under the Plan; or (iii) make any other change in the Plan that is required by applicable law to be approved by CBI's shareholders in order to be effective.

14.2 Rules When Shareholder Approval for Amendment Is Required. If approval of CBI's shareholders is required to a Plan amendment pursuant to the provisions of subsection 14.1 hereof, then such approval must comply with all applicable provisions of CBI's corporate charter, bylaws and regulations, and any applicable state law prescribing a

method and degree of shareholder approval required for issuance of Common Shares. If the applicable state law fails to prescribe a method and degree in such cases, then such approval must be made by a method and degree that would be treated as adequate under applicable state law in the case of an action requiring shareholder approval of an amendment to the Plan.

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15. Miscellaneous.

15.1 Section 83(b) Election. An Outside Director may, with respect to any award granted to him or her under the Plan with respect to which an election could be made under Section 83(b) of the Code (generally to include in his or her gross income for Federal income tax purposes in the year the award is transferred to him or her the amounts specified in such Code section), make such election provided that (i) the terms and conditions of such award fail to prohibit the Outside Director making such election and (ii) the Outside Director provides written notice to the Committee of such election within ten days after he or she has filed a written notice of such election with the Internal Revenue Service (as well as meeting all other notice and additional requirements for such election that are required by Section 83(b) of the Code).

15.2 Prohibition on Reduction of Exercise Price. Subject to the provisions of subsection 12.1 hereof but notwithstanding any other provision of the Plan, in no event shall the exercise price applicable to a stock option award granted under the Plan be reduced, directly or indirectly, by an amendment to the award, by the cancellation of the award and the granting of a new award, or by any other means unless such reduction is approved by CBI's shareholders (with such approval meeting the same conditions as are described in subsection 14.2 hereof as to the approval of a Plan amendment).

15.3 No Right To Employment as Director. Nothing contained in the Plan or any stock option granted under the Plan shall confer on any Outside Director any right to be continued as a director of CBI or interfere in any way with the right of CBI to terminate the Outside Director's service as a director at any time and in the same manner as though the Plan and any stock options granted under the Plan were not in effect.

15.4 No Advance Funding of Plan Benefits. The Plan shall not be funded and CBI shall not be required to segregate any assets to reflect any awards granted under the Plan. Any liability of CBI to any person with respect to any award granted under the Plan shall be based solely upon the contractual obligations that apply to such award, and no such liability shall be deemed to be secured by any pledge of or other lien or encumbrance on any property of CBI.

15.5 No Issuance of Common Shares Unless Securities Laws Permit Issuance. Notwithstanding any other provision of the Plan to the contrary, in no event shall CBI be obligated to issue or deliver any Common Shares under the Plan in connection with an award granted under the Plan unless and until CBI determines that such issuance or delivery will not constitute a violation of the provisions of any applicable law (or regulation issued under such law) or the rules of any securities exchange on which Common Shares are listed and will not be subject to restrictions not generally applicable to Common Shares. In addition, with respect to any Outside Director who is subject to the requirements of Section 16 of the Exchange Act, transactions under the Plan are intended to comply with all applicable requirements of Rule 16b-3. To the extent any provision of the Plan or an award granted under the Plan or action by the Board fails to so comply, it shall be deemed to be null and void to the extent permitted by law or deemed advisable by the Board.

15.6 Applicable Law. Except to the extent preempted by any applicable Federal law, the Plan shall be subject to and construed in accordance with the laws of the State of Ohio.

15.7 Counterparts and Headings. The Plan may be executed in any number of counterparts, each of which shall be deemed an original. The counterparts shall constitute one and the same instrument, which shall be sufficiently evidenced by any one thereof. Headings used throughout the Plan are for convenience only and shall not be given legal significance.

Appendix II

CINCINNATI BELL INC.

2011 SHORT-TERM INCENTIVE PLAN

(As adopted effective as of April 1, 2011)

1. Introduction to Plan.

1.1 Name and Sponsor of Plan. The name of this Plan is the Cincinnati Bell Inc. 2011 Short Term Incentive Plan, and its sponsor is CBI.

1.2 Purposes of Plan. The purposes of this Plan are (i) to further the growth of the Company by offering Key Employees of the Company competitive incentive compensation related to annual company and individual performance goals and (ii) to aid the Company in attracting and retaining Key Employees of outstanding abilities.

1.3 Effective Date, Duration of Plan, and Replacement of Prior Plan.

(a) The Plan is effective as of the Effective Date (April 1, 2011), subject to the Plan's approval by a majority of the voting shares present or represented and entitled to vote on the Plan at the 2011 annual meeting of CBI's shareholders.

