CINCINNATI BELL INC
Form 10-K
February 26, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission File Number: 1-8519

CINCINNATI BELL INC.

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

221 East Fourth Street, Cincinnati, Ohio 45202

Telephone 513-397-9900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (par value $0.01 per share)	New York Stock Exchange
Preferred Share Purchase Rights	National Stock Exchange
6 3/4% Convertible Preferred Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	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 x

The aggregate market value of the voting common shares owned by non-affiliates of the registrant was $1.4 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2007, the last trading day of the registrant s most recently completed second fiscal quarter. The Company has no non-voting common shares.

At February 1, 2008, there were 248,375,399 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the Company s 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

Table of Contents

TABLE OF CONTENTS

PART I

		Page
Item 1.	Business	2
Item 1A.	Risk Factors	7
Item 1B.	Unresolved SEC Staff Comments	15
Item 2.	Properties	15
Item 3.	Legal Proceedings	15
Item 4.	Submission of Matters to a Vote of the Security Holders	15
	PART II	
Item 5.	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
Item 6.	Selected Financial Data	18
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 8.	Financial Statements and Supplementary Schedules	48
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	99
Item 9A.	Controls and Procedures	99
Item 9B.	Other Information	99
	PART III	
Item 10.	Directors and Executive Officers and Corporate Governance	100
Item 11.	Executive Compensation	101
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	101
Item 13.	Certain Relationships, Related Transactions and Director Independence	101
Item 14.	Principal Accountant Fees and Services	101
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	102
	Signatures	108

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

Table of Contents

Part I

Item 1. Business

General

Cincinnati Bell Inc. and its consolidated subsidiaries (the Company) is a full-service local provider of data and voice communications services and equipment and a regional provider of wireless and long distance communications services. The Company provides telecommunications service primarily on its owned local and wireless networks with a well-regarded brand name and reputation for service. The Company also sells telecommunication equipment, information technology hardware, and related services.

The Company operates in three segments: Wireline, Wireless, and Technology Solutions. The Company s segments were realigned to be consistent with changes made in the second quarter of 2007 to its management structure and reporting. The Wireline segment combines the operations of Cincinnati Bell Telephone Company LLC (CBT) and Cincinnati Bell Extended Territories LLC (CBET), which were formerly included in the Local segment, and the operations of Cincinnati Bell Any Distance Inc. (CBAD), Cincinnati Bell Complete Protection Inc. (CBCP), the Company s payphone business and Cincinnati Bell Entertainment Inc. (CBE), which were formerly included in the Other segment. The Broadband segment, which does not have any substantive on-going operations, has been eliminated. The remaining liabilities associated with the former broadband operations are now included in Corporate activities. The Wireless and Technology Solutions segments were not impacted by the segment realignment.

The Company is an Ohio corporation, incorporated under the laws of Ohio in 1983. Its principal executive offices are at 221 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900 and website address *http://www.cincinnatibell.com*). As soon as practicable after they have been electronically filed, the Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), proxy statement and other information free of charge, on its website at the Investor Relations section.

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC) under the Exchange Act. These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington, D.C. 20549. Information may be obtained about the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy statements, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is *http://www.sec.gov*.

Wireline

The Wireline segment provides local voice, data, long-distance and other services. Local voice services include local telephone service, switched access, information services such as directory assistance, and value-added services, such as caller identification, voicemail, call waiting, and call return. Data services include Digital Subscriber Line (DSL), which provides high-speed data transmission via the internet, dial-up Internet access, dedicated network access, and Gigabit Ethernet (Gig-E) and Asynchronous Transfer Mode (ATM) based data transport, which businesses principally utilize to transport large amounts of data typically over a private network. Long distance services include long distance, audio conferencing, and voice over internet protocol (VoIP) services. Other services offered by the Wireline segment consist of security monitoring services, public payphones, cable television in Lebanon, Ohio, DirecTV commissioning over its entire operating area, inside wire installation for business enterprises and billing, clearinghouse and other ancillary services primarily for inter-exchange (long distance) carriers.

Cincinnati Bell Telephone Company LLC and Cincinnati Bell Extended Territories LLC

The Company provides wireline voice and data services to its historical operating territory in southwestern Ohio, northern Kentucky and southeastern Indiana through the operations of CBT, an Incumbent Local Exchange Carrier (ILEC). The Company s core ILEC franchise covers approximately 2,400 square miles in a 25-mile radius around Cincinnati, Ohio. The Company has operated its core ILEC franchise for approximately 130 years.

Table of Contents

Over the past ten years, the Company has expanded its voice and data services beyond its ILEC territory, particularly in Dayton and Mason, Ohio, through a product suite offered to business and residential customers. CBET, a subsidiary of CBT, operates as a Competitive Local Exchange Carrier (CLEC) and provides substantially all of its voice and data services on its own network or through purchasing unbundled network elements (UNE-L or loops) from various incumbent local carriers. The Wireline segment links the ILEC and CLEC territories through its Synchronous Optical Fiber Network (SONET), which provides route diversity between the two territories via two separate paths. In March 2007, CBET purchased a local telecommunication business, which offers voice, data and cable TV services, in Lebanon, Ohio for a purchase price of $7.0 million. See Note 5 to the Consolidated Financial Statements for further information regarding this acquisition.

The Wireline segment provides voice services over a 100% digital, circuit switch-based network to end users via access lines. In recent years, the Company s voice access lines have decreased as its customer base has increasingly employed wireless technologies in lieu of wireline voice services (wireless substitution), or have migrated to competitors, including cable companies, which offer VoIP solutions. Wireline had approximately 834,000 voice access lines in service on December 31, 2007, which is a 6% and 10% reduction in comparison to 887,000 and 931,000 access lines in service at December 31, 2006 and 2005, respectively.

Despite the decline in access lines, the Wireline segment has been able to nearly offset the effect of these losses on revenue by:

(1) increasing DSL penetration to existing consumer and business customers; and

(2) increasing the sale of high capacity data circuits to business customers.

The Company has deployed DSL capable electronics throughout its territory, allowing it to offer high-speed DSL internet access services to over 90% of its in-territory primary consumer access lines. The Company s DSL subscribers were 222,000, 198,000, and 162,500 at December 31, 2007, 2006, and 2005, respectively. CBT s in-territory primary consumer penetration of DSL service was 42% of addressable lines at the end of 2007, an increase of 8 percentage points compared to the end of 2006.

Also, CBT s network includes the use of fiber-optic cable, with SONET rings linking Cincinnati s downtown with other area business centers. These SONET rings offer increased reliability and redundancy to CBT s major business customers. CBT has an extensive business-oriented data network, offering native speed Ethernet services over an interlaced ATM Gig-E backbone network, delivered to end users via high-capacity circuits. CBT business revenues were $435.1 million, $416.3 million and $412.7 million in 2007, 2006, and 2005, respectively.

In 2007, CBT voice revenue totaled $432.4 million and data revenue totaled $258.6 million, of which $89.2 million was associated with DSL service. Approximately 96% of the voice and data revenue was generated within the Company s ILEC operating territory.

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

Cincinnati Bell Any Distance Inc.

CBAD provides long distance, audio conferencing, and VoIP services to businesses and residential customers in the Greater Cincinnati and Dayton, Ohio areas. Residential customers can choose from a variety of long distance plans, which include unlimited long distance for a flat fee, purchase of minutes at a per-minute-of-use rate or a fixed number of minutes for a flat fee. In addition to long distance, business customers can choose from a variety of other services, which include audio conferencing, dedicated long distance, and starting in mid 2006, VoIP. At December 31, 2007, CBAD had approximately 548,000 long distance subscribers, consisting of 374,000 residential and 174,000 business subscribers, compared to 552,000 and 564,000 long distance subscribers at December 31, 2006 and 2005, respectively. The decrease in subscribers from 2006 was related to a 5% decline in residential subscribers, consistent with the CBT access line loss,

3

partially offset by a 10% increase in business subscribers. In 2007, CBAD produced $79.3 million in revenue for the Wireline segment compared to $71.8 million in 2006, and $69.5 million in 2005. In 2007, CBAD began to provide new broadband services beyond its traditional territory to business customers. Revenue from these new services was insignificant in 2007. Also, in late 2007, CBAD committed to the acquisition of eGIX Inc. (eGix), a CLEC provider of voice and long distance services to business customers in Indiana. Revenues for eGIX were approximately $15 million in 2007. The Company completed this acquisition in February 2008.

Cincinnati Bell Complete Protection Inc.

CBCP provides surveillance hardware and monitoring services to residential and business customers in the Greater Cincinnati area. At December 31, 2007, CBCP had approximately 9,900 monitoring subscribers in comparison to 8,600 and 7,000 monitoring subscribers at December 31, 2006 and 2005. CBCP produced $4.0 million, $3.6 million, and $2.9 million in revenue in 2007, 2006, and 2005, respectively, for the Wireline segment.

Public Payphone Business

Public provides public payphone services primarily within the geographic area of the Wireline segment. Public had approximately 2,200, 2,900, and 3,700 stations in service as of December 31, 2007, 2006, and 2005, respectively, and generated approximately $1.9 million, $2.9 million, and $4.5 million in revenue in 2007, 2006, and 2005, respectively, or less than 1% of consolidated revenue in each year. The revenue decrease results primarily from wireless substitution as usage of payphones continues to decrease in favor of wireless products and a targeted reduction in unprofitable lines.

Cable TV and DirecTV

As a result of the Company s acquisition of a telecommunications company in Lebanon, Ohio, Wireline now offers cable TV to 3,900 customers in Lebanon. The Company also is an authorized sales agent and offers DirecTV© satellite programming through its retail distribution outlets to Cincinnati Bell customers. As such, the Company does not deliver satellite television services. Instead, DirecTV© pays to the Company a commission for each subscriber and in some circumstances may offer a bundle price discount directly to the Cincinnati Bell customer subscribing to its satellite television service. At December 31, 2007, the Company had 15,000 customers that were subscribers to DirecTV©.

The Wireline segment produced $821.7 million, $810.4 million, and $817.7 million, or 61%, 64% and 68% of revenue in 2007, 2006, and 2005, respectively. The Wireline segment produced operating income of $252.5 million, $291.8 million, and $302.7 million in 2007, 2006, and 2005, respectively.

