Law Offices
HOLLAND & KNIGHT LLP

2100 Pennsylvania Avenue, N.W.
Suite 400
Washington, D.C. 20037-3202

202-955-3000
FAX 202-955-5564
www.hklaw.com

**ORIGINAL**

Atlanta
Boston
Bradenton
Chicago
Fort Lauderdale
Jacksonville
Lakeland
Melbourne
Mexico City
Miami
New York
Northern Virginia
Orlando
Providence
San Francisco
St. Petersburg
Tallahassee
Tampa
Washington, D.C.
West Palm Beach
Representative Offices:
Buenos Aires
Tel Aviv

July 20, 2000

ERIC FISHMAN
202-828-1849

Internet Address:
efishman@hklaw.com

**FEDERAL EXPRESS**

000906-TX

DEPOSIT DATE
D330 JUL 24 2000

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Broadwing Local Services Inc.
Application for Authority to Provide Alternative Local Exchange Service Within the State of Florida

Dear Sirs:

Submitted herewith on behalf of Broadwing Local Services Inc. please find an original and six (6) copies of the company's application for authority to provide alternative local exchange service within the State of Florida, along with a non-refundable application fee of $250. Please stamp the enclosed "File Copy" of this submission and return it to the undersigned in the enclosed self-addressed, stamped envelope.

Broadwing

1122 CAPITAL OF TEXAS
HIGHWAY SOUTH
AUSTIN,TEXAS 78746
(512) 328-1112

BANK ONE, TEXAS, NA
PORT ARTHUR, TEXAS

| DATE | CHECK NO. | AMOUNT |
|---|---|---|
| 15-JUN-00 | 137960 | *******$250.00 |

PAY Two hundred fifty and 00/100 Dollars

PAY TO THE ORDER OF
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAKS BLVD.
TALLAHESSEE, FL 32399-0850
United States

[redacted]
7/24/00

AUTHORIZED SIGNATURE

⑈00137960⑈

ORIGINAL

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Should you have any questions regarding this matter, please feel free to contact the undersigned counsel directly.

Sincerely,

Eric Fishman

Eric Fishman
Attorney for
Broadwing Local Services Inc.

Enclosures

RECEIVED & FILED

WAS1 #854282 v1

FPSC-BUREAU OF RECORDS

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HOLLAND & KNIGHT LLP

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Suite 400
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July 20, 2000

ERIC FISHMAN
202-828-1849

Internet Address:
efishman@hklaw.com

**FEDERAL EXPRESS**

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check: BM

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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Eric Fishman
Attorney for
Broadwing Local Services Inc.

Enclosures

WAS1 #854282 v1

DOCUMENT NUMBER-DATE
08845 JUL 21 8
FPSC-RECORDS/REPORTING

# APPLICATION

1. This is an application for / (check one):

   ( x ) **Original certificate** (new company).

   (   ) **Approval of transfer of existing certificate**: Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   (   ) **Approval of assignment of existing certificate**: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   (   ) **Approval of transfer of control**: Example, a company purchases 51 % of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   Broadwing Local Services Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

   Broadwing Local Services Inc.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   1122 Capital of Texas Highway, South, Austin, Texas 78746

5. Florida address (including street name & number, post office box, city, state, zip code):

   Technologies Management Inc.

   210 North Park Ave.

   P.O. Drawer 200 (32790-0200)

   Winter Park Florida 32789 Telephone (407) 740-8575 Fax (407) 740-0613

6. Structure of organization:

( ) Individual
( ) Foreign Corporation
( ) General Partnership
( ) Other
( x ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. **<u>If individual</u>**, provide:

**Name:**____________________________________

**Title:**____________________________________

**Address:**__________________________________

**City/State/Zip:**______________________________

**Telephone No.:**________________ **Fax No.:**________________

**Internet E-Mail Address:**________________________

**Internet Website Address:**_______________________

8. **<u>If incorporated in Florida</u>**, provide proof of authority to operate in Florida:

   **(a) The Florida Secretary of State corporate registration number:**

   ________________________________________

9. **<u>If foreign corporation</u>**, provide proof of authority to operate in Florida:

   **(a) The Florida Secretary of State corporate registration number:**

   ________________________________________

10. **<u>If using fictitious name-d/b/a</u>**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

    **(a) The Florida Secretary of State fictitious name registration number:**

    ________________________________________

11. **If a limited liability partnership**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

_______________________________________________

12. **If a partnership**, provide name, title and address of all partners and a copy of the partnership agreement.