(b) The Plan shall remain in effect thereafter until the date on which the Plan is terminated in accordance with section 13 hereof. Upon the termination of the Plan, no awards may be granted under the Plan after the date of such termination but any award granted under the Plan on or prior to the date of such termination shall remain outstanding in accordance with the terms of the Plan and the terms of the award.

(c) The Plan replaces the Cincinnati Bell Inc. Short Term Incentive Plan (for purposes of this paragraph (c), the "Prior Short Term Incentive Plan"), as such plan was in effect before the Effective Date. The Prior Short Term Incentive Plan was terminated effective as of March 31, 2011, but any award granted under the Prior Short Term Incentive Plan on or prior to the date of such plan's termination shall remain outstanding in accordance with the terms of the Prior Short Term Incentive Plan and the terms of the award.

2. General Definitions. For all purposes of the Plan and in addition to other definitions of terms that are contained in other sections of the Plan, the following terms shall have the meanings indicated below when used in the Plan, unless the context clearly indicates otherwise.

2.1 "Board" means the Board of Directors of CBI.

2.2 "CBI" means Cincinnati Bell Inc. (and, except for purposes of determining whether a Change in Control has occurred, any legal successor to Cincinnati Bell Inc. that results from a merger or similar transaction).

2.3 "CBI Tax Year" means any tax year of CBI for Federal income tax purposes. As of the Effective Date and until changed by CBI, a CBI Tax Year is a calendar year.

2.4 "CEO" means, as of any point in time, the person then designated by CBI as its Chief Executive Officer.

2.5 "Change in Control" means the occurrence of any of the events described in subsection 10.2 hereof.

2.6 "Code" means the Internal Revenue Code of 1986, as it exists as of the Effective Date and as it may thereafter be amended. A reference to a specific section of the Code shall be deemed to be a reference both (i) to the provisions of such section as it exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded (by future legislation) and (ii) to the provisions of any government regulation that is issued under such section as of the Effective Date or as of a later date.

2.7 "Committee" means the committee appointed to administer the Plan under the provisions of subsection 3.1 hereof.

2.8 "Company" means, collectively, (i) CBI, (ii) each other corporation that is part of a controlled group of corporations (within the meaning of Section 1563(a) of the Code, but determined without regard to Code Section 1563(a)(4) and (e)(3)(C)) that includes CBI, and (iii) each other organization (a partnership, sole proprietorship, etc.) that is under common control (within the meaning of Section 414(b) of the Code) with CBI.

2.9 "Effective Date" means April 1, 2011.

2.10 “Key Employee” means any person who is both (i) employed and classified as an employee by the Company and (ii) an officer of the Company subject to the disclosure requirements of Section 16 of the Exchange Act.

2.11 “Exchange Act” means the Securities Exchange Act of 1934, as it exists as of the Effective Date and as it may thereafter be amended. A reference to a specific section of the Exchange Act shall be deemed to be a reference both (i) to the provisions of such section as it exists as of the Effective Date and as it is subsequently amended, renumbered, or superseded (by future legislation) and (ii) to the provisions of any government regulation or rule that is issued under such section as of the Effective Date or as of a later date.

2.12 “Participant” means a person who, as a Key Employee, was granted an award under the Plan.

2.13 “Plan” means this document, named the “Cincinnati Bell Inc. 2011 Short Term Incentive Plan,” as set forth herein and as it may be amended.

### 3. Administration of Plan.

3.1 Committee To Administer Plan. The Plan shall be administered by the Committee. The Committee shall be the Compensation Committee of the Board, unless and until the Board appoints a different committee to administer the Plan. The Committee shall in any event consist of at least three members of the Board (i) who are neither officers nor employees of the Company and (ii) who are outside directors within the meaning of Section 162(m)(4)(C)(i) of the Code.

3.2 Committee’s Authority. Subject to the limitations and other provisions of the Plan, the Committee shall have the sole and complete authority:

- (a) to select, from all of the Key Employees, those Key Employees who shall participate in the Plan;
- (b) to make awards to Key Employees at such times, in such forms, and in such amounts as it shall determine and to cancel, suspend, or amend any such awards;
- (c) to impose such limitations, restrictions, and conditions upon awards as it shall deem appropriate;
- (d) to interpret the Plan and to adopt, amend, and rescind administrative guidelines and other rules and regulations relating to the Plan;
- (e) to appoint certain employees of the Company to act on its behalf as its representatives (including for purposes of signing agreements which reflect awards granted under the Plan); and
- (f) to make all other determinations and to take all other actions it deems necessary or advisable for the proper administration of the Plan.