Wireless

The Wireless segment provides advanced digital voice and data communications services through the operation of a Global System for Mobile Communications (GSM)/General Packet Radio Service (GPRS) wireless network in a licensed service territory, which includes Greater Cincinnati and Dayton, Ohio and areas of northern Kentucky and southeastern Indiana. As of December 31, 2007, Wireless served approximately 571,000 subscribers of which 400,000 were postpaid subscribers, who are billed monthly in arrears, and 171,000 were prepaid i-wireless℠ subscribers, who purchase service in advance. In support of its service business, the segment sells wireless handset devices, at or below cost, as well as related accessories. Additionally, the segment sells services to other wireless carriers for their customers to access voice and data services on the Company s Wireline and Wireless networks through roaming agreements as well as through the lease of unoccupied space on Company-owned towers.

Cincinnati Bell Wireless LLC (CBW) began operations in 1998 as a joint venture. The Company owned 80.1% of CBW until February 14, 2006, when it acquired the remaining membership interest in CBW for $83.2 million. As a result, the Company recognized minority interest through the date of this purchase, but no minority interest was recorded after this date since CBW is now a wholly-owned subsidiary. Refer to Note 5 to the Consolidated Financial Statements.

The Wireless segment competes against all of the U.S. national wireless carriers by offering superior network quality, as verified by three years of independent, third party drive tests, unique rate plans, which may be bundled with the Company s wireline services, and extensive and conveniently located retail outlets. The segment offers unique calling plans, such as the Unlimited Everyday Calling Plan to any Cincinnati Bell local voice, wireless or business customers and CB Home Run, which utilizes Unlicensed Mobile Access (UMA) technology on a dual-mode wireless handset to provide converged wireline and wireless network services. While within the range of a wireless fidelity (Wi-Fi) access point, the handset sends and receives voice and data transmissions over the internet via the Company s broadband access network. This allows for enhanced in-building wireless voice reception and faster rates of data transmission compared to alternative wireless data services.

CBW operates a digital wireless network which comprises centralized switching and messaging equipment connected to approximately 400 towers currently utilizing 30 MHz of its licensed wireless spectrum in the Cincinnati Basic Trading Area and 20 MHz of its licensed spectrum in the Dayton Basic Trading Area.

The Company purchased an additional 20 MHz of advanced wireless spectrum for the Cincinnati and Dayton, Ohio regions in the Advanced Wireless Services (AWS) spectrum auction conducted by the FCC in 2006. This spectrum is not yet in commercial use. To satisfy increasing demand for existing voice minutes of use by customers as well as to provide enhanced data services such as streaming video, the Company is currently building a third generation (3G) network to deploy on the newly purchased AWS spectrum. The Company spent approximately $11 million in 2007 and expects to spend an additional $19 million to complete an initial 3G network footprint upon which the Company expects to launch commercial service in 2008. In addition to the Cincinnati and Dayton regions, the Company also purchased advanced wireless spectrum in Indianapolis, Indiana and two other smaller geographies. The Company does not have specific plans to utilize these other spectrum licenses at this time. The Company spent $37.1 million on all spectrum purchases in 2006.

From October 2003 through June 2006, CBW operated on two separate networks, Time Divisional Multiple Access (TDMA) and GSM. In the first quarter of 2005, CBW upgraded GPRS to enhanced data rates for GSM evolution (EDGE), which provides up to three times the capacity of GPRS. TDMA was CBW s legacy technology, which was discontinued in June 2006. In addition to the voice and short message data services that TDMA could provide, GPRS and EDGE technology provide enhanced wireless data communication services, such as mobile web browsing, Internet access, email, and picture messaging.

Postpaid subscriber service generated approximately 71% of 2007 segment revenue. A variety of rate plans are available to postpaid subscribers, and these plans can include a fixed number of national minutes, an unlimited number of CBW mobile-to-mobile (calls to and from other CBW subscribers), an unlimited number of calls to and from a CBT access line, and/or local minutes for a flat monthly rate. For plans with a fixed number of minutes, postpaid subscribers can purchase additional minutes at a per-minute-of-use rate. Prepaid i-wireless[SM] subscribers, which accounted for 16% of 2007 revenue, can purchase airtime cards for use with pay per minute, pay by day, or pay by month rate plans. Revenue from other wireless service providers for the purchase of roaming minutes for the carrier s own subscribers using minutes on CBW s network, collocation revenue (rent received for the placement of other carriers radios on CBW towers), and reciprocal compensation for other carriers subscribers who terminate calls on CBW s network, accounted for approximately 4% of total 2007 segment revenue.

Sales of handsets and accessories generated the remaining 9% of 2007 segment revenue. CBW sells handsets and accessories, often below its own purchase cost, to promote acquisition and retention of subscribers. Sales take place at the Company s owned retail stores, on the Company s website, and in retail stores pursuant to agency agreements. Equipment sales are seasonal in nature, as customers often purchase handsets and accessories as gifts during the holiday season in the Company s fourth quarter. CBW purchases handsets and accessories from a variety of manufacturers and maintains an inventory to support sales.

The Wireless segment contributed $294.5 million, $262.0 million, and $237.5 million, or 22%, 21%, and 20% of consolidated revenue in 2007, 2006, and 2005, respectively. The Wireless segment produced operating income of $34.3 million in 2007, $20.2 million in 2006 and operating losses of $51.7 million in 2005. Included in the 2005 operating loss are impairment charges related to the TDMA network assets totaling $42.3 million and accelerated depreciation of the TDMA assets totaling $36.5 million.

Table of Contents

Technology Solutions

The Technology Solutions segment provides outsourced telecommunications and IT solutions, primarily through the Company s subsidiary, Cincinnati Bell Technology Solutions Inc. (CBTS), in multiple states. Technology Solutions sells products, software, and labor services to customers in three separate product lines: telecom and IT equipment distribution, data center and managed services, and professional services. By offering a full range of equipment and outsourced managed services, in conjunction with the Company s wireline network services, Technology Solutions provides end-to-end IT telecommunications infrastructure management designed to reduce cost and mitigate risk while optimizing performance for its customers.

The telecom and IT equipment distribution product line is the value-added reseller operation of Technology Solutions. With years of experience and significant local market penetration, the Company maintains relationships with over ten branded technology vendors, which allows it to sell, install, and maintain a wide array of telecommunications and computer equipment and operating systems to meet the needs of small to large businesses. This unit also manages the implementation and maintenance of traditional voice as well as converged VoIP services.

The data center and managed services product line currently operates nine data centers, totaling approximately 144,000 square feet of billable data center capacity which includes 13,000 square feet from the GramTel USA, Inc. (GramTel) acquisition, a network operations center that provides off-site infrastructure monitoring, and a wide array of IT infrastructure management products including network management, electronic data storage, disaster recovery, and data security management. Data center services include 24-hour monitoring of the customer s computer equipment in the data center, power, and environmental controls. CBTS data centers are connected with one another and to its customers data networks through the fully redundant facilities of CBT s telecommunications network and/or CBTS dedicated Dense Wave Division Multiplexing optical network. This connectivity and the geographical dispersion of the data centers provide enhanced data reliability and disaster recovery.

The CBTS model combines data center collocation services with value-added IT managed services into a fully managed and outsourced infrastructure service. Data center customer contracts typically range from three to fifteen years in length and produce attractive returns on invested capital. The Company intends to continue to pursue additional customers and growth specific to its data center business and is prepared to commit additional resources, including capital expenditures and working capital, to support this growth.

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

In May 2006, the Company purchased Automated Telecom Inc. (ATI) for a purchase price of $3.5 million to expand its geographical presence in order to better serve its customers located outside of the greater Cincinnati area. ATI is based in Louisville, Kentucky, with offices also located in St. Louis, Missouri. ATI is a reseller of, and maintenance provider for, telephony equipment.

In December 2007, the Company purchased GramTel for a purchase price of $20.3 million. GramTel provides data center services to small and medium-size companies in Chicago, northwestern Indiana, and southwestern Michigan, and has annual revenues of approximately $5 million. See Note 5 to the Consolidated Financial Statements for further discussion.

The Technology Solutions segment produced total revenue of $258.3 million, $216.6 million, and $172.7 million and constituted approximately 19%, 17%, and 14% of consolidated revenue in 2007, 2006, and 2005, respectively. The Technology Solutions segment produced operating income of $18.1 million, $15.8 million, and $13.4 million in 2007, 2006, and 2005, respectively.

Employees

At January 31, 2008, the Company had approximately 3,100 employees. CBT had approximately 1,300 employees covered under a collective bargaining agreement with the Communications Workers of America (CWA), which is affiliated with the AFL-CIO. This collective bargaining agreement expires in May 2008. As

Table of Contents

of January 31, 2008, representatives of the Company and the CWA tentatively agreed to a new contract, upon which the union membership will vote to approve or reject on February 27, 2008.

Business Segment Information

The amount of revenue, intersegment revenue, operating income, expenditures for long-lived assets, and depreciation and amortization attributable to each of the Company s business segments for the years ended December 31, 2007, 2006, and 2005, and assets as of December 31, 2007 and 2006, is set forth in Note 15 to the Consolidated Financial Statements.

Item 1A. Risk Factors

The Company s substantial debt could limit its ability to fund operations, expose it to interest rate volatility, limit its ability to raise additional capital and have a material adverse effect on its ability to fulfill its obligations and on its business and prospects generally.

The Company has a substantial amount of debt and has significant debt service obligations. As of December 31, 2007, the Company and its subsidiaries had outstanding indebtedness of $2.0 billion, on which it incurred $154.9 million of interest expense in 2007, and had total shareowners deficit of $667.6 million. In addition, the Company, at December 31, 2007, had the ability to borrow additional amounts under its revolving credit facility totaling approximately $167.9 million, subject to compliance with certain conditions. The Company may incur additional debt from time to time, subject to the restrictions contained in its credit facilities and other debt instruments.

