CINCINNATI BELL INC
Form 10-Q
May 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2008

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

Commission File Number 1-8519

CINCINNATI BELL INC.

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

221 East Fourth Street, Cincinnati, Ohio 45202

(Address of principal executive offices) (Zip Code)

(513) 397-9900

(Registrant s telephone number, including area code)

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

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 definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x Non-accelerated filer ¨ 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

At May 1, 2008, there were 242,956,757 common shares outstanding and 155,250 shares of 6 $^{3}/4$% Cumulative Convertible Preferred Stock outstanding.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue		
Services	$ 297.2	$ 282.0
Products	51.3	33.3
Total revenue	348.5	315.3
Costs and expenses		
Cost of services, excluding depreciation	106.5	96.6
Cost of products sold, excluding depreciation	52.3	36.5
Selling, general and administrative	70.1	65.5
Depreciation	36.1	35.4
Amortization	1.2	0.9
Restructuring charges	24.0	2.5
Asset impairment	1.2	
Total operating costs and expenses	291.4	237.4
Operating income	57.1	77.9
Interest expense	36.3	40.1
Other income, net	(1.2)	(2.0)
Income before income taxes	22.0	39.8
Income tax expense	9.1	17.2
Net income	12.9	22.6
Preferred stock dividends	2.6	2.6
Net income applicable to common shareowners	$ 10.3	$ 20.0
Basic and diluted earnings per common share	$ 0.04	$ 0.08
Weighted average common shares outstanding (in millions)		
Basic	246.7	247.1
Diluted	252.8	255.0

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

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Form 10-Q Part I | Cincinnati Bell Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

	March 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 19.3	$ 26.1
Receivables, less allowances of $16.6 and $17.1	171.5	176.5
Inventory, materials and supplies	26.0	31.2
Deferred income tax benefits, net	76.0	72.8
Prepaid expenses and other current assets	17.6	11.1
Total current assets	310.4	317.7
Property, plant and equipment, net	952.7	933.7
Goodwill	69.1	62.4
Intangible assets, net	128.0	121.2
Deferred income tax benefits, net	504.0	523.4
Other noncurrent assets	70.0	61.2
Total assets	$ 2,034.2	$ 2,019.6
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	$ 8.1	$ 7.8
Accounts payable	91.1	105.5
Unearned revenue and customer deposits	47.6	47.4
Accrued taxes	21.4	15.2
Accrued interest	26.9	49.4
Accrued payroll and benefits	39.6	44.8
Other current liabilities	43.6	47.5
Total current liabilities	278.3	317.6
Long-term debt, less current portion	2,019.0	2,001.9
Accrued pension and postretirement benefits	314.6	291.7
Other noncurrent liabilities	82.6	76.0
Total liabilities	2,694.5	2,687.2
Shareowners deficit		
Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depositary shares) of 6 3/4% Cumulative Convertible Preferred Stock issued and outstanding at March 31, 2008 and December 31, 2007; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 256,855,282 and 256,652,787 shares issued; 244,330,131 and 248,357,332 outstanding at March 31, 2008 and December 31, 2007	2.6	2.6
Additional paid-in capital	2,921.5	2,922.7
Accumulated deficit	(3,446.2)	(3,459.1)
Accumulated other comprehensive loss	(103.2)	(115.9)

Common shares in treasury, at cost: 12,525,151 and 8,295,455 shares at March 31, 2008 and December 31, 2007	(164.4)	(147.3)
Total shareowners deficit	(660.3)	(667.6)
Total liabilities and shareowners deficit	$ 2,034.2	$ 2,019.6

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

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Form 10-Q Part I Cincinnati Bell Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities		
Net income	$ 12.9	$ 22.6
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	36.1	35.4
Amortization	1.2	0.9
Provision for loss on receivables	4.3	3.4
Noncash interest expense	1.2	1.3
Deferred income tax expense, including valuation allowance change	8.8	16.1
Pension and other postretirement expense in excess of payments	42.8	8.8
Other, net	1.4	0.1
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease in receivables	2.6	18.1
Increase in inventory, materials, supplies, prepaids and other current assets	(0.3)	(8.9)
Increase (decrease) in accounts payable	(7.3)	4.1
Decrease in accrued and other current liabilities	(25.6)	(33.2)
Decrease in other long-term assets	3.0	0.4
Increase (decrease) in other long-term liabilities	6.9	(0.8)
Net cash provided by operating activities	88.0	68.3
Cash flows from investing activities		
Capital expenditures	(60.7)	(42.3)
Acquisitions of businesses	(18.7)	(4.6)
Other, net	(0.7)	(0.5)
Net cash used in investing activities	(80.1)	(47.4)
Cash flows from financing activities		
Increase in corporate credit facility, net	45.0	
Repayment of debt	(40.0)	(51.3)
Preferred stock dividends	(2.6)	(2.6)
Common stock repurchase	(16.7)	
Other, net	(0.4)	(0.5)
Net cash used in financing activities	(14.7)	(54.4)
Net decrease in cash and cash equivalents	(6.8)	(33.5)
Cash and cash equivalents at beginning of year	26.1	79.4
Cash and cash equivalents at end of period	$ 19.3	$ 45.9

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Accounting Policies

The following represents a summary of the business and accounting policies of Cincinnati Bell Inc. (the Company). A more detailed presentation can be found in the Company s 2007 Annual Report on Form 10-K.

Description of Business The Company provides diversified telecommunications services through businesses in three segments: Wireline, Wireless and Technology Solutions. During the second quarter of 2007, the Company realigned its reportable business segments to be consistent with changes to its management structure and reporting. Refer to Note 8 for further discussion concerning the Company s segments.