Except to the extent otherwise required by applicable law, the Committee’s determinations on any matter within its authority shall be conclusive and binding on the Company, all Participants, and all other parties.

3.3 Flexibility in Granting Awards. Notwithstanding any other provision of the Plan which may be read to the contrary, the Committee may set different terms and conditions applicable to each and any award granted under the Plan, even when issued to the same Participant, and there is no obligation that the awards made with respect to any CBI Tax Year must contain the same terms and conditions for all Participants or any group of Participants.

3.4 Board Approval Needed for CEO Awards. Notwithstanding the foregoing provisions of this section 3, any award set by the Committee for issuance to the Key Employee who is the CEO must be approved by the Board in order to become effective.

4. Class of Key Employees Eligible for Plan. Awards may be granted under the Plan to, and only to, Key Employees. As is indicated in section 3 hereof, the specific Key Employees to whom awards will be granted under the Plan, and who thereby will be Participants under the Plan, shall be chosen by the Committee in its sole discretion.

### 5. Awards.

5.1 CBI Tax Year Awards. Awards may be granted under the Plan at any time while the Plan is in effect by the Committee to any Key Employee or Key Employees (with any person who, as a Key Employee, is granted an award under the Plan being referred to herein as a Participant). Any award granted under the Plan to a Participant shall be made with respect to a specific CBI Tax Year (for all purposes of the Plan, the award’s “Award Year”) and shall be composed of one or more parts. No more than one award may be granted to a Participant under the Plan with respect to any CBI Tax Year. Also, the grant of any award under the Plan to a Participant with respect to any CBI Tax Year shall not entitle the Participant to an award for any subsequent CBI Tax Year.



5.2 Award Parts and Payment of Award Amount.

(a) As is indicated in subsection 5.1 hereof, any award granted under the Plan to a Participant shall be composed of one or more parts. Each part of an award granted under the Plan to a Participant shall be referred to herein, for all purposes of the Plan, as an “award part” and shall, subject to the following subsections of this section 5 and the provisions of section 8 hereof, provide for an amount to be paid to the Participant if and only if either Company performance goals or individual performance goals are determined to have been met in accordance with rules described in the following subsections of this section 5 and in sections 6 and 7 hereof.

(b) Further, subject to the following subsections of this section 5 and the provisions of section 8 hereof, the total amount to be paid by reason of any award granted to a Participant under the Plan shall equal the sum of the amounts, if any, payable under each award part of the award and shall be paid in a lump sum, in cash, to the Participant after the end of the award’s Award Year but no later than the 15th day of the third month of the CBI Tax Year that next follows the award’s Award Year.

5.3 Determination of Amount Payable under Award.

(a) Any award granted under the Plan to a Participant shall indicate a target payment amount (for all purposes of the Plan, the award’s “Target”) and assign a percent of the award’s Target to each award part of the award (with the percent of the award’s Target so assigned to any such award part being referred to herein, for all purposes of the Plan, as such award part’s Target Share”).

(b) Subject to the other provisions of this section 5, the amount payable under an award that relates to any award part of the award shall be equal to such award part’s Target Share if certain (or a certain level) of the Company performance goals or the individual performance goals (as the case may be) applicable to the award part are determined to be met and may also specify a payment amount more or less than such Target Share if additional or fewer (or if a higher or lower level) of the performance goals applicable to the award part are determined to be met.

(c) In no event may the amount payable by reason of any award part of an award granted under the Plan exceed 200% of the award part’s Target Share, and in no event may the total amount payable under any award (including all of its award parts) exceed \$3,000,000.

5.4 Discretion To Reduce Award Amount.

(a) Notwithstanding the foregoing subsections of this section 5 and with respect to any award granted under the Plan to a Participant, the Committee (or, when the award was granted to the CEO, the Board) may, prior to any payment being made under the award and in its sole and unrestricted discretion and for any reason (including its determination of the Participant’s performance of his or her duties for the Company), reduce the amount that is otherwise payable under the award by reason of any award part of the award that determines an amount payable based on satisfaction of Company performance goals.

(b) The Committee (or, when the applicable award is granted to the CEO, the Board) may set, in the terms of an award granted under the Plan to a Participant, a limit on the reduction that can be made under this subsection 5.4 to the amount otherwise payable under the award by reason of any award part that determines an amount payable based on satisfaction of Company performance goals.

