

CINCINNATI BELL INC  
Form 10-Q  
November 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

.. **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

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**CINCINNATI BELL INC.**

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Ohio  
(State of Incorporation)

31-1056105  
(I.R.S. Employer Identification No.)

221 East Fourth Street, Cincinnati, Ohio 45202

(Address of principal executive offices) (Zip Code)

(513) 397-9900

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 31, 2006, there were 247,216,040 common shares outstanding and 155,250 shares of 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock outstanding.

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Cincinnati Bell Inc.

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Form 10-Q Part I

Cincinnati Bell Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

|                                                              | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                              | 2006                                | 2005      | 2006                               | 2005      |
| <b>Revenue</b>                                               |                                     |           |                                    |           |
| Services                                                     | \$ 276.7                            | \$ 267.3  | \$ 821.9                           | \$ 808.8  |
| Products                                                     | 43.4                                | 33.0      | 119.8                              | 95.5      |
| Total revenue                                                | 320.1                               | 300.3     | 941.7                              | 904.3     |
| <b>Costs and expenses</b>                                    |                                     |           |                                    |           |
| Cost of services, excluding depreciation                     | 97.3                                | 92.2      | 285.5                              | 268.6     |
| Cost of products sold, excluding depreciation                | 45.6                                | 38.4      | 131.0                              | 104.9     |
| Selling, general and administrative                          | 59.5                                | 55.8      | 179.6                              | 171.3     |
| Depreciation                                                 | 34.5                                | 41.8      | 102.5                              | 133.2     |
| Amortization                                                 | 1.1                                 |           | 3.1                                |           |
| Shareholder claim settlement                                 |                                     |           | 6.3                                |           |
| Gain on sale of broadband assets                             | (4.7)                               |           | (7.6)                              |           |
| Restructuring charges                                        | 3.3                                 |           | 3.5                                |           |
| Asset impairments and other charges                          |                                     |           |                                    | 23.1      |
| Total operating costs and expenses                           | 236.6                               | 228.2     | 703.9                              | 701.1     |
| <b>Operating income</b>                                      |                                     |           |                                    |           |
|                                                              | 83.5                                | 72.1      | 237.8                              | 203.2     |
| Minority interest expense (income)                           | (0.2)                               | (1.0)     | 0.1                                | (5.8)     |
| Interest expense                                             | 41.4                                | 47.0      | 121.3                              | 147.1     |
| Loss on extinguishment of debt                               | 0.1                                 | 91.9      | 0.1                                | 99.8      |
| Other income, net                                            | (0.2)                               | (1.3)     | (0.5)                              | (1.5)     |
| Income (loss) before income taxes                            | 42.4                                | (64.5)    | 116.8                              | (36.4)    |
| Income tax expense (benefit)                                 | 17.3                                | (20.4)    | 53.2                               | 40.7      |
| <b>Net income (loss)</b>                                     |                                     |           |                                    |           |
|                                                              | 25.1                                | (44.1)    | 63.6                               | (77.1)    |
| Preferred stock dividends                                    | 2.6                                 | 2.6       | 7.8                                | 7.8       |
| <b>Net income (loss) applicable to common shareowners</b>    |                                     |           |                                    |           |
|                                                              | \$ 22.5                             | \$ (46.7) | \$ 55.8                            | \$ (84.9) |
| <b>Basic earnings (loss) per common share</b>                |                                     |           |                                    |           |
|                                                              | \$ 0.09                             | \$ (0.19) | \$ 0.23                            | \$ (0.35) |
| <b>Diluted earnings (loss) per common share</b>              |                                     |           |                                    |           |
|                                                              | \$ 0.09                             | \$ (0.19) | \$ 0.22                            | \$ (0.35) |
| <b>Weighted average common shares outstanding (millions)</b> |                                     |           |                                    |           |
| Basic                                                        | 247.1                               | 246.1     | 246.8                              | 245.8     |
| Diluted                                                      | 254.4                               | 246.1     | 252.7                              | 245.8     |

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



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Form 10-Q Part I

Cincinnati Bell Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except share amounts)

(Unaudited)

|                                                                                                                                                                                                                                                                                                                     | September 30,<br>2006 | December 31,<br>2005 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                                                       |                       |                      |
| Current assets                                                                                                                                                                                                                                                                                                      |                       |                      |
| Cash and cash equivalents                                                                                                                                                                                                                                                                                           | \$ 27.5               | \$ 25.7              |
| Receivables, less allowances of \$14.2 and \$14.3                                                                                                                                                                                                                                                                   | 155.6                 | 160.9                |
| Materials and supplies                                                                                                                                                                                                                                                                                              | 25.5                  | 19.8                 |
| Deferred income tax benefits, net                                                                                                                                                                                                                                                                                   | 75.1                  | 71.0                 |
| Prepaid expenses and other current assets                                                                                                                                                                                                                                                                           | 25.4                  | 16.1                 |
| Total current assets                                                                                                                                                                                                                                                                                                | 309.1                 | 293.5                |
| Property, plant and equipment, net                                                                                                                                                                                                                                                                                  | 808.9                 | 800.4                |
| Goodwill                                                                                                                                                                                                                                                                                                            | 53.3                  | 40.9                 |
| Intangible assets, net                                                                                                                                                                                                                                                                                              | 102.4                 | 61.3                 |
| Deferred income tax benefits, net                                                                                                                                                                                                                                                                                   | 555.4                 | 609.6                |
| Other noncurrent assets                                                                                                                                                                                                                                                                                             | 60.3                  | 57.6                 |
| Total assets                                                                                                                                                                                                                                                                                                        | \$ 1,889.4            | \$ 1,863.3           |
| <b>Liabilities and Shareowners Deficit</b>                                                                                                                                                                                                                                                                          |                       |                      |
| Current liabilities                                                                                                                                                                                                                                                                                                 |                       |                      |
| Current portion of long-term debt                                                                                                                                                                                                                                                                                   | \$ 6.8                | \$ 11.3              |
| Accounts payable                                                                                                                                                                                                                                                                                                    | 65.5                  | 69.8                 |
| Current portion of unearned revenue and customer deposits                                                                                                                                                                                                                                                           | 42.2                  | 39.7                 |
| Accrued taxes                                                                                                                                                                                                                                                                                                       | 25.6                  | 30.2                 |
| Accrued interest                                                                                                                                                                                                                                                                                                    | 31.2                  | 50.8                 |
| Accrued payroll and benefits                                                                                                                                                                                                                                                                                        | 39.1                  | 33.6                 |
| Other current liabilities                                                                                                                                                                                                                                                                                           | 44.0                  | 42.1                 |
| Total current liabilities                                                                                                                                                                                                                                                                                           | 254.4                 | 277.5                |
| Long-term debt, less current portion                                                                                                                                                                                                                                                                                | 2,066.3               | 2,073.4              |
| Accrued pension and postretirement benefits                                                                                                                                                                                                                                                                         | 185.4                 | 160.3                |
| Other noncurrent liabilities                                                                                                                                                                                                                                                                                        | 62.2                  | 61.6                 |
| Total liabilities                                                                                                                                                                                                                                                                                                   | 2,568.3               | 2,572.8              |
| Minority interest                                                                                                                                                                                                                                                                                                   | 0.9                   | 28.2                 |
| Commitments and contingencies                                                                                                                                                                                                                                                                                       |                       |                      |
| Shareowners deficit                                                                                                                                                                                                                                                                                                 |                       |                      |
| Preferred stock, 2,357,299 shares authorized, 155,250 shares (3,105,000 depository shares) of 6 <sup>3</sup> / <sub>4</sub> %<br>Cumulative Convertible Preferred Stock issued and outstanding at September 30, 2006 and<br>December 31, 2005; liquidation preference \$1,000 per share (\$50 per depository share) | 129.4                 | 129.4                |
| Common shares, \$.01 par value; 480,000,000 shares authorized; 255,402,473 and 255,049,733 shares<br>issued; 247,209,440 and 247,163,452 outstanding at September 30, 2006 and December 31, 2005                                                                                                                    | 2.6                   | 2.6                  |
| Additional paid-in capital                                                                                                                                                                                                                                                                                          | 2,925.5               | 2,929.9              |
| Accumulated deficit                                                                                                                                                                                                                                                                                                 | (3,540.9)             | (3,604.5)            |
| Accumulated other comprehensive loss                                                                                                                                                                                                                                                                                | (49.6)                | (49.6)               |
| Common shares in treasury, at cost:                                                                                                                                                                                                                                                                                 |                       |                      |

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|                                                                            |            |            |
|----------------------------------------------------------------------------|------------|------------|
| 8,193,033 and 7,886,281 shares at September 30, 2006 and December 31, 2005 | (146.8)    | (145.5)    |
| Total shareowners' deficit                                                 | (679.8)    | (737.7)    |
| Total liabilities and shareowners' deficit                                 | \$ 1,889.4 | \$ 1,863.3 |

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

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Form 10-Q Part I

Cincinnati Bell Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

|                                                                                         | <b>Nine Months Ended<br/>September 30,</b> |                |
|-----------------------------------------------------------------------------------------|--------------------------------------------|----------------|
|                                                                                         | <b>2006</b>                                | <b>2005</b>    |
| <b>Cash flows from operating activities</b>                                             |                                            |                |
| Net income (loss)                                                                       | \$ 63.6                                    | \$ (77.1)      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities |                                            |                |
| Depreciation                                                                            | 102.5                                      | 133.2          |
| Amortization                                                                            | 3.1                                        |                |
| Gain on sale of broadband assets                                                        | (7.6)                                      |                |
| Asset impairments and other charges                                                     |                                            | 23.1           |
| Loss on extinguishment of debt                                                          | 0.1                                        | 99.8           |
| Provision for loss on receivables                                                       | 8.9                                        | 11.7           |
| Noncash interest expense                                                                | 3.7                                        | 21.1           |
| Minority interest expense (income)                                                      | 0.1                                        | (5.8)          |
| Deferred income tax expense, including valuation allowance change                       | 49.7                                       | 39.2           |
| Other, net                                                                              | 0.6                                        | 1.8            |
| Changes in operating assets and liabilities, net of effects of acquisitions             |                                            |                |
| Increase in receivables                                                                 | (5.9)                                      | (20.9)         |
| Increase in prepaid expenses and other current assets                                   | (14.1)                                     | (9.6)          |
| Increase (decrease) in accounts payable                                                 | (4.5)                                      | 10.2           |
| Decrease in accrued and other current liabilities                                       | (15.7)                                     | (28.2)         |
| Increase in accrued pension and postretirement benefits                                 | 25.1                                       | 24.5           |
| Change in other assets and liabilities, net                                             | 0.6                                        | 2.4            |
| <b>Net cash provided by operating activities</b>                                        | <b>210.2</b>                               | <b>225.4</b>   |
| <b>Cash flows from investing activities</b>                                             |                                            |                |
| Capital expenditures                                                                    | (109.8)                                    | (108.7)        |
| Acquisitions of business and remaining minority interest in CBW                         | (86.7)                                     |                |
| Deposit for wireless licenses purchase                                                  | (7.0)                                      |                |
| Proceeds from sale of broadband assets                                                  | 4.7                                        |                |
| Other, net                                                                              | 2.2                                        | 1.2            |
| <b>Net cash used in investing activities</b>                                            | <b>(196.6)</b>                             | <b>(107.5)</b> |
| <b>Cash flows from financing activities</b>                                             |                                            |                |
| Issuance of long-term debt                                                              |                                            | 352.1          |
| Increase in corporate credit facility, net                                              | 4.0                                        | 438.0          |
| Repayment of debt                                                                       | (11.4)                                     | (882.5)        |
| Debt issuance costs and consent fees                                                    |                                            | (21.9)         |
| Issuance of common shares - exercise of stock options                                   | 1.7                                        | 2.4            |
| Preferred stock dividends                                                               | (7.8)                                      | (7.8)          |
| Other, net                                                                              | 1.7                                        | 0.6            |
| <b>Net cash used in financing activities</b>                                            | <b>(11.8)</b>                              | <b>(119.1)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                             | <b>1.8</b>                                 | <b>(1.2)</b>   |



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|                                                |         |         |
|------------------------------------------------|---------|---------|
| Cash and cash equivalents at beginning of year | 25.7    | 24.9    |
| Cash and cash equivalents at end of period     | \$ 27.5 | \$ 23.7 |

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

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Cincinnati Bell Inc.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. Description of Business and Accounting Policies**

The following represents a summary of the Company's business and accounting policies. A more detailed presentation can be found in the Company's 2005 Annual Report on Form 10-K.

**Description of Business** Cincinnati Bell Inc. (the Company) provides diversified telecommunications services through businesses in five segments: Local, Wireless, Hardware and Managed Services (HMS), Other, and Broadband. The Broadband segment no longer has substantive ongoing operations as a result of the sale of the related operating assets in 2003.

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

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

The Condensed Consolidated Balance Sheet as of December 31, 2005 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's 2005 Annual Report on Form 10-K. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2006.

**Stock-Based Compensation** In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)), which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation (SFAS 123), and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant and to be expensed over the applicable vesting period. The Company adopted SFAS 123(R) on January 1, 2006 using the modified prospective application method. Under this method, SFAS 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 financial statements during the nine months ended September 30, 2006.

During 2006 and in prior years, certain employees and directors of the Company were granted stock options and other stock-based awards under the Company's Long-Term Incentive Plans (Company LTIP). Under the Company LTIP, options are granted with exercise prices that are no less than the market value of the stock at the grant date. Generally, stock options have ten-year terms and vesting terms of three to five years. The following table summarizes stock option activity for the nine months ended September 30, 2006:

| (in thousands, except per share amount and contractual life) | Number of<br>options | Weighted-<br>average<br>option<br>prices per<br>share | Weighted-<br>average<br>remaining<br>contractual<br>life in years | Aggregate<br>intrinsic<br>value |
|--------------------------------------------------------------|----------------------|-------------------------------------------------------|-------------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2005                             | 22,828               | \$ 11.28                                              | 5.8                                                               |                                 |
| Granted                                                      | 181                  | 3.86                                                  |                                                                   |                                 |
| Exercised                                                    | (521)                | 3.55                                                  |                                                                   |                                 |
| Forfeited or expired                                         | (1,978)              | 13.08                                                 |                                                                   |                                 |
| Outstanding at September 30, 2006                            | 20,510               | \$ 11.24                                              | 5.3                                                               | \$ 6,403                        |
| Exercisable at September 30, 2006                            | 20,410               | \$ 11.28                                              | 5.2                                                               | \$ 6,279                        |



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Cincinnati Bell Inc.

