CINCINNATI BELL INC
Form 10-K
February 26, 2008
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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.

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

Part I

Item 1. Business

General

Cincinnati Bell Inc. and its consolidated subsidiaries (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.

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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,

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.

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

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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

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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.

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.

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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.

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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 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

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$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,

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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)%

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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^{SM} 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.

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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.

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.

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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 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.

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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.

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 and contracted services costs to support the increased revenue growth of the data center and managed services unit, higher rent of $1.1 million primarily due to the opening of a data center in June 2005 and higher utilities.

The increase in selling, general and administrative expenses in 2006 compared to 2005 was primarily due to an increase in labor costs associated with increased headcount to support the growing operations.

Depreciation expense was higher in 2006 primarily due to the increased capital expenditures for the data centers.

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

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The Company s Financial Condition, Liquidity, and Capital Resources

Capital Investment, Resources and Liquidity

As of December 31, 2007, the Company held $26.1 million in cash and cash equivalents, which is a $53.3 million decrease compared to December 31, 2006. At December 31, 2006, the Company held excess cash to make significant payments of capital expenditures in early 2007.

The Company s primary sources of cash in 2008 will be cash generated by operations and borrowings from the revolving credit facility under which the Company had $167.9 million of availability at December 31, 2007. Cash flows from operations totaled $308.8 million in 2007. These 2007 cash flows from operations included payments totaling $56 million for operating taxes and early pension contributions that the Company does not expect will be required in 2008. Additionally, the Company expects that its payments for interest costs will be reduced by approximately $13 million as compared to 2007 due to lower interest rates and debt balances.

In 2008, the Company expects to spend approximately 16% of 2008 revenue on capital expenditures (revenue for 2008 is expected to be $1.4 billion), which includes $16.3 million in February 2008 for the purchase of a building to be converted into a data center facility. Cash of $18 million will also be used for the acquisition of eGix, a company that provides advanced data and voice services to businesses in the Midwest. Other uses of cash will include repayments and repurchases of debt and related interest, dividends on the 6 $^{3}/4$% Cumulative Convertible Preferred Stock and working capital. Additionally, in February 2008, the Company s Board of Directors has authorized the repurchase of the Company s outstanding common stock in an amount up to $150 million over 2008 and 2009. The common stock repurchases will be made from excess cash earned by the Company over this time period.

The Company believes the cash generated by operations and borrowings on its Corporate credit facility are sufficient to fund its primary uses of cash.

The Corporate credit facility financial covenants require that the Company maintain certain leverage ratios, interest coverage, and fixed charge ratios. The facility also contains certain covenants which, among other things, limit the Company s ability to incur additional debt or liens, pay dividends, repurchase Company common stock, sell, transfer, lease, or dispose of assets, and make investments or merge with another company. If the Company were to violate any of its covenants and was unable to obtain a waiver, it would be considered a default. If the Company were in default under its credit facilities, no additional borrowings under the credit facilities would be available until the default was waived or cured. The Company is in compliance with its Corporate credit facility covenants.

Various issuances of the Company s public debt, which include the $7^{1}/4$% Senior Notes due 2013 ($7^{1}/4$% Notes due 2013), $8^{3}/_{8}$% Senior Subordinated Notes due 2014 ($8^{3}/_{8}$% Notes), and the 7% Notes due 2015 (7% Notes), contain covenants that, among other things, limit the Company s ability to incur additional debt or liens, pay dividends or make other restricted payments, sell, transfer, lease, or dispose of assets and make investments or merge with another company. Restricted payments include common stock dividends, repurchase of common stock, and certain other public debt repayments. The Company believes it has sufficient ability under its public debt indentures to make its intended restricted payments in 2008. The Company is in compliance with its public debt indentures.

Reasons for Debt and Accumulated Deficit

As of December 31, 2007, the Company had $2.0 billion of outstanding indebtedness and an accumulated deficit of $3.5 billion. The Company incurred a significant amount of indebtedness and accumulated deficit from the purchase and operation of a broadband business over the period of 1999 to 2002, which caused outstanding indebtedness and accumulated deficit to reach their respective year-end peaks of $2.6 billion and $4.9 billion at December 31, 2002. In 1999, the Company acquired IXC Communications, Inc. (IXC) for approximately $3.2 billion. In connection with the acquisition, the Company assumed approximately $1.0 billion of debt. IXC, subsequently renamed BRCOM (f/k/a Broadwing Communications Inc.), provided long haul voice, data, and Internet service over an 18,700 mile fiber optic network. In 2001, the business environment for BRCOM and the broader telecommunications industry deteriorated rapidly and significantly, causing the Company to incur substantial operating and net losses. From the acquisition of BRCOM in 1999 through to its sale in June 2003, the Company used a total of approximately $2.3 billion of both cash flow from its other businesses and borrowings under its credit facilities to finance the buildout of BRCOM s national optical network and to meet BRCOM s other cash needs.

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2007 Debt Repayments

In 2007, the Company repaid $184.0 million of the Tranche B Term Loan, composed of a prepayment of $180.0 million and normal maturities of $4.0 million. The prepayment was made 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 $^1/4$% Notes due 2013 and $5.0 million of 8 $^3/_8$% Notes. Remaining 2007 debt repayments were primarily comprised of payments on capital leases. 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. Outstanding letters of credit at December 31, 2007 include one issued for $23.0 million in December 2007 for the benefit of a data center customer. This permits the customer to draw on the letter of credit if the Company is not able to perform its data center contractual obligations due to bankruptcy. The Company agreed to issue the letter of credit because the customer had prepaid $21.5 million for data center services.

2006 Debt Repayments

During 2006, the Company repaid debt in the amount of $13.3 million. This debt repayment amount was lower than 2007 and 2005 because the Company used its cash to fund the purchases of ATI and the 19.9% interest in CBW for $86.7 million, and the wireless spectrum licenses for $37.1 million.

2005 Financing Transactions and Credit Facilities

In 2005, the Company completed the refinancing plan of its 16% Senior Subordinated Discount Notes due 2009 (16% Notes).

The Company:

- issued $250 million new 7% Notes and $100 million in additional 8 $^3/8$% Notes (collectively, the New Bonds);
- established a new credit facility (Corporate credit facility) with a $250 million revolving line of credit that matures in February 2010;
- used the proceeds from the New Bonds and borrowings from the new Corporate credit facility to repay $438.8 million outstanding at December 31, 2004 on its previous credit facility;
- executed $350 million notional interest rate swaps to change the fixed rate nature of a portion of its bonds to approximate the floating rate characteristics of the terminated credit facility;
- issued $400 million of new term notes (the Tranche B Term Loan) under the terms of the Corporate credit facility; and
- retired the 16% Notes for $447.8 million, including repayment of accrued interest, using the proceeds from the Tranche B Term Loan and additional borrowings under the new Corporate credit facility.

In total, the Company recognized $99.8 million of loss upon extinguishment of debt.

In addition to financial transactions consummated under the refinancing plan discussed above, the Company made a scheduled payment of $20.0 million to extinguish certain outstanding notes of Cincinnati Bell Telephone.

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Contractual Obligations

The following table summarizes the Company s contractual obligations as of December 31, 2007:

		Payments Due by Period			
(dollars in millions)	Total	< 1 Year	1-3 Years	3-5 Years	Thereafter
Long-term debt (1)	$ 1,976.8	$ 4.2	$ 63.1	$ 274.0	$ 1,635.5
Capital leases	29.4	3.6	11.6	11.5	2.7
Interest payments on long-term debt and capital leases (2)	1,020.9	131.1	264.5	262.7	362.6
Noncancelable operating lease obligations	112.3	17.2	29.8	25.8	39.5
Purchase obligations (3)	173.2	117.6	55.6		
Accrued pension and postretirement benefits (4)	64.1	13.3	14.7	15.7	20.4
Other noncurrent liabilities (5)	42.8	6.9	21.2	2.5	12.2
Acquisitions (6)	28.5	20.1	5.8	0.2	2.4
Total	$ 3,448.0	$ 314.0	$ 466.3	$ 592.4	$ 2,075.3

(1) Long-term debt excludes net unamortized premiums and the fair value of the Company s interest rate swaps.
(2) Interest payments on long-term debt and capital leases include interest obligations on both fixed and variable rate debt, assuming no early payment of debt in future periods. The Company used the interest rate forward curve at December 31, 2007 to compute the amount of the contractual obligation for interest payments on variable rate debt and interest rate swaps.
(3) Purchase obligations primarily consist of the Company s service agreement with Convergys as discussed below in Commitments and Contingencies and amounts under open purchase orders.
(4) Included in accrued pension and postretirement benefits are payments for the Company s postretirement benefits, qualified pension plans, non-qualified pension plan and other employee retirement agreements. Amount includes $11 million of expected cash contributions in 2008 for postretirement benefits. Although the Company currently expects to continue operating the plans past 2008, its contractual obligation related to postretirement benefits only extends through the end of 2008. Amount also includes $45 million of estimated cash contributions to its qualified pension plans with no expected contributions in 2008. The Company s expected qualified pension plan contributions are based on current legislation and current actuarial assumptions. Any change in the legislation or actuarial assumptions will affect the expected contribution amount. See below for further discussion related to the Pension Protection Act of 2006.
(5) Includes contractual obligation payments primarily related to restructuring reserves, asset removal obligations and liability for unrecognized tax benefits. Payment for unrecognized tax benefits is assumed to occur after five years.
(6) Acquisitions include purchase price for eGIX of $18.0 million and $5.2 million of contingent payments, $1.3 million additional payments for the acquisition of GramTel and $4.0 million related to the Lebanon acquisition. See Note 5 to the Consolidated Financial Statements for further discussion.

The contractual obligations table is current as of December 31, 2007. The amount of these obligations can be expected to change over time as new contracts are initiated and existing contracts are completed, terminated, or modified.

The Pension Protection Act of 2006 (the Act) was enacted on August 17, 2006. Most of its provisions will become effective in 2008. The Act significantly changes the funding requirements for single-employer defined benefit pension plans. The funding requirements will now largely be based on a plan s calculated funded status, with faster amortization of any shortfalls or surpluses. The Act directs the U.S. Treasury Department to develop a new yield curve to discount pension obligations for determining the funded status of a plan when calculating the funding requirements.

Other

Labor Contract

On January 31, 2008, the Company and the Communication Workers of America (CWA) reached a tentative agreement on a new labor contract. The new agreement, which covers approximately 1,300 members of the CWA locals 4400 and 4401, is subject to ratification by the local CWA membership.

The Company had requested early negotiations with local union leadership in an effort to renew the labor contract for current bargaining employees, which was set to expire on May 10, 2008.

If ratified by the CWA membership, the new agreement will:

- Retain the current call center work as local Cincinnati jobs, restructure base pay for the call center employees and implement a sales commission plan for eligible call center employees;
- Create a new wage, benefit and working condition agreement for bargaining unit employees hired on or after February 1, 2008;
- Provide a cumulative 4.5 percent wage increase over the three years of the contract;
- Maintain current healthcare plan designs with modest premium increases over the life of the contract, reflective of healthcare inflation;
- Improve dental coverage by increasing the amounts covered under the plan for restorative services;
- Increase pay-related pension credits by 3%; and
- Offer an early retirement option to eligible bargaining unit employees.

The Company expects this contract, if ratified, will result in expense trends that are favorable to the previous labor contract. CWA members vote to approve or reject the contract on February 27, 2008.

Commitments and Contingencies

Commitments

Vendor Concentration

In 1998, the Company entered into a ten-year contract with Convergys Corporation (Convergys), a provider of billing, customer service and other services, which, in 2004, was extended to December 31, 2010. The contract states that Convergys will be the primary provider of certain data processing, professional and consulting and technical support services for the Company within CBT s operating territory. In return, the Company will be the exclusive provider of local telecommunications services to Convergys. The contract extension reduced the Company s annual commitment in 2004 and 2005 to $35.0 million from $45.0 million. Beginning in 2006, the minimum commitment is reduced 5% annually. The Company paid $32.3 million, $34.3 million and $36.1 million under the contract in 2007, 2006 and 2005, respectively.

Contingencies

In the normal course of business, the Company is subject to various regulatory and tax proceedings, lawsuits, claims, and other matters. The Company believes adequate provision has been made for all such asserted and unasserted claims in accordance with accounting principles generally accepted in the United States. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance.

Indemnifications Related to the Sale of Broadband Assets

The Company indemnified the buyer of the broadband assets against certain potential claims, but all indemnifications have expired except for those related to title and authorization. The title and authorization indemnification was capped at 100% of the purchase price of the broadband assets, approximately $71 million.

In order to determine the fair value of the indemnity obligations, the Company performed a probability-weighted discounted cash flow analysis, utilizing the minimum and maximum potential claims and several scenarios within the range of possibilities. In 2006, the Company decreased the liability related to the indemnity obligations from $4.1 million to $1.2 million and recorded $2.9 million of income as a result of the expiration of certain warranties and guarantees. This income was included in Gain on sale of broadband assets in the Consolidated Statement of Operations. In 2007 and 2005, no representations or warranties expired.

Anthem Demutualization Claim

In November 2007, a class action complaint was filed against the Company and Wellpoint Inc., formerly known as Anthem, Inc. The complaint alleges that the Company improperly received stock as a result of the

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demutualization of Anthem and that a class of insured persons should have received the stock instead. In February 2008, the Company filed a response in which it denied all liability and raised a number of defenses. The Company believes that it has meritorious defenses and intends to vigorously defend this action. The Company does not believe this claim will have a material effect on its financial condition.

Other

At December 31, 2006, the Company had certain regulatory tax liabilities totaling $18.0 million, net of expected refunds, related to past filing positions that were being questioned by the applicable regulatory agency. As a result of payments made in 2007, at December 31, 2007, the Company liability has decreased to $2.5 million. The issues have not been fully resolved, and the Company believes it has meritorious defenses related to the payment of these regulatory taxes and intends to defend its position in order to limit the ultimate payment of these regulatory taxes.

Off-Balance Sheet Arrangements

Indemnifications

During the normal course of business, the Company makes certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. These include (a) intellectual property indemnities to customers in connection with the use, sales, and/or license of products and services, (b) indemnities to customers in connection with losses incurred while performing services on their premises, (c) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct of the Company, and (d) indemnities involving the representations and warranties in certain contracts. In addition, the Company has made contractual commitments to several employees providing for payments upon the occurrence of certain prescribed events. The majority of these indemnities, commitments, and guarantees do not provide for any limitation on the maximum potential for future payments that the Company could be obligated to make. Except for amounts recorded in relation to insured losses, the Company has not recorded a liability for these indemnities, commitments, and other guarantees in the Consolidated Balance Sheets, except as described in *Indemnifications Related to the Sale of Broadband Assets* above.