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

The adjustments referred to above are of a normal and recurring nature. Certain prior year amounts have been reclassified to conform to the current classifications with no effect on results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to SEC rules and regulations.

The Condensed Consolidated Balance Sheet as of December 31, 2007 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These Condensed Consolidated Financial Statements should be read in conjunction with the Company s 2007 Annual Report on Form 10-K. Operating results for the three month period ended March 31, 2008 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2008.

Income Taxes The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and local jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state or local examinations for years before 2004. The IRS has completed its examination of the 2004 and 2005 tax years while 2006 is still under audit.

The Company has a $14.7 million liability at March 31, 2008 for unrecognized tax benefits and had a $14.8 million liability recorded at December 31, 2007 . The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $14.4 million. The Company does not currently anticipate that the amount of unrecognized tax benefits will change significantly over the next year.

The Company recognizes accrued penalties related to unrecognized tax benefits in income tax expense. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense. Accrued interest and penalties are insignificant at March 31, 2008 and December 31, 2007.

Regulatory Taxes The Company incurs federal regulatory taxes on certain revenue producing transactions. The Company is permitted to recover certain of these taxes by billing the customer; however, collections cannot exceed the amount due to the federal regulatory agency. These federal regulatory taxes are presented in sales and cost of services on a gross basis because, while the Company is required to pay the tax, it is not required to collect the tax from customers. The amount recorded as revenue was $3.7 million for both the three months ended March 31, 2008 and March 31, 2007. The amount expensed for the three months ended March 31, 2008 was $3.9 million and for the three months ended March 31, 2007 was $4.2 million. The Company records all other taxes collected from customers on a net basis.

Stock-Based Compensation The Company values all share-based payments to employees at fair value on the date of grant and expenses this value over the applicable vesting period. The Company s policy for graded vesting awards is to recognize compensation expense on a straight-line basis over the vesting period. For all share-based payments, an assumption is made for an estimated forfeiture rate based on the historical behavior of employees. The Company s practice has generally been to make its annual grant of stock options and time-based restricted awards in December and annual performance-based awards in the first quarter. In addition, the Company also has historically granted a smaller number of stock-based awards at various times during the year for new employees, promotions and performance achievements.

Stock options

The following table summarizes stock option activity for the three months ended March 31, 2008:

(in thousands, except per share amounts)	Shares	Weighted-Average Exercise Prices Per Share	Weighted-Average Contractual Life in Years
Options outstanding at January 1, 2008	20,625	$ 10.76	4.6
Granted	712	3.81	
Exercised	(58)	3.86	
Forfeited			
Expired	(1,064)	10.87	
Options outstanding at March 31, 2008	20,215	$ 10.52	4.7
Options exercisable at March 31, 2008	17,866	$ 11.31	4.1

During the three months ended March 31, 2008, the Company granted performance-based options, which vest over four years upon the achievement of certain performance-based objectives. The Company recognized compensation expense of $0.4 million related to stock options for the three months ended March 31, 2008 and $0.2 million of compensation expense for the three months ended March 31, 2007. As of March 31, 2008, there was $3.0 million of unrecognized compensation expense related to non-vested stock options. This expense is expected to be recognized over a weighted average period of approximately two years. At March 31, 2008, the aggregate intrinsic value of stock options outstanding and exercisable was approximately $3.0 million and $2.6 million, respectively.

The weighted average fair values at the date of grant were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended March 31,	
	2008	2007
Expected volatility	31.3%	29.2%
Risk-free interest rate	2.8%	4.6%
Expected holding period - years	5	5
Expected dividends	0.0%	0.0%
Weighted-average grant date fair value	$ 1.24	$ 1.59

The expected volatility assumption used in the Black-Scholes pricing model was based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected holding period was estimated using the historical exercise behavior of employees and adjusted for abnormal activity. Expected dividends are based on the Company s history of paying dividends, as well as restrictions in place under the Company s debt covenants.

Performance-based awards

(in thousands, except per share amounts)	Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2008	2,932	$ 4.75
Granted*	1,438	3.98
Vested	(550)	4.51
Forfeited	(489)	4.30
Non-vested at March 31, 2008	3,331	$ 4.52

* Assumes the maximum number of awards that can be earned if the performance conditions are achieved.

Awards granted generally vest over three to four years and upon the achievement of certain performance-based objectives. The Company recognized expense for performance-based awards of $1.3 million for the three months ended March 31, 2008, and $0.4 million of expense for the three months ended March 31, 2007. As of March 31, 2008, there was $8.7 million of unrecognized compensation expense related to performance-based awards. This expense is expected to be recognized over a weighted average period of approximately two years.

Time-based restricted awards

(in thousands, except per share amounts)	Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested as of January 1, 2008	375	$ 4.87
Granted		
Vested	(1)	4.83
Forfeited	(11)	4.81
Non-vested at March 31, 2008	363	$ 4.87

Awards granted generally vest in one-third increments over a period of three years. The Company recognized expense of $0.1 million related to time-based restricted awards for both the three months ended March 31, 2008 and March 31, 2007. As of March 31, 2008, there was $1.2 million of unrecognized compensation expense related to these shares. This expense is expected to be recognized over a weighted average period of approximately two years.

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Recently Issued Accounting Standards Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, was issued in September 2006. The objective of the Statement is to define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements. The Company has adopted the provisions of SFAS No. 157 related to financial instruments as of January 1, 2008. Per FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, implementation of SFAS No. 157 to non-financial assets and liabilities has been deferred until interim and annual periods beginning after November 15, 2008.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 - defined as observable inputs such as quoted prices in active markets;

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and

Level 3 - Unobservable inputs that reflect the Company s determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including the Company s own data.