The weighted average fair values at the date of grant for options granted were \$1.19 and \$1.49 for the three months ended September 30, 2006 and 2005, respectively, and \$1.20 and \$1.41 for the nine months ended September 30, 2006 and 2005, respectively. The weighted average fair values at the date of grant were estimated using the Black-Scholes option-pricing model with the following assumptions:

|                               | <b>Nine Months Ended</b> |             |
|-------------------------------|--------------------------|-------------|
|                               | <b>September 30,</b>     |             |
|                               | <b>2006</b>              | <b>2005</b> |
| Expected volatility           | 31.0%                    | 35.0%       |
| Risk-free interest rate       | 4.6%                     | 3.9%        |
| Expected holding period years | 4                        | 4           |
| Expected dividends            | 0.0%                     | 0.0%        |

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

The Company's policy for graded vesting awards is to recognize compensation expense on a straight-line basis over the vesting period. The Company recognized compensation expense of \$0.1 million related to option grants for the nine months ended September 30, 2006. As of September 30, 2006, there was \$0.1 million of unrecognized compensation expense related to non-vested stock options. This expense will be recognized over a weighted average period of approximately two years. During the nine months ended September 30, 2006 and 2005, the total intrinsic value of stock options exercised was \$0.5 million and \$0.7 million, respectively.

The Company granted performance restricted stock units to certain Company executives during the nine months ended September 30, 2006. These grants provide for the recipients to receive up to 819,750 shares, which vest over three years and upon the achievement of certain performance-based objectives over the period 2006 to 2008. The fair value of the performance restricted stock on the date of grant was \$4.29 per share. The Company granted 809,700 shares of performance restricted stock during the nine months ended September 30, 2005, which vest over three years and upon the achievement of certain performance-based objectives over the period 2005 to 2007. Prior to January 1, 2006, the performance restricted stock was accounted for under APB 25. Upon the adoption of SFAS 123(R), the performance restricted stock is expensed based on its grant date fair value, or \$4.30 per share, if it is probable that the performance conditions will be achieved. The Company recognized restricted stock compensation expense of \$0.4 million for the three months and \$0.8 million for the nine months ended September 30, 2006 and \$0.4 million and \$1.0 million for the three months and nine months ended September 30, 2005, respectively. As of September 30, 2006, there was \$0.4 million of unrecognized compensation expense related to the non-vested performance restricted stock awards.

Prior to the adoption of SFAS 123(R), the Company applied APB 25 to account for its stock-based awards. If the Company had applied the fair value recognition provisions of SFAS 123, the following table illustrates the effect on net loss and basic and diluted loss per share:

|                                                                                                                   | <b>Three Months Ended</b> |        | <b>Nine Months Ended</b> |        |
|-------------------------------------------------------------------------------------------------------------------|---------------------------|--------|--------------------------|--------|
|                                                                                                                   | <b>September 30,</b>      |        | <b>September 30,</b>     |        |
|                                                                                                                   | <b>2005</b>               |        | <b>2005</b>              |        |
| <b>(dollars in millions, except per share amounts)</b>                                                            |                           |        |                          |        |
| Net loss as reported                                                                                              | \$                        | (44.1) | \$                       | (77.1) |
| Add: Stock-based compensation expense included in reported net income, net of related tax benefits                |                           | 0.2    |                          | 0.6    |
| Deduct: Stock-based employee compensation expense determined under fair value method, net of related tax benefits |                           | (1.1)  |                          | (3.3)  |
| Pro forma net loss                                                                                                | \$                        | (45.0) | \$                       | (79.8) |
| Basic and diluted loss per share: As reported                                                                     | \$                        | (0.19) | \$                       | (0.35) |
| Pro forma                                                                                                         |                           | (0.19) |                          | (0.36) |



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**Rebates** The Company benefits from vendor rebate plans, particularly rebates on hardware sold by the HMS segment. The Company recognizes the rebates as a reduction to inventory cost upon purchase of the related equipment, and as an offset to costs of products sold upon sale of the related equipment to the customer. At September 30, 2006 and December 31, 2005, the balance of rebates earned but not yet received from vendors was \$3 million and \$2 million, respectively, and is included in Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

**Recently Issued Accounting Standards** In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments: an amendment of FASB Statements No. 133 and 140 (SFAS 155). The objective of the Statement is to simplify accounting for certain hybrid financial instruments, eliminate interim guidance in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, and eliminate a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. This Statement is effective for all financial instruments acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Implementation of SFAS 155 is not expected to have a material impact on the Company's financial statements.

In September 2006, FASB ratified Emerging Issues Task Force Issue No. 06-1, Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider (EITF 06-1). This guidance requires the application of EITF 01-9, Accounting for Consideration Given by a Vendor to a Customer (EITF 01-9), when consideration is given to a reseller or manufacturer for benefit to the service provider's end customer. EITF 01-9 requires the consideration given be recorded as a liability at the time of the sale of the equipment and, also, provides guidance for the classification of the expense. EITF 06-1 is effective for the first annual reporting period beginning after June 15, 2007. The Company has not yet assessed the impact of EITF 06-1 on the Company's financial statements.

In June 2006, FASB ratified Emerging Issues Task Force Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF 06-3). This guidance requires that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or net basis, based on the entity's accounting policy. This policy should be disclosed pursuant to Accounting Principles Board Opinion No. 22, Disclosure of Accounting Policies. In addition, any such taxes that are reported on a gross basis, if material, should be disclosed. EITF 06-3 will be effective for interim and annual reporting periods beginning after December 15, 2006. The Company has not yet assessed the impact of EITF 06-3 on the Company's financial statements.

In July 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN48). FIN48 requires the realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, FIN48 prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by the tax authorities having all relevant information and applying current conventions. FIN48 also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. FIN48 is effective for the first fiscal year that begins after December 15, 2006. The Company has not yet assessed the impact of FIN48 on the Company's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). The objective of the statement is to define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements. SFAS 157 will be effective for interim and annual reporting periods beginning after November 15, 2007. The Company has not yet assessed the impact of this statement on the Company's financial statements.

In October 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 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 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. This statement is effective for the first fiscal year ended after December 15, 2006. The Company has not yet assessed the impact of SFAS 158 on the Company's financial statements.

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Cincinnati Bell Inc.

**2. Acquisitions of Businesses***Acquisition of Remaining Interest in Cincinnati Bell Wireless LLC*

On February 14, 2006, Cingular Wireless Corporation ( Cingular ) exercised its contractual put right to require the Company to purchase Cingular's 19.9% membership interest in Cincinnati Bell Wireless LLC ( CBW ). As a result, the Company paid purchase consideration of \$83.0 million in cash to Cingular 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 Statement of Financial Accounting Standards No. 141, Business Combinations ( SFAS 141 ). 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:

|                              |                |
|------------------------------|----------------|
| <b>(dollars in millions)</b> |                |
| Minority interest            | \$ 27.8        |
| Intangible assets            | 42.1           |
| Goodwill                     | 10.2           |
| Other                        | 3.1            |
| <b>Total purchase price</b>  | <b>\$ 83.2</b> |

The purchase price allocation was based upon the estimated fair values as of February 14, 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. The preliminary purchase price allocation for this transaction may be adjusted upon completion of an appraisal of the related assets and liabilities of the business.

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

| <b>(dollars in millions)</b>                          | <b>Fair Value</b> | <b>Weighted Average Amortization Period</b> |
|-------------------------------------------------------|-------------------|---------------------------------------------|
| <b>Intangible assets subject to amortization:</b>     |                   |                                             |
| Customer relationships - subscribers                  | \$ 11.6           | 7 years                                     |
| Customer relationships - collocation towers           | 2.6               | 15 years                                    |
| Contractual right - license                           | 0.7               | 1 year                                      |
|                                                       | 14.9              | 8 years                                     |
| <b>Intangible assets not subject to amortization:</b> |                   |                                             |
| Licenses - owned                                      | 21.0              | n/a                                         |
| Trademarks                                            | 6.2               | n/a                                         |
| <b>Total intangible assets</b>                        | <b>\$ 42.1</b>    |                                             |

The estimated amortization expense for intangible assets subject to amortization follows:

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| <b>(dollars in millions)</b> | <b>Amortization<br/>Expense</b> |
|------------------------------|---------------------------------|
| 2006                         | \$ 3.9                          |
| 2007                         | 3.0                             |
| 2008                         | 2.0                             |
| 2009                         | 1.4                             |
| 2010                         | 1.1                             |
| 2011                         | 0.9                             |
| Thereafter                   | 2.6                             |



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Cincinnati Bell Inc.

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.

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 Cincinnati Bell Wireless LLC was eliminated.

The unaudited 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) | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                 | 2006                                | 2005     | 2006                               | 2005     |
| Revenue                                         | \$ 320.1                            | \$ 300.3 | \$ 941.7                           | \$ 904.3 |
| Net income (loss)                               | 25.1                                | (46.1)   | 63.1                               | (84.9)   |
| Earnings (loss) per share - basic and diluted   | 0.09                                | (0.20)   | 0.22                               | (0.38)   |

*Automated Telecom Inc.*

The Company purchased Automated Telecom Inc. (ATI) for a purchase price of \$3.5 million in May 2006. ATI is based in Louisville, Kentucky and 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 Company's HMS segment and were immaterial to the Company's financial statements for the three and nine months ended September 30, 2006. The preliminary purchase price allocation for this transaction may be adjusted upon completion of the Company's valuation of the related assets and liabilities of the business.

**3. 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 or converted to common stock but only to the extent that they are considered dilutive to the Company's earnings. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the following periods:

| (in millions, except per share amounts)                                | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                        | 2006                                | 2005      | 2006                               | 2005      |
| <b>Numerator:</b>                                                      |                                     |           |                                    |           |
| Net income (loss)                                                      | \$ 25.1                             | \$ (44.1) | \$ 63.6                            | \$ (77.1) |
| Preferred stock dividends                                              | 2.6                                 | 2.6       | 7.8                                | 7.8       |
| Numerator for basic and diluted EPS                                    | \$ 22.5                             | \$ (46.7) | \$ 55.8                            | \$ (84.9) |
| <b>Denominator:</b>                                                    |                                     |           |                                    |           |
| Denominator for basic EPS - weighted average common shares outstanding | 247.1                               | 246.1     | 246.8                              | 245.8     |
| Warrants                                                               | 5.8                                 |           | 4.8                                |           |
| Stock-based compensation arrangements                                  | 1.5                                 |           | 1.1                                |           |
| Denominator for diluted EPS                                            | 254.4                               | 246.1     | 252.7                              | 245.8     |

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|                                          |         |           |         |           |
|------------------------------------------|---------|-----------|---------|-----------|
| Basic earnings (loss) per common share   | \$ 0.09 | \$ (0.19) | \$ 0.23 | \$ (0.35) |
| Diluted earnings (loss) per common share | \$ 0.09 | \$ (0.19) | \$ 0.22 | \$ (0.35) |

The assumed conversions to common stock of stock options, both performance restricted and restricted stock, warrants, and the 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock are excluded from the diluted EPS computations to the extent that these items, on an individual basis, have an anti-dilutive effect on diluted EPS.

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Cincinnati Bell Inc.

**4. Comprehensive Income (Loss)**

| (dollars in millions)                | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                      | 2006                                | 2005      | 2006                               | 2005      |
| Net income (loss)                    | \$ 25.1                             | \$ (44.1) | \$ 63.6                            | \$ (77.1) |
| Additional minimum pension liability |                                     |           |                                    | (0.6)     |
| Comprehensive income (loss)          | \$ 25.1                             | \$ (44.1) | \$ 63.6                            | \$ (77.7) |

**5. Debt**

The Company's debt consists of the following:

| (dollars in millions)                                                                          | September 30,<br>2006 | December 31,<br>2005 |
|------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Current portion of long-term debt:                                                             |                       |                      |
| Credit facility, tranche B term loan                                                           | \$ 4.0                | \$ 4.0               |
| Capital lease obligations and other debt                                                       | 2.8                   | 7.3                  |
| Current portion of long-term debt                                                              | 6.8                   | 11.3                 |
| Long-term debt, less current portion:                                                          |                       |                      |
| Credit facility, revolver                                                                      | 4.0                   |                      |
| Credit facility, tranche B term loan                                                           | 392.0                 | 395.0                |
| 7 <sup>1</sup> / <sub>4</sub> % Senior Notes due 2013                                          | 496.9                 | 500.0                |
| 8 <sup>3</sup> / <sub>8</sub> % Senior Subordinated Notes due 2014, \$640 million face amount* | 630.9                 | 633.4                |
| 7% Senior Notes due 2015, \$250 million face amount*                                           | 244.8                 | 246.4                |
| 7 <sup>1</sup> / <sub>4</sub> % Senior Notes due 2023                                          | 50.0                  | 50.0                 |
| Various Cincinnati Bell Telephone notes                                                        | 230.0                 | 230.0                |
| Capital lease obligations and other debt                                                       | 16.8                  | 17.6                 |
|                                                                                                | 2,065.4               | 2,072.4              |
| Net unamortized premiums                                                                       | 0.9                   | 1.0                  |
| Long-term debt, less current portion                                                           | 2,066.3               | 2,073.4              |
| Total debt                                                                                     | \$ 2,073.1            | \$ 2,084.7           |

\* The face amount of these notes has been adjusted to mark hedged debt to fair values at September 30, 2006 and December 31, 2005. In the third quarter of 2006, the Company prepaid \$3.1 million of 7<sup>1</sup>/<sub>4</sub> % Senior Notes due 2013 and recognized a loss on extinguishment of debt of \$0.1 million.

**6. Restructuring Charges**

*2006 Restructuring*

In September 2006, the Company incurred employee separation expense of \$3.0 million related to the outsourcing of certain supply chain functions. The reserve is included in Other current liabilities in the Condensed Consolidated Balance Sheets at September 30, 2006.

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2005 Restructuring

Cincinnati Bell Inc.

In late 2005, the Company incurred employee separation expense of \$1.6 million related to the outsourcing of its directory assistance services. The reserve is included in Other current liabilities in the Condensed Consolidated Balance Sheets at September 30, 2006 and December 31, 2005, respectively. The following table illustrates the activity in this reserve from December 31, 2005 through September 30, 2006:

| Type of costs (dollars in millions): | Balance<br>December 31,<br>2005 |              | Balance<br>March 31,<br>2006 |              | Balance<br>June 30,<br>2006 |              | Balance<br>September 30,<br>2006 |  |
|--------------------------------------|---------------------------------|--------------|------------------------------|--------------|-----------------------------|--------------|----------------------------------|--|
|                                      |                                 | Utilizations |                              | Utilizations |                             | Utilizations |                                  |  |
| Employee separation obligations      | \$ 1.5                          | \$ (0.7)     | \$ 0.8                       | \$ (0.1)     | \$ 0.7                      | (0.1)        | \$ 0.6                           |  |

*November 2001 Restructuring Plan*

In November 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. The Company completed the plan as of December 31, 2002, except for certain lease obligations, which are expected to continue through June 2015.