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

- the Company will be required to use a substantial portion of its cash flow from operations to pay principal and interest on its debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures, strategic acquisitions, investments and alliances, and other general corporate requirements;
- the Company s interest expense could increase if interest rates, in general, increase because approximately 40% of the Company s indebtedness is based on variable interest rates;
- the Company s interest rate on its revolving credit facility depends on the level of the Company s specified financial ratios, and therefore could increase if the Company s specified financial ratios require a higher rate;
- the Company s substantial debt will increase its vulnerability to general economic downturns and adverse competitive and industry conditions and could place the Company at a competitive disadvantage compared to those of its competitors that are less leveraged;
- the Company s debt service obligations could limit its flexibility to plan for, or react to, changes in its business and the industry in which it operates;
- the Company s level of debt and shareowners deficit may restrict it from raising additional financing on satisfactory terms to fund working capital, capital expenditures, strategic acquisitions, investments and joint ventures and other general corporate requirements; and
- a potential failure to comply with the financial and other restrictive covenants in the Company s debt instruments, which, among other things, require it to maintain specified financial ratios could, if not cured or waived, have a material adverse effect on the Company s

ability to fulfill its obligations and on its business and prospects generally.

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

The Company s ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory, and other factors, many of which are beyond its control. The Company cannot provide assurance that its business will generate sufficient cash flow from operations, that additional sources of debt financing will be available or that future borrowings will be available under its credit facilities, in each case, in amounts sufficient to enable the Company to service its indebtedness, or to fund other liquidity needs. If the Company cannot service its

Table of Contents

indebtedness, it will have to take actions such as reducing or delaying capital expenditures, strategic acquisitions, investments and joint ventures, selling assets, restructuring or refinancing indebtedness, or seeking additional equity capital, which may adversely affect its customers and affect their willingness to remain customers. The Company may not be able to negotiate remedies on commercially reasonable terms, or at all. In addition, the terms of existing or future debt instruments may restrict the Company from adopting any of these alternatives.

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

Certain of the Company s material subsidiaries are subject to regulatory authority that may potentially limit the ability of a subsidiary to distribute funds or assets. If the Company s subsidiaries were to be prohibited from paying dividends or making distributions to Cincinnati Bell Inc. (CBI), the parent company, CBI may not be able to make the scheduled interest and principal repayments on its $1.8 billion of debt. This would have a material adverse effect on the Company s liquidity and the trading price of the Cincinnati Bell common stock, preferred stock, and debt instruments.

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

The Company depends on its credit facilities to provide for its financing requirements in excess of amounts generated by operations.

The Company depends on its credit facilities to provide for temporary financing requirements in excess of amounts generated by operations. As of December 31, 2007, the Company had $55.0 million of outstanding borrowings under its revolving credit facility and had outstanding letters of credit totaling $27.1 million, leaving $167.9 million in additional borrowing availability under its $250 million revolving credit facility. The ability to borrow from the credit facilities is predicated on the Company s compliance with covenants. Failure to satisfy these covenants would constrain or prohibit its ability to borrow under the credit facilities. As of December 31, 2007, the Company was in compliance with all of the covenants of its credit facilities.

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

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

- incur additional indebtedness;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- guarantee indebtedness;

declare or pay dividends or other distributions to shareholders;

repurchase equity interests;

redeem debt that is junior in right of payment to such indebtedness;

enter into agreements that restrict dividends or other payments from subsidiaries;

issue or sell capital stock of certain of its subsidiaries; and

consolidate, merge, or transfer all or substantially all of its assets and the assets of its subsidiaries on a consolidated basis.

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

Table of Contents

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

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

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

Payments to repurchase common stock under the Company s repurchase program (see Note 11 to the Consolidated Financial Statements) are considered restricted payments under certain of the Company s debt agreements, and such payments are limited under these debt agreements. The Company believes it has sufficient ability under these debt agreements to make these restricted payments to buy back the amounts of outstanding common stock that it intends to repurchase in 2008. However, a downturn in the Company s profitability could cause the Company not to have sufficient ability under its debt agreements to make its intended common stock buybacks in 2008, and/or could cause the Company not to be able to make additional common stock buybacks in the future.

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

As of December 31, 2007, the Company had a net deferred tax asset of $596.2 million, which includes U.S. federal net operating loss carryforwards of approximately $492.3 million, alternative minimum tax credit carryforwards of $9.4 million, state and local net operating loss carryforwards of approximately $134.6 million, deferred tax temporary differences and other tax attributes of $99.9 million, offset by valuation allowances of $140.0 million. The valuation allowances have been provided against certain state and local net operating losses and other deferred assets due to the uncertainty of the Company s ability to utilize the assets within the statutory expiration period. For more information concerning the Company s net operating loss carryforwards, deferred tax assets, and valuation allowance, see Note 13 to the Consolidated Financial Statements. The use of the Company s deferred tax assets enables it to satisfy current and future tax liabilities without the use of the Company s cash resources. If the Company is unable for any reason to fully realize its deferred tax assets, its net income, shareowners equity, and future cash flows could be adversely affected.

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

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

The Wireline segment faces competition from other local exchange carriers, wireless service providers, inter-exchange carriers, and cable, broadband, and Internet service providers. The Company believes CBT could face greater competition as new facilities-based service providers with existing service relationships with CBT s customers compete more aggressively and focus greater resources on the Greater Cincinnati operating area. Insight Cable, which provides cable service in the northern Kentucky portion of the Company s ILEC territory, began to offer VoIP and long distance services in 2007. Time Warner Cable, AT&T, Verizon, and others offer VoIP and long distance services in Cincinnati and Dayton. Wireless providers offer plans with no additional fees for long distance. Partially as a result of this increased competition, the Company s access lines decreased by 6% and long distance subscribers decreased by 1% in 2007. If the Company is unable to effectively implement strategies to retain access lines and long distance subscribers, or replace such access line loss with other sources of revenue, the Company s Wireline business will be adversely affected.

Table of Contents

Wireless competes against national, well-funded wireless service providers in the Cincinnati and Dayton, Ohio metropolitan market areas, including AT&T, Sprint Nextel, T-Mobile, Verizon and Leap. In addition, Time Warner Cable entered into a joint venture with Sprint Nextel. This joint venture purchased spectrum licenses in 2006 during the AWS spectrum auction conducted by the FCC and in 2007 began to offer wireless services. The Company anticipates that continued competition could compress its margins for wireless products and services as carriers continue to offer more minutes for equivalent or lower service fees while CBW cannot offer more minutes without incremental capital expenditures and operating costs. CBW s ability to compete will depend, in part, on its ability to anticipate and respond to various competitive factors affecting the telecommunications industry.

Furthermore, there has been a trend in the wireless communications industry towards consolidation through joint ventures, reorganizations, and acquisitions. The Company expects this consolidation trend to lead to larger competitors with greater resources and more service offerings than CBW. In addition, wireless subscribers are permitted to retain their wireless phone numbers when changing to another wireless carrier within the same geographic area. The Company generally does not enter into long-term contracts with its wireless subscribers, and therefore, this portability could have a significant adverse affect on the Company. The Company also believes that these wireless competitors and in particular, companies that offer unlimited wireless service plans for a flat monthly fee, are a cause of CBT s access line loss.

Technology Solutions competes against numerous other information technology consulting, web-hosting, data center and computer system integration companies, many of which are larger, national in scope, and better financed. This market is rapidly evolving, highly competitive and likely to be characterized by over-capacity and industry consolidation. Other competitors may consolidate with one another or acquire software application vendors or technology providers, enabling them to more effectively compete with Technology Solutions. The Company believes that many of the participants in this market must grow rapidly and achieve a significant presence to compete effectively. This consolidation could affect prices and other competitive factors in ways that could impede Technology Solutions ability to compete successfully in the market.

The effect of the foregoing competition on any of the Company s segments could have a material adverse impact on its businesses, financial condition, results of operations, and cash flows. This could result in increased reliance on borrowed funds and could impact the Company s ability to maintain its wireline and wireless networks.

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

During the year ended December 31, 2007, capital expenditures totaled $233.8 million, which included $97.4 million of capital expenditures related to data center construction and building its 3G wireless network. The Company expects to spend approximately 16% of 2008 revenue on capital expenditures, which includes approximately $19 million to finish building its 3G wireless network. The Company also purchased 10MHz of spectrum in the Indianapolis area in 2006. The Company is considering its options with respect to the Indianapolis spectrum, which include expansion of its wireless operations into this area, which would require significant capital expenditures, or lease of the spectrum to another wireless provider.

The Company currently operates nine data centers, including those acquired through the purchase of GramTel in December 2007, and any further data center expansion will involve significant capital expenditures for data center construction. In order to provide guaranteed levels of service to our data center customers, the network infrastructure must be protected against damage from human error, natural disasters, unexpected equipment failure, power loss or telecommunications failures, terrorism, sabotage, or other intentional acts of vandalism. The Company s disaster recovery plan may not address all of the problems that may be encountered in the event of a disaster or other unanticipated problem, which may result in disruption of service to data center customers.

The Company may also incur significant additional capital expenditures as a result of unanticipated developments, regulatory changes, and other events that impact the business. If the Company is unable or fails to adequately maintain or expand its networks to meet customer needs, there could be a material adverse impact on the Company s market share and its ability to generate revenue.

Table of Contents

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

For its GSM network, CBW uses spectrum licensed to the Company. In 2006, the Company acquired additional spectrum licenses, primarily for its current operating territory and Indianapolis. Introduction of new wireless products and services, as well as maintenance of the existing wireless business, may require CBW to obtain additional spectrum, either to supplement or to replace the existing spectrum. Furthermore, the Company network depends upon the deployment of radio frequency equipment on towers and atop of buildings. The Company both owns and leases spaces on these towers and buildings and typically leases underlying land. There can be no assurance that spectrum or the appropriate transmitting locations will be available to CBW or will be available on commercially favorable terms. Failure to obtain or to retain any needed spectrum or transmitting locations could have a materially adverse impact on the wireless business as a whole, the quality of the wireless networks, and the ability to offer new competitive products and services.

Data center business could be harmed by prolonged electrical power outages or shortages, increased costs of energy or general lack of availability of electrical resources.