**Name:**_______________________________________________

**Title:**_______________________________________________

**Address:**_______________________________________________

**City/State/Zip:**_______________________________________________

**Telephone No.:**______________________ **Fax No.:**______________________

**Internet E-Mail Address:**_______________________________________________

**Internet Website Address:**_______________________________________________

13. **If a foreign limited partnership,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:**_______________________________________________

14. Provide **F.E.I. Number** (if **applicable**): 31-1709181

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

No

_______________________________________________

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

**Name:** Eric Fishman, Esq.

**Title:**

**Address:** Holland & Knight LLP, 2100 Pennsylvania Avenue, NW

**City/State/Zip:** Washington, DC 20037

**Telephone No.:** (202) 828-1849 **Fax No.:** (202) 828-1868

**Internet E-Mail Address:** efishman@hklaw.com

**Internet Website Address:** www.hklaw.com

(b) Official point of contact for the ongoing operations of the company:

**Name:** Larry Barnes

**Title:** Director – Regulatory Affairs

**Address:** 1122 Capital of Texas Highway, South

**City/State/Zip:** Austin, Texas 78746

**Telephone No.:** (512) 742-2665 **Fax No.:** (512) 328-7902

**Internet E-Mail Address:** larry.barnes@broadwing.com

**Internet Website Address:** www.broadwing.com

(c) Complaints/Inquiries from customers:

**Name:** Stacy Branyan

**Title:** Director – Customer Care

**Address:** ______

**City/State/Zip:** ______

**Telephone No.:** 225-376-4095 **Fax No.:** **225-382-5619**

**Internet E-Mail Address:** stacy.branyan@broadwing.com

**Internet Website Address:** www.broadwing.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

Ohio, Michigan, Illinois, Kentucky, Indiana

(b) has applications pending to be certificated as an alternative local exchange company.

New York

(c) is certificated to operate as an alternative local exchange company.

Ohio, Michigan, Illinois, Kentucky, Indiana

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

18. Submit the following:

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

*NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with Financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1 **<u>written explanation</u>** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **<u>written explanation</u>** that the applicant has sufficient financial capability to maintain the requested service.

3. **<u>written explanation</u>** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

**See Exhibit A.**

B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each. **See Exhibit B.**

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance. **See Exhibit B.**

FLORIDA DEPARTMENT OF STATE
Katherine Harris
Secretary of State

June 1, 2000

C T CORPORATION SYSTEM

TALLAHASSEE, FL

Qualification documents for BROADWING LOCAL SERVICES INC. were filed on June 1, 2000 and assigned document number F00000003115. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

A corporation annual report/uniform business report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Foreign Qualification/Tax Lien Section.

Buck Kohr
Corporate Specialist
Division of Corporations

Letter Number: 100A00031041

Division of Corporations - P.O. BOX 6327 -Tallahassee, Florida 32314

# APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

*IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE STATE OF FLORIDA.*

1. BROADWING LOCAL SERVICES INC.
(Name of corporation; must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)

00 JUN -1 PM 4:24

2. DELAWARE
(State or country under the law of which it is incorporated)

3. NOW APPLYING
(FEI number, if applicable)

4. MAY 15, 2000
(Date of incorporation)

5. PERPETUAL
(Duration: Year corp. will cease to exist or "perpetual")

6. UPON QUALIFICATION
(Date first transacted business in Florida.) (SEE SECTIONS 607.1501, 607.1502 and 817.155, F.S.)

7. 1122 CAPITOL OF TEXAS HIGHWAY SOUTH
AUSTIN, TX 78746-6426
(Current mailing address)

8. TELECOMMUNICATION SERVICES
(Purpose(s) of corporation authorized in home state or country to be carried out in state of Florida)

9. **Name and street address of Florida registered agent:** (P.O. Box or Mail Drop Box NOT acceptable)

Name: C T Corporation System

Office Address: 1200 South Pine Island Road

Plantation, Florida, 33324
(Zip code)

10. **Registered agent's acceptance:**

***Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.***

C T Corporation System
Carol Record
(Registered agent's signature)
Carol Record
Assistant Secretary