The following table illustrates the activity in this reserve from December 31, 2005 through September 30, 2006:

| Type of costs (dollars in millions): | Balance<br>December 31,<br>2005 |        | Balance<br>March 31,<br>2006 |        | Balance<br>June 30,<br>2006 |          | Balance<br>September 30,<br>2006 |        |
|--------------------------------------|---------------------------------|--------|------------------------------|--------|-----------------------------|----------|----------------------------------|--------|
|                                      | Expense Utilizations            |        | Expense Utilizations         |        | Expense Utilizations        |          | Expense Utilizations             |        |
| Terminate contractual obligations    | \$ 8.2                          | \$ 0.1 | \$ (0.5)                     | \$ 7.8 | \$ 0.1                      | \$ (0.4) | \$ 7.5                           | \$ 0.3 |

At September 30, 2006, \$1.4 million of the restructuring reserve balance was included in Other current liabilities, and \$6.1 million was included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheets. At December 31, 2005, \$1.3 million of the restructuring reserve balance was included in Other current liabilities and \$6.9 million was included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

**7. Commitments and Contingencies***Commitments - Wireless Licenses*

The Company committed to the purchase of wireless spectrum licenses for \$37.1 million in the FCC Advanced Wireless Services spectrum auction that concluded in September 2006. The majority of the licenses acquired are to be used in the Company's current operating area. In the third quarter of 2006, the Company paid \$7.0 million, with the remaining \$30.1 million payment to be made in the fourth quarter of 2006.

*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.

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Cincinnati Bell Inc.

*In re Broadwing Inc. Securities Class Action Lawsuits, (Gallow v. Broadwing Inc., et al), U.S. District Court, Southern District of Ohio, Western Division, Case No. C-1-02-795*

Between October and December 2002, five virtually identical class action lawsuits were filed against Broadwing Inc. and two of its former Chief Executive Officers in U.S. District Court for the Southern District of Ohio.

These complaints were filed on behalf of purchasers of the Company's securities between January 17, 2001 and May 20, 2002, inclusive, and alleged violations of Section 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, inter alia, (1) improperly recognizing revenue associated with Indefeasible Right of Use ( IRU ) agreements; and (2) failing to write-down goodwill associated with the Company's 1999 acquisition of IXC Communications, Inc. The plaintiffs sought unspecified compensatory damages, attorney's fees, and expert expenses.

On April 28, 2006, the Company and plaintiffs entered into a Memorandum of Understanding ( MOU ), which sets forth an agreement in principle to settle this matter. For these lawsuits and the derivative complaint discussed below, the Company reserved \$6.3 million in the first quarter of 2006 to reflect its contribution to the settlement fund and to cover other settlement-related expenses. Under the MOU agreement, the Company and certain of its insurance carriers will contribute a total of \$36 million to settle the claims in this matter and obtain in exchange a release of all claims from the class members.

On July 12, 2006, the Company and plaintiffs entered into a definitive Stipulation and Agreement of Settlement reflecting the terms of the above-referenced MOU. On July 21, 2006, Judge Rice issued a Preliminary Order approving the notice and proof of claim forms to be mailed to class members and scheduling a Settlement Fairness Hearing on September 6, 2006. The Settlement Fairness Hearing took place on September 6, 2006. All objections to the proposed settlement have been withdrawn and the parties are awaiting final approval by the court.

*In re Broadwing Inc. Derivative Complaint, (Garlich v. Broadwing Inc., et al), Hamilton County Court of Common Pleas, Case No. A0302720.*

This derivative complaint was filed against Broadwing Inc. and ten of its current and former directors on April 9, 2003 alleging breaches of fiduciary duty arising out of the same allegations discussed in *In re Broadwing Inc. Securities Class Action Lawsuits* above. Pursuant to a stipulation between the parties, defendants were not required, absent further order by the Court, to answer, move, or otherwise respond to this complaint until 30 days after the federal court rendered a ruling on the defendants' motion to dismiss in *In re Broadwing Inc. Securities Class Action Lawsuits*.

On April 28, 2006, the Company and plaintiffs entered into a MOU, which sets forth an agreement in principle to settle this matter. For this derivative lawsuit and the lawsuits discussed above, the Company reserved \$6.3 million in the first quarter of 2006 to reflect its contribution to the settlement fund and to cover other settlement-related expenses. On July 12, 2006, the Company and plaintiffs entered into a definitive Stipulation and Agreement of Settlement reflecting the terms of the MOU. The Settlement Fairness Hearing took place on September 6, 2006 and the court has issued an order approving the Stipulation and Agreement of Settlement as submitted by the parties. Accordingly, this case has been dismissed with prejudice.

*In re Broadwing Inc. ERISA Class Action Lawsuits, (Kurtz v. Broadwing Inc., et al), U.S. District Court, Southern District of Ohio, Western Division, Case No. C-1-02-857.*

Between November 18, 2002 and March 17, 2003, five putative class action lawsuits were filed against Broadwing Inc. and certain of its current and former officers and directors in the United States District Court for the Southern District of Ohio. Fidelity Management Investment Trust Company was also named as a defendant in these actions.

These cases, which purport to be brought on behalf of the Cincinnati Bell Inc. Savings and Security Plan, the Broadwing Retirement Savings Plan, and a class of participants in the Plans, generally alleged that the defendants breached their fiduciary duties under the Employee Retirement Income Security Act of 1974 ( ERISA ) by improperly encouraging the Plan participant-plaintiffs to elect to invest in the Company stock fund within the relevant Plan and by improperly continuing to make employer contributions to the Company stock fund within the relevant Plan.

On February 22, 2006, the Company entered into a Stipulation and Agreement of Settlement of ERISA Actions (the Agreement ) providing for the settlement of the consolidated case with no finding or admission of any wrongdoing by any of the defendants in the lawsuit. Under the Agreement, defendants are obligated to pay \$11 million, which payment will be made on their behalf by their insurers, to a fund to settle the

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claims of, and obtain a release of all claims from, the class members. On March 13, 2006, the Court issued an order giving preliminary approval of the Agreement and scheduled a Settlement Fairness Hearing on June 22, 2006. The fairness hearing took place as scheduled on June 22, 2006. On October 5, 2006, the Court issued a final order approving the Stipulation and Agreement of Settlement as submitted by the parties. Accordingly, this case has been dismissed with prejudice.

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Cincinnati Bell Inc.

*Freedom Wireless vs. BCGI, et al U.S. District Court, District of Massachusetts, Case No. 05-110620-EFH.*

On September 16, 2005, Freedom Wireless filed a patent infringement action against 24 wireless service providers, including CBW. The suit alleges that the defendant wireless service providers are in violation of a patent owned by Freedom Wireless. CBW obtained its rights to use the technology in question through Boston Communications Group Inc. ( BCGI ). BCGI has acknowledged its obligation to indemnify CBW in accordance with the terms of the license agreement. This lawsuit was preceded by a direct patent infringement suit against BCGI by Freedom Wireless, in which BCGI was found liable. On July 21, 2006, BCGI issued a press release indicating that it had reached a settlement agreement with Freedom Wireless in the underlying patent infringement action. On October 16, 2006, Freedom Wireless filed a Notice of Dismissal dismissing with prejudice all patent infringement claims against CBW arising from the alleged patent infringement by BCGI. Accordingly, the Company considers this case to be closed.

**8. Pensions and Postretirement Plans**

The following information relates to all Company noncontributory defined benefit pension plans, postretirement health care, and life insurance benefit plans. Approximately 9% of these costs were capitalized to property, plant, and equipment related to network construction in the Local segment for the three and nine months ended September 30, 2006 and 2005. Pension and postretirement benefits expense are as follows:

| (dollars in millions)                         | Pension Benefits                 |        | Postretirement and Other Benefits |        |
|-----------------------------------------------|----------------------------------|--------|-----------------------------------|--------|
|                                               | Three Months Ended September 30, |        |                                   |        |
|                                               | 2006                             | 2005   | 2006                              | 2005   |
| Service cost                                  | \$ 2.3                           | \$ 1.9 | \$ 0.7                            | \$ 0.8 |
| Interest cost on projected benefit obligation | 7.1                              | 6.7    | 5.8                               | 4.4    |
| Expected return on plan assets                | (8.8)                            | (9.6)  | (1.2)                             | (1.5)  |
| Amortization of:                              |                                  |        |                                   |        |
| Transition (asset)/obligation                 |                                  | (0.3)  | 1.0                               | 1.1    |
| Prior service cost                            | 0.9                              | 0.8    | 1.9                               | 1.8    |
| Actuarial loss                                | 0.8                              | 0.9    | 0.5                               | 0.8    |
| Total expense                                 | \$ 2.3                           | \$ 0.4 | \$ 8.7                            | \$ 7.4 |

| (dollars in millions)                         | Pension Benefits                |        | Postretirement and Other Benefits |         |
|-----------------------------------------------|---------------------------------|--------|-----------------------------------|---------|
|                                               | Nine Months Ended September 30, |        |                                   |         |
|                                               | 2006                            | 2005   | 2006                              | 2005    |
| Service cost                                  | \$ 6.6                          | \$ 6.0 | \$ 2.6                            | \$ 3.4  |
| Interest cost on projected benefit obligation | 20.8                            | 20.4   | 15.4                              | 16.1    |
| Expected return on plan assets                | (26.2)                          | (28.6) | (3.6)                             | (4.2)   |
| Amortization of:                              |                                 |        |                                   |         |
| Transition (asset)/obligation                 |                                 | (0.8)  | 3.1                               | 3.2     |
| Prior service cost                            | 2.6                             | 2.4    | 5.8                               | 8.3     |
| Actuarial loss                                | 2.9                             | 1.6    | 3.2                               | 1.5     |
| Total expense                                 | \$ 6.7                          | \$ 1.0 | \$ 26.5                           | \$ 28.3 |

The Company reclassified its pension intangible asset of \$25.5 million at December 31, 2005 from Other noncurrent assets to Intangible assets, net on the Condensed Consolidated Balance Sheets to conform to the September 30, 2006 presentation.





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Form 10-Q Part I

Cincinnati Bell Inc.

**9. Business Segment Information**

The Company is organized into five business segments: Local, Wireless, HMS, Other, and Broadband, on the basis of offering distinct products and services. These segments are generally aligned with specific subsidiaries of the Company.

The Broadband segment no longer has any substantive, on-going operations because, in 2003, the Company sold substantially all of its broadband assets, which were reported in the Broadband segment. The Broadband segment previously provided data and voice communications services nationwide over approximately 18,700 route miles of fiber-optic transmission facilities. The third quarter operating income for 2006 of \$7.9 million primarily consists of a \$4.7 million gain on sale of broadband fiber assets and \$3.6 million of income related to the sale of a bankruptcy claim receivable. Operating income for the nine months ended September 30, 2006 of \$9.7 million includes the third quarter items discussed above and \$2.9 million of income due to the expiration of certain warranties and guarantees established at the time the Broadband assets were sold, partially offset by legal and restructuring expenses. The gains associated with the sale of broadband assets and the expiration of certain warranties and guarantees are included in Gain on sale of broadband assets in the Condensed Consolidated Statements of Operations. Remaining amounts comprising Broadband operating income are primarily included in Selling, general and administrative in the Condensed Consolidated Statements of Operations. Operating income for the third quarter of 2005 of \$1.0 million and for the nine months ended September 30, 2005 of \$3.6 million was primarily due to the favorable resolution of certain operating tax issues and was included in Selling, general and administrative in the Condensed Consolidated Statements of Operations.

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

The Company's business segment information follows:

| (dollars in millions)             | Three Months Ended |                    | Nine Months Ended  |                    |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                   | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| <b>Revenue</b>                    |                    |                    |                    |                    |
| Local                             | \$ 186.6           | \$ 187.4           | \$ 560.4           | \$ 567.1           |
| Wireless                          | 65.0               | 58.2               | 193.2              | 179.8              |
| Hardware and Managed Services     | 57.3               | 43.5               | 154.3              | 125.2              |
| Other                             | 19.9               | 19.7               | 59.3               | 58.3               |
| Intersegment                      | (8.7)              | (8.5)              | (25.5)             | (26.1)             |
| <b>Total revenue</b>              | <b>\$ 320.1</b>    | <b>\$ 300.3</b>    | <b>\$ 941.7</b>    | <b>\$ 904.3</b>    |
| <b>Intersegment revenue</b>       |                    |                    |                    |                    |
| Local                             | \$ 6.6             | \$ 6.5             | \$ 19.6            | \$ 19.1            |
| Wireless                          | 0.7                | 0.8                | 2.1                | 2.1                |
| Hardware and Managed Services     | 0.4                | 0.5                | 1.2                | 2.6                |
| Other                             | 1.0                | 0.7                | 2.6                | 2.3                |
| <b>Total intersegment revenue</b> | <b>\$ 8.7</b>      | <b>\$ 8.5</b>      | <b>\$ 25.5</b>     | <b>\$ 26.1</b>     |
| <b>Operating income</b>           |                    |                    |                    |                    |
| Local                             | \$ 62.1            | \$ 67.9            | \$ 202.2           | \$ 207.9           |
| Wireless                          | 6.3                | (4.1)              | 14.5               | (25.8)             |
| Hardware and Managed Services     | 5.2                | 2.8                | 11.4               | 9.5                |
| Other                             | 6.6                | 7.0                | 20.1               | 20.0               |
| Broadband                         | 7.9                | 1.0                | 9.7                | 3.6                |
| Corporate and eliminations        | (4.6)              | (2.5)              | (20.1)             | (12.0)             |
| <b>Total operating income</b>     | <b>\$ 83.5</b>     | <b>\$ 72.1</b>     | <b>\$ 237.8</b>    | <b>\$ 203.2</b>    |

|                               | September 30,<br>2006 | December 31,<br>2005 |
|-------------------------------|-----------------------|----------------------|
| <b>Assets</b>                 |                       |                      |
| Local                         | \$ 707.3              | \$ 721.4             |
| Wireless                      | 343.2                 | 274.2                |
| Hardware and Managed Services | 106.5                 | 90.7                 |
| Other                         | 81.3                  | 101.4                |
| Broadband                     | 2.7                   | 2.7                  |
| Corporate and eliminations    | 648.4                 | 672.9                |
| Total assets                  | \$ 1,889.4            | \$ 1,863.3           |

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Form 10-Q Part I

Cincinnati Bell Inc.