Data centers are susceptible to regional costs of power, planned or unplanned power outages and shortages, and limitations on the availability of adequate power resources. Power outages, such as those that occurred in California in 2001, the Northeast in 2003, and from the tornados on the east coast of the U.S. in 2004, could harm the Company s customers and business. The Company attempts to limit exposure to system downtime by using backup generators and power supplies; however, the Company may not be able to limit the exposure entirely even with those protections in place. In addition, global fluctuations in the price of power can increase the cost of energy, and although contractual price increase clauses may exist and, in some cases, the data center customer pays directly for the cost of power, the Company may not be able to pass all of these increased costs on to customers, or the increase in power costs may impact additional sales of data center space.

Long sales cycle for data center services may materially affect the data center business and results of its operations.

A customer s decision to license cabinet space in one of the Company s data centers and to purchase additional services typically involves a significant commitment of resources. In addition, some customers may be reluctant to commit to locating in the Company s data center until they are confident that the data center has adequate carrier connections. As a result, the sale of data center space has a long sales cycle. Furthermore, the Company may expend significant time and resources in pursuing a particular sale or customer that may not result in revenue. Delays in the length of the data center sales cycle may have a material adverse effect on the Technology Solutions segment and results of its operations.

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

The Company s agreements with its customers contain various requirements regarding performance and levels of service. If the Company fails to provide the levels of service or performance required by its agreements, customers may be able to receive service credits for their accounts and other financial compensation, as well as terminate their relationship with the Company. In addition, any inability to meet service level commitments or other performance standards could reduce the confidence of customers and could consequently impair the Company s ability to obtain and retain customers, which would adversely affect both ability to generate revenues and operating results.

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

Several of the Company s subsidiaries are subject to regulatory oversight of varying degrees at both the state and federal levels, which may differ from the regulatory scrutiny faced by the Company s competitors. A significant portion of CBT s revenue is derived from pricing plans that require regulatory overview and approval.

Table of Contents

Different interpretations by regulatory bodies may result in adjustments to revenue in future periods. In recent years, these regulated pricing plans have required CBT to decrease or fix the rates it charges for some services while its competition has typically been able to set rates for its services with limited restriction. In the future, regulatory initiatives that would put CBT at a competitive disadvantage or mandate lower rates for its services could result in lower profitability and cash flow for the Company. In addition, different regulatory interpretations of existing regulations or guidelines may affect the Company s revenues and expenses in future periods.

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

CBW s FCC licenses to provide wireless services are subject to renewal and revocation. Although the FCC has routinely renewed wireless licenses in the past, the Company cannot be assured that challenges will not be brought against those licenses in the future. Revocation or non-renewal of CBW s licenses could result in a cessation of CBW s operations and consequently lower operating results and cash flow for the Company.

There are currently many regulatory actions under way and being contemplated by federal and state authorities regarding issues that could result in significant changes to the business conditions in the telecommunications industry. Assurances cannot be given that changes in current or future regulations adopted by the FCC or state regulators, or other legislative, administrative, or judicial initiatives relating to the telecommunications industry, will not have a material adverse effect on the Company s business, financial condition, results of operations, and cash flows.

Future declines in the fair value of the Company s wireless licenses could result in future impairment charges.

The market values of wireless licenses have varied dramatically over the last several years and may vary significantly in the future. In particular, valuation swings could occur if:

- Consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;
- A sudden large sale of spectrum by one or more wireless providers occurs; or
- Market prices decline as a result of the sale prices in recent and upcoming FCC auctions.

In addition, the price of wireless licenses could decline as a result of the FCC s pursuit of policies designed to increase the number of wireless licenses available in each of the Company s markets. For example, the FCC auctioned an additional 90 MHz of spectrum in the 1700 MHz to 2100 MHz band in the Advanced Wireless Services spectrum auction in 2006 and has announced the auctions of additional spectrum in the bands currently used by wireless providers, including an auction of 700 MHz in early 2008. If the market value of wireless licenses were to decline significantly, the value of the Company s wireless licenses could be subject to non-cash impairment charges.

The Company reviews potential impairments to indefinite-lived intangible assets, including wireless licenses and trademarks, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. A significant impairment loss, most likely resulting from reduced cash flow, could have a material adverse effect on the Company s operating income and on the carrying value of the wireless licenses on the balance sheet.

Failure to anticipate the needs for and introduce new products and services or to compete with new technologies may compromise the Company s success in the telecommunications industry.

The Company s success depends, in part, on being able to anticipate the needs of current and future enterprise, carrier, and residential customers. The Company seeks to meet these needs through new product introductions, service quality, and technological superiority. The Company has implemented GSM technology and is currently building its 3G wireless network, which is expected to be operational in 2008, and works with vendors in its attempts to provide the newest handsets and accessories to its customers. New products are not always available to the Company, as other competitors may have exclusive agreements for those new products, such as the iPhone. New products and services are important to the Company s success as its industry is technologically driven, such that new technologies can offer alternatives to the Company s existing services. The development of new technologies and products could accelerate the Company s loss of access lines and increase wireless customer churn, which could have a material adverse effect on the Company s revenue, results of operations, and cash flows.

Terrorist attacks and other acts of violence or war may affect the financial markets and the Company s business, financial condition, results of operations, and cash flows.

Terrorist attacks may negatively affect the Company s operations and financial condition. There can be no assurance that there will not be further terrorist attacks against the U.S., U.S. businesses, or armed conflict involving the U.S. Further terrorist attacks or other acts of violence or war may directly impact the Company s physical facilities or those of its customers and vendors. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. They could result in an economic recession in the U.S. or abroad. Any of these occurrences could have a material adverse impact on the Company s business, financial condition, results of operations, and cash flows.

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

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

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

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

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

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

Table of Contents

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

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

The Company s pending patent and trademark registration applications may not be allowed, or competitors may challenge the validity or scope of its patents, copyrights or trademarks. Further, the Company may be required to spend significant resources to monitor and police its intellectual property rights. The Company may not be able to detect third-party infringements and its competitive position may be harmed before the Company does so. In addition, competitors may design around the Company s technology or develop competing technologies. Furthermore, some intellectual property rights are licensed to other companies, allowing them to compete with the Company using that intellectual property.

Uncertainty in the U.S. and world securities markets and adverse medical cost trends could cause the Company s pension and postretirement costs to increase.

The Company s pension and postretirement costs are adversely affected by increases in medical and prescription drug costs. Investment returns of the Company s pension and postretirement funds depend largely on trends in the U.S. and world securities markets and the U.S. and world economies in general. In particular, uncertainty in the securities markets and economy could result in investment returns less than those previously assumed and a decline in the value of plan assets used in pension and postretirement calculations, which the Company would be required to recognize over the next several years under generally accepted accounting principles. Should the securities markets decline and medical and prescription drug costs increase significantly, the Company would expect to face increasing annual combined net pension and postretirement costs. Refer to Note 9 to the Consolidated Financial Statements for further information.

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

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees and one supplemental, nonqualified, unfunded plan for certain senior executives. The Company s consolidated balance sheets indirectly reflect the value of all plan assets and benefit obligations under these plans. The accounting for employee benefit plans is complex, as is the process of calculating the benefit obligations under the plans. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the Company s benefit obligations or a significant decrease of the asset values without necessarily impacting the Company s net income. In addition, the Company s benefit obligations could increase significantly if it needs to unfavorably revise the assumptions used to calculate the obligations. As a result, these adverse changes could have a significant negative impact on its shareowners deficit. In addition, with respect to the Company s pension plans, adverse changes could require the Company to contribute a material amount of cash to the plan or could accelerate the timing of any required payments.

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

The Company is a party to collective bargaining agreements with its labor union, which represents a significant number of its employees. Although the Company believes that its relations with its employees are satisfactory, no assurance can be given that the Company will be able to successfully extend or renegotiate its collective bargaining agreements when they expire. If the Company fails to extend or renegotiate its collective bargaining agreements, if disputes with its union arise, or if its unionized workers engage in a strike or a work stoppage, the Company could experience a significant disruption of operations or incur higher ongoing labor costs, either of which could have a material adverse effect on the business.

Table of Contents

The Company s collective bargaining agreement with its labor union expires in May 2008. As of January 31, 2008, representatives of the Company and the CWA tentatively agreed to a new contract, upon which the union membership will vote to approve or reject on February 27, 2008.

Item 1B. Unresolved SEC Staff Comments

None.

Item 2. Properties

Cincinnati Bell Inc. and its subsidiaries own or maintain facilities in six states, which are Ohio, Kentucky, Indiana, Michigan, Illinois, and Missouri. Principal office locations are in Cincinnati, Ohio.

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

With regard to its local telephone operations, the Company owns substantially all of the central office switching stations and the land upon which they are situated. Some business and administrative offices are located in rented facilities, some of which are recorded as capital leases. With regard to its wireless operations, CBW both owns and leases the locations that house its switching and messaging equipment. CBW owns approximately half of the tower structures and leases almost all of the land upon which its towers reside. CBW leases space primarily from other wireless carriers or tower companies for the remaining tower sites and its ground leases are typically renewable at CBW s option with predetermined rate escalations. In addition, CBW leases 22 Company-run retail locations. CBTS operates five data centers three owned and two leased in Ohio and Kentucky. GramTel, which was acquired in December 2007, operates four data centers one owned and three leased in Indiana, Michigan, and Illinois. The data centers provide 24-hour monitoring of the customer s computer equipment in the data center, power, environmental controls, and high-speed, high bandwidth point-to-point optical network connections. Due to the acquisition of ATI in 2006, CBTS also has leased offices located in Kentucky and Missouri.

The Company s gross investment in property, plant, and equipment was $2,808.5 million and $2,586.5 million at December 31, 2007 and 2006, respectively, and was divided among the operating segments as follows:

	December 31,	
	2007	**2006**
Wireline	82.1%	86.5%
Wireless	12.1%	11.3%
Technology Solutions	5.7%	2.1%
Corporate	0.1%	0.1%
Total	100.0%	100.0%

For additional information about the Company s properties, see Note 4 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

The information required by this Item is included in Note 12 to the Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of the Security Holders

None.

Table of Contents

PART II

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

(a) Market Information

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007	High	$5.04	$6.14	$5.95	$5.58
	Low	$4.26	$4.70	$4.41	$4.34
2006	High	$4.52	$4.45	$5.14	$4.93
	Low	$3.45	$3.75	$3.75	$4.29

(b) Holders

As of February 1, 2008, there were 47,918 holders of record of the 248,375,399 outstanding common shares of the Company.