Warrants

As part of the issuance of the 16% Notes in March 2003, the purchasers of the 16% Notes received 17.5 million common stock warrants, which expire in March 2013, to purchase one share of Cincinnati Bell common stock at $3.00 each. Of the total gross proceeds received for the 16% Notes, $47.5 million was allocated to the fair value of the warrants using the Black-Scholes option-pricing model. This value less applicable issuance costs was recorded to Additional paid-in capital in the Consolidated Balance Sheet. There were no exercises of warrants in 2007 or 2006. In 2005, 50,000 warrants were exercised.

Cash Flow

2007 Compared to 2006

For the twelve months ended December 31, 2007, cash provided by operating activities totaled $308.8 million, a decrease of $25.9 million compared to the $334.7 million provided by operating activities during the same period in 2006. The decrease was due to payments of $56.0 million for operating taxes and early pension contributions partially offset by a customer prepayment of $21.5 million for data center services and increased operating cash generated by the Wireless segment due to service revenue growth.

Cash flow utilized for investing activities increased $3.5 million to $263.5 million during 2007 as compared to $260.0 million for 2006. Capital expenditures were $233.8 million, an increase of $82.5 million compared to 2006, which resulted mostly from data center expansion. In addition to the increase in capital expenditures for data centers, the Company purchased a data center business in South Bend, Indiana in December 2007 for a purchase price of $20.3 million (including $0.6 million of accrued transaction costs), of which $19.0 million was paid in cash in 2007. In the first quarter of 2007, the Company purchased a local telecommunication business and paid $4.6 million. Also, in late 2007 the Company deposited $4.4 million with the FCC for the opportunity to participate in the auction for the purchase of additional wireless spectrum. Cash flows from investing activities for 2006 includes payments of $86.7 million for the acquisitions of ATI and the 19.9% minority interest in CBW, as well as $37.1 million for the purchase of wireless licenses in an FCC auction. Proceeds were received in 2006 for $4.7 million on sale of broadband fiber assets and for $5.7 million on the sale of an investment.

Cash flow used in financing activities was $98.6 million in 2007 compared to $21.0 million during 2006. The increased use of cash flow for financing activities primarily relates to increased repayments of debt, net of debt issuances, as discussed above.

2006 Compared to 2005

In 2006, cash provided by operating activities totaled $334.7 million, an increase of $12.4 million compared to the $322.3 million provided by operating activities during 2005. The increase was generated by working capital improvements, partially offset by lower operating cash due to access line losses and shareholder claim payments of $6.3 million.

Cash utilized in investing activities in 2006 was $260.0 million, an increase of $117.3 million compared to the $142.7 million utilized in 2005. The increase predominately relates to the acquisitions of ATI and the 19.9% minority interest in CBW for $86.7 million, and the purchase of wireless licenses in the FCC auction for $37.1 million. Capital expenditures increased slightly in 2006 compared to last year. Proceeds were received in 2006 for $4.7 million on the sale of broadband fiber assets and for $5.7 million on the sale of an investment.

Cash flows used in financing activities decreased $157.8 million to a net outflow of $21.0 million in 2006 from an outflow of $178.8 million during 2005. During 2006, the Company funded the acquisitions of the remaining 19.9% membership interest in CBW and ATI and the purchase of the wireless licenses, which decreased the Company s repayment of debt as compared to 2005. The Company repaid $13.3 million in debt in 2006. During 2005, the Company received $752.1 million of cash proceeds from the issuance of the 7% Notes, additional 8 $^{3}/_{8}$% Notes and new bank term notes. In addition, during 2005, the Company repaid $903.3 million in borrowings, substantially all of which was the prepayment of borrowings under its term and revolving credit facilities and its 16% Notes, using the net cash proceeds discussed above. In conjunction with the debt issuance and repayments in 2005, the Company incurred debt issuance costs and consent fees of $21.9 million.

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Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses. Additionally, the Company s senior management has discussed the critical accounting policies and estimates with the Audit and Finance Committee. The Company s significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements.

The discussion below addresses major judgments used in:

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

Revenue Recognition The Company adheres to sales recognition principles described in Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, issued by the SEC. Under SAB No. 104, sales are recognized when there is persuasive evidence of a sale arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Service revenue The Company recognizes service revenue as services are provided. Revenue from local telephone and special access services, which are billed monthly prior to performance of service, and from prepaid wireless service, which is collected in advance, is not recognized upon billing or cash receipt but rather is deferred until the service is provided. Postpaid wireless, long distance, switched access, reciprocal compensation, and data and Internet product services are billed monthly in arrears. The Company bills service revenue in regular monthly cycles, which are spread throughout the days of the month. As the day of each billing cycle rarely coincides with the end of the Company s reporting period for usage-based services such as postpaid wireless, long distance, and switched access, the Company must estimate service revenues earned but not yet billed. The Company bases its estimates upon historical usage and adjusts these estimates during the period in which the Company can determine actual usage, typically in the following reporting period.

Initial billings for Wireline service connection and activation are deferred and amortized into revenue on a straight-line basis over the average customer life. The associated connection and activation costs, to the extent of the upfront fees, are also deferred and amortized on a straight-line basis over the average customer life.

Data center services are also recognized as service is provided. Agreements with data center customers require certain levels of service or performance. Although the occurrence is rare, if the Company fails to meet these levels, customers may be able to receive service credits for their accounts. The Company records these credits against revenue when an event occurs that gives rise to such credits. In multi-year data center arrangements with increasing or decreasing monthly billings, revenues are recognized on a straight-line basis. Revenue for leased data center assets is also recognized on a straight-line basis over the contract term.

Technology Solutions professional services, including product installations, are recognized as the service is provided. Technology Solutions also provides maintenance services on telephony equipment under one to four year contract terms. This revenue is accounted for under Financial Accounting Standards Board (FASB) Technical Bulletin No. 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts, and is deferred and recognized ratably over the term of the underlying customer contract.

Products The Company recognizes equipment revenue upon the completion of contractual obligations, such as shipment, delivery, installation, or customer acceptance. Wireless handset revenue and the related activation revenue are recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Wireless equipment costs are also recognized upon handset sale, and are in excess of the related handset and activation revenue. The Company is a reseller of IT and telephony equipment and considers the criteria of Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, when recording revenue, such as title transfer, risk of product loss, and collection risk. Based on this guidance, these equipment revenues and associated costs have generally been recorded on a gross basis, rather than recording the revenues net of the associated costs. The Company benefits from vendor rebate plans, particularly rebates on hardware sold by Technology Solutions. The Company recognizes the rebates as an offset to costs of products sold upon sale of the related equipment to the customer.

With respect to arrangements with multiple deliverables, the Company follows the guidance in EITF 00-21, Revenue Arrangements with Multiple Deliverables, to determine whether more than one unit of accounting exists in an arrangement. To the extent that the deliverables are separable into multiple units of accounting, total consideration is allocated to the individual units of accounting based on their relative fair value, determined by the price of each deliverable when it is regularly sold on a stand-alone basis. Revenue is recognized for each unit of accounting as delivered or as service is performed depending on the nature of the deliverable comprising the unit of accounting.

The Company is a reseller of IT equipment, such as servers and routers, and often is contracted to install the IT equipment that it sells. The revenue recognition guidance in Statement of Position (SOP) 97-2, Software Revenue Recognition, is applied, which requires vendor specific objective evidence (VSOE) in order to recognize the IT equipment separate from the installation. The Company both sells IT equipment without the installation service, and provides installation services without the IT equipment, and as such has VSOE that permits the separation of the IT equipment from the installation services. The Company recognizes the IT equipment upon completion of its contractual obligations, generally upon delivery of the IT equipment to the customer, and recognizes installation service revenue upon completion of the installation.

Pricing of local services is generally subject to oversight by both state and federal regulatory commissions. Such regulation also covers services, competition, and other public policy issues. Various regulatory rulings and interpretations could result in increases or decreases to revenue in future periods.

Accounting for Allowances for Uncollectible Accounts Receivable The Company established the allowances for uncollectible accounts using percentages of aged accounts receivable balances to reflect the historical average of credit losses as well as specific provisions for certain identifiable, potentially uncollectible balances. The Company believes its allowance for uncollectible accounts is adequate based on these methods, as the Company has not had unfavorable experience with its estimation methods. However, if one or more of the Company s larger customers were to default on its accounts receivable obligations or if general economic conditions in the Company s operating area deteriorated, the Company could be exposed to potentially significant losses in excess of the provisions established. Substantially all of the Company s outstanding accounts receivable balances are with entities located within its geographic operating areas. Regional and national telecommunications companies account for the remainder of the Company s accounts receivable balances. No one entity or collection of legally affiliated entities represents 10% or more of the outstanding accounts receivable balances.

Reviewing the Carrying Values of Goodwill and Indefinite-Lived Intangible Assets Pursuant to Statement of Financial Account Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets not subject to amortization are tested for impairment annually, or when events or changes in circumstances indicate that the asset might be impaired.

With respect to goodwill, the company estimates the fair value of the respective reporting unit based on expected future cash flows generated by the reporting unit discounted at the appropriate weighted average cost of capital. The estimated fair value of the respective reporting units was higher than its carrying values, and as such, there was no indication of impairment in 2007.

Indefinite-lived intangible assets consist of FCC licenses for spectrum and trademarks for the Wireless segment. The Company may renew the wireless licenses in a routine manner every ten years for a nominal fee, provided the Company continues to meet the service and geographic coverage provisions required by the FCC. The fair value of the licenses was determined by using the Greenfield method, an income based approach. The fair value of the trademarks were determined by using the relief-from-royalty method, which estimates the present value of royalty expense that could be avoided in the operating business as a result of owning the respective asset or technology. The fair value of the licenses and trademarks were higher than its carrying value, and as such, there was no indication of impairment in 2007.

Reviewing the Carrying Values of Property, Plant and Equipment The Company s provision for depreciation of its telephone plant is determined on a straight-line basis using the group depreciation method. Provision for depreciation of other property, other than leasehold improvements, is based on the straight-line method over the estimated economic useful life. Depreciation of leasehold improvements is based on a straight-line method over the lesser of the economic useful life or term of the lease, including option renewal periods if renewal of the lease is reasonably assured. Repairs and maintenance expense items are charged to expense as incurred.

The Company estimates the useful lives of plant and equipment in order to determine the amount of depreciation expense to be recorded during any reporting period. The majority of the Wireline segment plant and equipment is depreciated using the group method, which develops a depreciation rate (annually) based on the average useful life of a specific group of assets rather than for each individual asset as would be utilized under the unit method. The estimated life of the group changes as the composition of the group of assets and their related lives change. Such estimated life of the group is based on historical experience with similar assets, as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated, or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation expense in future periods. A one-year decrease or increase in the useful life of these assets would increase or decrease annual depreciation expense by approximately $10 million.

The Company reviews the carrying value of long-lived assets, other than goodwill and indefinite-lived intangible assets discussed above, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In assessing impairments, the Company follows the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss is recognized when the estimated future undiscounted cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition are less than its carrying amount. An impairment loss is measured as the amount by which the asset s carrying value exceeds its estimated fair value.

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 constructing a 3G network and deploying it on the newly purchased AWS spectrum. Due to this implementation, lives of certain GSM assets were shortened and depreciation has been accelerated based on the new useful life. The increase in depreciation due to this acceleration was approximately $1.3 million in the fourth quarter of 2006 and $5.2 million in 2007.

In 2003, the Company shortened the estimated remaining economic useful life of its legacy TDMA wireless network to December 31, 2006 due to the expected migration of its TDMA customer base to its GSM network. In 2005, the Company incurred charges of $42.3 million to write down the recorded value of TDMA assets that were retired in 2005 and TDMA assets that could no longer support their recorded value. These charges were included in Asset impairments and other charges in the Consolidated Statement of Operations. The Company wrote down the assets to fair value, which was calculated based on the appraised amount at which the assets could be sold in a current transaction between willing parties.

Also, in 2005, the useful life of certain of the remaining TDMA assets was shortened from the December 31, 2006 date being used, and depreciation was accelerated. The change in depreciation expense due to the change in estimate in the second quarter decreased 2005 operating income by $7.7 million.

If technological changes were to occur more rapidly than expected, it may have the effect of shortening the estimated depreciable life of other network and operating assets that the Company employs. This could have a substantial impact on the consolidated depreciation expense and net income of the Company. Competition from new or more cost effective technologies could affect the Company s ability to generate cash flow from its network-based services. This competition could ultimately result in an impairment of certain of the Company s tangible or intangible assets. This could have a substantial impact on the operating results of the consolidated Company.

Accounting for Business Combinations In accounting for business combinations, the Company applies the accounting requirements of SFAS No. 141, Business Combinations, which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, the Company analyzes a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets, and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, especially with respect to the intangible assets.

Changes to the assumptions the Company used to estimate fair value could impact the recorded amounts for acquired assets and liabilities, including property, plant and equipment, intangible assets and goodwill. Significant changes to these balances could have a material impact on the Company s future reported results.

Accounting for Taxes

Income Taxes

The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. The Company s previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires.

As of December 31, 2007, the Company had $596.2 million in net deferred tax assets, which includes approximately $1.4 billion in gross federal tax net operating loss carryforwards, with a deferred tax asset value of approximately $492.3 million. The tax loss carryforwards are available to the Company to offset taxable income in current and future periods. The majority of the remaining tax loss carryforwards will expire between 2017 and 2023 and are not currently limited under U.S. tax laws. The ultimate realization of the deferred income tax assets depends upon the Company s ability to generate future taxable income during the periods in which basis differences and other deductions become deductible and prior to the expiration of the net operating loss carryforwards. Based on current income levels and anticipated future reversal of existing temporary differences, the Company expects to utilize its federal net operating loss carryforwards within their expiration periods.

In addition to the federal tax net operating loss carryforwards, the Company has state and local net operating loss carryforwards with a deferred tax asset value of approximately $134.6 million, alternative minimum tax credit carryforwards of approximately $9.4 million, and deferred tax temporary differences and other tax attributes of approximately $99.9 million. A valuation allowance of $140.0 million is provided at December 31, 2007 against certain state and local net operating losses and other deferred tax assets due to the uncertainty of the Company s ability to utilize the assets within the statutory expiration period.

The Company determines the effective tax rate by dividing income tax expense by income before taxes as reported in its Consolidated Statement of Operations. For reporting periods prior to the end of the Company s fiscal year, the Company records income tax expense based upon an estimated annual effective tax rate. This rate is computed using the statutory tax rate and an estimate of annual net income adjusted for an estimate of non-deductible expenses.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $5.1 million increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. After recognizing the impact from the adoption of FIN 48, the Company had a $14.7 million liability recorded for unrecognized tax benefits as of January 1, 2007. At December 31, 2007, the Company has a $14.8 million liability recorded for unrecognized tax benefits. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $14.5 million. The Company does not currently anticipate that the amount of unrecognized tax benefits will change significantly over the next year.