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors: (Street address **ONLY** - P.O. Box **NOT** acceptable)

FL019 - 9/2/99 C T System Online

A. **DIRECTORS (Street address only - P.O. Box NOT acceptable)**

Chairman: RICHARD G. ELLENBERGER

Address: 201 EAST FOURTH STREET

CINCINNATI, OH 45202

Vice Chairman:

Address:

Director:

Address:

Director:

Address:

00 JUN -1 PM 4:24

B. **OFFICERS (Street address only - P.O. Box NOT acceptable)**

President: RICHARD S. PONTIN

Address: 201 EAST FOURTH STREET

CINCINNATI, OH 45202

Vice President:

Address:

Secretary: THOMAS E. TAYLOR

Address: 201 EAST FOURTH STREET

CINCINNATI, OH 45202

Treasurer: MARK W. PETERSON

Address: 201 EAST FOURTH STREET

CINCINNATI, OH 45202

**NOTE:** If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. Thomas E. Taylor, Secretary
(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. THOMAS E. TAYLOR, SECRETARY
(Typed or printed name and capacity of person signing application)

FL019 · 9/2/99 C T System Online

## **APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE**: I understand that all telephone companies must pay a regulatory assessment fee in the amount of ,15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

| | |
|---|---|
| Signature | Date |
| Title | Telephone No. |
| Address: | Fax No. |

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - INTRASTATE NETWORK
C - AFFIDAVIT

**** APPENDIX A**

## CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

1, (Name)________________________________________

(Title)____________________________ of (Name of Company)

________________________________________________

and current holder of Florida Public Service Commission Certificate Number #__________

________________, have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate

<u>UTILITY OFFICIAL:</u>

| | |
|---|---|
| ____________________ | ____________________ |
| Signature | Date |
| ____________________ | ____________________ |
| Title | Telephone No. |
| Address:____________________ | ____________________ |
| | Fax No. |

________________________________________________

________________________________________________

**** APPENDIX B**

## INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP**: Addresses where located, and indicate if owned or leased.

   1)____________________ 2)____________________

   ________________________________________

   3)____________________ 4)____________________

   ________________________________________

2. **SWITCHES**: Address where located, by type of switch, and indicate if owned or leased.