(c) The discretion granted the Committee (or, if applicable, the Board) under this subsection 5.4 shall not in any manner allow it to increase the amount that would otherwise be payable under any award granted under the Plan by reason of any award part that determines an amount payable based on satisfaction of Company performance goals.

5.5 Effect on Award Amount of Mid-Year Eligibility, Retirement, Death, Disability, or Leave of Absence.

Notwithstanding the foregoing subsections of this section 5, if a situation that is described in any of the following paragraphs of this subsection 5.5 applies to a Participant to whom an award is granted under the Plan, then the amount that is payable under the award shall be deemed to be equal to the product obtained by multiplying (i) the amount that would otherwise be payable under the award based on all of the foregoing subsections of this section 5 (without regard to the provisions of this subsection 5.5) by (ii) a fraction, the numerator of which is equal to the difference between the total number of days in the award’s Award Year and the number of days that are to be excluded from such fraction’s numerator pursuant to whichever of the following paragraphs of this subsection 5.5 are applicable to the Participant and the denominator of which is the total number of days in such Award Year.



(a) If the Participant becomes a Key Employee during but after the first day of the award's Award Year, and/or if the Participant ceases to be a Key Employee during but prior to the last day of the award's Award Year because of his or her retirement or death, then the numerator of the fraction referred to above shall exclude the number of the days in such Award Year on which the Participant is not a Key Employee. For all purposes of the Plan, a Participant's "retirement" shall be deemed to have occurred only if the Participant ceases to be an employee of the Company after either (i) both attaining age 60 and completing at least ten years of continuous service as an employee with the Company or (ii) completing at least 30 years of continuous service as an employee with the Company.

(b) If the Participant receives disability benefits under the Company's Sickness and Accident Disability Benefits Plan or any similar type of disability plan for more than three months of the award's Award Year, the numerator of the fraction referred to above shall exclude the number of the days in the period of such Award Year for which benefits are payable to the Participant under such plan.

(c) If the Participant is on a leave of absence (approved by the Company) for more than three months of the award's Award Year, the numerator of the fraction referred to above shall exclude the number of the days in such Award Year on which the Participant is on such leave of absence.

5.6 Employment Requirements for Receipt of Award Amount. Notwithstanding the foregoing subsections of this section 5, a Participant to whom an award has been granted under the Plan shall not in any event be entitled to receive any amount by reason of the award unless he or she both:

(a) either (i) is an employee of the Company on the last day of the award's Award Year or (ii) had his or her employment with the Company end during such Award Year because of his or her disability (for which the Participant will be entitled to receive or has received disability benefits under the Company's Sickness and Accident Disability Benefits Plan or any similar type of disability plan), his or her retirement (as defined in subsection 5.5(a) hereof), or his or her death; and

(b) has had at least three months of active service for the Company during the award's Award Year (not including any time the Participant was absent from active service during such Award Year by reason of any leave of absence or for any other reason, including an absence on account of disability).

5.7 Maximum Amount of Award. As is noted in subsection 5.3(c) hereof and notwithstanding any other provision of the Plan to the contrary, the amount to be received by a Participant by reason of any award that is granted to the Participant under the Plan with respect to any CBI Tax Year shall not in any event exceed \$3,000,000.

5.8 Award Agreements. Each award granted under the Plan to a Participant (and the terms of such award) may be evidenced in such manner as the Committee determines, including but not limited to written resolutions of the Committee or an agreement, notice, or similar document that is provided in any manner to the Participant.

## 6. Company Performance Goals.

6.1 Criteria for Company Performance Goals. To the extent the meeting of "Company performance goals" set by the Committee may be a condition to an amount being determined with respect to an award part of an award granted under the Plan, the Committee may base such Company performance goals on, and only on, one or more of the following criteria applicable to the Company:

(a) free cash flow (defined as cash generated by operating activities, minus capital expenditures and other investing activities, dividend payments and proceeds from the issuance of equity securities, and proceeds from the sale of assets);

(b) earnings before interest, taxes, depreciation, and amortization;

(c) earnings per share;

(d) operating income;

(e) total shareholder returns;

(f) profit targets;

(g) revenue targets;

(h) profitability targets as measured by return ratios;

(i) net income;

(j) return on sales;

(k) return on assets;





- (l) return on equity; and
- (m) corporate performance indicators (indices based on the level of certain services provided to customers).