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

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examinations for years before 2004. In the first quarter of 2007, the Internal Revenue Service commenced an examination of the Company s U.S. federal income tax returns for 2004 to 2006. The IRS has completed its examination of the 2004 and 2005 tax years while 2006 is still under audit.

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 December 31, 2007 and December 31, 2006.

Refer to Note 13 to the Consolidated Financial Statements for further information regarding the Company s income taxes.

Operating Taxes

The Company incurs certain operating taxes that are reported as expenses in operating income, such as property, sales, use, and gross receipts taxes. These taxes are not included in income tax expense because the amounts to be paid are not dependent on the level of income generated by the Company. The Company also records expense against operating income for the establishment of liabilities related to certain operating tax audit exposures. These liabilities are established based on the Company s assessment of the probability of payment. Upon resolution of an audit, any remaining liability not paid is released and increases operating income. The Company recognized income of $2.4 million in 2007, $1.8 million in 2006, and $14.4 million in 2005 upon resolution of operating tax audits, net of new liabilities established.

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 and in fact, does not collect the tax from customers in certain instances. The amount recorded as revenue for 2007, 2006, and 2005 was $17.3 million, $15.3 million and $15.6 million, respectively. The amount expensed for 2007, 2006 and 2005 was $18.2 million, $20.0 million and $16.0 million, respectively. The Company records all other taxes collected from customers on a net basis.

Accounting for Pension and Postretirement Expenses The Pension Protection Act of 2006 (the Act) was enacted on August 17, 2006. Most of its provisions will become effective in 2008. The Act significantly changes the funding requirements for single-employer defined benefit pension plans. The funding requirements will now largely be based on a plan s calculated funded status, with faster amortization of any shortfalls or surpluses. The Act directs the U.S. Treasury Department to develop a new yield curve to discount pension obligations for determining the funded status of a plan when calculating the funding requirements. As a result of a $20.0 million early pension contribution in December 2007, the Company does not expect to make any contribution to its qualified pension plans in 2008. Based on current assumptions, the Company believes it will pay an estimated $45 million to fund its qualified pension plans during the period 2009 to 2017.

In October 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires the Company to recognize the overfunded or underfunded status for the Company s benefit plans, with changes in the funded status recognized as a separate component to shareowners equity. SFAS No. 158 also requires the Company to measure the funded status of the benefit plans as of the year-end balance sheet date no later than 2008. Effective December 31, 2006, the Company adopted SFAS No. 158. See Note 9 to the Consolidated Financial statements.

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 also provides health care and group life insurance benefits for eligible retirees. The Company s measurement date for its pension and postretirement obligations is as of December 31st of each year. When changes to the plans occur during interim periods, the Company reviews the changes and determines if a remeasurement is necessary.

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The assumption for cost sharing with retirees is important in determining the postretirement and other benefits expense. At the beginning of 2005, the Company accounted for its retiree medical benefit obligation as if there were no limits on the Company-funded portion of retiree medical costs. In May 2005, the Company reached an agreement with the union to provide a fixed amount of medical cost reimbursement per retiree and to increase the amount annually over the life of the labor agreement. Similar benefits were provided to non-bargained retirees. Effective June 1, 2005, the Company remeasured its postretirement obligations for the changes to the expected future retiree medical costs, including assumptions regarding cost sharing by retirees.

In August 2007, the Company announced further changes to its pension and postretirement plans that reduce medical benefit payments by fixing the annual Company contribution for each eligible retiree and that reduce life insurance benefits paid from these plans. Based on these changes, the Company determined that a remeasurement of its pension and postretirement obligations was necessary. The Company remeasured its pension and postretirement obligations in August 2007 using revised assumptions, including modified benefit payment assumptions reflecting the changes and a discount rate of 6.25%. These changes reduce the Company s pension and postretirement obligations by approximately $74 million, reduce deferred tax assets for the related tax effect by $27 million, and increase equity by $47 million. Additionally, the remeasurement caused a reduction to the Company s pension and postretirement benefit costs by approximately $5 million since August 2007.

The key assumptions used to account for the plans are disclosed in Note 9 to the Consolidated Financial Statements. The actuarial assumptions attempt to anticipate future events and are used in calculating the expenses and liabilities related to these plans. The most significant of these numerous assumptions, which are reviewed annually, include the discount rate, expected long-term rate of return on plan assets and health care cost trend rates.

Discount rate

A discount rate is used to measure the present value of the benefit obligations. The Company determines the discount rate for each plan individually. In determining the selection of a discount rate, the Company estimates the timing and expected future benefit payments, and applies a yield curve developed to reflect yields available on high-quality bonds. Based on the analysis, the discount rate was set at 6.20%, 5.75%, and 5.50% for all of the plans as of December 31, 2007, 2006 and 2005, respectively.

Expected rate of return

The expected long-term rate of return on plan assets, developed using the building block approach, is based on the following: the participant s benefit horizons; the mix of investments held directly by the plans, which is generally 60% equities and 40% bonds; and the current view of expected future returns, which is influenced by historical averages. The required use of an expected versus actual long-term rate of return on plan assets may result in recognized pension expense or income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns. To the extent the Company changed its estimate of the expected long-term rate of return on plan assets, there would be an impact on pension expense or income and the associated net liability or asset. The Company uses an assumed long-term rate of return of 8.25% for the Company s pension and postretirement trusts. Actual asset returns for the pension trusts, which represent over 90% of invested assets, were approximately 7% in 2007, 13% in 2006 and 7% in 2005.

In its pension calculations, the Company utilizes the market-related value of plan assets, which is a calculated asset value that recognizes changes in asset fair values in a systematic and rational manner. Differences between actual and expected returns are recognized in the market-related value of plan assets over five years.

Health care cost trend

The Company s health care cost trend rate is developed on historical cost data, the near-term outlook, and an assessment of likely long-term trends. The health care cost trend rate used to measure the postretirement health benefit obligation at December 31, 2007 was 10.0% and is assumed to decrease gradually to 4.5% by the year 2013.

The actuarial assumptions used may differ materially from actual results due to the changing market and economic conditions and other changes. Revisions to and variations from these estimates would impact assets, liabilities, equity, costs of services and products, and selling, general and administrative expenses.

The following table represents the sensitivity of changes in certain assumptions related to the Company s pension and postretirement plans:

		Pension Benefits		Postretirement and Other Benefits	
(dollars in millions)	**% Point Change**	**Increase/ (Decrease) in Obligation**	**Increase/ (Decrease) in Expense**	**Increase/ (Decrease) in Obligation**	**Increase/ (Decrease) in Expense**
Discount rate	+/-0.5%	$ 19.2/(19.2)	$ 0.1/(0.1)	$ 13.6/(15.3)	$ 1.4/(1.5)
Expected return on assets	+/-0.5%	n/a	$ 2.2/(2.2)	n/a	$ 0.2/(0.2)
Health care cost trend rate	+/-1%	n/a	n/a	$ 29.1/(24.8)	$ 2.9/(2.1)

At December 31, 2007, the Company had unrecognized actuarial net losses of $68.6 million for the pension plans and $79.5 million for the postretirement and other benefit plans. The unrecognized net losses have been primarily generated by changes in previous years related to discount rates, asset return differences and actual health care costs. Because gains and losses reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, the Company is not required to recognize these gains and losses in the period that they occur. Instead, if the gains and losses exceed a 10% corridor defined in the accounting literature, the Company amortizes the excess over the average remaining service period of active employees expected to receive benefits under the plan.

Accounting for Termination Benefits The Company has written severance plans covering both its management and union employees and, as such, accrues probable and estimable employee separation liabilities in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43. These liabilities are based on the Company s historical experience of severance, historical costs associated with severance, and management s expectation of future severance. The Company s fourth quarter 2007 restructuring plan gave rise to employee separation liabilities totaling $22.9 million as of December 31, 2007. This represents severance costs for employees over the next five years that are primarily related to the Company s need to downsize its Wireline operations to conform to the decreased access lines being served by the Company.

When employee terminations occur, the Company considers the guidance in SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination 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 have been earned through December 31, 2007 under SFAS No. 88, and this amount was therefore accrued as of December 31, 2007. Remaining termination benefits 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 $2.6 million in 2008 and $1.2 million in 2009.

The Company also considers whether employee terminations give rise to a pension and postretirement curtailment charge under SFAS No. 88. The Company s policy is that terminations in a calendar year involving 10% or more of the plan service years result in a curtailment of the pension or postretirement plan. Terminations from the fourth quarter 2007 restructuring plan resulted in curtailments for the management pension and postretirement plans totaling a charge of $6.4 million.

See Note 3 to the Consolidated Financial Statements for further discussion on the Company s restructuring plans.

Regulatory Matters and Competitive Trends

Federal The Telecommunications Act of 1996 was enacted with the goal of establishing a pro-competitive, deregulatory framework to promote competition and investment in advanced telecommunications facilities and services to all Americans. Since 1996, federal regulators have considered a multitude of proceedings ostensibly aimed at fulfilling the goals of the Act and this process is continuing through numerous proceedings currently before the FCC and the federal courts. Although the Act called for a

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deregulatory framework, the FCC s approach has been to maintain significant regulatory restraints on the traditional incumbent local exchange carriers while opening up opportunities for new competitive entrants and services with minimal regulation such as cable modem broadband providers and VoIP providers. While Cincinnati Bell has expanded beyond its incumbent local exchange operations by offering wireless, long distance, broadband service, Internet access and out-of-territory competitive local exchange services, the majority of its revenue is still derived from its traditional local exchange services. The financial impact of the various federal proceedings will depend on many factors including the extent of competition in our market and the timing and outcome of the FCC s decisions and any appeals from those decisions.

Intercarrier Compensation

Current rules specify different means of compensating carriers for the use of their networks depending on the type of traffic and technology used by the carriers. The FCC has opened a proceeding to consider various plans that have been proposed for revising the disparate intercarrier compensation system into a unified regime that treats all traffic in a uniform manner. The outcome of this proceeding could have significant impacts on all carriers and will probably be phased-in over a five to ten year period. This proceeding impacts the switched access and end-user components of CBT s revenue.

Reciprocal Compensation

Although the topic of reciprocal compensation will ultimately be addressed within the broader intercarrier compensation proceeding mentioned above, the FCC adopted an order which in the short-term directly impacted the rules for the termination of ISP-bound dial-up traffic. The previous rules capped the total number of minutes that could be compensated (growth cap) and limited compensation to markets in which the carriers previously exchanged traffic (new markets rule). The FCC s new order eliminated the growth cap and the new markets rule. This decision could increase the amount that CBT must pay to CLECs with which it exchanges such traffic.

VoIP

In 2004 the FCC declared that VoIP services are interstate services and purported to preempt state regulation. Since then, the FCC has considered several petitions asking it to rule on whether and under what circumstances voice services utilizing Internet Protocol (IP) are subject to access charges. It has ruled that peer-to-peer Internet voice services that do not use the public switched telephone network (PSTN) are not subject to access charges. Separately, it has ruled that services that originate and terminate on the PSTN but employ IP in the middle are subject to access charges. The FCC is still considering other VoIP petitions, including one that seeks to exempt from access charges calls that originate using VoIP, but terminate on the PSTN. In addition, the FCC is considering a broader rulemaking proceeding to determine the regulatory status of IP-enabled services generally. In 2007, the FCC expanded local number portability requirements to VoIP.

Special Access

In early 2005, the FCC opened a proceeding to review the current special access pricing rules. Under the existing rules, CBT s special access services are subject to price cap regulation with no earnings cap. The new proceeding is examining the entire special access pricing structure, including whether or not to reinstate an earnings cap. In 2007, the FCC invited interested parties to update the record.

Universal Service

The federal Universal Service Fund is currently funded via an assessment on all telecommunications carriers interstate end-user revenue. The FCC is currently considering alternatives to this method of funding. Some of the alternatives being considered include expanding the base to include intrastate revenue or switching to an assessment based on connections and telephone numbers. Any such alteration could result in a change in the manner in which carriers recover their contributions from end users.

Unbundled Network Elements

In early 2005, the FCC rewrote its unbundled network element rules in response to the federal court s remand of the previous rules. The latest rules have no significant impact on CBT. However, the elimination of

unbundled circuit switching, and thus the UNE platform (UNE-P), required CBET to migrate its UNE-P lines to alternative arrangements by March 11, 2006 and/or to negotiate with the underlying ILEC for continued provision of UNE-P, which CBET did pursuant to a commercial agreement. This did not have a significant adverse impact on CBET since CBET had already planned to migrate the majority of its customers to its own switching facilities.

Broadband Internet Access

In an order adopted in 2005, the FCC provided wireline carriers the option of offering broadband Internet access as a non-regulated information service (comparable treatment to cable modem Internet access) or as a regulated telecommunications service. Each option has associated costs and benefits that must be weighed in light of a carrier s current mix of existing services and new services the carrier may be contemplating offering in the future. In 2007, the FCC ruled that wireless broadband service is also a non-regulated information service on the same regulatory footing as other broadband services, such as cable modem service and wireline DSL service.

FCC Safeguards to Protect Customer Proprietary Network Information (CPNI)

On April 2, 2007, the FCC released an order implementing new CPNI rules designed to prevent pretexting to gain access to customer information. The new rules, which became effective in December 2007, require carriers to implement security protections limiting the manner in which certain customer information may be released and requiring notice to customers regarding certain types of changes to their account and CPNI breaches. Carriers must file an annual certification with the FCC that they are compliant with the rules, including a summary of actions taken in response to customer complaints.

State Because CBT generates the majority of its revenue from the operation of its public switched telephone network, its financial results follow no particular seasonal pattern. CBT does derive a significant portion of its revenue from pricing plans that are subject to regulatory overview and approval. In both Ohio and Kentucky, CBT operates under alternative regulation plans in which CBT is subject to restrictions on its ability to increase the price of basic local service and related services. In return, CBT is not subject to an earnings cap or recapture in Ohio, as it would if regulated under a traditional regulatory plan based upon a targeted rate of return. CBT has operated under alternative regulation plans since 1994 during which price increases and enhanced flexibility for a limited number of services have partially offset the effect of fixed pricing for basic local service and reduced pricing for other, primarily wholesale services.

In June 2004, CBT adopted a new alternative regulation plan in Ohio, which, although similar to its previous plan, gives CBT the option to remain in the alternative regulation plan indefinitely. Statutory changes enacted by the Ohio General Assembly in August 2005 gave the Public Utilities Commission of Ohio (the PUCO) the authority to provide ILECs with pricing flexibility for basic local rates upon a showing that consumers have sufficient competitive alternatives (House Bill 218). In 2006, the Company applied for and received authority from the PUCO to increase its rates for basic local exchange service in certain of its exchanges. CBT implemented rate increases for basic local exchange service in the affected exchanges beginning in January 2007. The Ohio Consumers Counsel appealed the PUCO s decision to the Ohio Supreme Court, which heard arguments on December 12, 2007.