   1)____________________ 2)____________________

   ________________________________________

   3)____________________ 4)____________________

   ________________________________________

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

   <u>POP-to-POP</u> <u>OWNERSHIP</u>

   1)________________________________________

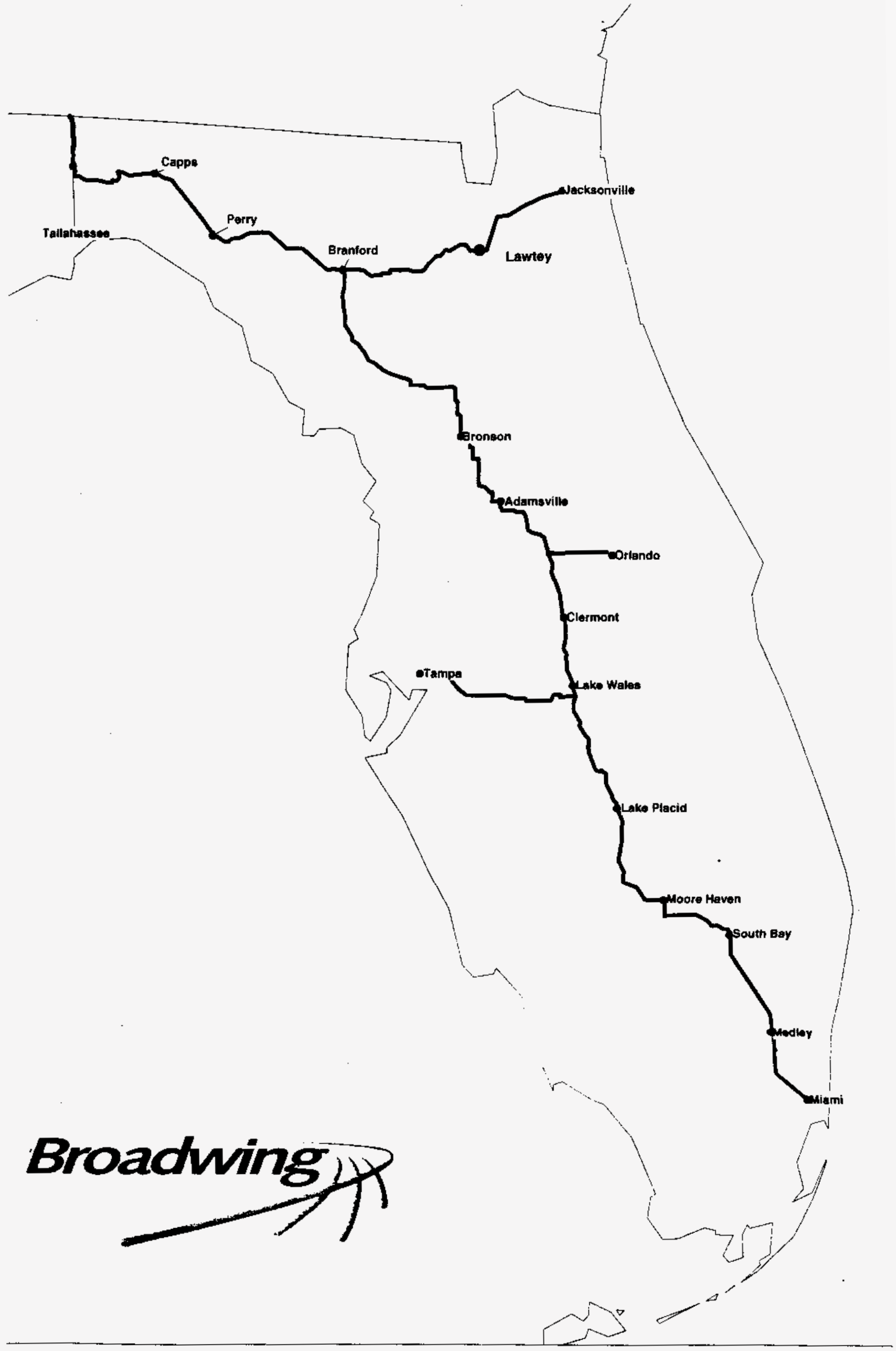
   2)________________________________________

   3)________________________________________

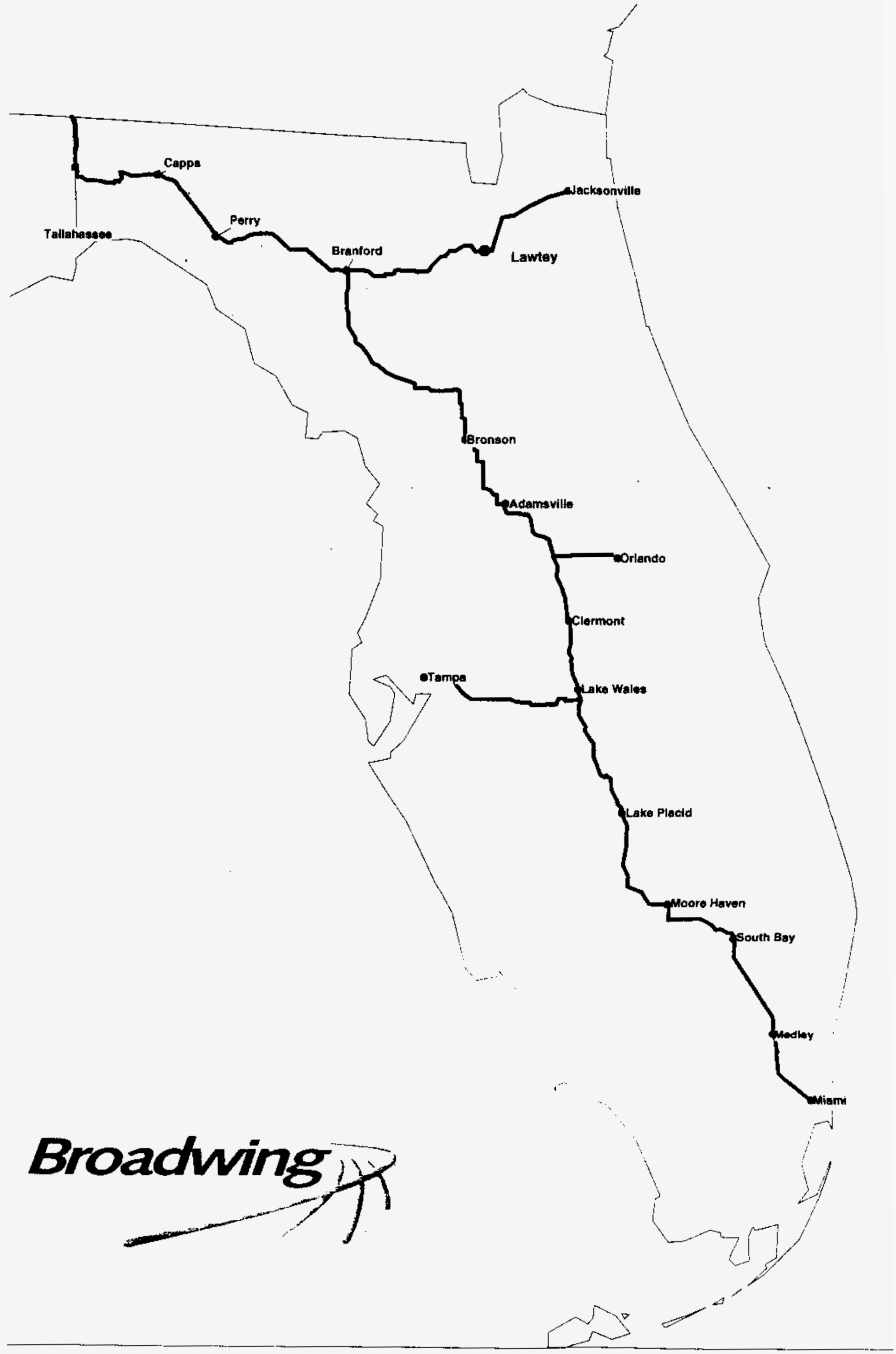
   4)________________________________________