#### 6.2 Method By Which Performance Criteria Can Be Measured.

(a) Any performance criteria described in subsection 6.1 hereof that is used to determine the Company performance goals applicable to an award part of an award granted under the Plan shall be measured or determined on the basis of the award's Award Year, shall be set by the Committee either prior to the start of such year or within its first 90 days (provided that the performance criteria is not in any event set after 25% or more of the applicable Award Year has elapsed), and shall be criteria that will be able to be objectively determined by the Committee.

(b) Further, the Committee may provide in the terms of an award granted under the Plan that any factor used to help determine any performance criteria identified in subsection 6.1 hereof shall be taken into account only to the extent it exceeds or, conversely, is less than a certain amount. The Committee may also provide in the terms of an award granted under the Plan that, in determining whether any performance criteria identified in subsection 6.1 hereof has been attained, certain special or technical factors shall be ignored or, conversely, taken into account, in whole or in part, including but not limited to any one or more of the following factors:

- (1) a gain, loss, income, or expense resulting from changes in generally accepted accounting principles that become effective during the award's Award Year;
- (2) a gain, loss, income, or expense that is extraordinary in nature;
- (3) an impact of other specified nonrecurring events;
- (4) a gain or loss resulting from, and the direct expense incurred in connection with, the disposition of a business, in whole or in part, the sale of investments or non-core assets, or discontinued operations, categories, or segments of businesses;
- (5) a gain or loss from claims and/or litigation and insurance recoveries relating to claims or litigation;
- (6) an impact of impairment of tangible or intangible assets;
- (7) an impact of restructuring activities, including, without limitation, reductions in force;
- (8) an impact of investments or acquisitions made during the applicable Award Year;
- (9) a loss from political and legal changes that impact operations, as a consequence of war, insurrection, riot, terrorism, confiscation, expropriation, nationalization, deprivation, seizure, business interruption, or regulatory requirements;
- (10) retained and uninsured losses from natural catastrophes;
- (11) currency fluctuations;
- (12) an expense relating to the issuance of stock options and/or other stock-based compensation;
- (13) an expense relating to the early retirement of debt; and/or
- (14) an impact of the conversion of convertible debt securities.

Each of the adjustments described in this paragraph (b) shall be determined in accordance with generally accepted accounting principles and standards, unless another objective method of measurement is designated by the Committee.

(c) In addition, any performance criteria identified in subsection 6.1 hereof, and any adjustment in the factors identified in paragraph (b) of this subsection 6.2 that are used to determine any such performance criteria, may: (i) be measured or determined for CBI, for any organization other than CBI that is part of the Company, for the entire Company in the aggregate, or for any group of corporations or organizations that are included in the Company; and (ii) be measured and determined in an absolute sense and/or in comparison to the analogous performance criteria of other publicly-traded companies (that are selected for such comparison purposes by the Committee).

6.3 Verification That Company Performance Goals Are Met. In order for any amount to become payable under the Plan when such amount is attributable to an award part of an award granted under the Plan that required the meeting of any Company performance goals, the Committee shall and must verify that such Company performance goals have been met by the latest date by which such amount must be paid under the other provisions of the Plan.

6.4 Award Parts That Require Company Performance Goals To Be Met Intended To Constitute Performance-Based Compensation. To the extent any amount that becomes payable under an award granted under the Plan is attributable to an award part of such award that required that certain Company performance goals had to be determined to be met, such amount is intended to constitute “performance-based compensation,” within the meaning of Treasury Regulations Section 1.162-27(c) as issued under Code Section 162(m), and thereby, provided all other conditions of Code Section 162(m)(4)(C) are satisfied, to be able to be deductible by the Company for Federal income tax purposes without regard to the deduction limits of Section 162(m)(1) of the Code.

7. Individual Performance Goals. To the extent the meeting of “individual performance goals” may be a condition to an amount being determined with respect to an award part of an award granted under the Plan to a Participant, the Committee may base such individual performance goals on any criteria it determines is appropriate for judging the performance of the Participant in fulfilling his or her duties for the Company. Such individual performance goals may be set at any time by the Committee, including after the end of the Award Year applicable to the award, and can be criteria that is either objectively or subjectively determinable by the Committee. When the applicable award is issued to the CEO, the Board shall have final approval as to the determination of whether the CEO has met any such individual performance goals.