**10. Supplemental Guarantor Information  
Cincinnati Bell Telephone Notes**

Cincinnati Bell Telephone LLC ( CBT ), a wholly owned subsidiary of Cincinnati Bell Inc. (the Parent Company ), has \$230.0 million in notes outstanding that are guaranteed by the Parent Company and no other subsidiaries of the Parent Company. The guarantee is full and unconditional. In the fourth quarter of 2005, Cincinnati Bell Public Communications merged into the Parent Company. Substantially all of the Parent Company's income and cash flow is generated by its subsidiaries. Generally, funds necessary to meet the Parent Company's debt service obligations are provided by distributions or advances from its subsidiaries.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three months and nine months ended September 30, 2006 and 2005 and Condensed Consolidating Balance Sheets of the Company as of September 30, 2006 and December 31, 2005 of (1) the Parent Company, as the guarantor (2) CBT, as the issuer, and (3) the non-guarantor subsidiaries on a combined basis:

**Condensed Consolidating Statements of Operations**

| (dollars in millions)                              | Three Months Ended September 30, 2006 |          |                           |              |          |
|----------------------------------------------------|---------------------------------------|----------|---------------------------|--------------|----------|
|                                                    | Parent<br>(Guarantor)                 | CBT      | Other<br>(Non-guarantors) | Eliminations | Total    |
| Revenue                                            | \$ 0.8                                | \$ 186.6 | \$ 141.4                  | \$ (8.7)     | \$ 320.1 |
| Operating costs and expenses                       | 4.2                                   | 124.5    | 116.6                     | (8.7)        | 236.6    |
| Operating income (loss)                            | (3.4)                                 | 62.1     | 24.8                      |              | 83.5     |
| Equity in earnings of subsidiaries, net of tax     | 48.9                                  |          |                           | (48.9)       |          |
| Interest expense                                   | 37.3                                  | 3.8      | 8.3                       | (8.0)        | 41.4     |
| Other expense (income), net                        | (8.2)                                 | 0.2      | (0.3)                     | 8.0          | (0.3)    |
| Income (loss) before income taxes                  | 16.4                                  | 58.1     | 16.8                      | (48.9)       | 42.4     |
| Income tax expense (benefit)                       | (8.7)                                 | 20.8     | 5.2                       |              | 17.3     |
| Net income (loss)                                  | 25.1                                  | 37.3     | 11.6                      | (48.9)       | 25.1     |
| Preferred stock dividends                          | 2.6                                   |          |                           |              | 2.6      |
| Net income (loss) applicable to common shareowners | \$ 22.5                               | \$ 37.3  | \$ 11.6                   | \$ (48.9)    | \$ 22.5  |

| (dollars in millions)                          | Three Months Ended September 30, 2005 |          |                           |              |          |
|------------------------------------------------|---------------------------------------|----------|---------------------------|--------------|----------|
|                                                | Parent<br>(Guarantor)                 | CBT      | Other<br>(Non-guarantors) | Eliminations | Total    |
| Revenue                                        | \$ 1.2                                | \$ 187.4 | \$ 120.2                  | \$ (8.5)     | \$ 300.3 |
| Operating costs and expenses                   | 3.7                                   | 119.5    | 113.5                     | (8.5)        | 228.2    |
| Operating income (loss)                        | (2.5)                                 | 67.9     | 6.7                       |              | 72.1     |
| Equity in earnings of subsidiaries, net of tax | 37.4                                  |          |                           | (37.4)       |          |
| Interest expense                               | 42.6                                  | 4.3      | 7.2                       | (7.1)        | 47.0     |
| Other expense (income), net                    | 84.8                                  | (1.3)    | (1.0)                     | 7.1          | 89.6     |
| Income (loss) before income taxes              | (92.5)                                | 64.9     | 0.5                       | (37.4)       | (64.5)   |

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|                                                    |           |         |          |           |           |
|----------------------------------------------------|-----------|---------|----------|-----------|-----------|
| Income tax expense (benefit)                       | (48.4)    | 25.5    | 2.5      | (20.4)    |           |
| Net income (loss)                                  | (44.1)    | 39.4    | (2.0)    | (37.4)    | (44.1)    |
| Preferred stock dividends                          | 2.6       |         |          |           | 2.6       |
| Net income (loss) applicable to common shareowners | \$ (46.7) | \$ 39.4 | \$ (2.0) | \$ (37.4) | \$ (46.7) |

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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Statements of Operations**

| (dollars in millions)                              | Nine Months Ended September 30, 2006 |          |                           |              |          |
|----------------------------------------------------|--------------------------------------|----------|---------------------------|--------------|----------|
|                                                    | Parent<br>(Guarantor)                | CBT      | Other<br>(Non-guarantors) | Eliminations | Total    |
| Revenue                                            | \$ 2.2                               | \$ 560.4 | \$ 404.6                  | \$ (25.5)    | \$ 941.7 |
| Operating costs and expenses                       | 20.9                                 | 358.2    | 350.3                     | (25.5)       | 703.9    |
| Operating income (loss)                            | (18.7)                               | 202.2    | 54.3                      |              | 237.8    |
| Equity in earnings of subsidiaries, net of tax     | 141.5                                |          |                           | (141.5)      |          |
| Interest expense                                   | 108.9                                | 11.2     | 24.8                      | (23.6)       | 121.3    |
| Other expense (income), net                        | (24.3)                               | 0.3      | 0.1                       | 23.6         | (0.3)    |
| Income (loss) before income taxes                  | 38.2                                 | 190.7    | 29.4                      | (141.5)      | 116.8    |
| Income tax expense (benefit)                       | (25.4)                               | 68.3     | 10.3                      |              | 53.2     |
| Net income (loss)                                  | 63.6                                 | 122.4    | 19.1                      | (141.5)      | 63.6     |
| Preferred stock dividends                          | 7.8                                  |          |                           |              | 7.8      |
| Net income (loss) applicable to common shareowners | \$ 55.8                              | \$ 122.4 | \$ 19.1                   | \$ (141.5)   | \$ 55.8  |

| (dollars in millions)                              | Nine Months Ended September 30, 2005 |          |                           |              |           |
|----------------------------------------------------|--------------------------------------|----------|---------------------------|--------------|-----------|
|                                                    | Parent<br>(Guarantor)                | CBT      | Other<br>(Non-guarantors) | Eliminations | Total     |
| Revenue                                            | \$ 3.7                               | \$ 567.1 | \$ 359.6                  | \$ (26.1)    | \$ 904.3  |
| Operating costs and expenses                       | 16.1                                 | 359.2    | 351.9                     | (26.1)       | 701.1     |
| Operating income (loss)                            | (12.4)                               | 207.9    | 7.7                       |              | 203.2     |
| Equity in earnings of subsidiaries, net of tax     | 69.5                                 |          |                           | (69.5)       |           |
| Interest expense                                   | 134.1                                | 12.7     | 20.6                      | (20.3)       | 147.1     |
| Other expense (income), net                        | 81.0                                 | (2.9)    | (5.9)                     | 20.3         | 92.5      |
| Income (loss) before income taxes                  | (158.0)                              | 198.1    | (7.0)                     | (69.5)       | (36.4)    |
| Income tax expense (benefit)                       | (80.9)                               | 83.2     | 38.4                      |              | 40.7      |
| Net income (loss)                                  | (77.1)                               | 114.9    | (45.4)                    | (69.5)       | (77.1)    |
| Preferred stock dividends                          | 7.8                                  |          |                           |              | 7.8       |
| Net income (loss) applicable to common shareowners | \$ (84.9)                            | \$ 114.9 | \$ (45.4)                 | \$ (69.5)    | \$ (84.9) |

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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Balance Sheets**

| (dollars in millions)                                      | As of September 30, 2006 |                 |                           |                     |                   |
|------------------------------------------------------------|--------------------------|-----------------|---------------------------|---------------------|-------------------|
|                                                            | Parent<br>(Guarantor)    | CBT             | Other<br>(Non-guarantors) | Eliminations        | Total             |
| Cash and cash equivalents                                  | \$ 24.0                  | \$ 0.2          | \$ 3.3                    | \$                  | \$ 27.5           |
| Receivables, net                                           | 0.6                      | 65.9            | 89.1                      |                     | 155.6             |
| Other current assets                                       | 26.3                     | 33.2            | 93.9                      | (27.4)              | 126.0             |
| <b>Total current assets</b>                                | <b>50.9</b>              | <b>99.3</b>     | <b>186.3</b>              | <b>(27.4)</b>       | <b>309.1</b>      |
| Property, plant and equipment, net                         | 0.1                      | 595.5           | 213.3                     |                     | 808.9             |
| Goodwill and intangibles, net                              | 25.7                     |                 | 130.0                     |                     | 155.7             |
| Investments in and advances to subsidiaries                | 1,056.0                  |                 |                           | (1,056.0)           |                   |
| Other noncurrent assets                                    | 284.3                    | 12.5            | 350.3                     | (31.4)              | 615.7             |
| <b>Total assets</b>                                        | <b>\$ 1,417.0</b>        | <b>\$ 707.3</b> | <b>\$ 879.9</b>           | <b>\$ (1,114.8)</b> | <b>\$ 1,889.4</b> |
| Current portion of long-term debt                          | \$ 4.0                   | \$ 1.2          | \$ 1.6                    | \$                  | \$ 6.8            |
| Accounts payable                                           | 0.1                      | 34.7            | 30.7                      |                     | 65.5              |
| Other current liabilities                                  | 68.0                     | 69.7            | 41.5                      | 2.9                 | 182.1             |
| <b>Total current liabilities</b>                           | <b>72.1</b>              | <b>105.6</b>    | <b>73.8</b>               | <b>2.9</b>          | <b>254.4</b>      |
| Long-term debt, less current portion                       | 1,819.8                  | 236.4           | 10.1                      |                     | 2,066.3           |
| Other noncurrent liabilities                               | 204.9                    | 68.7            | 35.7                      | (61.7)              | 247.6             |
| Intercompany payables                                      |                          | 41.3            | 427.1                     | (468.4)             |                   |
| <b>Total liabilities</b>                                   | <b>2,096.8</b>           | <b>452.0</b>    | <b>546.7</b>              | <b>(527.2)</b>      | <b>2,568.3</b>    |
| Minority interest                                          |                          |                 | 0.9                       |                     | 0.9               |
| Shareowners' equity (deficit)                              | (679.8)                  | 255.3           | 332.3                     | (587.6)             | (679.8)           |
| <b>Total liabilities and shareowners' equity (deficit)</b> | <b>\$ 1,417.0</b>        | <b>\$ 707.3</b> | <b>\$ 879.9</b>           | <b>\$ (1,114.8)</b> | <b>\$ 1,889.4</b> |

| (dollars in millions)                       | As of December 31, 2005 |                 |                           |                     |                   |
|---------------------------------------------|-------------------------|-----------------|---------------------------|---------------------|-------------------|
|                                             | Parent<br>(Guarantor)   | CBT             | Other<br>(Non-guarantors) | Eliminations        | Total             |
| Cash and cash equivalents                   | \$ 23.9                 | \$ 1.3          | \$ 0.5                    | \$                  | \$ 25.7           |
| Receivables, net                            | 2.9                     | 75.2            | 82.8                      |                     | 160.9             |
| Other current assets                        | 12.5                    | 29.4            | 85.3                      | (20.3)              | 106.9             |
| <b>Total current assets</b>                 | <b>39.3</b>             | <b>105.9</b>    | <b>168.6</b>              | <b>(20.3)</b>       | <b>293.5</b>      |
| Property, plant and equipment, net          | 0.2                     | 603.0           | 197.2                     |                     | 800.4             |
| Goodwill and intangibles, net               | 25.5                    |                 | 76.7                      |                     | 102.2             |
| Investments in and advances to subsidiaries | 995.6                   |                 |                           | (995.6)             |                   |
| Other noncurrent assets                     | 296.4                   | 12.5            | 415.1                     | (56.8)              | 667.2             |
| <b>Total assets</b>                         | <b>\$ 1,357.0</b>       | <b>\$ 721.4</b> | <b>\$ 857.6</b>           | <b>\$ (1,072.7)</b> | <b>\$ 1,863.3</b> |
| Current portion of long-term debt           | \$ 4.0                  | \$ 2.5          | \$ 4.8                    | \$                  | \$ 11.3           |
| Accounts payable                            | 0.2                     | 36.9            | 32.7                      |                     | 69.8              |
| Other current liabilities                   | 88.4                    | 66.7            | 42.7                      | (1.4)               | 196.4             |

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|                                                            |                   |                 |                 |                     |                   |
|------------------------------------------------------------|-------------------|-----------------|-----------------|---------------------|-------------------|
| Total current liabilities                                  | 92.6              | 106.1           | 80.2            | (1.4)               | 277.5             |
| Long-term debt, less current portion                       | 1,826.3           | 237.1           | 10.0            |                     | 2,073.4           |
| Other noncurrent liabilities                               | 175.8             | 80.9            | 40.9            | (75.7)              | 221.9             |
| Intercompany payables                                      |                   | 31.7            | 469.4           | (501.1)             |                   |
| <b>Total liabilities</b>                                   | <b>2,094.7</b>    | <b>455.8</b>    | <b>600.5</b>    | <b>(578.2)</b>      | <b>2,572.8</b>    |
| Minority interest                                          |                   |                 | 28.2            |                     | 28.2              |
| Shareowners' equity (deficit)                              | (737.7)           | 265.6           | 228.9           | (494.5)             | (737.7)           |
| <b>Total liabilities and shareowners' equity (deficit)</b> | <b>\$ 1,357.0</b> | <b>\$ 721.4</b> | <b>\$ 857.6</b> | <b>\$ (1,072.7)</b> | <b>\$ 1,863.3</b> |