Ohio Cable Franchise

Ohio statewide video service authorization legislation was introduced on March 15, 2007 and signed by the Governor on May 9, 2007. This legislation allows the Company to apply for one statewide video franchise agreement rather than negotiating individual agreements with all local entities in Ohio. The Act holds no build-out requirements for the Company, allows for no ongoing additional fees above the federally authorized 5% and holds PEG requirements to a minimum. On October 31, 2007, CBET applied for statewide video service authorization which was granted in December 2007. CBET is now authorized to provide service in our self-described territory with only 10-day notification to the municipality and other providers. The authorization can be amended to include additional territory with mere notification to the state.

Recently Issued 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. As it relates to financial assets and liabilities, SFAS No. 157 will be effective for interim and annual reporting periods beginning after November 15, 2007. Per FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, implementation of SFAS No. 157 to non-financial assets and liabilities will be effective for interim and annual reporting periods beginning after November 15, 2008. The Company expects the impact of SFAS No. 157 on financial assets and liabilities will be immaterial to its Consolidated Financial Statements. The Company has not yet assessed the impact of this Statement related to non-financial assets and liabilities on its Consolidated Financial Statements.

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 improve financial reporting by providing 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. SFAS No. 159 will be effective for the first fiscal year that begins after November 15, 2007. The Company does not expect to implement the alternative treatment afforded by SFAS No.159.

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.

Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

This Form 10-K contains forward-looking statements, as defined in federal securities laws including the Private Securities Litigation Reform Act of 1995, which are based on Cincinnati Bell Inc. s current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs, expectations and future plans and strategies of the Company, are forward-looking statements. These include any statements regarding:

- future revenue, operating income, profit percentages, income tax refunds, realization of deferred tax assets, earnings per share or other results of operations;

- the continuation of historical trends;

the sufficiency of cash balances and cash generated from operating and financing activities for future liquidity and capital resource needs;

the effect of legal and regulatory developments; and

the economy in general or the future of the communications services industries.

Actual results may differ materially from those expressed or implied in forward-looking statements. The following important factors could cause or contribute to actual results being materially different from those described or implied by such forward-looking statements include, but are not limited to:

changing market conditions and growth rates within the telecommunications industry or generally within the overall economy;

changes in competition in markets in which the Company operates;

pressures on the pricing of the Company s products and services;

advances in telecommunications technology;

the ability to generate sufficient cash flow to fund the Company s business plan and maintain its networks;

the ability to refinance the Company s indebtedness when required on commercially reasonable terms;

changes in the telecommunications regulatory environment;

changes in the demand for the services and products of the Company;

the demand for particular products and services within the overall mix of products sold, as the Company s products and services have varying profit margins;

the Company s ability to introduce new service and product offerings in a timely and cost effective basis;

work stoppages caused by labor disputes;

restrictions imposed under various credit facilities and debt instruments;

the Company s ability to attract and retain highly qualified employees; and

the Company s ability to access capital markets and the successful execution of restructuring initiatives.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk Management

The Company s objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings, cash flows, and the fair market value of certain assets and liabilities, while maintaining low overall borrowing costs.

Because the Company is exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from its credit facility and changes in current rates compared to that of its fixed rate debt, the Company sometimes employs derivative financial instruments to manage its exposure to these fluctuations and its total interest expense over time. The Company does not hold or issue derivative financial instruments for trading purposes or enter into transactions for speculative purposes.

Interest rate swap agreements, a particular type of derivative financial instrument, involve the exchange of fixed and variable rate interest payments between the Company and its counterparties in the transactions and do not represent an actual exchange of the notional amounts between the parties. Because the notional amounts are not exchanged, the notional amounts of these agreements are not indicative of the Company s exposure resulting from these derivatives. The amounts to be exchanged between the parties are primarily the net result of the fixed and variable rate percentages to be charged on the swap s notional amount.

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The Company has entered into a series of fixed-to-variable interest rate swaps with total notional amounts of $450 million that qualify for fair value hedge accounting. Fair value hedges offset changes in the fair value of underlying assets and liabilities. The Company s interest rate swaps at December 31, 2007 and 2006 are recorded at their fair value, and the carrying values of the underlying liabilities hedged (the 7% Notes and 8 ^{3}/8% Notes) are adjusted by the same corresponding value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The fair value of the interest rate swap contracts was an asset of $2.9 million and a liability of $13.5 million at December 31, 2007 and 2006, respectively. A hypothetical 10% change in market interest rates at December 31, 2007 and 2006 would change the fair value of the interest rate swap contracts by approximately $12 million and $13 million, respectively.

The following table sets forth the face amounts, maturity dates, and average interest rates for the fixed and variable-rate debt, excluding capital leases, net unamortized premiums, and the fair value of the interest rate swaps held by the Company at December 31, 2007:

(dollars in millions)	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Fixed-rate debt:	$ 0.2	$ 0.1				$ 1,635.5	$ 1,635.8	$ 1,583.8
Average interest rate on fixed-rate debt	4.3%	4.3%				7.6%	7.6%	
Variable-rate debt:	$ 4.0	$ 4.0	$ 59.0	$ 97.0	$ 177.0		$ 341.0	$ 335.1
Average interest rate on variable-rate debt (1)	6.8%	6.8%	7.3%	6.8%	6.4%		6.7%	

(1) Based on the average rate in effect during 2007.

At December 31, 2006, the carrying value and fair value of fixed-rate debt was $1,667.7 million and $1,708.6 million, respectively. At December 31, 2006, both the carrying value and fair value of variable-rate debt were $395.0 million. Including the impact of the $450 million notional amounts of interest rate swap agreements, approximately 60% of the Company s indebtedness was based on fixed interest rates at December 31, 2007 and 2006, respectively.

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Item 8. Financial Statements and Supplementary Schedules

Index to Consolidated Financial Statements

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Cincinnati Bell Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a 15(f) under the Securities Exchange Act of 1934. The Company s internal control system is designed to produce reliable financial statements in conformity with accounting principles generally accepted in the United States.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on this assessment, management has concluded that, as of December 31, 2007, the Company s internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company s internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included herein.

February 26, 2008

/s/ John F. Cassidy
John F. Cassidy
President and Chief Executive Officer

/s/ Brian A. Ross
Brian A. Ross
Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of Cincinnati Bell Inc.

We have audited the internal control over financial reporting of Cincinnati Bell Inc. and subsidiaries (the Company) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 26, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the Company s adoption of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, elected application effective January 1, 2006, FASB Statement No. 123(R), *Share-Based Payment*, effective January 1, 2006, FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R),* effective December 31, 2006, and the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

February 26, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of Cincinnati Bell Inc.

We have audited the accompanying consolidated balance sheets of Cincinnati Bell Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareowners equity (deficit) and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule (Schedule II). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cincinnati Bell Inc. at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, effective January 1, 2006, the Company elected application of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123(R), *Share-Based Payment*. As discussed in Note 9 to the consolidated financial statements, the Company adopted the provisions of FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R),* effective December 31, 2006. As discussed in Note 13 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective January 1, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio

February 26, 2008

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Cincinnati Bell Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Millions of Dollars, Except Per Share Amounts)

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenue			
Services	$ 1,155.4	$ 1,100.2	$ 1,076.9
Products	193.2	169.9	132.7
Total revenue	1,348.6	1,270.1	1,209.6
Costs and expenses			
Cost of services	408.5	384.8	363.5
Cost of products sold	201.2	183.5	148.8
Selling, general and administrative	265.9	244.2	221.0
Depreciation	147.1	138.6	174.7
Amortization	3.7	4.4	
Shareholder claim settlement		6.3	
Restructuring charges	39.8	3.4	1.1
Asset impairments and other charges			41.7
Gain on sale of broadband assets		(7.6)	
Total operating costs and expenses	1,066.2	957.6	950.8
Operating income	282.4	312.5	258.8
Minority interest income		(0.5)	(11.0)
Interest expense	154.9	162.1	184.4
Loss on extinguishment of debt	0.7	0.1	99.8
Other income, net	(3.1)	(3.8)	(4.2)
Income (loss) before income taxes	129.9	154.6	(10.2)
Income tax expense	56.7	68.3	54.3
Net income (loss)	73.2	86.3	(64.5)
Preferred stock dividends	10.4	10.4	10.4
Net income (loss) applicable to common shareowners	$ 62.8	$ 75.9	$ (74.9)
Basic earnings (loss) per common share	$ 0.25	$ 0.31	$ (0.30)
Diluted earnings (loss) per common share	$ 0.24	$ 0.30	$ (0.30)
Weighted average common shares outstanding (millions)			
Basic	247.4	246.8	245.9

Diluted	256.8	253.3	245.9

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

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Cincinnati Bell Inc.

CONSOLIDATED BALANCE SHEETS

(Millions of Dollars, Except Share Amounts)

	As of December 31, 2007	As of December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 26.1	$ 79.4
Receivables, less allowances of $17.1 and $15.2	176.5	161.9
Inventory, materials and supplies	31.2	24.9
Deferred income tax benefits, net	72.8	63.3
Prepaid expenses and other current assets	11.1	17.9
Total current assets	317.7	347.4
Property, plant and equipment, net	933.7	818.8
Goodwill	62.4	53.3
Intangible assets, net	121.2	112.9
Deferred income tax benefits, net	523.4	631.4
Other noncurrent assets	61.2	50.0
Total assets	$ 2,019.6	$ 2,013.8
Liabilities and Shareowners Deficit		
Current liabilities		
Current portion of long-term debt	$ 7.8	$ 7.3
Accounts payable	105.5	74.1
Current portion of unearned revenue and customer deposits	47.4	42.9
Accrued taxes	15.2	52.8
Accrued interest	49.4	52.1
Accrued payroll and benefits	44.8	43.8
Other current liabilities	47.5	45.9
Total current liabilities	317.6	318.9
Long-term debt, less current portion	2,001.9	2,065.9
Accrued pension and postretirement benefits	291.7	359.6
Other noncurrent liabilities	76.0	61.0
Total liabilities	2,687.2	2,805.4
Commitments and contingencies		
Shareowners deficit		
Preferred Stock 2,357,299 shares authorized; 155,250 (3,105,000 depositary shares) of 6 3/4% Cumulative Convertible Preferred Stock issued and outstanding at December 31, 2007 and 2006; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 256,652,787 and 255,669,983 shares issued; 248,357,332 and 247,471,538 outstanding at December 31, 2007 and 2006	2.6	2.6
Additional paid-in capital	2,922.7	2,924.9
Accumulated deficit	(3,459.1)	(3,527.2)

Accumulated other comprehensive loss	(115.9)	(174.5)
Common shares in treasury, at cost:		
8,295,455 and 8,198,445 shares at December 31, 2007 and 2006	(147.3)	(146.8)
Total shareowners deficit	(667.6)	(791.6)
Total liabilities and shareowners deficit	$ 2,019.6	$ 2,013.8

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

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Cincinnati Bell Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Dollars)

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities			
Net income (loss)	$ 73.2	$ 86.3	$ (64.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation	147.1	138.6	174.7
Amortization	3.7	4.4	
Gain on sale of broadband assets		(7.6)	
Asset impairments and other charges			41.7
Loss on extinguishment of debt	0.7	0.1	99.8
Provision for loss on receivables	15.2	14.0	14.3
Noncash interest expense	5.0	4.9	22.4
Minority interest income		(0.5)	(11.0)
Deferred income tax expense, including valuation allowance change	51.7	62.4	52.5
Pension and other postretirement expense in excess of payments	19.2	28.1	32.3
Other, net	4.0	(2.1)	(0.1)
Changes in operating assets and liabilities, net of effect of acquisitions			
Increase in receivables	(27.8)	(15.0)	(33.5)
Increase in inventory, materials, supplies, prepaids and other current assets	(7.3)	(6.2)	(2.1)
Increase in accounts payable	19.8	4.1	10.9
Increase (decrease) in accrued and other current liabilities	(28.7)	23.3	(13.4)
Decrease (increase) in other long-term assets	(0.7)	0.5	(3.2)
Increase (decrease) in other long-term liabilities	33.7	(0.6)	1.5
Net cash provided by operating activities	308.8	334.7	322.3
Cash flows from investing activities			
Capital expenditures	(233.8)	(151.3)	(143.0)
Acquisitions of businesses and remaining minority interest in CBW	(23.6)	(86.7)	
Purchase and deposit wireless licenses	(4.4)	(37.1)	
Proceeds from sale of investment		5.7	
Proceeds from sale of broadband assets		4.7	
Other, net	(1.7)	4.7	0.3
Net cash used in investing activities	(263.5)	(260.0)	(142.7)
Cash flows from financing activities			
Issuance of long-term debt	75.6		752.1
Increase in corporate credit facility, net	55.0		
Repayment of debt	(219.1)	(13.3)	(903.3)
Debt issuance costs and consent fees	(1.3)		(21.9)
Issuance of common shares exercise of stock options	2.5	1.9	2.5
Preferred stock dividends	(10.4)	(10.4)	(10.4)
Other	(0.9)	0.8	2.2
Net cash used in financing activities	(98.6)	(21.0)	(178.8)

Net increase (decrease) in cash and cash equivalents	(53.3)	53.7	0.8
Cash and cash equivalents at beginning of year	79.4	25.7	24.9
Cash and cash equivalents at end of year	$ 26.1	$ 79.4	$ 25.7

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

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Cincinnati Bell Inc.