#### 8. Beneficiary Rules.

8.1 Payment to Beneficiary. Notwithstanding any of the foregoing provisions of the Plan, if a Participant is entitled to receive a payment under any award granted to him or her under the Plan by reason of the foregoing provisions of the Plan, but he or she dies before such payment is made to him or her, then such payment shall be made to the Participant’s beneficiary (as determined under the provisions of subsection 8.2 hereof) at the same time as such payment would be made if the Participant had not died. No beneficiary of a Participant shall be entitled to any amount under the Plan that is greater than the amount to which the Participant is entitled under the foregoing provisions of the Plan.

8.2 Beneficiary Designation. For purposes of the Plan, a Participant’s “beneficiary” shall mean the person(s), trust(s), and/or other entity(ies) whom or which the Participant designates as his or her beneficiary for the purposes of the Plan in any writing or form which is signed by the Participant and acceptable to the Committee, provided that such writing or form is filed with the Committee prior to the Participant’s death. The determination of a Participant’s beneficiary under the Plan shall also be subject to the following paragraphs of this subsection 8.2.

(a) If the Participant names more than one person, trust, and/or other entity as part of his or her beneficiary with respect to the Plan, each person, trust, and other entity designated as part of the Participant’s beneficiary shall be entitled to an equal share of any amount payable to the Participant’s beneficiary under any award granted under the Plan (unless the Participant otherwise designates in the writing or form by which he or she names his or her beneficiary for purposes of the Plan).

(b) The Participant may revoke or change his or her beneficiary designation by signing and filing with the Committee at any time prior to his or her death a new writing or form acceptable to the Committee.

(c) Notwithstanding the foregoing provisions of this subsection 8.2, if no beneficiary designation of the Participant has been filed with the Committee prior to his or her death, or if the Committee in good faith determines either that any beneficiary designation made by the Participant prior to his or her death is for any reason not valid or enforceable under applicable law or that there is a valid question as to the legal right of the designated beneficiary to receive the applicable payment, then the applicable payment shall be paid to the estate of the Participant (in which case none of the Company, the Committee, or any of their personnel, agents, or representatives shall have any further liability to anyone with respect to such payment).

9. Nonassignability of Awards. Except as may be required by applicable law, no award granted under the Plan or any part thereof may be assigned, transferred, pledged, or otherwise encumbered by a Participant otherwise than by designation of a beneficiary under the provisions of section 8 hereof.

#### 10. Provisions Upon Change in Control.

10.1 Effect of Change in Control on Awards. In the event a Change in Control occurs on or after the Effective Date, then, unless otherwise prescribed by the Committee in the terms of an applicable award, the following paragraphs of this subsection 10.1 shall apply notwithstanding any other provision of the Plan to the contrary.

(a) The amount payable under any award that was granted under the Plan with respect to the CBI Tax Year that immediately precedes the CBI Tax Year in which the Change in Control occurs shall, if such amount has not yet been paid (or if such amount has not been determined) by the date of the Change in Control, be paid within five business days after the date of such Change in Control (and, if the amount of such award has not yet been determined by the date of the Change in Control, its amount shall be deemed to be equal to the award's Target).

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(b) A pro rata portion of any award granted under the Plan with respect to the CBI Tax Year in which the Change in Control occurs shall be paid within five business days after the date of the Change in Control, with the pro rata portion of such award being deemed to be equal to such award's Target multiplied by a fraction, the numerator of which shall equal the number of full and partial months (including the month in which the Change in Control occurs) since the first day of the CBI Tax Year in which the Change in Control occurs and the denominator of which shall equal the number of months in such CBI Tax Year.

10.2 Definition of Change in Control. For purposes of the Plan, a "Change in Control" means the occurrence of any one of the events described in the following paragraphs of this subsection 10.2.

(a) A majority of the Board as of any date not being composed of Incumbent Directors. For purposes of this subsection 10.2, as of any date, the term "Incumbent Director" means any individual who is a director of CBI as of such date and either: (i) who was a director of CBI at the beginning of the 24 consecutive month period ending on such date; or (ii) who became a CBI director subsequent to the beginning of such 24 consecutive month period and whose appointment, election, or nomination for election was approved by a vote of at least two-thirds of the CBI directors who were, as of the date of such vote, Incumbent Directors (either by a specific vote or by approval of the proxy statement of CBI in which such person is named as a nominee for director). It is provided, however, that no individual initially appointed, elected, or nominated as a director of CBI as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall ever be deemed to be an Incumbent Director.