At March 31, 2008, the Company has financial instruments that are required to be measured at fair value on a recurring basis as follows:

Money market funds presented as cash equivalents of $15.2 million Level 1

Interest rate swap agreements of $16.1 million Level 2

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, was issued in February 2007. The Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company did not elect the fair value measurement option for any of its financial assets or liabilities.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, was issued in December 2007. SFAS No. 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under SFAS No. 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity, net income will encompass the total income of all consolidated subsidiaries, and there will be separate disclosure on the face of the income statement of the attribution of income between the controlling and noncontrolling interests, and increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. SFAS No. 160 will be effective for the first fiscal year beginning on or after December 15, 2008, and earlier application is prohibited. SFAS No. 160 is required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent s shareholders equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. The Company has not yet assessed the impact of this Statement on the Company s financial statements.

SFAS No. 141(R), Business Combinations, was issued in December 2007. SFAS No. 141(R) requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be presented at fair value at the acquisition date and included on that basis in the purchase price consideration, and transaction costs will be expensed as incurred. SFAS No. 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS No. 141(R) amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination

or directly in contributed capital, depending on the circumstances. SFAS No. 141(R) is effective for the first fiscal year beginning after December 15, 2008. The Company has not yet assessed the impact of this Statement on the Company s financial statements.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, was issued in March 2008. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company has not yet assessed the impact of this Statement on the Company s financial statements.

2. Acquisitions of Businesses

eGIX, Inc.

In February 2008, the Company purchased eGIX Inc. (eGIX), a Competitive Local Exchange Carrier provider of voice and long distance services to business customers in Indiana and Illinois, for an upfront purchase price of $17.9 million and contingent consideration up to $5.2 million. The Company funded the purchase with its Corporate credit facility. The purchase price was primarily allocated to customer relationship intangible assets for $7 million, goodwill for $6 million, and property, plant and equipment for $5 million. The Company anticipates both the goodwill and intangible assets to be fully deductible for tax purposes. The financial results have been included in the Wireline segment and were immaterial to the Company s financial statements for the three months ended March 31, 2008. The preliminary purchase price allocation for this transaction may be adjusted upon completion of the Company s valuation of the related assets and liabilities of the business.

CenturyTel

In March 2008, the Company entered into a definitive purchase agreement to acquire the Dayton, Ohio operations of CenturyTel for a purchase price of $1.5 million. The purchase includes access lines to small and medium-size customers and fiber network throughout the Dayton metro area. The Company expects to complete the transaction in the second quarter of 2008.

3. Earnings Per Common Share

Basic earnings per common share (EPS) is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if common stock equivalents were exercised or converted to common stock but only to the extent that they are considered dilutive to the Company s earnings. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the following periods:

(in millions, except per share amounts)	**Three Months Ended March 31, 2008**	**2007**
Numerator:		
Net income	$ 12.9	$ 22.6
Preferred stock dividends	2.6	2.6
Numerator for basic and diluted EPS	$ 10.3	$ 20.0
Denominator:		
Denominator for basic EPS - weighted average common shares outstanding	246.7	247.1
Warrants	4.6	6.3
Stock-based compensation arrangements	1.5	1.6
Denominator for diluted EPS	252.8	255.0
Basic and diluted earnings per common share	$ 0.04	$ 0.08
Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	39.7	35.7

4. Comprehensive Income

(dollars in millions)	**Three Months Ended March 31, 2008**	**2007**
Net income	$ 12.9	$ 22.6
Amortization of pension and postretirement costs, net of income taxes of $1.2 and $2.2, respectively	2.1	3.7
Remeasurement of pension and postretirement liabilities, net of income taxes of $6.1	10.6	
Comprehensive income	$ 25.6	$ 26.3

5. Debt

The Company s debt consists of the following:

(dollars in millions)	March 31, 2008	December 31, 2007
Current portion of long-term debt:		
Credit facility, Tranche B Term Loan	$ 4.0	$ 4.0
Capital lease obligations and other debt	4.1	3.8
Current portion of long-term debt	8.1	7.8
Long-term debt, less current portion:		
Credit facility, revolver	100.0	55.0
Credit facility, Tranche B Term Loan	206.0	207.0
7 1/4% Senior Notes due 2013	470.5	470.5
8 3/8% Senior Subordinated Notes due 2014*	605.4	637.4
7% Senior Notes due 2015*	256.0	250.6
7 1/4% Senior Notes due 2023	50.0	50.0
Accounts Receivable Securitization Facility	75.0	75.0
Various Cincinnati Bell Telephone notes	230.0	230.0
Capital lease obligations and other debt	25.5	25.8
	2,018.4	2,001.3
Net unamortized premiums	0.6	0.6
Long-term debt, less current portion	2,019.0	2,001.9
Total debt	$ 2,027.1	$ 2,009.7

* The face amount of these notes has been adjusted for the fair value of interest rate swaps classified as fair value derivatives at March 31, 2008 and December 31, 2007.

In the first quarter of 2008, the Company purchased and extinguished $39.6 million of 8 3/8 % Senior Subordinated Notes due 2014 and recognized a gain on extinguishment of debt of $1.1 million, which is included in Other income, net on the Condensed Consolidated Statement of Operations.

In March 2007, the Company and certain subsidiaries entered into an accounts receivable securitization facility. Under the receivables facility, certain subsidiaries sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC (CBF). Although CBF is a wholly-owned consolidated subsidiary of the Company, CBF is legally separate from the Company and each of the Company s other subsidiaries. Upon and after the sale or contribution of the accounts receivable to CBF, such accounts receivable are legally assets of CBF, and as such are not available to creditors of other subsidiaries or the parent company.