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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Statements of Cash Flows**

| (dollars in millions)                                 | Nine Months Ended September 30, 2006 |          |                           |              |          |
|-------------------------------------------------------|--------------------------------------|----------|---------------------------|--------------|----------|
|                                                       | Parent<br>(Guarantor)                | CBT      | Other<br>(Non-guarantors) | Eliminations | Total    |
| Cash flows provided by (used in) operating activities | \$ (73.5)                            | \$ 190.3 | \$ 93.4                   | \$           | \$ 210.2 |
| Capital expenditures                                  |                                      | (69.3)   | (40.5)                    |              | (109.8)  |
| Acquisition of businesses                             |                                      |          | (86.7)                    |              | (86.7)   |
| Other investing activities                            |                                      | 2.0      | (2.1)                     |              | (0.1)    |
| Cash flows used in investing activities               |                                      | (67.3)   | (129.3)                   |              | (196.6)  |
| Funding between Parent and subsidiaries, net          | 81.3                                 | (123.1)  | 41.8                      |              |          |
| Increase in corporate credit facility, net            | 4.0                                  |          |                           |              | 4.0      |
| Repayment of debt                                     | (6.2)                                | (2.1)    | (3.1)                     |              | (11.4)   |
| Issuance of common shares                             | 1.7                                  |          |                           |              | 1.7      |
| Other financing activities                            | (7.2)                                | 1.1      |                           |              | (6.1)    |
| Cash flows provided by (used in) financing activities | 73.6                                 | (124.1)  | 38.7                      |              | (11.8)   |
| Increase (decrease) in cash and cash equivalents      | 0.1                                  | (1.1)    | 2.8                       |              | 1.8      |
| Beginning cash and cash equivalents                   | 23.9                                 | 1.3      | 0.5                       |              | 25.7     |
| Ending cash and cash equivalents                      | \$ 24.0                              | \$ 0.2   | \$ 3.3                    | \$           | \$ 27.5  |

| (dollars in millions)                                   | Nine Months Ended September 30, 2005 |          |                           |              |          |
|---------------------------------------------------------|--------------------------------------|----------|---------------------------|--------------|----------|
|                                                         | Parent<br>(Guarantor)                | CBT      | Other<br>(Non-guarantors) | Eliminations | Total    |
| Cash flows provided by (used in) operating activities   | \$ (45.5)                            | \$ 212.4 | \$ 58.5                   | \$           | \$ 225.4 |
| Capital expenditures                                    |                                      | (72.0)   | (36.7)                    |              | (108.7)  |
| Other investing activities                              |                                      | 0.9      | 0.3                       |              | 1.2      |
| Cash flows used in investing activities                 |                                      | (71.1)   | (36.4)                    |              | (107.5)  |
| Funding between Parent and subsidiaries, net            | 159.4                                | (137.2)  | (22.2)                    |              |          |
| Issuance of long-term debt and new credit facility, net | 790.0                                |          | 0.1                       |              | 790.1    |
| Repayment of debt                                       | (878.9)                              | (3.4)    | (0.2)                     |              | (882.5)  |
| Issuance of common shares                               | 2.4                                  |          |                           |              | 2.4      |
| Other financing activities                              | (29.8)                               | 0.7      |                           |              | (29.1)   |
| Cash flows provided by (used in) financing activities   | 43.1                                 | (139.9)  | (22.3)                    |              | (119.1)  |
| Increase (decrease) in cash and cash equivalents        | (2.4)                                | 1.4      | (0.2)                     |              | (1.2)    |
| Beginning cash and cash equivalents                     | 22.7                                 | 1.4      | 0.8                       |              | 24.9     |
| Ending cash and cash equivalents                        | \$ 20.3                              | \$ 2.8   | \$ 0.6                    | \$           | \$ 23.7  |



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Form 10-Q Part I

Cincinnati Bell Inc.

**7<sup>1</sup>/<sub>4</sub>% Senior Notes Due 2013, 7% Senior Notes Due 2015, and 8<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes Due 2014**

The Company's 7<sup>1</sup>/<sub>4</sub>% Senior Notes Due 2013, 7% Senior Notes Due 2015 (the 7% Senior Notes), and 8<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes Due 2014 (the 8<sup>3</sup>/<sub>8</sub>% Notes) are guaranteed by the following subsidiaries: Cincinnati Bell Entertainment Inc. (f/k/a ZoomTown.com Inc.), Cincinnati Bell Complete Protection Inc., BRFS LLC, Cincinnati Bell Any Distance Inc., Cincinnati Bell Telecommunication Services LLC, Cincinnati Bell Wireless Company, Cincinnati Bell Wireless LLC, BCSIVA Inc., BRCOM Inc., Cincinnati Bell Technology Solutions Inc., and IXC Internet Services Inc. Effective February 14, 2006, the Company paid Cingular \$83.2 million for its 19.9% interest in Cincinnati Bell Wireless LLC. As a result, Cincinnati Bell Wireless LLC became a wholly-owned subsidiary of the Company and, as such, also became a guarantor of the notes. Also, in the fourth quarter of 2005, Cincinnati Bell Public Communications merged into the Parent Company. The financial information presented below combines Cincinnati Bell Wireless LLC with the guarantors and Cincinnati Bell Public Communications with the Parent Company for all periods presented. The Parent Company owns directly or indirectly 100% of each guarantor and each guarantee is full and unconditional and joint and several. The Company's subsidiaries generate substantially all of the Parent Company's income and cash flow and generally fund, through distributions or advances, the Parent Company's debt service obligations.

The following information sets forth the Condensed Consolidating Statements of Operations and Cash Flows for the three and nine months ended September 30, 2006 and 2005 and the Condensed Consolidating Balance Sheets of the Company as of September 30, 2006 and December 31, 2005 of (1) the Parent Company, as the issuer (2) the guarantor subsidiaries on a combined basis and (3) the non-guarantor subsidiaries on a combined basis.

**Condensed Consolidating Statements of Operations**

| (dollars in millions)                              | Three Months Ended September 30, 2006 |            |                |              |          |
|----------------------------------------------------|---------------------------------------|------------|----------------|--------------|----------|
|                                                    | Parent<br>(Issuer)                    | Guarantors | Non-guarantors | Eliminations | Total    |
| Revenue                                            | \$ 0.8                                | \$ 154.2   | \$ 173.8       | \$ (8.7)     | \$ 320.1 |
| Operating costs and expenses                       | 4.2                                   | 129.5      | 111.6          | (8.7)        | 236.6    |
| Operating income (loss)                            | (3.4)                                 | 24.7       | 62.2           |              | 83.5     |
| Equity in earnings of subsidiaries, net of tax     | 48.9                                  |            |                | (48.9)       |          |
| Interest expense                                   | 37.3                                  | 8.4        | 3.7            | (8.0)        | 41.4     |
| Other expense (income), net                        | (8.2)                                 | (0.1)      |                | 8.0          | (0.3)    |
| Income (loss) before income taxes                  | 16.4                                  | 16.4       | 58.5           | (48.9)       | 42.4     |
| Income tax expense (benefit)                       | (8.7)                                 | 4.2        | 21.8           |              | 17.3     |
| Net income (loss)                                  | 25.1                                  | 12.2       | 36.7           | (48.9)       | 25.1     |
| Preferred stock dividends                          | 2.6                                   |            |                |              | 2.6      |
| Net income (loss) applicable to common shareowners | \$ 22.5                               | \$ 12.2    | \$ 36.7        | \$ (48.9)    | \$ 22.5  |

| (dollars in millions)                          | Three Months Ended September 30, 2005 |            |                |              |          |
|------------------------------------------------|---------------------------------------|------------|----------------|--------------|----------|
|                                                | Parent<br>(Issuer)                    | Guarantors | Non-guarantors | Eliminations | Total    |
| Revenue                                        | \$ 1.2                                | \$ 132.6   | \$ 175.0       | \$ (8.5)     | \$ 300.3 |
| Operating costs and expenses                   | 3.7                                   | 126.5      | 106.5          | (8.5)        | 228.2    |
| Operating income (loss)                        | (2.5)                                 | 6.1        | 68.5           |              | 72.1     |
| Equity in earnings of subsidiaries, net of tax | 37.4                                  |            |                | (37.4)       |          |
| Interest expense                               | 42.6                                  | 7.3        | 4.2            | (7.1)        | 47.0     |
| Other expense (income), net                    | 84.8                                  | (1.2)      | (1.1)          | 7.1          | 89.6     |

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|                                                    |           |        |         |           |           |
|----------------------------------------------------|-----------|--------|---------|-----------|-----------|
| Income (loss) before income taxes                  | (92.5)    |        | 65.4    | (37.4)    | (64.5)    |
| Income tax expense (benefit)                       | (48.4)    | (0.5)  | 28.5    |           | (20.4)    |
| Net income (loss)                                  | (44.1)    | 0.5    | 36.9    | (37.4)    | (44.1)    |
| Preferred stock dividends                          | 2.6       |        |         |           | 2.6       |
| Net income (loss) applicable to common shareowners | \$ (46.7) | \$ 0.5 | \$ 36.9 | \$ (37.4) | \$ (46.7) |

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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Statements of Operations**

| (dollars in millions)                              | Nine Months Ended September 30, 2006 |            |                |              |          |
|----------------------------------------------------|--------------------------------------|------------|----------------|--------------|----------|
|                                                    | Parent<br>(Issuer)                   | Guarantors | Non-guarantors | Eliminations | Total    |
| Revenue                                            | \$ 2.2                               | \$ 442.4   | \$ 522.6       | \$ (25.5)    | \$ 941.7 |
| Operating costs and expenses                       | 20.9                                 | 388.8      | 319.7          | (25.5)       | 703.9    |
| Operating income (loss)                            | (18.7)                               | 53.6       | 202.9          |              | 237.8    |
| Equity in earnings of subsidiaries, net of tax     | 141.5                                |            |                | (141.5)      |          |
| Interest expense                                   | 108.9                                | 25.1       | 10.9           | (23.6)       | 121.3    |
| Other expense (income), net                        | (24.3)                               | 0.2        | 0.2            | 23.6         | (0.3)    |
| Income (loss) before income taxes                  | 38.2                                 | 28.3       | 191.8          | (141.5)      | 116.8    |
| Income tax expense (benefit)                       | (25.4)                               | 5.5        | 73.1           |              | 53.2     |
| Net income (loss)                                  | 63.6                                 | 22.8       | 118.7          | (141.5)      | 63.6     |
| Preferred stock dividends                          | 7.8                                  |            |                |              | 7.8      |
| Net income (loss) applicable to common shareowners | \$ 55.8                              | \$ 22.8    | \$ 118.7       | \$ (141.5)   | \$ 55.8  |

| (dollars in millions)                              | Nine Months Ended September 30, 2005 |            |                |              |           |
|----------------------------------------------------|--------------------------------------|------------|----------------|--------------|-----------|
|                                                    | Parent<br>(Issuer)                   | Guarantors | Non-guarantors | Eliminations | Total     |
| Revenue                                            | \$ 3.7                               | \$ 398.5   | \$ 528.2       | \$ (26.1)    | \$ 904.3  |
| Operating costs and expenses                       | 16.1                                 | 391.4      | 319.7          | (26.1)       | 701.1     |
| Operating income (loss)                            | (12.4)                               | 7.1        | 208.5          |              | 203.2     |
| Equity in earnings of subsidiaries, net of tax     | 69.5                                 |            |                | (69.5)       |           |
| Interest expense                                   | 134.1                                | 20.9       | 12.4           | (20.3)       | 147.1     |
| Other expense (income), net                        | 81.0                                 | (6.3)      | (2.5)          | 20.3         | 92.5      |
| Income (loss) before income taxes                  | (158.0)                              | (7.5)      | 198.6          | (69.5)       | (36.4)    |
| Income tax expense (benefit)                       | (80.9)                               | 29.4       | 92.2           |              | 40.7      |
| Net income (loss)                                  | (77.1)                               | (36.9)     | 106.4          | (69.5)       | (77.1)    |
| Preferred stock dividends                          | 7.8                                  |            |                |              | 7.8       |
| Net income (loss) applicable to common shareowners | \$ (84.9)                            | \$ (36.9)  | \$ 106.4       | \$ (69.5)    | \$ (84.9) |

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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Balance Sheets**

| (dollars in millions)                                      | As of September 30, 2006 |                 |                 |                     |                   |
|------------------------------------------------------------|--------------------------|-----------------|-----------------|---------------------|-------------------|
|                                                            | Parent<br>(Issuer)       | Guarantors      | Non-guarantors  | Eliminations        | Total             |
| Cash and cash equivalents                                  | \$ 24.0                  | \$ 1.1          | \$ 2.4          | \$                  | \$ 27.5           |
| Receivables, net                                           | 0.6                      | 102.4           | 52.6            |                     | 155.6             |
| Other current assets                                       | 26.3                     | 94.0            | 33.1            | (27.4)              | 126.0             |
| <b>Total current assets</b>                                | <b>50.9</b>              | <b>197.5</b>    | <b>88.1</b>     | <b>(27.4)</b>       | <b>309.1</b>      |
| Property, plant and equipment, net                         | 0.1                      | 214.9           | 593.9           |                     | 808.9             |
| Goodwill and intangibles, net                              | 25.7                     | 130.0           |                 |                     | 155.7             |
| Investments in and advances to subsidiaries                | 1,056.0                  | 7.8             |                 | (1,063.8)           |                   |
| Other noncurrent assets                                    | 284.3                    | 350.9           | 11.9            | (31.4)              | 615.7             |
| <b>Total assets</b>                                        | <b>\$ 1,417.0</b>        | <b>\$ 901.1</b> | <b>\$ 693.9</b> | <b>\$ (1,122.6)</b> | <b>\$ 1,889.4</b> |
| Current portion of long-term debt                          | \$ 4.0                   | \$ 1.6          | \$ 1.2          | \$                  | \$ 6.8            |
| Accounts payable                                           | 0.1                      | 47.2            | 18.2            |                     | 65.5              |
| Other current liabilities                                  | 68.0                     | 43.0            | 68.2            | 2.9                 | 182.1             |
| <b>Total current liabilities</b>                           | <b>72.1</b>              | <b>91.8</b>     | <b>87.6</b>     | <b>2.9</b>          | <b>254.4</b>      |
| Long-term debt, less current portion                       | 1,819.8                  | 10.1            | 236.4           |                     | 2,066.3           |
| Other noncurrent liabilities                               | 204.9                    | 37.5            | 66.9            | (61.7)              | 247.6             |
| Intercompany payables                                      |                          | 427.1           | 49.1            | (476.2)             |                   |
| <b>Total liabilities</b>                                   | <b>2,096.8</b>           | <b>566.5</b>    | <b>440.0</b>    | <b>(535.0)</b>      | <b>2,568.3</b>    |
| Minority interest                                          |                          |                 | 0.9             |                     | 0.9               |
| Shareowners' equity (deficit)                              | (679.8)                  | 334.6           | 253.0           | (587.6)             | (679.8)           |
| <b>Total liabilities and shareowners' equity (deficit)</b> | <b>\$ 1,417.0</b>        | <b>\$ 901.1</b> | <b>\$ 693.9</b> | <b>\$ (1,122.6)</b> | <b>\$ 1,889.4</b> |

| (dollars in millions)                       | As of December 31, 2005 |                 |                 |                     |                   |
|---------------------------------------------|-------------------------|-----------------|-----------------|---------------------|-------------------|
|                                             | Parent<br>(Issuer)      | Guarantors      | Non-guarantors  | Eliminations        | Total             |
| Cash and cash equivalents                   | \$ 23.9                 | \$ 0.5          | \$ 1.3          | \$                  | \$ 25.7           |
| Receivables, net                            | 2.9                     | 99.1            | 58.9            |                     | 160.9             |
| Other current assets                        | 12.5                    | 86.5            | 28.2            | (20.3)              | 106.9             |
| <b>Total current assets</b>                 | <b>39.3</b>             | <b>186.1</b>    | <b>88.4</b>     | <b>(20.3)</b>       | <b>293.5</b>      |
| Property, plant and equipment, net          | 0.2                     | 200.0           | 600.2           |                     | 800.4             |
| Goodwill and intangibles, net               | 25.5                    | 76.7            |                 |                     | 102.2             |
| Investments in and advances to subsidiaries | 995.6                   |                 |                 | (995.6)             |                   |
| Other noncurrent assets                     | 296.4                   | 415.7           | 11.9            | (56.8)              | 667.2             |
| <b>Total assets</b>                         | <b>\$ 1,357.0</b>       | <b>\$ 878.5</b> | <b>\$ 700.5</b> | <b>\$ (1,072.7)</b> | <b>\$ 1,863.3</b> |
| Current portion of long-term debt           | \$ 4.0                  | \$ 4.8          | \$ 2.5          | \$                  | \$ 11.3           |
| Accounts payable                            | 0.2                     | 48.7            | 20.9            |                     | 69.8              |
| Other current liabilities                   | 88.4                    | 43.9            | 65.5            | (1.4)               | 196.4             |
| <b>Total current liabilities</b>            | <b>92.6</b>             | <b>97.4</b>     | <b>88.9</b>     | <b>(1.4)</b>        | <b>277.5</b>      |
| Long-term debt, less current portion        | 1,826.3                 | 10.0            | 237.1           |                     | 2,073.4           |