(b) Any "person," as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act, being or becoming "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of CBI representing 20% or more of the combined voting power of CBI's then outstanding securities eligible to vote for the election of the Board (for purposes of this subsection 10.2, the "CBI Voting Securities"). It is provided, however, that the event described in this paragraph (b) shall not be deemed to be a Change in Control if such event results from any of the following: (i) the acquisition of any CBI Voting Securities by the Company, (ii) the acquisition of any CBI Voting Securities by any employee benefit plan (or related trust) sponsored or maintained by the Company, (iii) the acquisition of any CBI Voting Securities by any underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a Non-Qualifying Transaction (as defined in paragraph (c) of this subsection 10.2).

(c) The consummation of a merger, consolidation, statutory share exchange, or similar form of corporate transaction involving the Company (for purposes of this paragraph (c), a "Reorganization") or sale or other disposition of all or substantially all of the assets of CBI to an entity that is not an affiliate of CBI (for purposes of this paragraph (c), a "Sale"), that in each case requires the approval of CBI's shareholders under the law of CBI's jurisdiction of organization, whether for such Reorganization or Sale (or the issuance of securities of CBI in such Reorganization or Sale), unless immediately following such Reorganization or Sale:

(1) more than 60% of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of (i) the entity resulting from such Reorganization or the entity which has acquired all or substantially all of the assets of CBI (for purposes of this paragraph (c) and in either case, the "Surviving Entity"), or (ii) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of more than 50% of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of the Surviving Entity (for purposes of this paragraph (c), the "Parent Entity"), is represented by CBI Voting Securities that were outstanding immediately prior to such Reorganization or Sale (or, if applicable, is represented by shares into which such CBI Voting Securities were converted pursuant to such Reorganization or Sale), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such CBI Voting Securities among the holders thereof immediately prior to the Reorganization or Sale;

(2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Entity or the Parent Entity or the related trust of any such plan) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power (in respect of the election of directors, or similar officials in the case of an entity other than a corporation) of the outstanding voting securities of the Parent Entity (or, if there is no Parent Entity, the Surviving Entity); and



(3) at least a majority of the members of the board of directors (or similar officials in the case of an entity other than a corporation) of the Parent Entity (or, if there is no Parent Entity, the Surviving Entity) following the consummation of the Reorganization or Sale were, at the time of the approval by the Board of the execution of the initial agreement providing for such Reorganization or Sale, Incumbent Directors (any Reorganization or Sale which satisfies all of the criteria specified in subparagraphs (1), (2), and (3) of this paragraph (c) being deemed to be a “Non-Qualifying Transaction” for purposes of this subsection 10.2).

(d) The shareholders of CBI approving a plan of complete liquidation or dissolution of CBI.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the CBI Voting Securities as a result of the acquisition of CBI Voting Securities by CBI which reduces the number of CBI Voting Securities outstanding; provided that, if after such acquisition by CBI such person becomes the beneficial owner of additional CBI Voting Securities that increases the percentage of outstanding CBI Voting Securities beneficially owned by such person, a Change in Control shall then occur.

11. Adjustments. The Committee shall be authorized to correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any award granted under the Plan in the manner and to the extent it shall determine is needed to reflect the intended provisions of the Plan or that award or to meet any law that is applicable to the Plan.

12. Withholding. The Company shall retain from the payment of any award granted under the Plan a sufficient amount of cash applicable to the award to satisfy all withholding tax obligations that apply to the payment.

13. Amendment or Termination of Plan.

13.1 Right of Board To Amend or Terminate Plan. Subject to the provisions of subsection 1.3(b) hereof but notwithstanding any other provision hereof to the contrary, the Board may amend or terminate the Plan or any portion or provision thereof at any time, provided that no such action shall materially impair the rights of a Participant with respect to a previously granted Plan award without the Participant’s consent. Notwithstanding the foregoing, the Board may not in any event, without the approval of CBI’s shareholders, adopt an amendment to the Plan which shall make any change in the Plan that is required by applicable law to be approved by CBI’s shareholders in order to be effective.

13.2 Rules When Shareholder Approval for Amendment Is Required. If approval of CBI’s shareholders is required to a Plan amendment pursuant to the provisions of subsection 13.1 hereof, then such approval must comply with all applicable provisions of CBI’s corporate charter, bylaws and regulations and any applicable state law. If the applicable state law fails to prescribe a method and degree in such cases, then such approval must be made by a method and degree that would be treated as adequate under applicable state law in the case of an action requiring shareholder approval of an amendment to the Plan.

14. Miscellaneous.

14.1 Deferrals of Award Payments. The Committee may, in its discretion and if performed in accordance with the terms and conditions of an award granted under the Plan or of any plan maintained by CBI, permit Participants to elect to defer the payment otherwise required under all or part of any award granted under the Plan. Such deferral shall not be permitted by the Committee unless such deferral terms and conditions meet all of the conditions of Section 409A of the Code.