CONSOLIDATED STATEMENTS OF SHAREOWNERS EQUITY (DEFICIT) AND

COMPREHENSIVE INCOME (LOSS)

(in Millions)

	6 3/4% Cumulative Convertible Preferred Shares		Common Shares		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury Shares		
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**Loss**	**Shares**	**Amount**	**Total**
Balance at December 31, 2004	3.1	$ 129.4	253.3	$ 2.5	$ 2,934.5	$ (3,540.0)	$ (5.5)	(7.9)	$ (145.4)	$ (624.5)
Net loss						(64.5)				(64.5)
Additional minimum pension liability adjustment, net of taxes of $24.6							(44.1)			(44.1)
Comprehensive loss										(108.6)
Shares issued under employee plans and other			1.7	0.1	4.0				(0.1)	4.0
Stock-based compensation					1.8					1.8
Dividends on 6 3/4% preferred stock					(10.4)					(10.4)
Balance at December 31, 2005	3.1	129.4	255.0	2.6	2,929.9	(3,604.5)	(49.6)	(7.9)	(145.5)	(737.7)
Adjustment to opening accumulated deficit, net of taxes of $5.2						(9.0)				(9.0)
Net income						86.3				86.3
Additional minimum pension liability adjustment, net of taxes of $(1.4)							2.2			2.2
Comprehensive income										88.5
Shares issued (purchased) under employee plans and other			0.7		2.1			(0.3)	(1.3)	0.8
Stock-based compensation					2.5					2.5
Dividends on 6 3/4% preferred stock					(10.4)					(10.4)
Adjustment to initially apply SFAS No. 158, net of taxes of $73.3							(127.1)			(127.1)
Other					0.8					0.8
Balance at December 31, 2006	3.1	129.4	255.7	2.6	2,924.9	(3,527.2)	(174.5)	(8.2)	(146.8)	(791.6)
Adjustment to opening accumulated deficit						(5.1)				(5.1)
Net income						73.2				73.2
Amortization of pension and postretirement costs, net of taxes of ($7.0)							12.2			12.2
Remeasurement of pension and postretirement liabilities and other, net of taxes of ($27.1)							46.4			46.4

Comprehensive income										131.8
Shares issued (purchased) under employee plans and other			1.0		2.1			(0.1)	(0.5)	1.6
Stock-based compensation					6.1					6.1
Dividends on 6 3/4% preferred stock					(10.4)					(10.4)
Balance at December 31, 2007	3.1	$ 129.4	256.7	$ 2.6	$ 2,922.7	$ (3,459.1)	$ (115.9)	(8.3)	$ (147.3)	$ (667.6)

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

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Notes to Consolidated Financial Statements

1. Description of Business and Significant Accounting Policies

Description of Business Cincinnati Bell Inc. and its consolidated subsidiaries (the Company) provides diversified telecommunications services through businesses in three segments: Wireline, Wireless and Technology Solutions. See Note 15 for information on changes to the Company s reportable segments.

The Company generates substantially all 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.

Additionally, because approximately 40% of the Company s workforce is party to collective bargaining agreements, which expire in May 2008, a dispute or failed renegotiation of the collective bargaining agreements could have a material adverse effect on the business. On January 31, 2008, the Company and the Communication Workers of America (CWA) reached a tentative agreement on a new labor contract. The new agreement is subject to ratification by the local CWA membership.

Basis of Presentation The consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) in accordance with accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified to conform to the current year classifications.

Basis of Consolidation The consolidated financial statements include the consolidated accounts of Cincinnati Bell Inc. and its majority-owned subsidiaries over which it exercises control. Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Cash Equivalents Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

Accounts Receivables Accounts receivables consist principally of trade receivables from customers and are generally unsecured and due within 30 days. Unbilled receivables arise from services rendered but not yet billed. As of December 31, 2007 and 2006, unbilled receivables totaled $28.9 million and $25.3 million, respectively. Expected credit losses related to trade receivables are recorded as an allowance for uncollectible accounts in the Consolidated Balance Sheets. The Company establishes the allowances for uncollectible accounts using percentages of aged accounts receivable balances to reflect the historical average of credit losses as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for uncollectible accounts.

Inventory, Materials, and Supplies Inventory, materials, and supplies consists of wireless handsets, wireline network components, various telephony and IT equipment to be sold to customers, maintenance inventories, and other materials and supplies, which are carried at the lower of average cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at original cost and presented net of accumulated depreciation and impairment charges. Most of the Wireline network property, plant and equipment used to generate its voice and data revenue is depreciated using the group method, which develops a depreciation rate (annually) based on the average useful life of a specific group of assets rather than for each individual asset as would be utilized under the unit method. The estimated life of the group changes as the composition of the group of assets and their related lives change. Provision for depreciation of other property, plant and equipment, other than leasehold improvements, is based on the straight-line method over the estimated economic useful life. Depreciation of leasehold improvements is based on a straight-line method over the lesser of the economic useful life or term of the lease, including option renewal periods if renewal of the lease is reasonably assured.

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Additions and improvements, including interest and certain labor costs incurred during a construction period, are capitalized, while expenditures that do not enhance the asset or extend its useful life are charged to operating expenses as incurred. Capitalized interest for 2007, 2006, and 2005 was $3.6 million, $1.0 million, and $0.6 million, respectively. The increase in 2007 relates to capitalized interest during the construction of the Company s third generation (3G) wireless network and new data center facilities.

The Company records the fair value of a legal liability for an asset retirement obligation in the period it is incurred. The removal cost is initially capitalized and depreciated over the remaining life of the underlying asset. The associated liability is accreted to its present value each period. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as income or loss on disposition.

Goodwill and Indefinite-Lived Intangible Assets Goodwill represents the excess of the purchase price consideration over the fair value of assets acquired recorded in connection with purchase business combinations. Indefinite-lived intangible assets consist of Federal Communications Commission (FCC) licenses for wireless spectrum and trademarks of the Wireless segment. The Company may renew the wireless licenses in a routine manner every ten years for a nominal fee, provided the Company continues to meet the service and geographic coverage provisions required by the FCC.

Goodwill and intangible assets not subject to amortization are tested for impairment annually, or when events or changes in circumstances indicate that the asset might be impaired. The impairment test for goodwill involves comparing the estimated fair value of the reporting unit based on discounted future cash flows to the unit s carrying value. The impairment test for indefinite-lived intangibles consists of comparing the estimated fair value of the intangible asset to its carrying value. For each intangible tested, the carrying values were lower than the estimated fair values, and no impairment charges were recorded in 2007, 2006, and 2005.

Long-Lived Assets, Other than Goodwill and Indefinite-Lived Intangibles The Company reviews the carrying value of long-lived assets, other than goodwill and indefinite-lived intangible assets discussed above, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the estimated future undiscounted cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition are less than the carrying amount. An impairment loss is measured as the amount by which the asset s carrying value exceeds its fair value.

From 2003 through June 2006, the Company transitioned its wireless customers from its legacy Time Division Multiple Access (TDMA) network to its Global System for Mobile Communications (GSM) network. Although the Company had shortened the useful lives of the TDMA equipment to December 31, 2006, the Company incurred charges of $42.3 million to write down the recorded value of TDMA assets that were retired in 2005 and TDMA assets that could no longer support their recorded value. These charges were included in Asset impairments and other charges in the Consolidated Statement of Operations. The Company wrote down the assets to fair value, which was calculated based on the appraised amount at which the assets could be sold in a current transaction between willing parties.

Investments The Company has certain investments that do not have readily determinable fair market values. Investments over which the Company exercises significant influence are recorded under the equity method. The Company had no equity method investments at December 31, 2007, and had equity method investments with a carrying value of $0.6 million at December 31, 2006. Investments in which the Company owns less than 20% and cannot exercise significant influence over the investee operations are recorded at cost. The carrying value of these investments was approximately $2.3 million and $1.8 million as of December 31, 2007 and 2006, respectively. Investments are reviewed annually for impairment. If the carrying value of the investment exceeds its estimated fair value and the decline in value is determined to be other-than-temporary, an impairment loss is recognized for the difference. The Company estimates fair value using external information and discounted cash flow analyses. In 2007, the Company received a one-time dividend of $1.9 million from a cost investment. During 2006, the Company sold a cost investment and recorded a gain of $3.2 million. These gains are included in Other income, net in the Consolidated Statements of Operations.

Revenue Recognition The Company adheres to sales recognition principles described in Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, issued by the SEC. Under SAB No. 104, sales are recognized when there is persuasive evidence of a sale arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Service revenue The Company recognizes service revenue as services are provided. Revenue from local telephone and special access services, which are billed monthly prior to performance of service, and from prepaid wireless service, which is collected in advance, is not recognized upon billing or cash receipt but rather is deferred until the service is provided. Postpaid wireless, long distance, switched access, reciprocal compensation, and data and Internet product services are billed monthly in arrears. The Company bills service revenue in regular monthly cycles, which are spread throughout the days of the month. As the day of each billing cycle rarely coincides with the end of the Company s reporting period for usage-based services such as postpaid wireless, long distance, and switched access, the Company must estimate service revenues earned but not yet billed. The Company bases its estimates upon historical usage and adjusts these estimates during the period in which the Company can determine actual usage, typically in the following reporting period.

Initial billings for Wireline service connection and activation are deferred and amortized into revenue on a straight-line basis over the average customer life. The associated connection and activation costs, to the extent of the upfront fees, are also deferred and amortized on a straight-line basis over the average customer life.

Data center services are also recognized as service is provided. Agreements with data center customers require certain levels of service or performance. Although the occurrence is rare, if the Company fails to meet these levels, customers may be able to receive service credits for their accounts. The Company records these credits against revenue when an event occurs that gives rise to such credits. In multi-year data center arrangements with increasing or decreasing monthly billings, revenues are recognized on a straight-line basis. Revenue for leased data center assets is also recognized on a straight-line basis over the contract term.

Technology Solutions professional services, including product installations, are recognized as the service is provided. Technology Solutions also provides maintenance services on telephony equipment under one to four year contract terms. This revenue is accounted for under Financial Accounting Standards Board (FASB) Technical Bulletin No. 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts, and is deferred and recognized ratably over the term of the underlying customer contract.

Products The Company recognizes equipment revenue upon the completion of contractual obligations, such as shipment, delivery, installation, or customer acceptance. Wireless handset revenue and the related activation revenue are recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Wireless equipment costs are also recognized upon handset sale, and are in excess of the related handset and activation revenue. The Company is a reseller of IT and telephony equipment and considers the criteria of Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, when recording revenue, such as title transfer, risk of product loss, and collection risk. Based on this guidance, these equipment revenues and associated costs have generally been recorded on a gross basis, rather than recording the revenues net of the associated costs. The Company benefits from vendor rebate plans, particularly rebates on hardware sold by Technology Solutions. The Company recognizes the rebates as an offset to costs of products sold upon sale of the related equipment to the customer.

With respect to arrangements with multiple deliverables, the Company follows the guidance in EITF 00-21, Revenue Arrangements with Multiple Deliverables, to determine whether more than one unit of accounting exists in an arrangement. To the extent that the deliverables are separable into multiple units of accounting, total consideration is allocated to the individual units of accounting based on their relative fair value, determined by the price of each deliverable when it is regularly sold on a stand-alone basis. Revenue is recognized for each unit of accounting as delivered or as service is performed depending on the nature of the deliverable comprising the unit of accounting.

The Company is a reseller of IT equipment, such as servers and routers, and often is contracted to install the IT equipment that it sells. The revenue recognition guidance in Statement of Position (SOP) 97-2, Software Revenue Recognition, is applied, which requires vendor specific objective evidence (VSOE) in order to recognize the IT equipment separate from the installation. The Company both sells IT equipment without the installation service, and provides installation services without the IT equipment, and as such, has VSOE that permits the separation of the IT equipment from the installation services. The Company recognizes the IT equipment upon completion of its contractual obligations, generally upon delivery of the IT equipment to the customer, and recognizes installation service revenue upon completion of the installation.

Pricing of local services is generally subject to oversight by both state and federal regulatory commissions. Such regulation also covers services, competition, and other public policy issues. Various regulatory rulings and interpretations could result in increases or decreases to revenue in future periods.

Advertising Costs related to advertising are expensed as incurred and amounted to $26.4 million, $25.9 million, and $26.2 million in 2007, 2006, and 2005, respectively.

Legal Expenses Legal costs incurred in connection with loss contingencies are expensed as incurred.

Income and Operating Taxes The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. Deferred investment tax credits are being amortized as a reduction of the provision for income taxes over the estimated useful lives of the related property, plant and equipment. At December 31, 2007, the Company has $596.2 million of deferred tax assets. The ultimate realization of the deferred income tax assets depends upon the Company s ability to generate future taxable income during the periods in which basis differences and other deductions become deductible and prior to the expiration of the net operating loss carryforwards. The Company s previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $5.1 million increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. After recognizing the impact from the adoption of FIN 48, the Company had a $14.7 million liability recorded for unrecognized tax benefits as of January 1, 2007. At December 31, 2007, the Company has a $14.8 million liability recorded for unrecognized tax benefits. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $14.5 million. The Company does not currently anticipate that the amount of unrecognized tax benefits will change significantly over the next year. Refer to Note 13 of the Consolidated Financial Statements for further discussion related to income taxes.

The Company incurs certain operating taxes that are reported as expenses in operating income, such as property, sales, use, and gross receipts taxes. These taxes are not included in income tax expense because the amounts to be paid are not dependent on the level of income generated by the Company. The Company also records expense against operating income for the establishment of liabilities related to certain operating tax audit exposures. These liabilities are established based on the Company s assessment of the probability of payment. Upon resolution of audit, any remaining liability not paid is released and increases operating income.

The Company also 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 and in fact, does not collect the tax from customers in certain instances. The amount recorded as revenue for 2007, 2006, and 2005 was $17.3 million, $15.3 million and $15.6 million, respectively. The amount expensed for 2007, 2006 and 2005 was $18.2 million, $20.0 million and $16.0 million, respectively. The Company records all other taxes collected from customers on a net basis.

Stock-Based Compensation In accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, the Company values all share-based payments to employees, including grants of employee stock options, at fair value on the date of grant and expenses this amount over the applicable vesting period. The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective application method, therefore prior periods were not restated. Under this method, SFAS No. 123(R) applies to new awards, awards modified, repurchased, or cancelled after January 1, 2006 and any unvested awards at that date. All outstanding stock option awards as of December 31, 2005 were fully vested and had no impact on the Company s results of operations for 2006 or 2007. Prior to 2006, the Company recorded stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25).

The fair value of stock options is determined using the Black-Scholes option-pricing model using assumptions such as volatility, risk-free interest rate, holding period and dividends. The fair value of stock awards is based on the Company s share price on the date of grant. For all share-based payments, an assumption is also made for the estimated forfeiture rate based on the historical behavior of employees. The forfeiture rate reduces the total fair value of the awards to be recognized as compensation expense. The Company s policy for graded vesting awards is to recognize compensation expense on a straight-line basis over the vesting period. Refer to Note 14 of the Consolidated Financial Statements for further discussion related to stock-based compensation.

The following table illustrates the effect on net loss and basic and diluted loss per share if the Company had applied the provisions of SFAS No. 123(R) to stock-based compensation in 2005.

(dollars in millions except per share amounts)			**Year Ended December 31, 2005**
Net loss as reported		$	(64.5)
Add: Stock-based compensation expense included in reported net loss, net of related tax benefits			1.1
Deduct: Stock-based compensation expense determined under fair value method, net of related tax benefits			(7.6)
Pro forma net loss		$	(71.0)
Basic loss per share:	As reported	$	(0.30)
	Pro forma		(0.33)
Diluted loss per share:	As reported		(0.30)
	Pro forma		(0.33)

Accounting for Termination Benefits The Company has written severance plans covering both its management and union employees and, as such, accrues probable and estimable employee separation liabilities in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43. These liabilities are based on the Company s historical experience of severance, historical costs associated with severance, and management s expectation of future severance.

The Company accrues for special termination benefits upon acceptance by an employee of any voluntary termination offer in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. Also, the Company considers whether employee terminations give rise to a pension and postretirement curtailment charge under SFAS No. 88. The Company s policy is that terminations in a calendar year involving 10% or more of the plan service years result in a curtailment of the pension or postretirement plan.