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|                                                            |                   |                 |                 |                     |                   |
|------------------------------------------------------------|-------------------|-----------------|-----------------|---------------------|-------------------|
| Other noncurrent liabilities                               | 175.8             | 38.5            | 83.3            | (75.7)              | 221.9             |
| Intercompany payables                                      |                   | 473.5           | 27.6            | (501.1)             |                   |
| <b>Total liabilities</b>                                   | <b>2,094.7</b>    | <b>619.4</b>    | <b>436.9</b>    | <b>(578.2)</b>      | <b>2,572.8</b>    |
| Minority interest                                          |                   | 28.2            |                 |                     | 28.2              |
| Shareowners' equity (deficit)                              | (737.7)           | 230.9           | 263.6           | (494.5)             | (737.7)           |
| <b>Total liabilities and shareowners' equity (deficit)</b> | <b>\$ 1,357.0</b> | <b>\$ 878.5</b> | <b>\$ 700.5</b> | <b>\$ (1,072.7)</b> | <b>\$ 1,863.3</b> |

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Form 10-Q Part I

Cincinnati Bell Inc.

**Condensed Consolidating Statements of Cash Flows**

| (dollars in millions)                                 | Nine Months Ended September 30, 2006 |            |                |              |          |
|-------------------------------------------------------|--------------------------------------|------------|----------------|--------------|----------|
|                                                       | Parent<br>(Issuer)                   | Guarantors | Non-guarantors | Eliminations | Total    |
| Cash flows provided by (used in) operating activities | \$ (73.5)                            | \$ 106.6   | \$ 177.1       | \$           | \$ 210.2 |
| Capital expenditures                                  |                                      | (41.6)     | (68.2)         |              | (109.8)  |
| Acquisition of businesses                             |                                      | (86.7)     |                |              | (86.7)   |
| Other investing activities                            |                                      | (0.1)      |                |              | (0.1)    |
| Cash flows used in investing activities               |                                      | (128.4)    | (68.2)         |              | (196.6)  |
| Funding between Parent and subsidiaries, net          | 81.3                                 | 24.4       | (105.7)        |              |          |
| Increase in corporate credit facility, net            | 4.0                                  |            |                |              | 4.0      |
| Repayment of debt                                     | (6.2)                                | (3.1)      | (2.1)          |              | (11.4)   |
| Issuance of common shares                             | 1.7                                  |            |                |              | 1.7      |
| Other financing activities                            | (7.2)                                | 1.1        |                |              | (6.1)    |
| Cash flows provided by (used in) financing activities | 73.6                                 | 22.4       | (107.8)        |              | (11.8)   |
| Increase (decrease) in cash and cash equivalents      | 0.1                                  | 0.6        | 1.1            |              | 1.8      |
| Beginning cash and cash equivalents                   | 23.9                                 | 0.5        | 1.3            |              | 25.7     |
| Ending cash and cash equivalents                      | \$ 24.0                              | \$ 1.1     | \$ 2.4         | \$           | \$ 27.5  |

| (dollars in millions)                                   | Nine Months Ended September 30, 2005 |            |                |              |          |
|---------------------------------------------------------|--------------------------------------|------------|----------------|--------------|----------|
|                                                         | Parent<br>(Issuer)                   | Guarantors | Non-guarantors | Eliminations | Total    |
| Cash flows provided by (used in) operating activities   | \$ (45.5)                            | \$ 74.3    | \$ 196.6       | \$           | \$ 225.4 |
| Capital expenditures                                    |                                      | (39.1)     | (69.6)         |              | (108.7)  |
| Other investing activities                              |                                      | 1.2        |                |              | 1.2      |
| Cash flows used in investing activities                 |                                      | (37.9)     | (69.6)         |              | (107.5)  |
| Funding between Parent and subsidiaries, net            | 159.4                                | (37.2)     | (122.2)        |              |          |
| Issuance of long-term debt and new credit facility, net | 790.0                                | 0.1        |                |              | 790.1    |
| Repayment of debt                                       | (878.9)                              | (0.2)      | (3.4)          |              | (882.5)  |
| Issuance of common shares                               | 2.4                                  |            |                |              | 2.4      |
| Other financing activities                              | (29.8)                               | 0.7        |                |              | (29.1)   |
| Cash flows provided by (used in) financing activities   | 43.1                                 | (36.6)     | (125.6)        |              | (119.1)  |
| Increase (decrease) in cash and cash equivalents        | (2.4)                                | (0.2)      | 1.4            |              | (1.2)    |
| Beginning cash and cash equivalents                     | 22.7                                 | 0.8        | 1.4            |              | 24.9     |
| Ending cash and cash equivalents                        | \$ 20.3                              | \$ 0.6     | \$ 2.8         | \$           | \$ 23.7  |





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Form 10-Q Part I

Cincinnati Bell Inc.

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

Information included in this Quarterly Report on Form 10-Q contains certain forward-looking statements that involve potential risks and uncertainties. The Company's future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein and those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date thereof.

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

The Company files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. 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 this site is <http://www.sec.gov>.

**Critical Accounting Policies and Estimates**

The preparation of Condensed Consolidated Financial Statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses. In the Company's Annual Report on Form 10-K for the year ended December 31, 2005, the Company identified critical accounting policies that affect its more significant estimates and assumptions used in preparing its Condensed Consolidated Financial Statements. These critical accounting policies included 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 taxes, and accounting for pension and postretirement expenses.

*Accounting for business combinations*

In accounting for business combinations, the Company applies the accounting requirements of Statement of Financial Accounting Standards 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. Where the business combination is of significant magnitude, the Company engages third-party appraisal firms to assist management in determining the fair values of tangible and intangible assets and liabilities. Such a valuation requires management to make significant estimates and assumptions, especially with respect to the intangible assets.

In determining the fair value of the Company's intangible assets associated with the purchases of Automated Telecom Inc. (ATI) and the remaining minority interest in Cincinnati Bell Wireless LLC (CBW), the Company utilized several valuation methods:

*Excess earnings method:* This method was used to determine the fair value of the Company's customer relationships. This method estimates the present value of future cash flows attributable to the Company's customer base and requires estimates of the expected future earnings and remaining useful lives of the customer relationships.

*Relief-from-royalty:* This method, used to determine the fair value of the Company's trademarks, 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.

*Greenfield:* The Company's licenses were valued using the Greenfield method, which utilizes a discounted cash flow analysis assuming a start up business, in which the only assets of the business at start up are assumed to be the FCC licenses to be valued.

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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.

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Form 10-Q Part I

Cincinnati Bell Inc.

**Results of Operations**

The financial results for the three and nine months ended September 30, 2006 and 2005 referred to in this discussion should be read in conjunction with the Condensed Consolidated Statements of Operations of this Quarterly Report on Form 10-Q. Results for interim periods may not be indicative of the results for the full year.

**CONSOLIDATED OVERVIEW**

Consolidated revenue totaled \$320.1 million for the third quarter of 2006, an increase of \$19.8 million, compared to the third quarter of 2005. The increase was primarily due to the following:

\$6.8 million higher revenues in the Wireless segment primarily related to an increase in postpaid service from additional subscribers and increased data revenue; and

\$13.8 million higher revenues in the Hardware and Managed Services ( HMS ) segment due to increased IT and computer-related equipment sales and higher managed services revenue.

For the nine months ended September 30, 2006, consolidated revenue increased \$37.4 million to \$941.7 million as compared to \$904.3 million for the same period in 2005. A \$29.1 million increase in HMS segment revenue, a \$13.8 million increase in Local segment data revenue, and a \$13.4 million increase in Wireless revenue were partially offset by a \$20.6 million decrease in Local segment voice revenue.

Operating income for the third quarter of 2006 was \$83.5 million, an increase of \$11.4 million compared to the same period in 2005. The increase was primarily due to the following:

\$10.4 million increase in Wireless operating income due to higher postpaid revenue, resulting from additional subscribers and increased data revenue, and decreased depreciation and amortization expense associated with the replaced Time Division Multiple Access ( TDMA ) network assets, partially offset by increased commissions on higher subscriber activations;

\$6.9 million increase in the Broadband segment, as the gain on sale of broadband fiber assets and the sale of a bankruptcy claim receivable in 2006 was higher than the 2005 benefit from the resolution of certain operating tax issues; offset by

\$5.8 million decrease in Local operating income due to the restructuring charge incurred in the third quarter of 2006 and an increase in expenses associated with the Company's pension and postretirement benefits.

Operating income for the nine months ended September 30, 2006, was \$237.8 million, or \$34.6 million higher than prior year. This increase was primarily due to the following:

\$40.3 million increase in Wireless operating income due to impairment charges of \$23.7 million incurred in the first quarter of 2005 associated with the retirement of certain TDMA assets and decreased depreciation and amortization expense of \$24.8 million in 2006 associated with the replaced TDMA network assets, which more than offset increased customer acquisition and migration costs in 2006;

\$6.1 million increase in the Broadband segment, as the 2006 operating income included gains on sale of broadband fiber assets, the sale of a bankruptcy claim receivable, and the expiration of certain warranties and guarantees established at the time broadband assets were sold, which were higher than the 2005 benefit from the resolution of certain operating tax issues; offset by

\$5.7 million decrease in Local operating income due to lower voice revenue and the restructuring charge incurred in the third quarter of 2006, partially offset by increased data revenue and lower depreciation expense; and

\$8.1 million decrease in the Corporate segment mainly related to the \$6.3 million settlement of the Company's shareholder litigation in the first quarter of 2006 (see Note 7 to the Condensed Consolidated Financial Statements for further discussion).

The minority interest caption relates to the 19.9% minority interest of Cingular 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 on CBW 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 for the nine months ended September 30, 2005, and the minority interest income of \$5.8 million represents Cingular's portion of the losses.

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Form 10-Q Part I

Cincinnati Bell Inc.

Interest expense decreased to \$41.4 million for the third quarter of 2006 and to \$121.3 million for the nine months ended September 30, 2006 as compared to prior year interest expense of \$47.0 million and \$147.1 million, respectively. 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 recorded for the nine months ended September 30, 2005 was comprised of a \$91.9 million loss related to the repurchase of the 16% Senior Subordinated Discount Notes due 2009 ( 16% Notes ) in the third quarter of 2005 and the write-off of \$7.9 million associated with the repayment of previously existing credit facilities in the first quarter of 2005.

Income tax expense was \$17.3 million for the third quarter of 2006 compared to an income tax benefit of \$20.4 million in the third quarter of 2005. The increase was primarily due to an income tax benefit in the third quarter of 2005 associated with the \$91.9 million loss on extinguishment of the 16% Notes. For the nine months ended September 30, 2006, income tax expense was higher by \$12.5 million versus the same period in 2005. This increase was primarily due to the income tax benefit in the third quarter of 2005 discussed above and higher pretax income partially offset by an income tax charge of \$45 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. Additionally, the Company has certain non-deductible expenses, including interest on securities originally issued to acquire its broadband business (the

Broadband Securities ) or securities that the Company has subsequently issued to refinance the Broadband Securities. In periods without tax law changes, the Company expects its effective tax rate to exceed statutory rates primarily due to the non-deductible expenses associated with the Broadband Securities. The Company estimates that its effective income tax rate will be approximately 45% for the full year 2006. However, the Company expects to use federal and state net operating loss carryforwards to substantially defray payment of federal and state tax liabilities in 2006. The Company expects income tax payments to be between \$5.0 million and \$10.0 million for the full year of 2006.

**Discussion of Operating Segment Results****LOCAL**

| (dollars in millions)                     | Three Months Ended September 30, |                |                 |                  | Nine Months Ended September 30, |                 |                 |                  |
|-------------------------------------------|----------------------------------|----------------|-----------------|------------------|---------------------------------|-----------------|-----------------|------------------|
|                                           | 2006                             | 2005           | \$ Change       | % Change         | 2006                            | 2005            | \$ Change       | % Change         |
| <b>Revenue:</b>                           |                                  |                |                 |                  |                                 |                 |                 |                  |
| Voice                                     | \$ 117.5                         | \$ 123.6       | \$ (6.1)        | (5)%             | \$ 357.3                        | \$ 377.9        | \$ (20.6)       | (5)%             |
| Data                                      | 60.7                             | 54.9           | 5.8             | 11%              | 176.1                           | 162.3           | 13.8            | 9%               |
| Other                                     | 8.4                              | 8.9            | (0.5)           | (6)%             | 27.0                            | 26.9            | 0.1             | 0%               |
| <b>Total revenue</b>                      | <b>186.6</b>                     | <b>187.4</b>   | <b>(0.8)</b>    | <b>(0)%</b>      | <b>560.4</b>                    | <b>567.1</b>    | <b>(6.7)</b>    | <b>(1)%</b>      |
| <b>Operating costs and expenses:</b>      |                                  |                |                 |                  |                                 |                 |                 |                  |
| Cost of services and products             | 59.5                             | 58.4           | 1.1             | 2%               | 175.7                           | 175.2           | 0.5             | 0%               |
| Selling, general and administrative       | 35.4                             | 34.0           | 1.4             | 4%               | 101.9                           | 103.0           | (1.1)           | (1)%             |
| Depreciation                              | 26.6                             | 27.1           | (0.5)           | (2)%             | 77.6                            | 81.0            | (3.4)           | (4)%             |
| Restructuring                             | 3.0                              |                | 3.0             | n/m              | 3.0                             |                 | 3.0             | n/m              |
| <b>Total operating costs and expenses</b> | <b>124.5</b>                     | <b>119.5</b>   | <b>5.0</b>      | <b>4%</b>        | <b>358.2</b>                    | <b>359.2</b>    | <b>(1.0)</b>    | <b>(0)%</b>      |
| <b>Operating income</b>                   | <b>\$ 62.1</b>                   | <b>\$ 67.9</b> | <b>\$ (5.8)</b> | <b>(9)%</b>      | <b>\$ 202.2</b>                 | <b>\$ 207.9</b> | <b>\$ (5.7)</b> | <b>(3)%</b>      |
| <b>Operating margin</b>                   | <b>33.3%</b>                     | <b>36.2%</b>   |                 | <b>(2.9) pts</b> | <b>36.1%</b>                    | <b>36.7%</b>    |                 | <b>(0.6) pts</b> |

The Local segment consists of the operations of the Company's Cincinnati Bell Telephone subsidiary, which operates as an Incumbent Local Exchange Carrier ( ILEC ) within the Company's traditional territory, and the Cincinnati Bell Extended Territories subsidiary, which operates as a Competitive Local Exchange Carrier ( CLEC ) in Dayton, Ohio and communities adjacent to the ILEC's northern borders.