# Broadwing Communication Services Inc.
# Florida Sites and Route

# Broadwing Communication Services Inc.
# Florida Sites and Route



# Broadwing Communication Services Inc.
## Florida Sites and Route



Broadwing

**Route Development**

**Folorida Site Data**

**As of June 19, 2000**

| SiteName | Address | Suite/Floor | City | State | Lease_type | Commencement_date | Termination_date | Square_feet |
|---|---|---|---|---|---|---|---|---|
| Miami | 100 Biscayne Blvd. | | Miami | FL | Commercial | 09-Feb-99 | 31-Jan-08 | 4,000.00 |
| Jacksonville | 1223 West Church St. | | Jacksonville | FL | Commercial | 26-Mar-99 | 26-Apr-09 | 12,500.00 |
| Orlando (Term) | 5915 South Rio Grande | Suite 200 | Orlando | FL | Commercial | 22-Feb-99 | 21-Feb-09 | 7,213.00 |
| Tampa (New Term) | 3923 Coconut Palm Dr. | 103 | Tampa | FL | Commercial | 01-Mar-99 | 28-Feb-09 | 5,765.00 |
| Medley | 10270-10280 NW South River Drive. | Units 1 & 2 | Medley | FL | Commercial | 01-Mar-99 | 28-Feb-09 | 9,600.00 |
| South Bay | 1005 Rock Road | | South Bay | FL | Land Use Impact | 20-Jan-99 | 30-Sep-09 | |
| Capps (Lamont) | East on Hwy 19 about five miles from Capps heading towards Lamont. | | Lamont | FL | Purchase | | | 648.00 |
| Perry | 9372 E US 27 | | Perry | FL | Purchase | | | 648.00 |
| Branford | 27426 61st Road | | Branford | FL | Purchase | | | 2,000.00 |
| Bronson | 10139 NE Highway 27 Alt. | | Bronson | FL | Purchase | | | 648.00 |
| Ocala Ridge | 6121 SW 59th Street | | Ocala | FL | Purchase | | | 648.00 |
| Wildwood (Adamsville) | 275 County RD 501 | | Wildwood | FL | Purchase | | | 648.00 |
| Clermont | 1200 Commons Court | | Clermont | FL | Purchase | | | 2,000.00 |
| Lake Wales (Wolfolk) | 212 Alturas-Babson CutOff Rd | | Lake Wales | FL | Purchase | | | 2,000.00 |
| Lake Placid | 909 South Main St. | | Lake Placid | FL | Purchase | | | 648.00 |
| Moore Haven | 1820 N US 27 NW | | Moore Haven | FL | Purchase | | | 648.00 |
| South Bay | 1005 Rock Road | | South Bay | FL | Purchase | | | 648.00 |
| Ft. Lauderdale (Andytown) | 21001 Griffin Road | | Ft. Lauderdale | FL | Purchase | | | 648.00 |
| Tallahassee (Jct) | 4900 Gum Road | | Tallahassee | FL | Purchase | | | 2,000.00 |
| Lawtey | 5024 N.W. CR 225 | | Lawtey | FL | Purchase | | | 648.00 |
| West Palm Beach | 513 to 519 Hampton Road | | West Palm Beach | FL | Purchase | | | 1,800.00 |