See Note 3 of the Consolidated Financial Statements for further discussion of the Company s restructuring plans.

Derivative Financial Instruments The Company is exposed to the impact of interest rate fluctuations on its indebtedness. The Company employs derivative financial instruments to manage its balance of fixed rate and variable rate indebtedness. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Interest rate swap agreements, a particular type of derivative financial instrument, involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. The Company has entered into a series of interest rate swaps with total notional amounts of $450 million that qualify as fair value hedges. Fair value hedges offset changes in the fair value of underlying assets and liabilities. The interest rate swaps are recorded at their fair values and the carrying value of the underlying hedged indebtedness is adjusted by the same corresponding value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

Recently Issued 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. As it relates to financial assets and liabilities, SFAS No. 157 will be effective for interim and

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annual reporting periods beginning after November 15, 2007. Per FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, implementation of SFAS No. 157 to non-financial assets and liabilities will be effective for interim and annual reporting periods beginning after November 15, 2008. The Company expects the impact of SFAS No. 157 on financial assets and liabilities will be immaterial to its Consolidated Financial Statements. The Company has not yet assessed the impact of this Statement related to non-financial assets and liabilities on its Consolidated Financial Statements.

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 improve financial reporting by providing 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. SFAS No. 159 will be effective for the first fiscal year that begins after November 15, 2007. The Company does not expect to implement the alternative treatment afforded by SFAS No. 159.

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.

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2. Earnings (Loss) Per Common Share

Basic earnings (loss) 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, but only to the extent that they are considered dilutive to the Company s diluted EPS. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	Year Ended December 31,		
(in millions, except per share amounts)	**2007**	**2006**	**2005**
Numerator:			
Net income (loss)	$ 73.2	$ 86.3	$ (64.5)
Preferred stock dividends	10.4	10.4	10.4
Numerator for basic and diluted EPS	$ 62.8	$ 75.9	$ (74.9)
Denominator:			
Denominator for basic EPS weighted average common shares outstanding	247.4	246.8	245.9
Warrants	7.1	5.1	
Stock-based compensation arrangements	2.3	1.4	
Denominator for diluted EPS	256.8	253.3	245.9
Basic earnings (loss) per common share	$ 0.25	$ 0.31	$ (0.30)
Diluted earnings (loss) per common share	$ 0.24	$ 0.30	$ (0.30)
Potentially issuable common shares excluded from denominator for diluted EPS due to anti-dilutive effect	36.5	37.7	45.0

3. Restructuring Charges

2007 Restructurings

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 a restructuring charge of $37.5 million, composed of the following:

Special termination pension and postretirement benefit of $8.2 million 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 have been earned through December 31, 2007 under SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and this amount was therefore accrued as of December 31, 2007. Remaining termination benefits 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 $2.6 million in 2008 and $1.2 million in 2009. See Note 9 to the Consolidated Financial Statements for further discussion of the special termination benefits.

Employee separation costs of $22.9 million This represents severance costs for employees over the next five years that are primarily related to the Company s need to downsize its Wireline operations to conform to the decreased access lines being served by the Company. These costs were recorded in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits, an

Amendment of FASB Statements No. 5 and 43, as the Company has probable and estimable liabilities under its written severance plans.

Pension and postretirement curtailment charge of $6.4 million Management terminations contemplated above represent approximately 10% of the plan service years for the management pension plan and 15% of the plan service years for the management postretirement benefits plan, resulting in a pension and postretirement plans curtailment charge of $6.4 million. See Note 9 to the Consolidated Financial Statements for further discussion relating to the curtailment charge.

The restructuring expense was associated with the Wireline segment for $34.0 million, Wireless for $2.1 million, Technology Solutions for $1.0 million, and Corporate for $0.4 million. At December 31, 2007, $4.5 million of the reserve related to employee separation was included in Other current liabilities, and $18.4 million was included in Other noncurrent liabilities in the Consolidated Balance Sheet. The special termination benefits and curtailment charges are included in Accrued pension and postretirement benefits in the Consolidated Balance Sheet at December 31, 2007.

In the first quarter of 2007, the Company incurred employee separation expense of $2.4 million related to the outsourcing of certain accounting functions and the reduction in workforce of various other administrative functions. All of the expense was associated with the Wireline segment and significantly all of it will be paid by the end of 2008. At December 31, 2007, $0.4 million of the reserve was included in Other current liabilities, and $0.1 million was included in Other noncurrent liabilities in the Consolidated Balance Sheet. The following table illustrates the activity in this reserve for 2007:

Type of costs (dollars in millions)	Initial Charge	Utilizations	Balance December 31, 2007
Employee separation obligations	$ 2.4	$ (1.9)	$ 0.5

2006 Restructuring

In September 2006, the Company incurred employee separation expense of $3.0 million related to the outsourcing of certain supply chain functions to improve operating efficiencies. Substantially all of the expense was associated with the Wireline segment and will be fully paid by the end of 2008. At December 31, 2007, the reserve balance of $0.4 million was included in Other current liabilities in the Consolidated Balance Sheet. At December 31, 2006, $1.5 million of the reserve balance was included in Other current liabilities and $0.4 million was included in Other noncurrent liabilities in the Consolidated Balance Sheet.

The following table illustrates the activity in this reserve through December 31, 2007:

Type of costs (dollars in millions)	Initial Charge	Utilizations	Balance December 31, 2006	Income	Utilizations	Balance December 31, 2007
Employee separation obligations	$ 3.0	$ (1.1)	$ 1.9	$ (0.3)	$ (1.2)	$ 0.4

2005 Restructuring

In late 2005, the Company incurred employee separation expense of $1.6 million related to the outsourcing of its directory assistance services. Substantially all of the expense was associated with the Wireline segment. The restructuring reserve balance of $0.1 million was included in Other current liabilities in the Consolidated Balance Sheet at December 31, 2006.

The following table illustrates the activity in this reserve through December 31, 2007:

Type of costs (dollars in millions)	Initial Charge	Utilizations	Balance December 31, 2005	Income	Utilizations	Balance December 31, 2006	Utilizations	Balance December 31, 2007
Employee separation obligations	$ 1.6	$ (0.1)	$ 1.5	$ (0.2)	$ (1.2)	$ 0.1	$ (0.1)	$

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 (DSL) and certain dial-up Internet operations into the Company s other operations. Impairment charges of $148.1 million and restructuring costs of $84.2 million were recorded in 2001 related to these initiatives. The cumulative restructuring charges incurred through December 31, 2007 for this plan total $95.0 million, composed of $72.2 million related to lease and other contract terminations, $22.4 million for employee separations, and $0.4 million for other exit costs. The Company completed the plan prior to 2003, except for certain lease obligations, which are expected to continue through 2015. Including amounts incurred to date, lease and other contract termination amounts are expected to total approximately $73.2 million.

The following table illustrates the activity in this reserve from December 31, 2004 through December 31, 2007:

Type of costs (dollars in millions)	Balance December 31, 2004	Income	Utilizations	Balance December 31, 2005	Expense	Utilizations	Balance December 31, 2006
Terminate contractual obligations	$ 10.1	$ (0.5)	$ (1.4)	$ 8.2	$ 0.6	$ (1.6)	$ 7.2

Type of costs (dollars in millions)	Balance December 31, 2006	Expense	Utilizations	Balance December 31, 2007
Terminate contractual obligations	$ 7.2	$ 0.3	$ (1.3)	$ 6.2

At December 31, 2007 and 2006, $1.3 million and $1.4 million, respectively, of the restructuring reserve balance was included in Other current liabilities in the Consolidated Balance Sheets. At December 31, 2007 and 2006, $4.9 million and $5.8 million, respectively, of the restructuring reserve balance was included in Other noncurrent liabilities in the Consolidated Balance Sheets.

4. Property, Plant and Equipment

Property, plant and equipment is comprised of the following:

(dollars in millions)	December 31, 2007	December 31, 2006	Depreciable Lives (Years)
Land and rights-of-way	$ 5.8	$ 5.7	20-Indefinite
Buildings and leasehold improvements	272.2	220.0	2-40
Telephone plant	2,245.9	2,148.8	2-50
Computer and telecommunications equipment	64.4	56.8	3-15
Furniture, fixtures, vehicles, and other	141.7	130.2	3-10
Construction in process	78.5	25.0	n/a
Gross value	2,808.5	2,586.5	
Accumulated depreciation	(1,874.8)	(1,767.7)	
	$ 933.7	$ 818.8	

Gross property, plant and equipment includes $38.3 million and $32.3 million of assets accounted for as capital leases as of December 31, 2007 and 2006, respectively. These assets are included in the captions Building and leasehold improvements, Computer and telecommunications equipment, and Furniture, fixtures, vehicles, and other. Amortization of capital leases is included in Depreciation in the Consolidated Statements of Operations. Approximately 82%, 83%, and 90% of Depreciation, as presented in the Consolidated Statements of Operations in 2007, 2006 and 2005, respectively, was associated with the cost of providing services and products.

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 AWS spectrum purchased in 2006. As a result, lives of certain GSM assets were shortened in the fourth quarter of 2006 and depreciation was accelerated based on the new useful life. The increase in depreciation due to this acceleration was approximately $1.3 million in the fourth quarter of 2006 and $5.2 million in 2007.

In 2003, the Company shortened the estimated remaining economic useful life of its legacy TDMA wireless network to December 31, 2006 due to the expected migration of its TDMA customer base to its GSM network. In 2005, the Company incurred charges of $42.3 million to write down the recorded value of TDMA assets that were retired in 2005 and TDMA assets that could no longer support their recorded value. These charges were included in Asset impairments and other charges in the Consolidated Statement of Operations. The Company wrote down the assets to fair value, which was calculated based on the appraised amount at which the assets could be sold in a current transaction between willing parties.

Also, in 2005, the useful life of certain of the remaining TDMA assets was shortened from the December 31, 2006 date being used, and depreciation was accelerated. The increase in depreciation expense due to the shortened life in 2005 was $7.7 million.

Subsequent event

In February 2008, the Company purchased a building for $16.3 million, which it intends to convert into a data center facility.

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5. Acquisitions of Businesses and Wireless Licenses

GramTel USA, Inc.

On December 31, 2007, the Company purchased GramTel USA, Inc. (GramTel), a data center business in South Bend, Indiana, for a purchase price of $20.3 million (including $0.6 million of accrued transaction costs), of which $19.0 million was paid in cash in 2007. The Company funded the purchase with its Corporate credit facility. The purchase price was primarily allocated to property, plant and equipment for $4.3 million, customer relationship intangible assets for $9.0 million, and goodwill for $7.0 million. The preliminary purchase price allocation for this transaction may be adjusted upon completion of the Company s valuation of the assets and liabilities of the business. The Company anticipates both the goodwill and intangible assets to be fully deductible for tax purposes. The financial results will be included in the Technology Solutions segment.

Local Telecommunication Business

In March 2007, the Company purchased a local telecommunication business (Lebanon), 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 March 2007. The Company funded the purchase with its available cash. The purchase price was primarily allocated to property, plant and equipment for $4.4 million, customer relationship intangible assets for $1.5 million and goodwill for $2.1 million. The financial results have been included in the Wireline segment and were immaterial to the Company s financial statements for the year ended December 31, 2007.

Acquisition of Remaining Interest in Cincinnati Bell Wireless LLC

In February 2006, the Company purchased the remaining 19.9% membership interest in Cincinnati Bell Wireless LLC (CBW). As a result, the Company paid purchase consideration of $83.0 million in cash and incurred transaction expenses of $0.2 million. CBW is now a wholly-owned subsidiary of the Company. The Company funded the purchase with its Corporate credit facility and available cash.

The transaction was accounted for as a step acquisition using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The Company applied the purchase price against the minority interest and then allocated the remainder to identifiable tangible and intangible assets and liabilities acquired as follows:

(dollars in millions)	
Minority interest	$ 27.8
Intangible assets	42.1
Goodwill	10.2
Other	3.1
Total purchase price	$ 83.2

The purchase price allocation was based upon the estimated fair values as of February 2006 of the tangible and intangible assets and liabilities. Estimated fair value was compared to the book value already recorded, and 19.9% of the excess of estimated fair value over book value was allocated to the respective tangible and intangible assets and liabilities. The excess purchase price over the minority interest and fair value ascribed to the tangible and intangible assets and liabilities was recorded as goodwill. The Company anticipates both the goodwill and intangible assets to be fully deductible for tax purposes.

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The following table presents detail of the purchase price allocated to intangible assets of CBW as of the date of acquisition:

(dollars in millions)	Fair Value	Weighted Average Amortization Period in Years
Intangible assets subject to amortization:		
Customer relationships subscribers	$ 11.6	7
Customer relationships collocation towers	2.6	10
Contractual right license	0.7	1
	14.9	7
Intangible assets not subject to amortization:		
FCC Licenses	21.0	n/a
Trademarks	6.2	n/a
Total intangible assets	$ 42.1	

The intangible asset for the relationship CBW has with its subscribers is being amortized using the sum-of-the-months digits method. Amortization of the customer relationship intangible asset associated with tower collocations utilizes a straight-line method. Tower collocation revenue is received from other wireless carriers for the placement of their radios on CBW towers. These amortization methods best reflect the estimated patterns in which the economic benefits will be consumed. For further discussion on amortization expense, refer to Note 6 of the Consolidated Financial Statements.

This acquisition has no effect on the Company s operating income, which historically has included 100% of CBW s operating income. However, for periods after the acquisition date, the 19.9% minority interest in the net income (loss) of CBW was eliminated.

The financial information in the table below summarizes the results of operations of the Company, on a pro forma basis, as though the acquisition had occurred as of the beginning of the periods presented:

(dollars in millions, except per share amounts)	Year Ended December 31, 2006	2005
Revenue	$ 1,270.1	$ 1,209.6
Net income (loss)	85.8	(77.2)
Basic earnings (loss) per share	0.31	(0.36)
Diluted earnings (loss) per share	0.30	(0.36)

Automated Telecom Inc.

In May 2006, the Company purchased Automated Telecom Inc. (ATI), based in Louisville, Kentucky, 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 a reseller of, and maintenance provider for, telephony equipment. The purchase price was primarily allocated to customer relationship intangible assets, deferred tax liabilities and goodwill. The financial results of ATI are included in the Technology Solutions segment and were immaterial to the Company s financial statements for the years ended December 31, 2007 and 2006.

Wireless Licenses

In 2007, the Company deposited $4.4 million with the FCC for the opportunity to participate in the auction, which began in January 2008, for the purchase of additional wireless spectrum. If the Company is not a winning bidder and does not purchase spectrum, the FCC will return the deposit in full to the Company. Such deposit is included in Other noncurrent assets in the Consolidated Balance Sheet.