14.2 No Right To Employment. Nothing contained in the Plan or any award granted under the Plan shall confer on any Participant any right to be continued in the employment of the Company or interfere in any way with the right of the Company to terminate the Participant’s employment at any time and in the same manner as though the Plan and any awards granted under the Plan were not in effect.

14.3 No Advance Funding of Plan Benefits. All payments required to be made under awards granted under the Plan shall be made by the Company out of its general assets. In this regard, the Plan shall not be funded and the Company shall not be required to segregate any assets to reflect any awards granted under the Plan. Any liability of the Company to any person with respect to any award granted under the Plan shall be based solely upon the contractual obligations that apply to such award, and no such liability shall be deemed to be secured by any pledge of or other lien or encumbrance on any property of the Company.

14.4 Plan Benefits Generally Not Part of Compensation for Other Company Benefit Plans. Any payments or other benefits provided to a Participant with respect to an award granted under the Plan shall not be deemed a part of the Participant’s compensation for purposes of any termination or severance pay plan, or any other pension, profit sharing,

or other benefit plan, of the Company unless such plan expressly or clearly indicates that the payments or other benefits provided under an award granted under the Plan shall be considered part of the Participant's compensation for purposes of such plan or unless applicable law otherwise requires.

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14.5 Applicable Law. Except to the extent preempted by any applicable Federal law, the Plan shall be subject to and construed in accordance with the laws of the State of Ohio.

14.6 Counterparts and Headings. The Plan may be executed in any number of counterparts, each of which shall be deemed an original. The counterparts shall constitute one and the same instrument, which shall be sufficiently evidenced by any one thereof. Headings used throughout the Plan are for convenience only and shall not be given legal significance.



CINCINNATI BELL INC.  
ATTN: CHRISTOPHER J. WILSON  
221 EAST 4<sup>TH</sup> STREET, 103-1090  
CINCINNATI, OH 45202-2301

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information until 11:59 P.M. Eastern Daylight Time ("EDT") the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions until 11:59 P.M. EDT the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M84523-P60786-Z64914

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

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CINCINNATI BELL INC.

The Board of Directors recommends you vote FOR Proposals 1, 2, 3, 4 and 5:

Election of Directors

Nominees:

To be elected for one-year terms expiring in 2017.

	For	Against	Abstain		For	Against	Abstain
1a. Phillip R. Cox	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				
1b. John W. Eck	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	2. Advisory approval of the Company's executive compensation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1c. Jakki L. Haussler	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				
1d. Craig F. Maier	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	3. Approve an amendment to the Cincinnati Bell Inc. 2007 Stock Option Plan for Non-Employee Directors.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1e. Russel P. Mayer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				
1f. Lynn A. Wentworth	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	4. Re-approval of the material terms of the performance goals under the Cincinnati Bell Inc. 2011 Short-Term Incentive Plan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1g. Martin J. Yudkovitz	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				
1h. John M. Zrno	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5. Ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for fiscal 2016.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1i. Theodore H. Torbeck	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature [PLEASE SIGN WITHIN BOX]                      Signature (Joint Owners)                      Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:  
The Proxy Statement and 10-K Wrap are available at [www.proxyvote.com](http://www.proxyvote.com).



CINCINNATI BELL INC.  
SOLICITATION OF PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS  
FOR THE ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 29, 2016

The undersigned hereby appoints Phillip R. Cox, Lynn A. Wentworth and John M. Zrno, each or any of them, as proxies, with full power of substitution, to represent and to vote all common shares and 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Shares of Cincinnati Bell Inc. held of record by the undersigned at the close of business on February 29, 2016, at the Annual Meeting and at any adjournment or postponement thereof, notice of which Annual Meeting together with the related Proxy Statement has been received. The proxies are directed to vote the shares as indicated on the reverse side.

THIS PROXY CARD, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS MADE BUT THE CARD IS SIGNED, THIS PROXY CARD WILL BE VOTED FOR THE ELECTION OF EACH OF THE INDIVIDUAL NOMINEES UNDER PROPOSAL 1, FOR PROPOSAL 2, FOR PROPOSAL 3, FOR PROPOSAL 4 AND FOR PROPOSAL 5, AND IN THE DISCRETION OF THE PROXIES WITH RESPECT TO SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

(Continued and to be marked, dated and signed, on the other side)