**Revenue**

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Voice revenue includes local service, switched access, information services and value added services revenues. Voice revenue decreased in both the three and nine months of 2006 versus the same periods in 2005 primarily as a result of a 4% decrease in access lines.

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Form 10-Q Part I

Cincinnati Bell Inc.

Access lines within the segment's ILEC territory decreased by 49,000, or 5%, from 902,000 at September 30, 2005 to 853,000 at September 30, 2006. The Company believes this 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 47,000 total CLEC access lines at September 30, 2006, which is a 34% increase from September 30, 2005.

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. Increased revenue of \$5.8 million and \$13.8 million for the three and nine months ended September 30, 2006 compared to the same periods a year ago, respectively, was due to higher DSL and data transport revenue. An increase in DSL subscribers of 34,000, or 22%, was offset by a lower average revenue per subscriber compared to September 30, 2005. This produced an additional \$3.6 million in DSL revenue for the third quarter of 2006 as compared to the third quarter of 2005 and an additional \$8.8 million for the nine months ended September 30, 2006 compared to the same period a year ago. As of September 30, 2006, the Company's DSL penetration of addressable access lines was approximately 25%, up from 20% at September 30, 2005. In addition, an increase in average data transport units for both the three and nine months ended September 30, 2006, provided additional revenue of \$1.4 million and \$4.3 million as compared to the third quarter of 2005 and to the nine months ended September 30, 2005, respectively.

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<sup>SM</sup>. The Company's Super Bundle offers local, long distance, wireless, DSL and the Company's value added services package, Home Phone Pak, on a single bill at a price lower than what the customer would pay for all of the services individually. The Company added 16,000 Super Bundle subscribers through the first nine months of 2006, bringing total subscribers to 166,000 and penetration of in-territory primary residential access lines to 30%. 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 15%, or 25,000 subscribers, during the nine months ended September 30, 2006 to bring total subscribers to 188,000. As a result of this DSL growth, total lines to the customer (defined as access lines plus DSL subscribers) as of September 30, 2006 remained flat compared to September 30, 2005.

**Costs and Expenses**

Cost of services and products increased for the third quarter of 2006 by \$1.1 million versus the third quarter of 2005. This increase was due to \$1.7 million of increased worker's compensation claims and higher costs of \$1.9 million associated with the Company's pension and postretirement benefits. The increase was partially offset by lower wages of \$1.4 million, mainly due to the outsourcing of directory assistance services in December 2005 and other Company restructuring initiatives, and a \$0.7 million decrease in operating taxes related to changes in the state of Ohio's personal property tax laws. For the nine months ended September 30, 2006, cost of services and products increased \$0.5 million versus the same period a year ago. The increase was attributed to increased worker's compensation claims in the third quarter noted above, higher costs of \$2.3 million associated with the Company's pension and postretirement benefits and increased energy costs, partially offset by lower wages of \$3.7 million, mainly resulting from the outsourcing of directory assistance services in December 2005 and other Company restructuring initiatives.

Selling, general and administrative expenses increased \$1.4 million and decreased \$1.1 million for the three months and nine months ended September 30, 2006, respectively, versus the prior year comparable periods. The quarter increase was primarily from \$0.9 million of higher costs associated with the Company's pension and postretirement benefits and increased bad debt expense. The year-to-date decrease was due to lower software maintenance costs of \$0.9 million and lower advertising of \$0.8 million partially offset by higher pension and postretirement benefit costs.

Depreciation expense decreased by \$0.5 million and \$3.4 million, respectively, for the three and nine months ended September 30, 2006, versus the comparable periods last year. This decrease was a result of assets becoming fully depreciated at a greater rate than capital expenditures.

Restructuring expenses were \$3.0 million for both the three and nine months ended September 30, 2006 as a result of severance costs associated with the outsourcing of certain supply chain functions. See Note 6 to the Condensed Consolidated Financial Statements for further discussion.



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Cincinnati Bell Inc.

**WIRELESS**

On February 14, 2006, Cingular exercised its contractual put right to require the Company to purchase Cingular's 19.9% membership interest in CBW. Pursuant to the terms of the put right, the Company paid Cingular \$83.2 million, including interest. As a result, CBW is now a wholly-owned subsidiary of the Company. The Company funded the purchase with borrowings under its Corporate credit facility and available cash.

Since October 2003, CBW has deployed service on both TDMA and GSM technologies. During the fourth quarter of 2003, the Company began to transition customers to the GSM network, which provides for the offering of advanced data services and lower costs, from its legacy TDMA network. As of June 30, 2006, the Company had substantially converted all of its subscribers to the GSM technology and as a result has discontinued the operation of its TDMA network.

| (dollars in millions,<br>except for operating metrics) | Three Months Ended September 30, |             |              |             | Nine Months Ended September 30, |              |               |              |
|--------------------------------------------------------|----------------------------------|-------------|--------------|-------------|---------------------------------|--------------|---------------|--------------|
|                                                        | 2006                             | 2005        | \$ Change    | % Change    | 2006                            | 2005         | \$ Change     | % Change     |
| <b>Revenue:</b>                                        |                                  |             |              |             |                                 |              |               |              |
| Service                                                | \$ 59.3                          | \$ 52.3     | \$ 7.0       | 13%         | \$ 174.5                        | \$ 163.3     | \$ 11.2       | 7%           |
| Equipment                                              | 5.7                              | 5.9         | (0.2)        | (3)%        | 18.7                            | 16.5         | 2.2           | 13%          |
| <b>Total revenue</b>                                   | <b>65.0</b>                      | <b>58.2</b> | <b>6.8</b>   | <b>12%</b>  | <b>193.2</b>                    | <b>179.8</b> | <b>13.4</b>   | <b>7%</b>    |
| <b>Operating costs and expenses:</b>                   |                                  |             |              |             |                                 |              |               |              |
| Cost of services and products                          | 35.4                             | 34.9        | 0.5          | 1%          | 109.9                           | 92.2         | 17.7          | 19%          |
| Selling, general and administrative                    | 15.8                             | 14.2        | 1.6          | 11%         | 45.2                            | 41.3         | 3.9           | 9%           |
| Depreciation                                           | 6.4                              | 13.2        | (6.8)        | (52)%       | 20.7                            | 48.4         | (27.7)        | (57)%        |
| Amortization                                           | 1.1                              |             | 1.1          | n/m         | 2.9                             |              | 2.9           | n/m          |
| Asset impairments and other charges                    |                                  |             |              | n/m         |                                 | 23.7         | (23.7)        | (100)%       |
| <b>Total operating costs and expenses</b>              | <b>58.7</b>                      | <b>62.3</b> | <b>(3.6)</b> | <b>(6)%</b> | <b>178.7</b>                    | <b>205.6</b> | <b>(26.9)</b> | <b>(13)%</b> |
| Operating income (loss)                                | \$ 6.3                           | \$ (4.1)    | \$ 10.4      | n/m         | \$ 14.5                         | \$ (25.8)    | \$ 40.3       | n/m          |
| Operating margin                                       | 9.7%                             | (7.0)%      |              | 16.7 pts    | 7.5%                            | (14.3)%      |               | 21.8 pts     |
| <b>Operating metrics</b>                               |                                  |             |              |             |                                 |              |               |              |
| Postpaid ARPU*                                         | \$ 46.92                         | \$ 46.23    | \$ 0.69      | 1%          | \$ 46.56                        | \$ 46.00     | \$ 0.56       | 1%           |
| Prepaid ARPU*                                          | \$ 19.51                         | \$ 18.62    | \$ 0.89      | 5%          | \$ 20.96                        | \$ 20.82     | \$ 0.14       | 1%           |

\* 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, excluding roaming revenue, by the average subscriber base for the period. Collocation revenues are not included in the calculation of ARPU.

**Revenue**

During the third quarter of 2006, an increase in postpaid subscriber service revenue was offset by a decrease in postpaid roaming and prepaid service revenue compared to the third quarter of 2005 as discussed below:

Postpaid service revenue increased \$7.2 million primarily due to more subscribers and an increase of data revenue from \$3.0 million in the third quarter of 2005 to \$5.2 million for the third quarter of 2006. Postpaid subscribers increased 17% from 300,000 subscribers at September 30, 2005 to 350,000 at September 30, 2006. Net additions for the third quarter of 2006 were 11,000 subscribers compared to a net addition of 4,000 subscribers in the third quarter of 2005. Average monthly churn was 1.7% in the third quarter of 2006 compared to 2.2% in the third quarter of 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 was flat compared to last year as the increase in ARPU of \$0.89 was offset by a lower number of subscribers. As of September 30, 2006, prepaid subscribers totaled approximately 156,000, compared to 172,000 subscribers at September 30, 2005; the Company had net activation losses of 15,000 and 1,000 prepaid subscribers in the quarters ended September 30, 2006 and 2005, respectively; and

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Cincinnati Bell Inc.

Postpaid roaming revenue decreased \$0.2 million due to a decrease in minutes of use and in roaming revenue per minute. For the nine months ended September 30, 2006, service revenue increased \$11.2 million as compared to the same period in 2005. The increase was due to a \$13.8 million increase in postpaid service, primarily related to the higher number of postpaid subscribers and higher data revenue, offset by a decrease in prepaid service of \$0.7 million and a \$1.9 million decline in roaming revenue. As a result of the merger between Cingular and AT&T Wireless Services Inc., CBW lost substantial roaming revenue as Cingular customers are using Cingular's network versus CBW's network.

Equipment revenue was relatively flat during the third quarter of 2006 compared to the third quarter of 2005. Equipment revenue for the nine months ended September 30, 2006 increased \$2.2 million compared to the same period in 2005 due to the increase in subscriber additions and the migration to the GSM network partially offset by an increased subsidy on handsets. The Company subsidizes the price of handset sales to encourage new service activations and, during the first half of 2006, to accelerate the migration to its GSM network.

**Costs and Expenses**

Cost of services and products consists largely of network expense including the Company's own operation costs, interconnection expenses with other telecommunications providers, roaming expense (whereby CBW incurs costs associated with its subscribers using their handsets while in the territories of other wireless service providers), and cost of handsets and accessories sold. These expenses increased \$0.5 million during the third quarter of 2006 compared to the third quarter of 2005 and \$17.7 million for the nine months ended September 30, 2006 compared to the same period in the prior year. The third quarter increase was due to a \$2.0 million increase in network expense resulting from increased voice minutes and data services usage, offset by lower handset and accessories costs and subsidies due to fewer handsets sold. The increase for the nine months ended September 30, 2006 compared to last year was due to a \$7.8 million increase for handset and accessory costs resulting from higher activations and the migration of subscribers from the TDMA network to the GSM network and a \$7.0 million increase in network expense resulting from increased voice minutes and data services usage. The remaining cost increases for the year to date period resulted from higher operating taxes and customer service costs related to increased subscribers and revenues.

The increases in selling, general, and administrative expenses of \$1.6 million for the third quarter of 2006 and \$3.9 million year-to-date as compared to the same periods in 2005 were primarily due to increased commissions and other payroll related costs due to the higher number of subscriber activations and increased bad debt expense.

Depreciation expense decreased \$6.8 million and \$27.7 million, respectively, for the three and nine months ended September 30, 2006 versus the 2005 comparable periods. This is primarily the result of the decrease in the net book value of the TDMA network assets due to the write downs discussed below and the accelerated depreciation.

Amortization expense in 2006 results from the allocation of the purchase price to certain intangibles associated with the purchase of the CBW minority interest from Cingular. See Note 2 to the Condensed Consolidated Financial Statements for further discussion.

The Company incurred charges of \$42.3 million in 2005 to write down the recorded value of its TDMA network assets, \$23.7 million of which was recorded in the first quarter and the remainder in the fourth quarter 2005.

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Cincinnati Bell Inc.

**HARDWARE AND MANAGED SERVICES**

| (dollars in millions)                       | Three Months Ended September 30, |               |               |                | Nine Months Ended September 30, |               |               |                  |
|---------------------------------------------|----------------------------------|---------------|---------------|----------------|---------------------------------|---------------|---------------|------------------|
|                                             | 2006                             | 2005          | \$ Change     | % Change       | 2006                            | 2005          | \$ Change     | % Change         |
| <b>Revenue:</b>                             |                                  |               |               |                |                                 |               |               |                  |
| Hardware                                    | \$ 36.4                          | \$ 26.4       | \$ 10.0       | 38%            | \$ 97.3                         | \$ 76.8       | \$ 20.5       | 27%              |
| Managed services                            | 20.9                             | 17.1          | 3.8           | 22%            | 57.0                            | 48.4          | 8.6           | 18%              |
| <b>Total revenue</b>                        | <b>57.3</b>                      | <b>43.5</b>   | <b>13.8</b>   | <b>32%</b>     | <b>154.3</b>                    | <b>125.2</b>  | <b>29.1</b>   | <b>23%</b>       |
| <b>Operating costs and expenses:</b>        |                                  |               |               |                |                                 |               |               |                  |
| Cost of services and products               | 45.8                             | 35.6          | 10.2          | 29%            | 124.2                           | 101.1         | 23.1          | 23%              |
| Selling, general and administrative         | 5.4                              | 4.4           | 1.0           | 23%            | 16.0                            | 13.0          | 3.0           | 23%              |
| Depreciation                                | 0.8                              | 0.7           | 0.1           | 14%            | 2.5                             | 1.7           | 0.8           | 47%              |
| Amortization                                | 0.1                              |               | 0.1           | n/m            | 0.2                             |               | 0.2           | n/m              |
| Asset impairments and other charges (gains) |                                  |               |               | n/m            |                                 | (0.1)         | 0.1           | (100)%           |
| <b>Total operating costs and expenses</b>   | <b>52.1</b>                      | <b>40.7</b>   | <b>11.4</b>   | <b>28%</b>     | <b>142.9</b>                    | <b>115.7</b>  | <b>27.2</b>   | <b>24%</b>       |
| <b>Operating income</b>                     | <b>\$ 5.2</b>                    | <b>\$ 2.8</b> | <b>\$ 2.4</b> | <b>86%</b>     | <b>\$ 11.4</b>                  | <b>\$ 9.5</b> | <b>\$ 1.9</b> | <b>20%</b>       |
| <b>Operating margin</b>                     | <b>9.1%</b>                      | <b>6.4%</b>   |               | <b>2.7 pts</b> | <b>7.4%</b>                     | <b>7.6%</b>   |               | <b>(0.2) pts</b> |

The HMS segment consists of the Company's Cincinnati Bell Technology Solutions (CBTS) subsidiary.