6. Restructuring Charges

Restructuring reserve (dollars in millions):	Balance December 31, 2007	Income	Expense	Utilizations	Balance March 31, 2008
2007-2008 plan	$ 22.9	$ (14.4)	$	$ (0.2)	$ 8.3
2001 plan	6.2		0.1	(0.2)	6.1

2007-2008 Restructuring

In the fourth quarter of 2007, the Company announced a restructuring plan to reduce costs and increase operational efficiencies. As a result, the Company incurred fourth quarter 2007 restructuring charges totaling $37.5 million and first quarter 2008 restructuring charges totaling $23.9 million, composed of the following:

Special termination pension and postretirement benefits The Company offered and, by December 31, 2007, 105 management employees accepted special termination benefits totaling $12 million. The Company determined that $8.2 million of these benefits had been earned through December 31, 2007 under SFAS No. 88, and this amount was therefore accrued as of December 31, 2007. In the first quarter of 2008, the Company reached agreement with its union workforce on a new three-year labor agreement. As part of this agreement, the Company offered and, by March 31, 2008, 284 union employees accepted special termination benefits totaling $25 million. The Company determined that $22.1 million of these benefits had been earned through March 31, 2008 and this amount was therefore accrued as of March 31, 2008. Remaining special termination benefits for both union and management employees are subject to future service requirements as determined by the Company and will be amortized to expense over the future service period. The Company estimates these amounts to be approximately $5 million for 2008, which includes $0.7 million expensed in the first quarter of 2008 for management employees, and $2 million for 2009.

Employee separation benefits In the fourth quarter of 2007, the Company determined a need to reduce its headcount over the next five years to conform its Wireline operations to the decreased access lines being served by the Company. In the fourth quarter of 2007, the Company recorded severance liabilities of $22.9 million, based on the Company s probable and estimable liabilities under its written severance plans, to reduce headcount to planned levels. The number of employees included in this severance liability considered, and was reduced for, management retirements to occur as a result of the special termination pension and postretirement benefits accepted as of December 31, 2007. However, the union retirements to occur as a result of the special termination pension and postretirement benefits agreed to in the first quarter 2008 were not considered in calculating the December 31, 2007 severance liability because this agreement did not occur until after December 31, 2007. As a result of 284 union employees accepting the special termination benefits in the first quarter 2008, expense for special termination benefits increased by $22.1 million in the first quarter of 2008 as noted above, but this caused an offsetting reduction to the number of employees to be terminated through severance, and reduced the Company s severance liability by $14.4 million.

Pension and postretirement curtailment charges Management terminations contemplated above represent 10% of plan service years for the management pension plan and 15% of plan service years for the management postretirement plan, resulting in a pension and postretirement plan curtailment charge of $6.4 million in the fourth quarter of 2007. Union terminations contemplated above represent approximately 11% of the plan service years for both the pension and postretirement plans, resulting in a curtailment charge of $15.5 million for the pension and postretirement plans in the first quarter of 2008. See Note 7 to the Condensed Consolidated Financial Statements for further discussion relating to the curtailment charge.

The first quarter 2008 restructuring expense was associated with the Wireline segment for $23.2 million, Wireless for $0.4 million and Technology Solutions for $0.3 million. The restructuring reserve included in Other current liabilities, was $1.7 million and $4.5 million, respectively, at March 31, 2008 and December 31, 2007, and $6.6 million and $18.4 million was included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheets at March 31, 2008 and December 31, 2007, respectively. The special termination benefits and curtailment charges are included in Accrued pension and postretirement benefits in the Condensed Consolidated Balance Sheet at March 31, 2008.

2001 Restructuring

In 2001, the Company adopted a restructuring plan which included initiatives to consolidate data centers, reduce the Company s expense structure, exit the network construction business, eliminate other non-strategic operations, and merge the digital subscriber line and certain dial-up Internet operations into the Company s other operations. The Company completed the plan as of December 31, 2002, except for certain

lease obligations, which are expected to continue through June 2015.

At March 31, 2008 and December 31, 2007, $1.3 million of the reserve balance was included in Other current liabilities in the Condensed Consolidated Balance Sheets. The reserve included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheets was $4.8 million and $4.9 million at March 31, 2008 and December 31, 2007, respectively.

7. Pensions and Postretirement Plans

The following information relates to all Company noncontributory defined benefit pension plans, postretirement health care, and life insurance benefit plans.

As a result of the acceptance of special termination benefits by certain retirement eligible union employees in the first quarter of 2008 (see Note 6), the Company determined a curtailment charge associated with its union pension and postretirement plans was required due to the significant decrease in the expected future service years. The curtailment charge for the pension and the postretirement plans in the first quarter of 2008 consisted of both an increase in the benefit obligation of $2.2 million and $12.5 million and the acceleration of unrecognized prior service cost of $0.9 million and $(0.1) million, respectively. The management pension and postretirement plans were unaffected in the first quarter of 2008.

As a result of the new union labor agreement (see Note 6) and curtailment in the first quarter of 2008, the Company remeasured its union pension and postretirement obligations using revised assumptions, including modified retiree benefit payment assumptions and a discount rate of 6.40%. As a result of the remeasurement, the Company s pension and postretirement obligations were reduced by approximately $17 million, deferred tax assets were reduced for the related tax effect by $6 million, and equity was increased by $11 million.