**Broadwing**

**Route Development**

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| SiteName | Address | Suite/Floor | City | State | Lease_type | Commencement_date | Termination_date | Square_feet |
|---|---|---|---|---|---|---|---|---|
| Miami | 100 Biscayne Blvd. | | Miami | FL | Commercial | 09-Feb-99 | 31-Jan-08 | 4,000.00 |
| Jacksonville | 1223 West Church St. | | Jacksonville | FL | Commercial | 26-Mar-99 | 26-Apr-09 | 12,500.00 |
| Orlando (Term) | 5915 South Rio Grande | Suite 200 | Orlando | FL | Commercial | 22-Feb-99 | 21-Feb-09 | 7,213.00 |
| Tampa (New Term) | 3923 Coconut Palm Dr. | 103 | Tampa | FL | Commercial | 01-Mar-99 | 28-Feb-09 | 5,765.00 |
| Medley | 10270-10280 NW South River Drive. | Units 1 & 2 | Medley | FL | Commercial | 01-Mar-99 | 28-Feb-09 | 9,600.00 |
| South Bay | 1005 Rock Road | | South Bay | FL | Land Use Impact | 20-Jan-99 | 30-Sep-09 | |
| Capps (Lamont) | East on Hwy 19 about five miles from Capps heading towards Lamont. | | Lamont | FL | Purchase | | | 648.00 |
| Perry | 9372 E US 27 | | Perry | FL | Purchase | | | 648.00 |
| Branford | 27426 61st Road | | Branford | FL | Purchase | | | 2,000.00 |
| Bronson | 10139 NE Highway 27 Alt. | | Bronson | FL | Purchase | | | 648.00 |
| Ocala Ridge | 6121 SW 59th Street | | Ocala | FL | Purchase | | | 648.00 |
| Wildwood (Adamsville) | 275 County RD 501 | | Wildwood | FL | Purchase | | | 648.00 |
| Clermont | 1200 Commons Court | | Clermont | FL | Purchase | | | 2,000.00 |
| Lake Wales (Wolfolk) | 212 Alturas-Babson CutOff Rd | | Lake Wales | FL | Purchase | | | 2,000.00 |
| Lake Placid | 909 South Main St. | | Lake Placid | FL | Purchase | | | 648.00 |
| Moore Haven | 1820 N US 27 NW | | Moore Haven | FL | Purchase | | | 648.00 |
| South Bay | 1005 Rock Road | | South Bay | FL | Purchase | | | 648.00 |
| Ft. Lauderdale (Andytown) | 21001 Griffin Road | | Ft. Lauderdale | FL | Purchase | | | 648.00 |
| Tallahassee (Jct) | 4900 Gum Road | | Tallahassee | FL | Purchase | | | 2,000.00 |
| Lawtey | 5024 N.W. CR 225 | | Lawtey | FL | Purchase | | | 648.00 |
| West Palm Beach | 513 to 519 Hampton Road | | West Palm Beach | FL | Purchase | | | 1,800.00 |

Broadwing

## Route Development

## Folorida Site Data

**As of June 19, 2000**

| SiteName | Address | Suite/Floor | City | State | Lease_type | Commencement_date | Termination_date | Square_feet |
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Broadwing