**Revenue**

Hardware revenue is generated by the reselling of major manufacturers' IT, data, and telephony equipment. Managed services revenue consists of the sale of outsourced technology resources, leveraging Company assets, including but not limited to data center assets, and revenue of technical services and maintenance directly related to the sale of IT, data, and telephony equipment. The CBTS business model links the capability to sell a wide range of equipment from various manufacturers along with the Company's technical and infrastructure capability to offer complete technology solutions for the small, medium, and large business customer.

Hardware revenue for the third quarter and nine months ended September 30, 2006, increased \$10.0 million and \$20.5 million, respectively, versus the comparable periods in 2005 due to increased sales of IT and computer-related hardware to data center customers. CBTS expanded its data center business with the opening of its Florence, Kentucky data center in June 2005. The increased hardware sales were for equipment used in CBTS data centers as well as for equipment to be used at customer facilities. This was slightly offset by lower telephony hardware sales.

Managed services revenue increased \$3.8 million and \$8.6 million, respectively, for the third quarter and nine months ended September 30, 2006 versus the same periods in 2005 due to increased data center collocation services at its Florence and Cincinnati data centers and growth of IT and telephony maintenance and monitoring contract services, particularly with its large customers. The Company intends to continue to pursue additional customers and growth in its data center business. Additional Company resources, including working capital and capital expenditures, would be required to support this growth.

**Costs and Expenses**

Cost of services and products increased by \$10.2 million in the third quarter of 2006 and \$23.1 million for the nine months ended September 30, 2006 as compared to the same periods in 2005 as a direct result of the increased revenue. Gross margins improved in the third quarter of 2006 compared to last year as a result of higher margins on hardware sales and improved costs associated with data center collocation as the Company's data centers have become fully operational.

The increase in selling, general and administrative expenses for both periods were primarily due to an increase in labor costs to support the increased revenues.

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The increase in depreciation expense for the nine months ended September 30, 2006 compared to nine months ended September 30, 2005 was primarily due to capital expenditures associated with data center services.

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 2 to the Condensed Consolidated Financial Statements for further discussion.

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Cincinnati Bell Inc.

**OTHER**

| (dollars in millions)               | Three Months Ended September 30, |         |           |           | Nine Months Ended September 30, |         |           |           |
|-------------------------------------|----------------------------------|---------|-----------|-----------|---------------------------------|---------|-----------|-----------|
|                                     | 2006                             | 2005    | \$ Change | % Change  | 2006                            | 2005    | \$ Change | % Change  |
| Revenue                             | \$ 19.9                          | \$ 19.7 | \$ 0.2    | 1%        | \$ 59.3                         | \$ 58.3 | \$ 1.0    | 2%        |
| Operating costs and expenses:       |                                  |         |           |           |                                 |         |           |           |
| Cost of services and products       | 8.9                              | 8.2     | 0.7       | 9%        | 26.5                            | 25.2    | 1.3       | 5%        |
| Selling, general and administrative | 3.8                              | 4.0     | (0.2)     | (5)%      | 11.0                            | 11.7    | (0.7)     | (6)%      |
| Depreciation                        | 0.6                              | 0.5     | 0.1       | 20%       | 1.7                             | 1.4     | 0.3       | 21%       |
| Total operating costs and expenses  | 13.3                             | 12.7    | 0.6       | 5%        | 39.2                            | 38.3    | 0.9       | 2%        |
| Operating income                    | \$ 6.6                           | \$ 7.0  | \$ (0.4)  | (6)%      | \$ 20.1                         | \$ 20.0 | \$ 0.1    | 1%        |
| Operating margin                    | 33.2%                            | 35.5%   |           | (2.3) pts | 33.9%                           | 34.3%   |           | (0.4) pts |
| <b>Revenue</b>                      |                                  |         |           |           |                                 |         |           |           |

Cincinnati Bell Any Distance Inc. ( CBAD ) revenue increased \$0.5 million in the third quarter of 2006 and \$2.0 million for the nine months ended September 30, 2006 versus the comparable prior year periods. The increase in both periods relates to a 5% increase in business subscribers partially offset by a 5% decline in residential lines. CBAD had approximately 556,000 subscribed access lines as of September 30, 2006 in the Cincinnati and Dayton, Ohio operating areas compared to 567,000 subscribed access lines as of September 30, 2005. Revenue for the third quarter and nine months ended September 30, 2006 from Cincinnati Bell Complete Protection Inc. ( CBCP ) was \$0.2 million and \$0.4 million favorable compared to the same periods a year ago, respectively. Public revenue decreased \$0.4 million in the third quarter of 2006 and \$1.5 million for the nine months ended September 30, 2006 compared to the same periods last year as usage of payphones continues to decrease in favor of wireless products.

**Costs and Expenses**

CBAD cost of service for the third quarter of 2006 and nine months ended September 30, 2006 compared to the same periods in 2005 increased approximately \$0.6 million and \$1.7 million, respectively. In addition, CBCP cost of service increased \$0.3 million for both the three and nine months ended September 30, 2006 compared to the same periods last year. The increase in costs at CBAD and CBCP was primarily related to the increase in subscriber revenues. The increases at CBAD and CBCP were partially offset by a decrease of costs at Public due to the decrease in Public revenue.

Selling, general and administrative expenses decreased \$0.2 million in the third quarter of 2006 and were \$0.7 million favorable for the nine months ended September 30, 2006 as compared to last year. The decrease for the nine month period was mainly from lower labor costs, advertising and bad debt expense at CBAD.

**BROADBAND**

During 2003, the Company completed the sale of substantially all of its broadband assets and, in connection with the sale, retained certain broadband obligations. Operating income in the third quarter of 2006 was \$7.9 million compared to \$1.0 million in the third quarter of 2005 and \$9.7 million for the nine months ended September 30, 2006 versus \$3.6 million for the nine months ended September 30, 2005. The third quarter 2006 operating income includes a \$4.7 million gain on the sale of broadband fiber assets and \$3.6 million of income related to the sale of a bankruptcy claim receivable. Operating income for the nine months ended September 30, 2006 includes the third quarter items discussed above and \$2.9 million of income from the second quarter of 2006 due to the expiration of certain warranties and guarantees established at the time the broadband assets were sold, partially offset by legal and restructuring expenses. Operating income in the third quarter of 2005 and nine months ended September 30, 2005 primarily resulted from the favorable resolution of certain operating tax issues.

**CORPORATE**

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Corporate expenses for the third quarter of 2006 were \$4.6 million compared to \$2.5 million last year with the increase primarily due to increased business development costs. For the nine months ended September 30, 2006, Corporate expenses were \$20.1 million compared to \$12.0 million in the prior year. The year to date increase was due to the \$6.3 million shareholder settlement recorded in the first quarter of 2006 (See Note 7 to the Condensed Consolidated Financial Statements for further discussion) and increased business development costs.

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Cincinnati Bell Inc.

**Financial Condition, Liquidity, and Capital Resources****Contingencies**

Refer to the Company's discussion of its contingencies at Note 7 to the Condensed Consolidated Financial Statements.

**Cash Flows**

For the nine months ended September 30, 2006, cash provided by operating activities totaled \$210.2 million, a decrease of \$15.2 million compared to the \$225.4 million provided by operating activities during the same period in 2005. The decline was mainly from lower operating cash generated both from the Wireless segment due to increased costs from higher activations and the migration to the GSM network and the Local segment due to access line losses.

For the nine months ended September 30, 2006, cash utilized in investing activities was \$196.6 million, an increase of \$89.1 million compared to the \$107.5 million utilized during the same period in 2005. The increase predominately relates to the acquisitions of ATI and the 19.9% minority interest in CBW for \$86.7 million. The Company acquired wireless licenses from the FCC auction, which concluded in September 2006, for \$37.1 million, of which \$7.0 million was paid in the third quarter of 2006 and the remaining \$30.1 million will be paid in the fourth quarter of 2006. See Note 7 to the Condensed Consolidated Financial Statements for further discussion. Capital expenditures remained flat during the nine months ended September 30, 2006 compared to the same period in 2005. Proceeds from the sale of broadband fiber assets were \$4.7 million during the third quarter of 2006.

Cash flows used in financing activities decreased \$107.3 million to a net outflow of \$11.8 million for the nine months ended September 30, 2006 from an outflow of \$119.1 million during the same period in 2005. During the nine months ended September 30, 2006, the Company funded the purchases of ATI and the 19.9% interest in CBW, which decreased the Company's repayment of debt as compared to 2005. During the nine months ended September 30, 2005, the Company received \$790.1 million of cash proceeds from the issuance of the 7% Senior Notes, additional 8<sup>3</sup>/<sub>8</sub>% Notes and new bank term notes. In addition, during 2005, the Company repaid \$882.5 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, the Company incurred debt issuance costs and consent fees of \$21.9 million for the nine months ended September 30, 2005. Preferred stock dividends of \$7.8 million were paid during both of the nine months ended September 30, 2006 and 2005.

As of September 30, 2006, the Company held \$27.5 million in cash and cash equivalents. The Company's primary sources of cash for the remainder of 2006 are cash generated by operations and borrowings from the Corporate credit facility. The Company generated \$210.2 million of cash flow from operations for the nine months ended September 30, 2006, and \$322.3 million for the full year 2005. Additionally, at September 30, 2006, the Company had \$238.7 million of availability under the Corporate credit facility. The primary uses of cash will be for funding the Company's capital expenditures, which has recently approximated 12% of revenue, payments for wireless licenses totaling \$30.1 million in the fourth quarter of 2006, repayments of debt and related interest, dividends on the 6<sup>3</sup>/<sub>4</sub>% Cumulative Convertible Preferred Stock, and working capital. The Company believes its cash generated by operations and borrowings from its Corporate credit facility will be sufficient to fund its primary uses of cash, including the payment for the additional wireless licenses, for the remainder of 2006.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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 over time. The Company periodically uses derivative financial instruments to manage its balance of fixed rate and variable rate indebtedness. The Company has interest rate swaps (designated as fair value hedging instruments) with notional amounts totaling \$450 million to change the fixed rate nature of a portion of the 7% Senior Notes and the 8<sup>3</sup>/<sub>8</sub>% Notes to floating rate debt. As of September 30, 2006 and December 31, 2005, the fair value of all interest rate swap contracts was a liability of \$14.3 million and \$10.2 million, respectively, for which the Company's 7% Notes and 8<sup>3</sup>/<sub>8</sub>% Notes have an equal reduction in reported value as appropriate under SFAS 133.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for further information.





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Cincinnati Bell Inc.

**Item 4. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures.

The term disclosure controls and procedures (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the Exchange Act ) is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Cincinnati Bell Inc. s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures as of September 30, 2006 (the Evaluation Date ). Based on that evaluation, Cincinnati Bell Inc. s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective.

(b) Changes in internal controls over financial reporting.

The term internal control over financial reporting (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Cincinnati Bell Inc. s management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated any changes in the Company s internal control over financial reporting that occurred during the third quarter of 2006, and they have concluded that there was no change to Cincinnati Bell Inc. s internal control over financial reporting in the third quarter of 2006 that has materially affected, or is reasonably likely to materially affect, Cincinnati Bell Inc. s internal control over financial reporting.

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Form 10-Q Part II

Cincinnati Bell Inc.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The information required by this Item is incorporated herein by reference to Note 7 of the Notes to the Condensed Consolidated Financial Statements of this Quarterly Report.

**Item 1A. Risk Factors**

As noted in Note 7 of the Notes to the Condensed Consolidated Financial Statements of this Quarterly Report, the Company has settled or reached stipulated settlements in all of the putative shareholder class action and derivative lawsuits filed against the Company. The settlements, once approved by the Court, are not expected to have a material adverse effect on the Company. Other than this, there have been no material changes to the Company's risk factors as listed in the Company's 2005 Annual Report on Form 10-K. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for further information.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three month period ended September 30, 2006, the Company had no unregistered sales of equity securities.

The following table provides information regarding the Company's purchases of its common stock for the three months ended September 30, 2006:

|                    | <b>Total Number of<br/>Shares (or Units)<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per<br/>Share<br/>(or<br/>Unit)</b> | <b>Total Number of<br/>Shares (or Units)<br/>Purchased as Part of<br/>Publicly Announced<br/>Plans or Programs</b> | <b>Maximum Number<br/>(or Approximate<br/>Dollar Value) of<br/>Shares (or Units)<br/>that May Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs *</b> |
|--------------------|------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7/1/2006-7/31/2006 | 4,852                                                      | \$ 4.17                                                           | 0                                                                                                                  | n/a                                                                                                                                                          |
| 8/1/2006-8/31/2006 | 0                                                          | n/a                                                               | 0                                                                                                                  | n/a                                                                                                                                                          |
| 9/1/2006-9/30/2006 | 0                                                          | n/a                                                               | 0                                                                                                                  | n/a                                                                                                                                                          |

\* Shares for certain deferred compensation and restricted stock plans are purchased at market value. Future purchases are subject to participant elections.

**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

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Cincinnati Bell Inc.

**Item 6. Exhibits**

(a) Exhibits.

Exhibits identified in parenthesis below, on file with the Securities and Exchange Commission ( SEC ), are incorporated herein by reference as exhibits hereto.

| <b>Exhibit<br/>Number</b> | <b>DESCRIPTION</b>                                                                                                      |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------|
| (31.1)+                   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (31.2)+                   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (32.1)+                   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (32.2)+                   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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+ Filed herewith.

The Company's reports on Form 10-K, 10-Q, and 8-K are available free of charge in the Investor Relations section of the Company's website: <http://www.cincinnati-bell.com>. The Company will furnish any other exhibit at cost.

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Cincinnati Bell Inc.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cincinnati Bell Inc.

Date: November 8, 2006

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

Date: November 8, 2006

/s/ Kurt Freyberger  
Kurt Freyberger  
Vice President and Controller