Pension and postretirement benefit costs are as follows:

	Pension Benefits		Postretirement and Other Benefits	
	Three Months Ended March 31,			
(dollars in millions)	**2008**	**2007**	**2008**	**2007**
Service cost	$ 2.3	$ 2.1	$ 0.6	$ 0.9
Interest cost on projected benefit obligation	6.9	7.0	4.8	5.2
Expected return on plan assets	(8.8)	(8.2)	(0.5)	(1.0)
Amortization of:				
Transition obligation			0.9	1.1
Prior service cost	0.1	0.8	0.5	1.9
Actuarial loss	0.7	1.0	1.0	1.1
Special termination benefit	22.6		0.2	
Curtailment charge	3.1		12.4	
	$ 26.9	$ 2.7	$ 19.9	$ 9.2

8. Business Segment Information

Beginning in the second quarter of 2007, the Company realigned its reportable business segments to be consistent with changes to its management structure and reporting. The Company now operates in three segments: Wireline, Wireless and Technology Solutions. 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. Prior year amounts have been reclassified to conform to the current segment reporting.

Certain corporate administrative expenses have been allocated to segments based upon the nature of the expense and the relative size of the segment.

The Company s business segment information is as follows:

(dollars in millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue		
Wireline	$ 202.6	$ 203.7
Wireless	78.5	68.5
Technology Solutions	74.7	48.5
Intersegment	(7.3)	(5.4)
Total revenue	$ 348.5	$ 315.3
Intersegment revenue		
Wireline	$ 5.9	$ 4.6
Wireless	0.8	0.6
Technology Solutions	0.6	0.2
Total intersegment revenue	$ 7.3	$ 5.4
Operating income		
Wireline	$ 46.7	$ 72.1
Wireless	12.3	7.5
Technology Solutions	3.2	2.5
Corporate	(5.1)	(4.2)
Total operating income	$ 57.1	$ 77.9

	March 31, 2008	December 31, 2007
Assets		
Wireline	$ 697.4	$ 684.5
Wireless	369.9	369.3
Technology Solutions	258.8	243.2
Corporate and eliminations	708.1	722.6
Total assets	$ 2,034.2	$ 2,019.6

9. Supplemental Guarantor Information
Cincinnati Bell Telephone Notes

Cincinnati Bell Telephone Company LLC (CBT), a wholly-owned subsidiary of Cincinnati Bell Inc. (the Parent Company or CBI), has $230 million in notes outstanding that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. The Parent Company s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company s debt service obligations. Separately, in connection with a fifteen year contract for 25,000 square feet of data center space between Cincinnati Bell Technology Solutions Inc. (CBTS), a non-guarantor subsidiary of CBI, and a data center customer, CBI has guaranteed the performance obligations of CBTS in relation to providing the data center space and managed services under that long-term contract.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2008 and 2007 and Condensed Consolidating Balance Sheets of the Company as of March 31, 2008 and December 31, 2007 of (1) the Parent Company, as the guarantor (2) Cincinnati Bell Telephone Company LLC, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis:

Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2008				
(dollars in millions)	Parent (Guarantor)	CBT	Other (Non -guarantors)	Eliminations	Total
Revenue	$	$ 181.3	$ 179.2	$ (12.0)	$ 348.5
Operating costs and expenses	4.9	141.1	157.4	(12.0)	291.4
Operating income (loss)	(4.9)	40.2	21.8		57.1
Interest expense	31.9	3.6	6.0	(5.2)	36.3
Other expense (income), net	(6.8)	2.1	(1.7)	5.2	(1.2)
Income (loss) before income taxes	(30.0)	34.5	17.5		22.0
Income tax expense (benefit)	(9.0)	12.8	5.3		9.1
Equity in earnings of subsidiaries, net of tax	33.9			(33.9)	
Net income	12.9	21.7	12.2	(33.9)	12.9
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 10.3	$ 21.7	$ 12.2	$ (33.9)	$ 10.3

	Three Months Ended March 31, 2007				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Revenue	$	$ 187.3	$ 137.4	$ (9.4)	$ 315.3
Operating costs and expenses	4.6	121.3	120.9	(9.4)	237.4
Operating income (loss)	(4.6)	66.0	16.5		77.9
Interest expense	36.5	4.1	7.0	(7.5)	40.1
Other expense (income), net	(10.0)		0.5	7.5	(2.0)
Income (loss) before income taxes	(31.1)	61.9	9.0		39.8
Income tax expense (benefit)	(8.3)	22.0	3.5		17.2
Equity in earnings of subsidiaries, net of tax	45.4			(45.4)	

Net income	22.6	39.9	5.5	(45.4)	22.6
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 20.0	$ 39.9	$ 5.5	$ (45.4)	$ 20.0

Condensed Consolidating Balance Sheets

(dollars in millions)	As of March 31, 2008 Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	$ 15.8	$ 2.5	$ 1.0	$	$ 19.3
Receivables, net	0.8		170.7		171.5
Other current assets	23.1	30.2	93.1	(26.8)	119.6
Total current assets	39.7	32.7	264.8	(26.8)	310.4
Property, plant and equipment, net	0.3	582.8	369.6		952.7
Goodwill and intangibles, net		3.3	193.8		197.1
Investments in and advances to subsidiaries	1,053.8			(1,053.8)	
Other noncurrent assets	318.2	17.9	257.0	(19.1)	574.0
Total assets	$ 1,412.0	$ 636.7	$ 1,085.2	$ (1,099.7)	$ 2,034.2
Current portion of long-term debt	$ 4.0	$ 0.6	$ 3.5	$	$ 8.1
Accounts payable		34.7	56.4		91.1
Other current liabilities	60.2	66.2	53.8	(1.1)	179.1
Total current liabilities	64.2	101.5	113.7	(1.1)	278.3
Long-term debt, less current portion	1,688.9	235.5	94.6		2,019.0
Other noncurrent liabilities	319.2	40.4	82.4	(44.8)	397.2
Intercompany payables		28.6	464.1	(492.7)	
Total liabilities	2,072.3	406.0	754.8	(538.6)	2,694.5
Shareowners equity (deficit)	(660.3)	230.7	330.4	(561.1)	(660.3)
Total liabilities and shareowners equity (deficit)	$ 1,412.0	$ 636.7	$ 1,085.2	$ (1,099.7)	$ 2,034.2