In 2006, the Company purchased 20 MHz of advanced wireless spectrum for the Cincinnati and Dayton, Ohio regions and 10 MHz for the Indianapolis, Indiana region in the FCC Advanced Wireless Services spectrum auction for $37.1 million, which is included in Intangible assets, net in the Consolidated Balance Sheets. To

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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 in its Cincinnati and Dayton regions to deploy on the newly purchased AWS spectrum. The Company expects the 3G network to be operational in 2008. The Company is considering its options with respect to the Indianapolis spectrum, which include expansion of its wireless operations into this area or lease of the spectrum to another wireless provider.

Subsequent Event

In November 2007, the Company signed a definitive purchase agreement to purchase the assets of eGIX, Inc. (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. The transaction was completed in February 2008.

6. Goodwill and Intangible Assets

Goodwill

As of December 31, 2007 and 2006, goodwill totaled $62.4 million and $53.3 million, respectively. The changes in the carrying amount of goodwill for the year ended December 31, 2007, are as follows:

(dollars in millions)	Wireless	Wireline	Technology Solutions	Total
Balance as of December 31, 2006	$ 50.3	$ 0.8	$ 2.2	$ 53.3
Acquired during the year		2.1	7.0	9.1
Balance as of December 31, 2007	$ 50.3	$ 2.9	$ 9.2	$ 62.4

Intangible Assets

Summarized below are the carrying values for the major classes of intangible assets:

		December 31, 2007		December 31, 2006	
(dollars in millions)	Weighted Average Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:					
Customer relationships					
Wireline	8	$ 1.5	$ (0.3)	$	$
Wireless	8	14.2	(6.4)	14.2	(3.4)
Technology Solutions	7	11.0	(0.7)	2.0	(0.3)
		$ 26.7	$ (7.4)	$ 16.2	$ (3.7)
Wireless Contractual right license	1	$ 0.7	$ (0.7)	$ 0.7	$ (0.7)
Intangible assets not subject to amortization:					
Wireless FCC licenses	n/a	$ 95.7	$	$ 94.2	$
Wireless Trademarks	n/a	6.2		6.2	

The increase in customer relationships for the year ended December 31, 2007 compared to December 31, 2006 was attributable to the acquisitions of GramTel and Lebanon during 2007. See Note 5 of the Consolidated Financial Statements for further discussion. The increase in FCC licenses was due to the capitalization of interest during the construction of the 3G wireless network.

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Amortization expense for intangible assets subject to amortization was $3.7 million in 2007, $4.4 million for 2006 and none in 2005. The following table presents estimated amortization expense for 2008 through 2012, subject to adjustment for finalization of the GramTel purchase price allocation and future acquisitions:

(dollars in millions)	
2008	$ 3.9
2009	3.2
2010	2.9
2011	2.3
2012	2.1

7. Debt

Debt is comprised of the following:

	December 31,	
(dollars in millions)	2007	2006
Current portion of long-term debt:		
Credit facility, Tranche B Term Loan	$ 4.0	$ 4.0
Capital lease obligations and other debt	3.8	3.3
Current portion of long-term debt	7.8	7.3
Long-term debt, less current portion:		
Credit facility, revolver	55.0	
Credit facility, Tranche B Term Loan	207.0	391.0
7 $^{1}/4$% Senior Notes due 2013	470.5	496.9
$8^{3}/_{8}$% Senior Subordinated Notes due 2014*	637.4	631.5
7% Senior Notes due 2015*	250.6	245.0
7 $^{1}/4$% Senior Notes due 2023	50.0	50.0
Accounts Receivable Securitization Facility	75.0	
Various Cincinnati Bell Telephone notes	230.0	230.0
Capital lease obligations and other debt	25.8	20.7
	2,001.3	2,065.1
Net unamortized premiums	0.6	0.8
Long-term debt, less current portion	2,001.9	2,065.9
Total debt	$ 2,009.7	$ 2,073.2

* The face amount of these notes has been adjusted for the fair value of interest rate swaps classified as fair value derivatives at December 31, 2007 and 2006.

Accounts Receivable Securitization Facility

In March 2007, the Company and certain subsidiaries entered into an accounts receivable securitization facility (receivables facility), which permits borrowings of up to $80 million, depending on the level of eligible receivables and other factors. The receivables facility has a term of five years, expiring in March 2012. Under the receivables facility, Cincinnati Bell Telephone Company LLC (CBT), Cincinnati Bell Extended

Territories LLC (CBET), CBW, Cincinnati Bell Any Distance Inc., and Cincinnati Bell Complete Protection Inc. sell their respective trade receivables on a continuous basis to Cincinnati Bell Funding LLC (CBF), a wholly-owned limited liability company. In turn, CBF grants, without recourse, a senior undivided interest in the pooled receivables to commercial paper conduits in exchange for cash while maintaining a subordinated undivided interest, in the form of over-collateralization, in the pooled receivables. The Company has agreed to continue servicing the receivables for CBF at market rates; accordingly, no servicing asset or liability has been recorded.

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.

For the purposes of consolidated financial reporting, the receivables facility is accounted for as a secured financing. Because CBF has the ability to prepay the receivables facility at any time by making a cash payment and effectively repurchasing the receivables transferred pursuant to the facility, the transfers do not qualify for sale treatment on a consolidated basis under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125. Based on eligible receivables at December 31, 2007, the Company s borrowing limit under the receivables facility was $80 million, of which the Company had borrowed $75.0 million. Interest on the receivables facility is based on the federal funds rate plus one-half percent and was $3.4 million for 2007. The average interest rate on the receivables facility was 5.9% in 2007.

Corporate Credit Facilities

Cincinnati Bell Inc. (CBI), the parent company, entered into a new corporate credit facility (Corporate credit facility) in February 2005. The $250.0 million revolving line of credit under the Corporate credit facility terminates in February 2010. Borrowings under the revolving credit facility bear interest, at the Company s election, at a rate per annum equal to (i) LIBOR plus the applicable margin or (ii) the base rate plus the applicable margin. The applicable margin is based on certain Company financial ratios and ranges between 1.25% and 2.25% for LIBOR rate advances, and 0.25% and 1.25% for base rate advances. Base rate is the higher of the bank prime rate or the federal funds rate plus one-half percent.

In August 2005, the Company amended the Corporate credit facility to include a $400 million term loan (Tranche B Term Loan). The proceeds from the Tranche B Term Loan and additional borrowings under the Corporate credit facility were used to retire 16% Senior Subordinated Discount Notes due 2009 (16% Notes) for $447.8 million. The Company recorded a loss on debt extinguishment totaling $91.9 million in 2005 on the paydown of the 16% Notes, composed of $55.1 million for the premium paid, $27.7 million for the write-off of the unamortized discount, and $9.1 million for the write-off of the unamortized deferred financing fees. The Tranche B Term Loan bears interest at a per annum rate equal to, at the Company s option, LIBOR plus 1.50% or the base rate plus 0.50%. The original maturity schedule for the Tranche B Term Loan was quarterly principal payments of $1.0 million beginning December 31, 2005 through September 30, 2011, and then in four quarterly installments of $94.0 million ending on August 31, 2012. In 2007, the Company repaid $184.0 million of the Tranche B Term Loan, using proceeds of $75.0 million from borrowings under the receivables facility and the remainder from available cash. The Company recorded a loss on extinguishment of debt of $0.4 million in 2007 for the repayment of the Tranche B Term Loan. The balance on the Tranche B Term Loan was $211.0 million at December 31, 2007.

As of December 31, 2007, the Company had $55.0 million 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 Corporate credit facility. Outstanding letters of credit at December 31, 2007 include one issued for $23.0 million in December 2007 for the benefit of a data center customer. This permits the customer to draw on the letter of credit if the Company is not able to perform its data center contractual obligations due to bankruptcy. The Company agreed to issue the letter of credit because the customer prepaid $21.5 million for data center services.

Voluntary prepayments of the Corporate credit facility and voluntary reductions of the unutilized portion of the revolving line of credit are permitted at any time at no cost to the Company. The average interest rate charged on borrowings under the Corporate credit facility was 6.9%, 6.6% and 5.6% in 2007, 2006 and 2005, respectively. The Company recorded interest expense of $18.8 million, $27.9 million and $9.5 million in 2007, 2006, and 2005, respectively.

Under the Corporate credit facility, the Company pays commitment fees to the lenders on a quarterly basis related to the Corporate credit facility at an annual rate equal to 0.50% of the unused amount of borrowings on the revolving line of credit. Additionally, the Company pays letter of credit fees on outstanding letters of credit based on certain Company financial ratios and ranges between 1.25% and 2.25%. These commitment fees were $1.3 million, $1.2 million and $1.4 million in 2007, 2006 and 2005, respectively.

The Company and all its future or existing subsidiaries (other than CBT, CBET, CBF and certain immaterial subsidiaries) guarantee borrowings of Cincinnati Bell Inc. under the Corporate credit facility. Each of the Company s current subsidiaries that is a guarantor of the Corporate credit facility is also a guarantor of the 7%

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Senior Notes, 7 $^{1}/4$% Notes due 2013, and 8 $^{3}/8$% Notes, with certain immaterial exceptions. Refer to Note 18 for supplemental guarantor information. The Company s obligations under the Corporate credit facility are also collateralized by perfected first priority pledges and security interests in the following:

- substantially all of the equity interests of the Company s subsidiaries (other than subsidiaries of CBT, CBF and certain immaterial subsidiaries); and

- certain personal property and intellectual property of the Company and its subsidiaries (other than that of CBT, CBET, CBF and certain immaterial subsidiaries).

The guarantee and security reflect the addition of CBW as a guarantor and certain of its assets as collateral due to its status as a wholly-owned subsidiary effective February 14, 2006 due to the Company s purchase of the remaining minority ownership interest in CBW on that date.

The Corporate credit facility financial covenants require that the Company maintain certain leverage, interest coverage and fixed charge ratios. The facilities also contain certain covenants which, among other things, restrict the Company s ability to incur additional debt or liens, pay dividends, repurchase Company common stock, sell, transfer, lease, or dispose of assets and make investments or merge with another company. If the Company were to violate any of its covenants and was unable to obtain a waiver, it would be considered a default. If the Company were in default under the Corporate credit facility, no additional borrowings under this facility would be available until the default was waived or cured. The credit facilities provide for customary events of default, including a cross-default provision for failure to make any payment when due or permitted acceleration due to a default, both in respect to any other existing debt instrument having an aggregate principal amount that exceeds $35 million. The Company is in compliance with its Corporate credit facility covenants.

The Company has a right to request, but no lender is committed to provide, an increase in the aggregate amount of the Corporate credit facility, up to $500.0 million in incremental borrowings, which may be structured at the Company s option as term debt or revolving debt.

Various issuances of the Company s public debt, which include the 7 $^{1}/4$% Senior Notes due 2013, the 8 $^{3}/8$% Senior Subordinated Notes due 2014, and the 7% Senior Notes due 2015, contain covenants that, among other things, limit the Company s ability to incur additional debt or liens, pay dividends or make other restricted payments, sell, transfer, lease, or dispose of assets and make investments or merge with another company. Restricted payments include common stock dividends, repurchase of common stock, and certain public debt repayments. The Company believes it has sufficient ability under its public debt indentures to make its intended restricted payments in 2008. The Company is in compliance with its public debt indentures as of the date of this filing.

7 $^{1}/4$% Senior Notes due 2013

In July 2003, the Company issued $500 million of 7 $^{1}/4$% Senior Notes due 2013 (7 $^{1}/4$% Notes due 2013). Net proceeds, after deducting fees and expenses, totaled $488.8 million and were used to prepay term credit facilities and permanently reduce commitments under the Company s then-existing revolving credit facility. Interest on the 7 $^{1}/4$% Notes due 2013 is payable in cash semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2004. The 7 $^{1}/4$% Notes due 2013 are unsecured senior obligations and rank equally with all of the Company s existing and future senior debt and rank senior to all existing and future subordinated debt. Each of the Company s current and future subsidiaries that is a guarantor under the Corporate credit facility is also a guarantor of the 7 $^{1}/4$% Notes due 2013 on an unsecured basis with certain immaterial exceptions. The indenture governing the 7 $^{1}/4$% Notes due 2013 contains covenants including but not limited to the following: limitations on dividends to shareowners and other restricted payments; dividend and other payment restrictions affecting the Company s subsidiaries such that the subsidiaries are not permitted to enter into an agreement that would limit their ability to make dividend payments to the parent; issuance of indebtedness; asset dispositions; transactions with affiliates; liens; investments; issuances and sales of capital stock of subsidiaries; and redemption of debt that is junior in right of payment. The indenture governing 7 $^{1}/4$% Notes due 2013 provides for customary events of default, including a cross-default provision for failure for both non-payment at final maturity or acceleration due to a default of any other existing debt instrument that exceeds $20 million. The Company may redeem the 7 $^{1}/4$% Notes due 2013 for a redemption price of 103.625%,

102.417%, 101.208%, and 100.000% after July 15, 2008, 2009, 2010, and 2011, respectively. The Company recorded interest expense of $35.3 million in 2007 and $36.2 million in 2006 and 2005 related to these senior notes. In January 2005, the Company paid $9.7 million in consent fees to permit the Company to refinance its 16% Notes with new debt that would be *pari passu* to the 7 $^{1}/4$% Notes due 2013.

In 2007 and 2006, the Company purchased and extinguished $26.4 million and $3.1 million, respectively, of 7 $^{1}/4$% Notes due 2013 and recognized a loss on extinguishment of debt of $0.4 million and $0.1 million, respectively.

8 $^{3}/8$% Senior Subordinated Notes due 2014

In November 2003, the Company issued $540 million of 8 $^{3}/8$% Senior Subordinated Notes due 2014 (8 $^{3}/8$% Notes). The net proceeds, after deducting fees and expenses, totaled $528.2 million and were used to purchase all of the Company s then outstanding Convertible Subordinated Notes due 2009, which bore interest at a rate of 9%, at a discounted price equal to 97% of their accreted value.

In February 2005, the Company issued an additional $100 million of debt securities pursuant to the existing indenture. Net proceeds from this issuance together with those of the 7% Notes and amounts under the Corporate credit facility were used to repay and terminate the prior credit facility and pay consent fees associated with an amendment to the indenture for the 7 $^{1}/4$% Notes due 2013. A loss on debt extinguishment of $7.9 million was recognized on the prior credit facility for the write-off of deferred financing fees. All of the 8 $^{3}/8$% Notes constitute a single class of security with the same terms and are fixed rate bonds to maturity.