(c) Dividends

The Company does not currently intend to pay dividends on its common shares and furthermore certain covenants in its various debt agreements restrict its ability to pay dividends to its common shareowners. For additional information about the restrictions on the Company s ability to pay dividends, see Note 7 to the Consolidated Financial Statements.

(d) Issuances Under Compensation Plans

The following table provides information as of December 31, 2007 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)) (c)
Equity compensation plans approved by security holders	23,932,258(1)	$ 10.76	6,658,996
Equity compensation plans not approved by security holders	218,332(2)		
Total	24,150,590	$ 10.76	6,658,996

(1) Includes 20,624,959 outstanding stock options not yet exercised, 375,154 shares of time-based restricted stock, and 2,932,145 shares of performance-based awards, restrictions on which have not yet expired as of December 31, 2007. Awards were granted under various incentive plans approved by Cincinnati Bell Inc. shareholders. The number of performance-based awards assumes the maximum awards that

can be earned if the performance conditions are achieved.

(2) The shares to be issued relate to deferred compensation in the form of previously received special awards and annual awards to non-employee directors pursuant to the Deferred Compensation Plan for Outside Directors. From 1997 through 2004, the directors received an annual award of phantom stock equivalent to common shares (250 common shares in 1997, 500 common shares in 1998, 1,163 common shares in 1999 and 1,500 common shares from 2000-2004) and for years beginning after 2004, the annual award is the equivalent of 6,000 common shares. As a result of the plan amendment effective as of January 1, 2005, upon termination of Board service, directors are required to take distribution of all annual phantom stock awards in

Table of Contents

cash. Therefore, the number of actual shares of common stock to be issued pursuant to the plan as of December 31, 2007 has been reduced to approximately 40,000. This plan also provides that no awards are payable until such non-employee director completes at least five years of active service as a non-employee director, except if he or she dies while serving as a member of the Board of Directors.

(e) Stock Performance

The graph below shows the cumulative total shareholder return assuming the investment of $100 on December 31, 2002 (and the reinvestment of dividends thereafter) in each of (i) the Company s common shares (ii) the S&P 500© Stock Index, and (iii) the S&P © Integrated Telecommunications Services Index.

(f) Issuer Purchases of Equity Securities

The following table provides information regarding the Company s purchases of its common stock during the quarter ended December 31, 2007:

		Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs *
10/1/2007	10/31/2007	5,528	$ 5.10	0	n/a
11/1/2007	11/30/2007	0	n/a	0	n/a
12/1/2007	12/31/2007	0	n/a	0	n/a

* Shares are purchased for the Company s deferred compensation plan, and are purchased on the open market. Future purchases are subject to participant elections.

In February 2008, the Company s Board of Directors approved the repurchase of the Company s outstanding common stock in an amount up to $150.0 million for the period 2008 through 2009.

17

Table of Contents

Item 6. Selected Financial Data

The Selected Financial Data should be read in conjunction with the Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this document.

(dollars in millions, except per share amounts)	2007	2006	2005	2004	2003
Operating Data					
Revenue	$ 1,348.6	$ 1,270.1	$ 1,209.6	$ 1,207.1	$ 1,557.8
Cost of services and products, selling, general, and administrative, depreciation and amortization expense	1,026.4	955.5	908.0	896.7	1,204.3
Restructuring, asset impairments and other charges, shareholder claim settlement (a)	39.8	9.7	42.8	14.8	6.2
Gain on sale of broadband assets (b)		(7.6)		(3.7)	(336.7)
Operating income	282.4	312.5	258.8	299.3	684.0
Minority interest (income) expense (c)		(0.5)	(11.0)	(0.5)	42.2
Interest expense (d)	154.9	162.1	184.4	203.3	217.8
Loss on extinguishment of debt (d)	0.7	0.1	99.8		17.6
Income (loss) before cumulative effect of change in accounting principle	73.2	86.3	(64.5)	64.2	1,246.0
Net income (loss)	$ 73.2	$ 86.3	$ (64.5)	$ 64.2	$ 1,331.9
Earnings (loss) per common share before cumulative effect of change in accounting principle					
Basic	$ 0.25	$ 0.31	$ (0.30)	$ 0.22	$ 5.44
Diluted	$ 0.24	$ 0.30	$ (0.30)	$ 0.21	$ 5.02
Dividends declared per common share	$	$	$	$	$
Weighted average common shares outstanding (millions)					
Basic	247.4	246.8	245.9	245.1	226.9
Diluted	256.8	253.3	245.9	250.5	253.3
Financial Position					
Property, plant and equipment, net (e)	$ 933.7	$ 818.8	$ 800.4	$ 857.7	$ 898.8
Total assets (f)	2,019.6	2,013.8	1,863.3	1,958.7	2,073.5
Long-term debt (d)	2,001.9	2,065.9	2,073.4	2,111.1	2,274.5
Total debt (d)	2,009.7	2,073.2	2,084.7	2,141.2	2,287.8
Total long-term obligations (g)	2,369.6	2,486.5	2,295.3	2,246.6	2,417.9
Minority interest (c)			28.2	39.2	39.7
Shareowners deficit	(667.6)	(791.6)	(737.7)	(624.5)	(679.4)
Other Data					
Cash flow provided by operating activities	$ 308.8	$ 334.7	$ 322.3	$ 300.7	$ 310.6
Cash flow used in investing activities	(263.5)	(260.0)	(142.7)	(124.3)	(42.8)
Cash flow used in financing activities	(98.6)	(21.0)	(178.8)	(177.5)	(286.7)
Capital expenditures	(233.8)	(151.3)	(143.0)	(133.9)	(126.4)

(a) See Notes 1, 3, 4, and 15 to the Consolidated Financial Statements for discussion related to 2007, 2006, and 2005.
(b) See Note 15 to the Consolidated Financial Statements for discussion related to 2006. The gain of $336.7 million recorded in 2003 was a result of selling substantially all of the broadband operating assets.
(c) See Note 10 to the Consolidated Financial Statements.
(d) See Note 7 to the Consolidated Financial Statements.
(e) See Note 4 to the Consolidated Financial Statements for discussion related to 2007, 2006, and 2005.
(f) See Notes 1, 4, 6, and 13 to the Consolidated Financial Statements for discussion related to 2007, 2006, and 2005.
(g) Total long-term obligations comprise long-term debt, accrued pension and postretirement, unearned revenue and other noncurrent liabilities.

Table of Contents

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

Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement, Risk Factors, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements.

Executive Summary

The Company is a full-service local provider of data and voice communications services and equipment and a regional provider of wireless and long distance communications services. The Company provides telecommunications service primarily on its owned local and wireless networks with a well-regarded brand name and reputation for service. The Company also sells telecommunications equipment, information technology hardware, and related services.

The Company operates in three segments: Wireline, Wireless, and Technology Solutions. The Company s segments were realigned to be consistent with changes made in the second quarter of 2007 to its management structure and reporting. The Wireline segment combines the operations of Cincinnati Bell Telephone Company LLC and Cincinnati Bell Extended Territories LLC, which were formerly included in the Local segment, and the operations of Cincinnati Bell Any Distance Inc., Cincinnati Bell Complete Protection Inc., the Company s payphone business and Cincinnati Bell Entertainment Inc., which were formerly included in the Other segment. The Broadband segment, which does not have any substantive on-going operations, has been eliminated. The remaining liabilities associated with the former broadband operations are now included in Corporate activities. The Wireless and Technology Solutions segments were not impacted by the segment realignment.

In 2007, the Company continued to make progress on its primary objectives, which are to: (1) add to the Company s growth businesses, (2) defend its core franchise against increasing competition, and (3) reduce indebtedness.

Add to growth businesses

The Company increased its data center capacity to 144,000 square feet at December 31, 2007 compared to 91,000 square feet at December 31, 2006. Technology Solutions spent $91.8 million of capital expenditures, primarily to construct 85,000 square feet of data center space in the Greater Cincinnati area, and spent an additional $20.3 million to purchase GramTel USA, Inc. (GramTel), which provides data center services to small and medium size companies in South Bend, Indiana and Chicago, Illinois. Sales for data center and managed services were $67.6 million, an increase of $20.2 million compared to 2006. Sales of telecom and IT equipment, which are often generated from data center customers, totaled $180.8 million during 2007, an 11% increase over 2006. The Company intends to continue to pursue additional customers and growth specific to its data center business, and is prepared to commit additional resources, including capital expenditures and working capital, to support this growth.

In late 2006, the Company purchased 20 MHz of advanced wireless spectrum for the Cincinnati and Dayton, Ohio regions in the AWS spectrum auction conducted by the FCC. To satisfy increasing demand for existing voice minutes of use by customers as well as to provide enhanced data services such as streaming video, the Company is building a 3G network to deploy on the purchased AWS spectrum. The Company spent approximately $11 million in 2007 to construct the 3G network and expects to spend an additional $19 million in 2008. The Company expects the 3G network to be operational in 2008. The Company increased wireless subscribers by 43,000 subscribers, or 8%, from 528,000 at December 31, 2006 to 571,000 at December 31, 2007.

The Company increased data revenues in the Wireline segment by $20.4 million primarily due to the addition of 24,000 DSL subscribers. The Company finished the year with 222,000 DSL subscribers, an increase of 12% over 2006. In-territory primary consumer access line penetration of its DSL product increased to 42% in 2007, up 8 percentage points from last year.

In March 2007, the Company purchased a local telecommunication business, which offers voice, data and cable TV services, in Lebanon, Ohio for a purchase price of $7.0 million of which $4.6 million was paid in 2007. As a result of this acquisition, the Company now offers cable TV to 3,900 customers in Lebanon. The Company

Table of Contents

also began partnering in 2007 with DirecTV© to offer satellite programming to Cincinnati Bell customers at discounted prices. The Company receives a commission for each subscriber, but is not involved in the delivery of the satellite television service. At December 31, 2007, the Company had 15,000 customers that were subscribers to DirecTV©. The Lebanon acquisition and DirecTV© offer mark the Company s first foray into the entertainment business.

The Company also signed a definitive agreement to purchase eGIX for approximately $18.0 million and contingent consideration up to $5.2 million. eGIX is located in Carmel, Indiana and provides advanced data and voice services to businesses throughout the Midwest. In February 2008, the Company completed this acquisition.