	As of December 31, 2007 Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash and cash equivalents	$ 23.6	$ 1.9	$ 0.6	$	$ 26.1
Receivables, net	0.1		176.4		176.5
Other current assets	14.9	28.5	90.0	(18.3)	115.1
Total current assets	38.6	30.4	267.0	(18.3)	317.7
Property, plant and equipment, net	0.3	590.1	343.3		933.7
Goodwill and intangibles, net		3.4	180.2		183.6
Investments in and advances to subsidiaries	1,036.4			(1,036.4)	
Other noncurrent assets	319.8	16.0	279.9	(31.1)	584.6
Total assets	$ 1,395.1	$ 639.9	$ 1,070.4	$ (1,085.8)	$ 2,019.6
Current portion of long-term debt	$ 4.0	$ 0.6	$ 3.2	$	$ 7.8
Accounts payable		40.7	64.8		105.5
Other current liabilities	90.8	65.1	48.4		204.3

Total current liabilities	94.8	106.4	116.4		317.6
Long-term debt, less current portion	1,671.4	235.6	94.9		2,001.9
Other noncurrent liabilities	296.5	61.2	59.4	(49.4)	367.7
Intercompany payables		14.2	472.0	(486.2)	
Total liabilities	2,062.7	417.4	742.7	(535.6)	2,687.2
Shareowners equity (deficit)	(667.6)	222.5	327.7	(550.2)	(667.6)
Total liabilities and shareowners equity (deficit)	$ 1,395.1	$ 639.9	$ 1,070.4	$ (1,085.8)	$ 2,019.6

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Condensed Consolidating Statements of Cash Flows

(dollars in millions)	Three Months Ended March 31, 2008				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by (used in) operating activities	$ (10.3)	$ 21.1	$ 77.2	$	$ 88.0
Capital expenditures	(0.2)	(20.3)	(40.2)		(60.7)
Acquisitions of businesses		(0.8)	(17.9)		(18.7)
Other investing activities	(0.3)	0.1	(0.5)		(0.7)
Cash flows used in investing activities	(0.5)	(21.0)	(58.6)		(80.1)
Funding between Parent and subsidiaries, net	16.7	0.6	(17.3)		
Increase in corporate credit facility, net	45.0				45.0
Repayment of debt	(39.0)	(0.1)	(0.9)		(40.0)
Common stock repurchase	(16.7)				(16.7)
Other financing activities	(3.0)				(3.0)
Cash flows provided by (used in) financing activities	3.0	0.5	(18.2)		(14.7)
Increase (decrease) in cash and cash equivalents	(7.8)	0.6	0.4		(6.8)
Beginning cash and cash equivalents	23.6	1.9	0.6		26.1
Ending cash and cash equivalents	$ 15.8	$ 2.5	$ 1.0	$	$ 19.3

	Three Months Ended March 31, 2007				
	Parent (Guarantor)	CBT	Other (Non-guarantors)	Eliminations	Total
Cash flows provided by (used in) operating activities	$ (46.9)	$ 65.0	$ 50.2	$	$ 68.3
Capital expenditures		(23.1)	(19.2)		(42.3)
Acquisition of business		(4.6)			(4.6)
Other investing activities			(0.5)		(0.5)
Cash flows used in investing activities		(27.7)	(19.7)		(47.4)
Funding between Parent and subsidiaries, net	67.9	(36.9)	(31.0)		
Repayment of debt	(51.0)	(0.3)			(51.3)
Other financing activities	(3.1)	(0.1)	0.1		(3.1)
Cash flows provided by (used in) financing activities	13.8	(37.3)	(30.9)		(54.4)
Decrease in cash and cash equivalents	(33.1)		(0.4)		(33.5)
Beginning cash and cash equivalents	75.9	1.5	2.0		79.4
Ending cash and cash equivalents	$ 42.8	$ 1.5	$ 1.6	$	$ 45.9

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Form 10-Q Part I Cincinnati Bell Inc.

7 1/ 4% Senior Notes Due 2013, 7% Senior Notes Due 2015, and 8 3/8% Senior Subordinated Notes Due 2014

The Company s 7 1/4% Senior Notes due 2013, 7% Senior Notes due 2015, and 8 3/8% Senior Subordinated Notes due 2014 are guaranteed by the following subsidiaries: Cincinnati Bell Entertainment Inc. (f/k/a ZoomTown.com Inc.), Cincinnati Bell Complete Protection Inc., Cincinnati Bell Any Distance Inc., Cincinnati Bell Telecommunication Services LLC, Cincinnati Bell Wireless Company, Cincinnati Bell Wireless LLC, GramTel USA, Inc. (f/k/a BCSIVA Inc.), BRCOM Inc., CBTS, and IXC Internet Services Inc. The Parent Company owns directly or indirectly 100% of each guarantor and each guarantee is full and unconditional and joint and several. The Parent Company s subsidiaries generate substantially all of its income and cash flow and generally distribute or advance the funds necessary to meet the Parent Company s debt service obligations. Separately, in connection with a fifteen year contract for 25,000 square feet of data center space between CBTS, a guarantor subsidiary of these CBI notes, and a data center customer, CBI has guaranteed the performance obligations of CBTS in relation to providing the data center space and managed services under that long-term contract.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2008 and 2007 and the Condensed Consolidating Balance Sheets of the Company as of March 31, 2008 and December 31, 2007 of (1) the Parent Company, as the issuer (2) the guarantor subsidiaries on a combined basis and (3) the non-guarantor subsidiaries on a combined basis.

Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2008				
(dollars in millions)	**Parent (Issuer)**	**Guarantors**	**Non-guarantors**	**Eliminations**	**Total**
Revenue	$	$ 191.0	$ 169.5	$ (12.0)	$ 348.5
Operating costs and expenses	4.9	178.3	120.2	(12.0)	291.4
Operating income (loss)	(4.9)	12.7	49.3		57.1
Interest expense	31.9	4.6	5.0	(5.2)	36.3
Other expense (income), net	(6.8)	0.4		5.2	(1.2)
Income (loss) before income taxes	(30.0)	7.7	44.3		22.0
Income tax expense (benefit)	(9.0)	1.7	16.4		9.1
Equity in earnings of subsidiaries, net of tax	33.9			(33.9)	
Net income	12.9	6.0	27.9	(33.9)	12.9
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 10.3	$ 6.0	$ 27.9	$ (33.9)	$ 10.3

	Three Months Ended March 31, 2007				
	Parent (Issuer)	**Guarantors**	**Non-guarantors**	**Eliminations**	**Total**
Revenue	$	$ 152.5	$ 172.2	$ (9.4)	$ 315.3
Operating costs and expenses	4.6	135.6	106.6	(9.4)	237.4
Operating income (loss)	(4.6)	16.9	65.6		77.9
Interest expense	36.5	7.0	4.1	(7.5)	40.1
Other expense (income), net	(10.0)		0.5	7.5	(2.0)
Income (loss) before income taxes	(31.1)	9.9	61.0		39.8
Income tax expense (benefit)	(8.3)	2.7	22.8		17.2

Equity in earnings of subsidiaries, net of tax	45.4			(45.4)	
Net income	22.6	7.2	38.2	(45.4)	22.6
Preferred stock dividends	2.6				2.6
Net income applicable to common shareowners	$ 20.0	$ 7.2	$ 38.2	$ (45.4)	$ 20.0

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Balance Sheets

	As of March 31, 2008				
(dollars in millions)	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	$ 15.8	$ 1.2	$ 2.3	$	$ 19.3
Receivables, net	0.8	60.2	110.5		171.5
Other current assets	23.1	90.6	32.7	(26.8)	119.6
Total current assets	39.7	152.0	145.5	(26.8)	310.4
Property, plant and equipment, net	0.3	371.3	581.1		952.7
Goodwill and intangibles, net		193.8	3.3		197.1
Investments in and advances to subsidiaries	1,053.8	16.8		(1,070.6)	
Other noncurrent assets	318.2	258.1	16.8	(19.1)	574.0
Total assets	$ 1,412.0	$ 992.0	$ 746.7	$ (1,116.5)	$ 2,034.2
Current portion of long-term debt	$ 4.0	$ 3.5	$ 0.6	$	$ 8.1
Accounts payable		86.7	4.4		91.1
Other current liabilities	60.2	56.2	63.8	(1.1)	179.1
Total current liabilities	64.2	146.4	68.8	(1.1)	278.3
Long-term debt, less current portion	1,688.9	19.6	310.5		2,019.0
Other noncurrent liabilities	319.2	89.4	33.4	(44.8)	397.2
Intercompany payables		429.7	79.8	(509.5)	
Total liabilities	2,072.3	685.1	492.5	(555.4)	2,694.5
Shareowners equity (deficit)	(660.3)	306.9	254.2	(561.1)	(660.3)
Total liabilities and shareowners equity (deficit)	$ 1,412.0	$ 992.0	$ 746.7	$ (1,116.5)	$ 2,034.2

	As of December 31, 2007				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash and cash equivalents	$ 23.6	$ 0.8	$ 1.7	$	$ 26.1
Receivables, net	0.1	61.3	115.1		176.5
Other current assets	14.9	87.1	31.4	(18.3)	115.1
Total current assets	38.6	149.2	148.2	(18.3)	317.7
Property, plant and equipment, net	0.3	345.2	588.2		933.7
Goodwill and intangibles, net		180.2	3.4		183.6
Investments in and advances to subsidiaries	1,036.4	26.8		(1,063.2)	
Other noncurrent assets	319.8	278.8	17.1	(31.1)	584.6
Total assets	$ 1,395.1	$ 980.2	$ 756.9	$ (1,112.6)	$ 2,019.6
Current portion of long-term debt	$ 4.0	$ 3.2	$ 0.6	$	$ 7.8
Accounts payable		98.7	6.8		105.5
Other current liabilities	90.8	51.2	62.3		204.3

Total current liabilities	94.8	153.1	69.7		317.6
Long-term debt, less current portion	1,671.4	19.9	310.6		2,001.9
Other noncurrent liabilities	296.5	66.6	54.0	(49.4)	367.7
Intercompany payables		430.2	82.8	(513.0)	
Total liabilities	2,062.7	669.8	517.1	(562.4)	2,687.2
Shareowners equity (deficit)	(667.6)	310.4	239.8	(550.2)	(667.6)
Total liabilities and shareowners equity (deficit)	$ 1,395.1	$ 980.2	$ 756.9	$ (1,112.6)	$ 2,019.6

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Form 10-Q Part I Cincinnati Bell Inc.