Interest on the 8 $^{3}/8$% Notes is payable in cash semi-annually in arrears on January 15 and July 15, commencing on July 15, 2004. The 8 $^{3}/8$% Notes are unsecured senior subordinated obligations, ranking junior to all existing and future senior indebtedness of the Company. The 8 $^{3}/8$% Notes rank equally with all of the Company s existing and future senior subordinated debt and rank senior to all future subordinated debt. The 8 $^{3}/8$% Notes are guaranteed on an unsecured senior subordinated basis by each of the Company s current subsidiaries that is a guarantor under the Corporate credit facility, with certain immaterial exceptions. The indenture governing the 8 $^{3}/8$% Notes contains covenants including but not limited to the following: limitations on dividends to shareowners and other restricted payments; dividend and other payment restrictions affecting the Company s subsidiaries such that the subsidiaries are not permitted to enter into an agreement that would limit their ability to make dividend payments to the parent; issuance of indebtedness; asset dispositions; transactions with affiliates; liens; investments; issuances and sales of capital stock of subsidiaries; and redemption of debt that is junior in right of payment. The indenture governing the 8 $^{3}/8$% Notes provides for customary events of default, including a cross-default provision for both nonpayment at final maturity or acceleration due to a default of any other existing debt instrument that exceeds $20 million. The Company may redeem the 8 $^{3}/8$% Notes for a redemption price of 104.188%, 102.792%, 101.396%, and 100.000% after January 15, 2009, 2010, 2011, and 2012, respectively. The Company incurred $53.6 million of interest expense in 2007 and 2006 and $52.5 million of interest expense in 2005 related to these notes.

In late 2007, the Company purchased and extinguished $5.0 million of 8 $^{3}/8$% Notes and recognized a gain on extinguishment of debt of $0.1 million.

7% Senior Notes due 2015

In February 2005, the Company sold $250 million of 7% Senior Notes due 2015 (7% Notes). Net proceeds from this issuance together with those of other concurrently issued bonds and amounts under the Corporate credit facility were used to repay and terminate the prior credit facility and pay consent fees associated with an amendment to the indenture for the 7 $^{1}/4$% Notes due 2013. The 7% Notes are fixed rate bonds to maturity.

Interest on the 7% Notes is payable semi-annually in cash in arrears on February 15 and August 15 of each year, commencing August 15, 2005. The 7% Notes are unsecured senior obligations ranking equally with all existing and future senior debt and ranking senior to all existing senior subordinated indebtedness, including senior subordinated notes, and subordinated indebtedness. Each of the Company s current and future subsidiaries that is a guarantor under the Corporate credit facility is also a guarantor of the 7% Notes on an unsecured senior basis, with certain immaterial exceptions. The indenture governing the 7% Notes contains covenants including but not limited to the following: limitations on dividends to shareowners and other restricted payments; dividend and other payment restrictions affecting the Company s subsidiaries such that the subsidiaries are not permitted to enter into an agreement that would limit their ability to make dividend payments to the parent; issuance of indebtedness; asset dispositions; transactions with affiliates; liens; investments; issuances and sales of capital stock of subsidiaries; and redemption of debt that is junior in right of payment. The indenture governing the 7% Notes provides for customary events of default, including a cross-default provision for both nonpayment at final maturity or acceleration due to a default of any other existing debt instrument that exceeds $20 million.

The Company may redeem the 7% Notes for a redemption price of 103.500%, 102.333%, 101.167%, and 100.000% after February 15, 2010, 2011, 2012 and 2013, respectively. At any time prior to February 15, 2010, the Company may redeem all or part of the 7% Notes at a redemption price equal to the sum of 1) 100% of the principal, plus 2) the greater of (a) 1% of the face value of the 7% Notes to be redeemed, or (b) the excess over the principal amount of the sum of the present values of (i) 103.5% of the face value of the 7% Notes, and (ii) interest payments due from the date of redemption through February 15, 2010, in each case discounted to the redemption date on a semi-annual basis at the applicable U.S. Treasury rates plus one-half percent, plus 3) accrued and unpaid interest, if any, to the date of redemption. The Company incurred interest expense related to these notes of $17.5 million in 2007 and 2006 and $15.3 million in 2005.

7 1/4% Senior Notes due 2023

In July 1993, the Company issued $50 million of 7 1/4% Senior Notes due 2023. The indenture related to these 7 1/4% Senior Notes due 2023 does not subject the Company to restrictive financial covenants, but it does contain a covenant providing that if the Company incurs certain liens on its property or assets, the Company must secure the outstanding 7 1/4% Senior Notes due 2023 equally and ratably with the indebtedness or obligations secured by such liens. The 7 1/4% Senior Notes due 2023 are collateralized on a basis consistent with the Corporate credit facility. Interest on the 7 1/4% Senior Notes due 2023 is payable semi-annually on June 15 and December 15. The Company may not redeem the 7 1/4% Senior Notes due 2023 prior to maturity. The indenture governing the 7 1/ 4% Senior Notes due 2023 provides for customary events of default, including a cross-default provision for failure to make any payment when due or permitted acceleration due to a default of any other existing debt instrument that exceeds $20 million. The Company recorded $3.6 million of interest expense related to these notes in each of 2007, 2006, and 2005.

Cincinnati Bell Telephone Notes

CBT issued $80 million in unsecured notes that are guaranteed on a subordinated basis by Cincinnati Bell Inc. but not the subsidiaries of Cincinnati Bell Inc. These notes have original maturities of up to 30 years with a final maturity date occurring in 2023. Interest rates on this indebtedness range from 7.18% to 7.27%. CBT also issued $150 million in aggregate principal amount of 6.30% unsecured senior notes due 2028, which is guaranteed on a subordinated basis by the Company. All of these notes may be redeemed at any time, subject to proper notice and redemption price.

The indenture governing these notes provides for customary events of default, including a cross-default provision for failure to make any payment when due or permitted acceleration due to a default of any other existing debt instrument of Cincinnati Bell Inc. or Cincinnati Bell Telephone that exceeds $20 million. The Company incurred interest expense related to these notes of $15.2 million in 2007 and 2006 and $16.5 million in 2005.

Capital Lease Obligations

The Company leases facilities and equipment used in its operations, some of which are required to be capitalized in accordance with SFAS No. 13, Accounting for Leases. SFAS No. 13 requires the capitalization of leases meeting certain criteria, with the related asset being recorded in property, plant and equipment and an offsetting amount recorded as a liability discounted to the present value. The Company had $29.4 million in total indebtedness relating to capitalized leases as of December 31, 2007 of which, $25.8 million was considered long-term. The underlying leased assets generally secure the capital lease obligations. For 2007, 2006 and 2005, the Company recorded $2.0 million, $1.3 million and $1.3 million, respectively, of interest expense related to capital lease obligations.

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Debt Maturity Schedule

As of December 31, 2007, the following table summarizes the Company s annual principal maturities of debt and capital leases for the five years subsequent to December 31, 2007, and thereafter:

(dollars in millions)	Debt	Capital Leases	Total Debt
Year ended December 31,			
2008	$ 4.2	$ 3.6	$ 7.8
2009	4.1	3.6	7.7
2010	59.0	8.0	67.0
2011	97.0	9.9	106.9
2012	177.0	1.6	178.6
Thereafter	1,635.5	2.7	1,638.2
	1,976.8	29.4	2,006.2
Interest rate swaps	2.9		2.9
Net unamortized premiums	0.6		0.6
Total debt	$ 1,980.3	$ 29.4	$ 2,009.7

For capital leases, total lease payments including interest are $5.7 million for 2008, $5.4 million for 2009, $9.6 million for 2010, $10.9 million for 2011, $2.0 million for 2012, and $3.1 million thereafter.

Deferred Financing Costs

Deferred financing costs are costs incurred in connection with obtaining long-term financing. These costs are amortized as interest expense over the terms of the related debt agreements. As of December 31, 2007 and 2006, deferred financing costs totaled $28.9 million and $34.0 million, respectively. The related expense, included in Interest expense in the Consolidated Statements of Operations amounted to $5.2 million, $5.1 million, and $7.1 million during 2007, 2006 and 2005, respectively. In 2007, the Company wrote-off deferred financing costs of $1.2 million related to the repayment of the Tranche B Term Loan, the purchase and retirement of the 7 $^{1}/4$% Notes due 2013 and the 8 $^{3}/8$% Notes due 2014. The Company also paid $1.3 million of financing costs in 2007 related to the new receivables facility. In 2006, the Company wrote-off deferred financing costs of $0.1 million related to the $3.1 million purchase and retirement of the 7 $^{1}/4$% Notes due 2013. In 2005, the Company wrote-off deferred financing costs of $7.9 million and $9.1 million related to the extinguishment of the previous credit facility and the 16% Notes, respectively. The write-offs of deferred financing costs were included in the Consolidated Statements of Operations under the caption Loss on extinguishment of debt.

Fair Value

The carrying amounts of debt, excluding capital leases and net unamortized premiums, at December 31, 2007 and 2006 were $1,979.7 million and $2,049.2 million, respectively. The estimated fair values at December 31, 2007 and 2006 were $1,919 million and $2,104 million, respectively. These fair values were estimated based on the year-end closing market prices of the Company s debt and of similar liabilities.

8. Financial Instruments

The Company is exposed to the impact of interest rate fluctuations on its indebtedness. The Company attempts to maintain an optimal balance of fixed rate and variable rate indebtedness in order to attain low overall borrowing costs while mitigating exposure to interest rate fluctuations. The Company employs derivative financial instruments to manage its balance of fixed rate and variable rate indebtedness. In particular, the Company currently has outstanding interest rate swap agreements in which the Company exchanges fixed rate interest payments for variable rate interest payments on $450 million notional amounts. Including the impact of the interest rate swap agreements, approximately 60% of the Company s indebtedness was based on fixed interest rates at December 31, 2007 and 2006, respectively. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

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The Company has entered into a series of fixed-to-variable interest rate swaps with total notional amounts of $450 million that qualify for fair value hedge accounting. Fair value hedges offset changes in the fair value of underlying assets and liabilities. The Company s interest rate swaps at December 31, 2007 and 2006 are recorded at their fair value, and the carrying values of the underlying liabilities hedged (the 7% Notes and 8 ^{3}/8% Notes) are adjusted by the same corresponding value in accordance with SFAS No. 133. The fair value of these instruments is based on estimates using available market information and appropriate valuation methodologies. As of December 31, 2007, the fair value of interest rate swap contracts was an asset of $2.9 million at December 31, 2007 and a liability of $13.5 million at December 31, 2006.

Realized gains and losses from the interest rate swaps are recognized as an adjustment to interest expense in each period. The Company incurred realized losses of $2.8 million and $1.3 million in 2007 and 2006, respectively, and a gain of $5.4 million in 2005.

The Company is exposed to credit risk on its interest rate swaps in the event of non-performance by counterparties. However, because its hedging activities are transacted with highly rated institutions, the Company does not anticipate non-performance by any of these counterparties. Additionally, the Company has entered into agreements that limit its credit exposure to the fair value of the interest rate swap agreements. The Company does not require collateral from its counterparties.

9. Employee Benefit Plans and Postretirement Benefits

Savings Plans

The Company sponsors several defined contribution plans covering substantially all employees. The Company s contributions to the plans are based on matching a portion of the employee contributions. Company and employee contributions are invested in various investment funds at the direction of the employee. Company contributions to the defined contribution plans were $5.4 million, $4.8 million and $4.5 million for 2007, 2006, and 2005, respectively.

Pension Plans

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 management pension plan is a cash balance plan in which the pension benefit is determined by a combination of compensation-based credits and annual guaranteed interest credits. The non-management pension plan is also a cash balance plan in which the combination of service and job-classification-based credits and annual interest credits determine the pension benefit. Benefits for the supplemental plan are based on eligible pay, adjusted for age and service upon retirement. The Company funds both the management and non-management plans in an irrevocable trust through contributions, which are determined using the aggregate cost method. The Company uses the traditional unit credit cost method for determining pension cost for financial reporting purposes.

Postretirement Health and Life Insurance Plans

The Company also provides health care and group life insurance benefits for eligible retirees. The Company funds certain group life insurance benefits through Retirement Funding Accounts and funds health care benefits and other group life insurance benefits using Voluntary Employee Benefit Association (VEBA) trusts. It is the Company s practice to fund amounts as deemed appropriate from time to time. Contributions are subject to IRS limitations developed using the aggregate cost method.

The actuarial expense calculation for the Company s postretirement health plan is based on numerous assumptions, estimates, and judgments including health care cost trend rates and cost sharing with retirees.

Significant Events

The assumption for cost sharing with retirees is important in determining the postretirement and other benefits expense. At the beginning of 2005, the Company accounted for its retiree medical benefit obligation as if

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there were no limits on the Company-funded portion of retiree medical costs. In May 2005, the Company reached an agreement with the union to provide a fixed amount of medical cost reimbursement per retiree and to increase the amount annually over the life of the labor agreement. Similar benefits were provided to non-bargained retirees. Effective June 1, 2005, the Company remeasured its postretirement obligations for the changes to the expected future retiree medical costs, including assumptions regarding cost sharing by retirees.

In August 2007, the Company announced further changes to its pension and postretirement plans that reduce medical benefit payments by fixing the annual Company contribution for each eligible retiree and that reduce life insurance benefits paid from these plans. Based on these changes, the Company determined that a remeasurement of its pension and postretirement obligations was necessary. The Company remeasured its pension and postretirement obligations in August 2007 using revised assumptions, including modified benefit payment assumptions reflecting the changes and a discount rate of 6.25%. These changes reduce the Company s pension and postretirement obligations by approximately $74 million, reduce deferred tax assets for the related tax effect by $27 million, and increase equity by $47 million. Additionally, the remeasurement caused a reduction to the Company s pension and postretirement benefit costs by approximately $5 million since August 2007.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 expands Medicare to include outpatient prescription drug benefits and introduces a federal non-taxable subsidy beginning in 2006, that provides a benefit that is at least actuarially equivalent to Medicare Part D, to sponsors of retiree health care benefit plans. The Company received a subsidy of $0.6 million and $0.8 million in 2007 and 2006, respectively.

Components of Net Periodic Cost

The following information relates to all Company noncontributory defined benefit pension plans, postretirement health care, and life insurance benefit plans. Approximately 9% in 2007 and 2005 and 10% in 2006 of these costs were capitalized to property, plant and equipment related to network construction in the Wireline segment. Pension and postretirement benefit costs for these plans were comprised of:

	Pension Benefits			**Postretirement and Other Benefits**		
(dollars in millions)	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Service cost	$ 8.3	$ 8.8	$ 8.0	$ 3.4	$ 3.5	$ 4.3
Interest cost on projected benefit obligation	28.0	27.7	27.2	20.1	19.9	20.5
Expected return on plan assets	(34.6)	(34.9)	(38.2)	(3.6)	(4.8)	(5.6)
Amortization of:						
Transition (asset)/obligation			(1.1)	4.1	4.2	4.2
Prior service cost	2.2	3.4	3.3	5.4	7.7	10.3
Actuarial loss	3.6	3.9	2.2	3.7	4.8	