Defend the core franchise against increasing competition

In its traditional operating area, the Company defended its core franchise through bundling, adding 11,000 net subscribers to its Custom Connections℠ Super Bundle which offers local, long distance, wireless, internet access, and the Company s value-added service package, Custom Connections®, at a price lower than the amount the customer would pay for the services individually. The Company finished the year with approximately 180,000 in-territory Super Bundle subscribers, 7% more than at the end of 2006. Total access lines declined by 6% versus 2006, in line with Company expectations given wireless substitution and other competitive factors. The Company believes that its Super Bundle customers are less likely to disconnect existing services and change services to a competitor.

Reduce indebtedness

The Company s total indebtedness was $2,009.7 million at December 31, 2007 compared to $2,073.2 million at December 31, 2006. In 2007, the Company repaid $184.0 million of the Tranche B Term Loan using proceeds of $75.0 million from borrowings under the accounts receivables securitization facility (receivables facility) and the remainder from available cash. The Company expects interest savings to be approximately 1% per annum on the $75.0 million borrowed under the receivables facility as compared to interest that would have been incurred under the Tranche B Term Loan. The Company also purchased and retired $26.4 million of the 7 1/4% Senior Notes due 2013 and $5.0 million of 8 3/8% Senior Subordinated Notes due 2014. The Company had borrowings of $55.0 million on its Corporate credit facility at December 31, 2007 to fund short-term working capital needs.

Results of Operations

Consolidated Overview

The financial results for 2007, 2006, and 2005 referred to in this discussion should be read in conjunction with the Consolidated Statements of Operations and Note 15 to the Consolidated Financial Statements.

2007 Compared to 2006

Consolidated revenue totaled $1,348.6 million in 2007, an increase of $78.5 million, compared to $1,270.1 million in 2006. The increase was primarily due to the following:

- $41.7 million higher revenues in the Technology Solutions segment primarily due to increased data center and managed services revenue and telecom and IT equipment revenue; and

- $32.5 million higher revenues in the Wireless segment primarily due to increased postpaid service revenue from additional subscribers.

Operating income for 2007 was $282.4 million, a decrease of $30.1 million compared to 2006. The decrease was primarily due to the following:

- $39.3 million decrease in Wireline segment operating income primarily due to 2007 restructuring costs;

$14.1 million increase in Wireless segment operating income due to higher postpaid revenue partially offset by higher network costs, selling, general and administrative expenses and depreciation; and

Table of Contents

- $7.2 million increase in Corporate costs primarily related to income in 2006 from the expiration of certain warranties and guarantees, the sale of broadband fiber assets and a bankruptcy claim receivable partially offset by the 2006 settlement of a shareholder litigation claim.

Interest expense decreased to $154.9 million for 2007 compared to $162.1 million in 2006. The decrease compared to last year is primarily attributable to lower debt balances due to the repayment of portions of the Tranche B Term Loan and 7 1/4% Senior Notes due 2013 partially offset by higher short-term interest rates.

Income tax expense of $56.7 million in 2007 was less than the $68.3 million expense in 2006 primarily due to lower pretax income.

The Company has certain non-deductible expenses, including interest on securities originally issued to acquire its broadband business (the Broadband Securities) or securities that the Company has subsequently issued to refinance the Broadband Securities. In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses associated with the Broadband Securities. The Company used approximately $56 million federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities. As a result, the Company had cash income tax payments of $6.6 million during the year.

2006 Compared to 2005

Consolidated revenue totaled $1,270.1 million in 2006, an increase of $60.5 million, compared to 2005. The increase was primarily due to the following:

- $43.9 million increased revenues in the Technology Solutions segment primarily due to increased telecom and IT equipment sales;

- $24.5 million higher revenues in the Wireless segment due to an increase in postpaid service revenue from additional subscribers and increased data revenue; and

- $7.3 million lower revenues in the Wireline segment due to access line loss, partially offset by higher data and DSL revenues.

Operating income for 2006 was $312.5 million, an increase of $53.7 million compared to 2005. The increase was primarily due to the following:

- $71.9 million increase in Wireless operating income due to impairment charges of $42.3 million incurred in 2005 associated with the retirement of certain Time Division Multiple Access (TDMA) assets and decreased depreciation expense of $32.5 million in 2006 primarily associated with the replaced TDMA network assets;

- $10.9 million decrease in Wireline operating income due to lower revenue; and

- $9.7 million increase in corporate costs mainly related to the $6.3 million settlement of the Company s shareholder litigation in the first quarter of 2006 and increased business development costs.

The minority interest caption relates primarily to the 19.9% minority interest in the net income of CBW until the Company s acquisition of this minority interest on February 14, 2006. No further minority interest expense was recorded after February 14, 2006 because CBW is now wholly owned by the Company. The 2005 TDMA impairment charge noted above gave rise to CBW losses in 2005, and the minority interest income of $11.0 million represents the minority owner s portion of the losses.

Interest expense decreased to $162.1 million for 2006 compared to $184.4 million in 2005. This decrease is primarily a result of the Company s refinancing activities in 2005, which replaced high interest debt for debt with lower interest rates, partially offset by higher short-term interest rates.

The loss on extinguishment of debt of $99.8 million for 2005 was comprised of a $91.9 million loss related to the repurchase of the 16% Notes and $7.9 million associated with the repayment of previously existing credit facilities. See Note 7 to the Consolidated Financial Statements for further details.

Income tax expense was $68.3 million in 2006 compared to $54.3 million for 2005. This increase was primarily due to the income tax benefit in 2005 associated with the $99.8 million loss on extinguishment of debt,

Table of Contents

a $3.6 million charge in the first quarter of 2006 related to new Kentucky state tax regulations issued in February 2006, which limited the Company s ability to use its state net operating loss carryforwards against future state taxable income, and higher pretax income. These increases were partially offset by an income tax charge of $47.5 million in 2005 resulting from the state of Ohio instituting a gross receipts tax and phasing out Ohio s corporate franchise and income tax which caused certain deferred tax assets to become unrealizable. The Company used federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities and as a result, had cash income tax payments of $6.6 million during the year.

Discussion of Operating Segment Results

Wireline

The Wireline segment primarily provides local voice telephone service, including enhanced custom calling features, and data services, which include DSL, dial-up Internet access, dedicated network access, Gigabit Ethernet and Asynchronous Transfer Mode based data transport, to customers in southwestern Ohio, northern Kentucky, and southeastern Indiana. CBT, which operates as the Incumbent Local Exchange Carrier (ILEC) in its operating territory of an approximate 25-mile radius of Cincinnati, Ohio, is the primary provider of these services. CBT s network has full digital switching capability and can provide data transmission services to over 90% of its in-territory access lines via DSL.

Outside of its ILEC territory, the Wireline segment provides these services through CBET, which operates as a competitive local exchange carrier (CLEC) both in the communities north of CBT s operating territory and in the greater Dayton market. CBET provides voice and data services for residential and business customers on its own network and by purchasing unbundled network elements from the ILEC. CBET provides service through UNE-L to its customer base in the Dayton, Ohio market. The Wireline segment links its Cincinnati and Dayton geographies through its SONET, which provides route diversity via two separate paths.

In March 2007, CBET purchased a local telecommunication business, which offers voice, data and cable services, in Lebanon, Ohio.

The Wireline segment also includes the operations of CBAD, CBCP, the Company s payphone business and CBE. CBAD provides long distance, audio conferencing and VoIP services and CBCP provides security monitoring for consumers and businesses as well as related hardware. CBE had no activity in 2007.

In late 2007, CBAD committed to the acquisition of eGIX, a CLEC provider of voice and long distance services to business customers in Indiana. Revenues for eGIX were approximately $15 million in 2007. The Company completed this acquisition in February 2008.

(dollars in millions)	2007	2006	$ Change 2007 vs. 2006	% Change 2007 vs. 2006	2005	$ Change 2006 vs. 2005	% Change 2006 vs. 2005
Revenue:							
Voice local service	$ 432.4	$ 463.9	$ (31.5)	(7)%	$ 491.9	$ (28.0)	(6)%
Data	258.6	238.2	20.4	9%	219.2	19.0	9%
Long distance	79.3	71.8	7.5	10%	69.5	2.3	3%
Other	51.4	36.5	14.9	41%	37.1	(0.6)	(2)%
Total revenue	821.7	810.4	11.3	1%	817.7	(7.3)	(1)%
Operating costs and expenses:							
Cost of services and products	276.6	264.1	12.5	5%	260.1	4.0	2%
Selling, general and administrative	151.0	145.5	5.5	4%	143.3	2.2	2%
Depreciation	105.2	106.2	(1.0)	(1)%	110.1	(3.9)	(4)%
Amortization	0.3		0.3	n/m			n/m
Restructuring	36.1	2.8	33.3	n/m	1.5	1.3	87%
Total operating costs and expenses	569.2	518.6	50.6	10%	515.0	3.6	1%

Operating income	$ 252.5	$ 291.8	$ (39.3)	(13)%	$ 302.7	$ (10.9)	(4)%
Operating margin	30.7%	36.0%		(5) pts	37.0%		(1) pts
Capital expenditures	$ 96.3	$ 92.5	$ 3.8	4%	$ 96.7	$ (4.2)	(4)%

22

Table of Contents

2007 Compared to 2006

Revenue

Voice local service revenue includes local service, value added services, switched access, and information services. Voice revenue decreased in 2007 compared to 2006 primarily as a result of a 6% decrease in access lines.

Access lines within the segment s ILEC territory decreased by 65,000, or 8%, from 837,000 at December 31, 2006 to 772,000 at December 31, 2007. The Company believes the access line loss resulted from several factors including customers electing to use wireless communication in lieu of the traditional local service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The Company has partially offset its access line loss in its ILEC territory by continuing to target voice services to residential and business customers in its CLEC territory. The Company had approximately 62,000 CLEC access lines at December 31, 2007, which is a 24% increase from December 31, 2006.