Condensed Consolidating Statements of Cash Flows

	Three Months Ended March 31, 2008				
(dollars in millions)	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by (used in) operating activities	$ (10.3)	$ 60.1	$ 38.2	$	$ 88.0
Capital expenditures	(0.2)	(40.5)	(20.0)		(60.7)
Acquisitions of businesses		(17.9)	(0.8)		(18.7)
Other investing activities	(0.3)	(0.5)	0.1		(0.7)
Cash flows used in investing activities	(0.5)	(58.9)	(20.7)		(80.1)
Funding between Parent and subsidiaries, net	16.7	0.1	(16.8)		
Increase in corporate credit facility, net	45.0				45.0
Repayment of debt	(39.0)	(0.9)	(0.1)		(40.0)
Common stock repurchase	(16.7)				(16.7)
Other financing activities	(3.0)				(3.0)
Cash flows provided by (used in) financing activities	3.0	(0.8)	(16.9)		(14.7)
Increase (decrease) in cash and cash equivalents	(7.8)	0.4	0.6		(6.8)
Beginning cash and cash equivalents	23.6	0.8	1.7		26.1
Ending cash and cash equivalents	$ 15.8	$ 1.2	$ 2.3	$	$ 19.3

	Three Months Ended March 31, 2007				
	Parent (Issuer)	Guarantors	Non-guarantors	Eliminations	Total
Cash flows provided by (used in) operating activities	$ (46.9)	$ 59.8	$ 55.4	$	$ 68.3
Capital expenditures		(19.4)	(22.9)		(42.3)
Acquisition of business			(4.6)		(4.6)
Other investing activities		(0.5)			(0.5)
Cash flows used in investing activities		(19.9)	(27.5)		(47.4)
Funding between Parent and subsidiaries, net	67.9	(40.4)	(27.5)		
Repayment of debt	(51.0)		(0.3)		(51.3)
Other financing activities	(3.1)	0.1	(0.1)		(3.1)
Cash flows provided by (used in) financing activities	13.8	(40.3)	(27.9)		(54.4)
Decrease in cash and cash equivalents	(33.1)	(0.4)			(33.5)
Beginning cash and cash equivalents	75.9	2.0	1.5		79.4
Ending cash and cash equivalents	$ 42.8	$ 1.6	$ 1.5	$	$ 45.9

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Information included in this Quarterly Report on Form 10-Q contains certain forward-looking statements that involve potential risks and uncertainties. The Company s future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein and those discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date thereof.

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

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.

Critical Accounting Policies and Estimates

The preparation of Condensed Consolidated Financial Statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses. In the Company s Annual Report on Form 10-K for the year ended December 31, 2007, the Company identified critical accounting policies that affect its more significant estimates and assumptions used in preparing its Condensed Consolidated Financial Statements. These critical accounting policies include revenue recognition, accounting for allowances for uncollectible accounts receivable, reviewing the carrying values of goodwill and indefinite-lived intangible assets, reviewing the carrying values of property, plant and equipment, accounting for business combinations, accounting for taxes, accounting for pension and postretirement expenses, and accounting for termination benefits.

Results of Operations

The financial results for the three months ended March 31, 2008 and 2007 referred to in this discussion should be read in conjunction with the Condensed Consolidated Statements of Operations of this Quarterly Report on Form 10-Q. Results for interim periods may not be indicative of the results for subsequent periods or the full year.

Beginning in the second quarter of 2007, the Company realigned its reportable business segments to be consistent with changes to its management structure and reporting. The Company now has three segments: Wireline, Wireless and Technology Solutions.

CONSOLIDATED OVERVIEW

Consolidated revenue totaled $348.5 million for the first quarter of 2008, an increase of $33.2 million compared to the first quarter of 2007. The increase was primarily due to the following:

- $26.2 million higher revenues in the Technology Solutions segment due to higher telephony and IT equipment revenue and data center and managed services revenue; and

- $10.0 million higher revenues in the Wireless segment primarily due to increased postpaid service revenue from additional subscribers and increased average revenue per user (ARPU).

Operating income for the first quarter of 2008 was $57.1 million, a decrease of $20.8 million compared to the same period in 2007. The decrease was primarily due to the following:

$25.4 million decrease in Wireline segment operating income primarily due to a $22.0 million increase for restructuring costs and an asset impairment charge; and

$4.8 million increase in Wireless segment operating income due primarily to additional subscribers and increased ARPU.

Interest expense was $36.3 million for the first quarter of 2008 as compared to $40.1 million for the first quarter of 2007. The decrease compared to last year is primarily attributable to lower interest rates and debt balances.

Other income, net of $1.2 million for the three months ended March 31, 2008 consisted primarily of a gain on the extinguishment of debt related to the purchase and extinguishment of $39.6 million of the 8 3/8% Senior Subordinated Notes due 2014. Other income, net of $2.0 million for the three months ended March 31, 2007 consisted primarily of a one-time dividend received from a cost investment.

Income tax expense of $9.1 million for the first quarter of 2008 was lower than the $17.2 million in the first quarter of 2007 primarily due to the tax effect on the 2008 restructuring charges.

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 estimates that its effective income tax rate will be approximately 42% for the full year 2008. However, the Company expects to use federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities in 2008. The Company expects income tax payments for 2008 to be approximately $5 million.

Discussion of Operating Segment Results

WIRELINE

	Three Months Ended March 31,			
(dollars in millions)	**2008**	**2007**	**$ Change**	**% Change**
Revenue:				
Voice - local service	$ 101.0	$ 112.7	$ (11.7)	(10)%
Data	67.6	62.5	5.1	8%
Long distance and VoIP	24.3	18.7	5.6	30%
Other	9.7	9.8	(0.1)	(1)%
Total revenue	202.6	203.7	(1.1)	(1)%
Operating costs and expenses:				
Cost of services and products	67.5	65.5		