Data revenue consists of data transport, high-speed Internet access (including DSL), dial-up Internet access, digital trunking, and Local Area Network (LAN) interconnection services. The increase in data revenue of $20.4 million in 2007 compared to 2006 is mainly due to higher DSL and data transport revenue. An increase in DSL subscribers contributed an additional $12.5 million of revenue in 2007 versus 2006. As of December 31, 2007, the Company s DSL penetration of addressable in-territory primary consumer access lines was approximately 42%, up 8 percentage points from December 31, 2006. Data transport revenues increased by $7.7 million for 2007, compared to 2006, primarily due to increased usage by CBW and third party users.

Long distance revenue increased $7.5 million in 2007 compared to 2006. The increase was primarily due to higher minutes of use for both long distance and audio conferencing, as well as increased revenue from the Company s Voice over Internet Protocol (VoIP) product, which the Company began offering in mid-2006. The Company had approximately 548,000 subscribed long distance access lines as of December 31, 2007 compared to 552,000 as of December 31, 2006. The decrease in subscribers was due to a 5% decline in residential lines, consistent with the access line loss, partially offset by a 10% increase in business subscribers.

The Company believes its rate of access line loss would have been greater and its increase in DSL subscribers would have been less without the success of its Super Bundle, Custom Connections[SM] The Company s Super Bundle offers local, long distance, wireless, internet access and the Company s value added services package, Home Phone Pak, at a price lower than the amount the customer would pay for the services individually. In its traditional operating area, the Company added approximately 11,000 Super Bundle subscribers through 2007, bringing total subscribers to 180,000 and penetration of in-territory primary residential access lines to 38%. This package has increased the demand for and increased subscriber retention of the Company s ZoomTown DSL offering. The number of DSL subscribers increased by 24,000 subscribers during 2007 to bring total subscribers to 222,000. As a result of this DSL growth, total lines to the customer (defined as access lines plus DSL subscribers) as of December 31, 2007 decreased only slightly compared to December 31, 2006, and revenue per household increased 4% to $52.46.

Other revenue increased $14.9 million from 2006 due to increased revenue on customer premise wiring projects, $9.5 million of which came from a large one-time business customer project, and cable TV revenue due to the purchase of a local telecommunications business.

Costs and expenses

Cost of services and products increased by $12.5 million in 2007 versus 2006. The increase was due to costs associated with a large one-time business customer premise wiring project of $9.0 million, higher network costs of $6.1 million related to higher CLEC interconnection charges due to increased subscribers and increased minutes of use for long distance, audio conferencing, and VoIP, higher facilities costs of $1.6 million and higher software development costs. The increases were partially offset by a $2.8 million decrease in pension and postretirement costs and lower property and other operating taxes of $3.9 million, primarily due to the phase out of Ohio personal property taxes.

Selling, general and administrative expenses increased $5.5 million compared to 2006 primarily due to an increase in payroll and employee-related expenses of $5.1 million and higher consulting expenses, partially related to the evaluation of marketing strategies for business customers. The Company is responding to competitive pressures by increasing its sales and marketing activities, particularly in the business markets.

Restructuring expenses for 2007 were primarily due to the restructuring plan announced in the fourth quarter of 2007 to reduce costs and increase operational efficiencies. Restructuring costs for 2006 primarily related to the outsourcing of certain supply chain functions. See Note 3 to the Consolidated Financial Statements for further discussions.

2006 Compared to 2005

Revenue

Voice revenue decreased in 2006 compared to 2005 primarily as a result of a 5% decrease in access lines.

Access lines within the segment s ILEC territory decreased by 56,000, or 6%, from 893,000 at December 31, 2005 to 837,000 at December 31, 2006, which the Company believes results from several factors including customers electing to use wireless communication in lieu of the traditional local service, Company-initiated disconnections of customers with credit problems, and customers electing to use service from other providers. The Company has partially offset its access line loss in its ILEC service territory by targeting voice services to residential and small business customers in Dayton, Ohio. The Company had 50,000 total access lines outside its ILEC service territory at December 31, 2006, a 33% increase from the prior year.

The increase in data revenue of $19.0 million for 2006 as compared to 2005 is due to higher DSL revenue and data transport revenue. An increase in DSL subscribers of 36,000, partially offset by a slightly lower average rate per subscriber, produced an additional $11.9 million in revenue for 2006 as compared to 2005. Data transport revenues were $5.2 million higher in 2006 as compared to 2005 due to higher data usage by CBW and third party users. As of December 31, 2006, the Company s DSL penetration of in-territory primary consumer access lines was approximately 34%, up from 26% at December 31, 2005.

Long distance revenue increased $2.3 million in 2006 compared to 2005. The increase was primarily due to new dedicated access business customers and a 28% increase in minutes of use for audio conferencing. The Company had approximately 552,000 subscribed long distance access lines as of December 31, 2006, a decrease of 12,000 lines compared to 2005. The decrease in subscribers from 2005 was related to a 4% decline in residential subscribers, consistent with the access line loss, partially offset by a 4% increase in business subscribers.

The Company added 23,000 Super Bundle subscribers during 2006, bringing total subscribers to 173,000, of which 162,000 were consumer ILEC subscribers, a 32% penetration of primary in-territory consumer access lines. An aggressive marketing campaign and the favorable bundled pricing associated with Custom Connections℠ Super Bundle increased the demand for the Company s ZoomTown DSL offering, growing 22% compared to December 31, 2005, to 198,000 subscribers. As a result of this growth, total lines to the customer (defined as access lines plus DSL subscribers) as of December 31, 2006 decreased only slightly compared to December 31, 2005, and revenue per household increased 3% to $50.25.

Costs and Expenses

Cost of services and products increased by $4.0 million in 2006 versus 2005. The increase was mainly due to a $3.5 million increase in non-recurring operating taxes, additional network costs of $4.5 million primarily related to the increase in subscribers in the CLEC operating area and increased minutes of use for long-distance and audio conferencing, and an increase of $1.3 million in benefit expense. These increases were partially offset by lower wages of $4.5 million resulting from the outsourcing of directory services in 2005 and other Company restructuring initiatives.

Selling, general and administrative expenses increased $2.2 million compared to 2005. Higher costs of $2.9 million primarily related to pension and postretirement costs and $0.9 million for bad debt expense were partially offset by lower software maintenance and insurance costs.

Depreciation expense decreased $3.9 million in 2006 compared to 2005. The decrease was primarily due to assets becoming fully depreciated at a greater rate than capital expenditures.

Table of Contents

The Company incurred restructuring charges of $2.8 million primarily related to the outsourcing of certain supply chain functions in 2006. The Company incurred a $1.5 million charge in 2005 related to the outsourcing of its directory assistance services. See Note 3 to the Consolidated Financial Statements for further discussion.

Wireless

The Wireless segment provides advanced digital, voice, and data communications services through the operation of a regional wireless network in a licensed service territory, which surrounds Cincinnati and Dayton, Ohio and includes areas of northern Kentucky and southeastern Indiana. The segment offers service outside of its regional operating territory through wholesale and re-sale arrangements (roaming agreements) with other wireless operators. The segment also sells wireless handset devices and related accessories to support its service business.

The Wireless segment consists of CBW, which was historically a joint venture owned 80.1% by the Company and 19.9% by a minority holder. On February 14, 2006, the Company purchased the remaining 19.9% membership interest and CBW is now a wholly-owned subsidiary. See Note 5 to the Consolidated Financial Statements.

From October 2003 through June 2006, CBW deployed service on both TDMA and GSM networks. During the first quarter of 2003, CBW began to transition its subscribers to GSM technology, which provides voice communication, short message service (SMS) or text messaging and enhanced data communication services, such as mobile web browsing, internet access, email, and picture messaging. As of June 30, 2006, the Company had converted all of its subscribers to the GSM network and as a result discontinued the operation of its TDMA network.

To satisfy increasing demand for existing voice minutes of use by customers as well as to provide enhanced data services such as streaming video, the Company is building a third generation (3G) network to deploy on the purchased AWS spectrum. The Company spent approximately $11 million in 2007 to construct the 3G network and expects to spend an additional $19 million in 2008. The Company expects the network to be operational in mid 2008.

(dollars in millions, except for operating metrics)	2007	2006	$ Change 2007 vs. 2006	% Change 2007 vs. 2006	2005	$ Change 2006 vs. 2005	% Change 2006 vs. 2005
Revenue:							
Service	$ 267.5	$ 235.7	$ 31.8	13%	$ 214.8	$ 20.9	10%
Equipment	27.0	26.3	0.7	3%	22.7	3.6	16%
Total revenue	294.5	262.0	32.5	12%	237.5	24.5	10%
Operating costs and expenses:							
Cost of services and products	152.1	146.1	6.0	4%	129.3	16.8	13%
Selling, general and administrative	68.2	62.6	5.6	9%	56.1	6.5	12%
Depreciation	34.8	29.0	5.8	20%	61.5	(32.5)	(53)%
Amortization	3.0	4.1	(1.1)	(27)%		4.1	n/m
Restructuring	2.1		2.1	n/m			n/m
Asset impairments and other charges				n/m	42.3	(42.3)	(100)%
Total operating costs and expenses	260.2	241.8	18.4	8%	289.2	(47.4)	(16)%
Operating income (loss)	$ 34.3	$ 20.2	$ 14.1	70%	$ (51.7)	$ 71.9	n/m
Operating margin	11.6%	7.7%		4 pts	(21.8)%		30 pts
Operating metrics							
Postpaid ARPU *	$ 46.55	$ 46.51	$ 0.04	0%	$ 45.64	$ 0.87	2%
Prepaid ARPU *	$ 23.97	$ 20.71	$ 3.26	16%	$ 19.62	$ 1.09	6%

Capital expenditures	$ 45.7	$ 47.4	$ (1.7)	(4)%	$ 39.1	$ 8.3	21%

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

Table of Contents

2007 Compared to 2006

Revenue

Service revenue increased by $31.8 million in 2007 as compared to 2006 primarily due to the following:

- Postpaid service revenue increased $26.5 million primarily due to an increase in subscribers. Postpaid subscribers increased 9% from 366,000 subscribers at December 31, 2006 to 400,000 at December 31, 2007. The average monthly churn of 1.6% for 2007 was flat compared to 2006. The year-over-year postpaid subscriber growth is due to the introduction of more attractive rate plans and continuing network quality improvements; and

- Prepaid service revenue increased $5.3 million compared to 2006 primarily due to the increase in ARPU of $3.26. The increase in ARPU was partially driven by a 33% increase in data revenue. As of December 31, 2007, prepaid subscribers totaled approximately 171,000 compared to 162,000 subscribers at December 31, 2006. The Company lost subscribers in the summer of 2006 due to increased competition, but has regained subscribers as well as increased ARPU with the introduction of more attractive rate plans.

Equipment revenue for 2007 increased $0.7 million as compared to 2006 primarily due to revenue increases per handset sale.

Cost and expenses

Cost of services and products consists largely of network operation costs, interconnection expenses with other telecommunications providers, roaming expense (which are costs incurred for subscribers to use their handsets in the territories of other wireless service providers), and cost of handsets and accessories sold. These expenses increased $6.0 million in 2007 compared to 2006. The increase primarily resulted from higher network costs of $7.7 million due to the higher number of subscribers offset by lower subsidies and handset costs of $2.2 million. The decrease in subsidies and handset costs resulted from high subsidies in 2006 caused by the migration from the TDMA network to the GSM network and a change in third party dealer compensation practice in the second quarter of 2006. As a result of this change, the Company now predominantly pays a commission, which is reported as a selling expense, rather than incurring a subsidy by selling handsets to dealers at a rate below retail price.

Selling, general, and administrative expenses increased $5.6 million in 2007 compared to 2006. The increase was primarily due to higher commissions of $2.0 million resulting from the change in compensation practice for the third party commissions discussed above and higher activations, and increased retail store costs of $2.6 million.

Depreciation expense increased $5.8 million for 2007 versus 2006. The increase was primarily due to the shortening of the useful lives of certain GSM assets as a result of the Company constructing its 3G wireless network, which the Company expects to complete in 2008.

Amortization expense results from the allocation of the purchase price to certain intangibles associated with the purchase of the remaining 19.9% membership interest in CBW. The decrease in amortization results from the accelerated amortization methodology used, which causes a decrease in amortization in each subsequent year. See Note 5 to the Consolidated Financial Statements for further discussion.

Restructuring expenses for 2007 were primarily due to the restructuring plan announced in the fourth quarter of 2007 to reduce costs and increase operational efficiencies. See Note 3 to the Consolidated Financial Statements for further discussions.

Table of Contents

2006 Compared to 2005

Revenue

Service revenue increased by $20.9 million in 2006 as compared to 2005. This increase is primarily attributed to the following:

- Postpaid service revenue increased $22.1 million primarily due to more subscribers and a $9.4 million increase in data revenue from $11.4 million in 2005 to $20.8 million in 2006. Postpaid subscribers increased 16% from 315,100 subscribers at December 31, 2005 to 366,000 at December 31, 2006. Average monthly churn for the year was 1.6% in 2006 compared to 2.2% in 2005. The improved churn rate and increased number of subscribers were due to the introduction of more attractive rate plans in late 2005 and the improved wireless network;

- Prepaid service revenue increased $0.7 million compared to 2005 as the effect of higher ARPU of $1.09 was offset by a lower number of subscribers. As of December 31, 2006, prepaid subscribers totaled approximately 162,000 compared to 180,500 subscribers at December 31, 2005; and

- Postpaid roaming and other revenue decreased $1.9 million due to a decrease in minutes of use and in roaming revenue per minute. As a result of the merger between Cingular and AT&T Wireless Services Inc., CBW lost roaming revenue as Cingular customers are not using CBW s network.

Equipment revenue for 2006 increased $3.6 million compared to 2005 due to the increase in subscriber additions and the migration to the GSM network. The Company subsidized the price of handset sales to promote acquisitions and retention of subscribers and during the first half of 2006, to accelerate the migration to its GSM network.

Costs and Expenses

The increase in costs of $16.8 million compared to 2005 was due to a $9.2 million increase in network expense, resulting from increased voice minutes and data services usage, and a $5.2 million increase for handset and accessory costs due to higher activations and the migration of subscribers from the TDMA network to the GSM network. The remaining cost increases resulted from higher operating taxes and customer service costs related to increased subscribers.

Selling, general and administrative expenses increased $6.5 million in 2006 as compared to 2005. The increase was primarily due to increased commissions and other payroll related costs of $5.3 million from the higher number of subscriber activations and increased bad debt expense.

Depreciation expense decreased $32.5 million in 2006 versus 2005 primarily from the accelerated depreciation expense in 2005 on the TDMA assets.

Amortization expense in 2006 resulted from the allocation of the purchase price to certain intangibles associated with the purchase of the CBW minority interest. See Note 5 to the Consolidated Financial Statements.

The Company incurred charges of $42.3 million in 2005 to write down the recorded value of its TDMA network assets. A portion of the TDMA assets were taken out of service in 2005 in order to optimize the remaining spectrum associated with TDMA assets. In addition, an impairment charge was incurred to write down the recorded value of the remaining TDMA assets in use to fair value. Due to the rapid migration of TDMA subscribers to the Company s GSM network and lower ARPU associated with the remaining TDMA customers, the remaining future cash flows associated with the TDMA assets could no longer support the recorded value of the TDMA assets, which resulted in the impairment charge.

Table of Contents

Technology Solutions

The Technology Solutions segment provides business technology solutions through the Company s subsidiary, Cincinnati Bell Technology Solutions, Inc. (CBTS) and GramTel, which was purchased on December 31, 2007. See Note 5 to the Consolidated Financial Statements for further discussion.

(dollars in millions)	2007	2006	$ Change 2007 vs. 2006	% Change 2007 vs. 2006	2005	$ Change 2006 vs. 2005	% Change 2006 vs. 2005
Revenue:							
Telecom and IT equipment distribution	$ 180.8	$ 162.2	$ 18.6	11%	$ 126.7	$ 35.5	28%
Data center and managed services	67.6	47.4	20.2	43%	37.1	10.3	28%
Professional services	9.9	7.0	2.9	41%	8.9	(1.9)	(21)%
Total revenue	258.3	216.6	41.7	19%	172.7	43.9	25%
Operating costs and expenses:							
Cost of services and products	204.6	175.2	29.4	17%	139.5	35.7	26%
Selling, general and administrative	27.2	21.9	5.3	24%	17.4	4.5	26%
Depreciation	7.0	3.4	3.6	n/m	2.3	1.1	48%
Amortization	0.4	0.3	0.1	33%		0.3	n/m
Restructuring	1.0		1.0	n/m	0.1	(0.1)	(100)%
Total operating costs and expenses	240.2	200.8	39.4	20%	159.3	41.5	26%
Operating income	$ 18.1	$ 15.8	$ 2.3	15%	$ 13.4	$ 2.4	18%
Operating margin	7.0%	7.3%		0 pts	7.8%		(1) pts
Capital expenditures	$ 91.8	$ 11.2	$ 80.6	n/m	$ 7.2	$ 4.0	56%

2007 Compared to 2006

Revenue

Revenue from telecom and IT equipment distribution represents the sale, installation, and maintenance of major, branded IT and telephony equipment. The increased data center customers have given rise to increased revenue associated with IT and telephony equipment. Revenue from telecom and IT equipment distribution increased by $18.6 million in 2007 versus 2006 primarily as a result of increased equipment sales of $15.6 million and higher installation and maintenance services.

Data center and managed services revenue consists of recurring collocation rents from customers residing in the Company s data centers, managed VOIP Solutions and IT services that include network management, electronic data storage, disaster recovery and data security management. Revenue increased $20.2 million in 2007 as compared to the same period a year ago primarily due to increased product penetration within managed services and increased billable data center space. Data center billed utilization at December 31, 2007 was 93% on approximately 144,000 square feet of data center capacity, which includes 13,000 square feet of data center capacity due to the acquisition of GramTel, compared to billed utilization of 91% on approximately 91,000 square feet of data center capacity at December 31, 2006. Substantially all of the Technology Solutions capital expenditures in 2007 were to build data center capacity. The Company intends to continue to pursue additional customers and growth in its data center business, and is prepared to commit additional resources, including capital expenditures and working capital, to support this growth.

Professional services revenue consists of long-term and short-term IT outsourcing and consulting engagements. Revenue for 2007 increased by $2.9 million compared to 2006. Early in 2007, the Company expanded its team of recruiting and hiring personnel in order to focus on selling these outsourcing and consulting engagements.

Table of Contents

Costs and Expenses

Cost of services and products increased by $29.4 million in 2007 compared to 2006. The increase in 2007 primarily resulted from a $12.3 million increase in the cost of goods sold related to higher IT and equipment revenue, $13.7 million increase in payroll and contracted services due to growth in data center and managed service revenue, and increased data center facilities costs.

The increase in selling, general, and administrative expenses for 2007 was primarily due to an increase in labor and employee related costs associated with increased headcount to support the growing operations.

The increase in depreciation expense for 2007 compared to 2006 was primarily due to capital expenditures associated with expanding data center capacity.

Amortization expense results from the allocation of a portion of the purchase price to the customer relationship intangible asset associated with the ATI acquisition in May 2006. See Note 5 to the Consolidated Financial Statements.

Restructuring expenses for 2007 were primarily due to the restructuring plan announced in the fourth quarter of 2007 to reduce costs and increase operational efficiencies. See Note 3 to the Consolidated Financial Statements for further discussions.

2006 Compared to 2005

Revenue

Revenue from telecom and IT equipment distribution increased by $35.5 million in 2006 versus 2005 mainly due to the addition of new products for resale and the acquisition of ATI. See Note 5 to Consolidated Financial Statements.

Data center and managed services revenue increased $10.3 million versus 2005 mainly due to both increased product penetration within managed services and increased billable data center space. CBTS had a billed utilization rate of 91% with approximately 91,000 square feet of billable data center capacity at December 31, 2006 compared to a billed utilization rate of 99% with approximately 71,000 square feet of billable data center capacity at December 31, 2005.

Professional services revenue declined by $1.9 million versus 2005 mainly due to the transfer of the Company s internal IT support group to CBT and a pricing decrease associated with the renegotiation of a major long-term contract.

Costs and Expenses

Cost of services and products increased by $35.7 million in 2006 versus 2005. The increase results from a $28.4 million increase in cost of goods sold mainly due to the increased IT and equipment sales, a $5.0 million increase in payroll an