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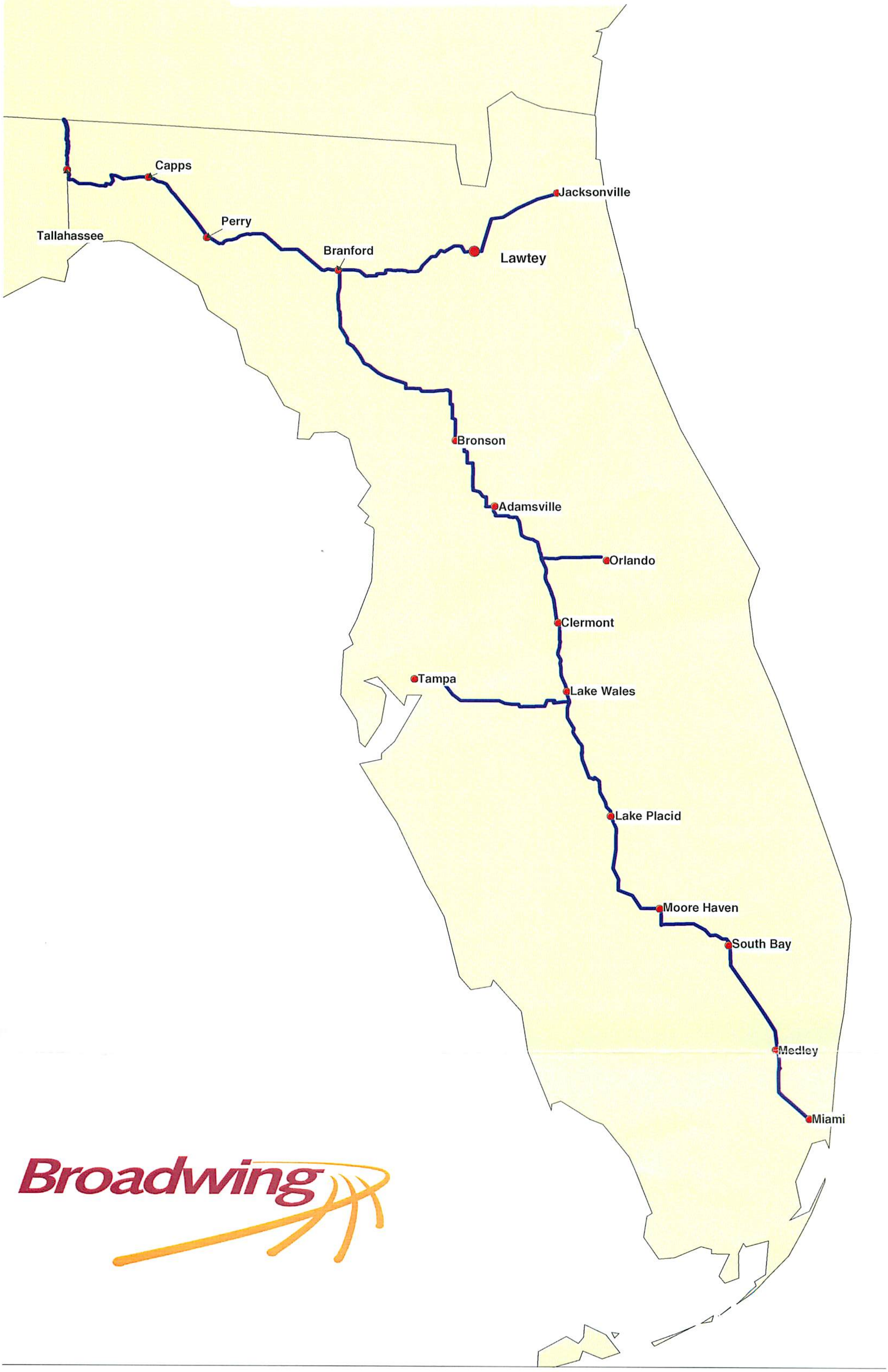
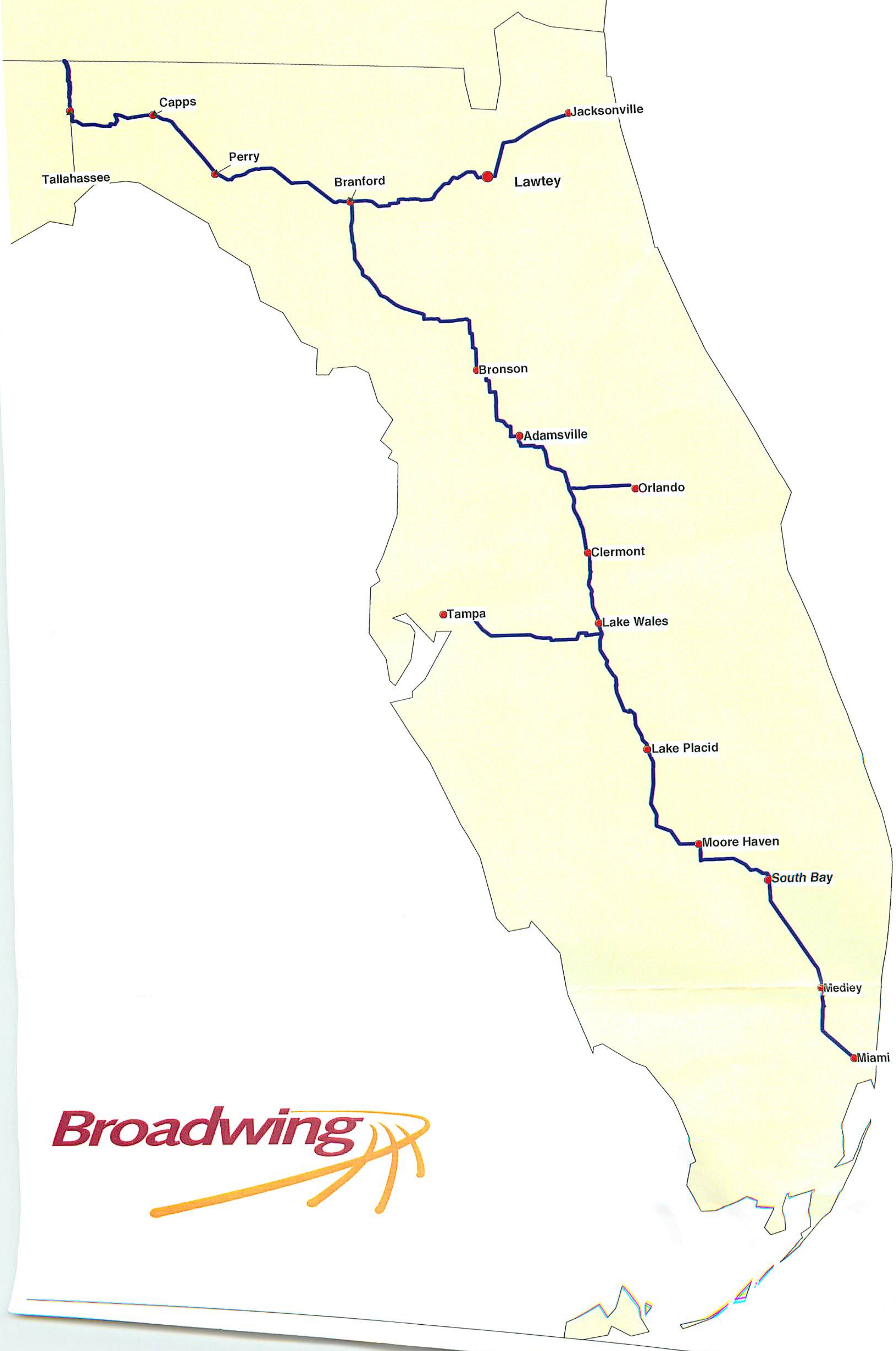
# Broadwing Communication Services Inc.
# Florida Sites and Route



# Broadwing Communication Services Inc.
# Florida Sites and Route




Broadwing

# Broadwing Communication Services Inc.
# Florida Sites and Route


Broadwing

## Exhibit A
## Financial Capability

As a newly formed entity, Broadwing Local Services Inc. has no audited financial statements for the past three years. In lieu of this showing, Applicant hereby submits its unaudited financial statements, signed by its chief executive officer and chief financial officer affirming that these statements are true and correct. These financial statements include Applicant's balance sheet, income statement and statement of retained earnings.

In support of its financial qualifications, Broadwing Local Services Inc. also submits the audited financial statements of its parent, Broadwing Inc., a publicly traded corporation. As shown in its most recent Annual Report, filed with the Securities and Exchange Commission, in 1999 Broadwing Inc. earned total revenues of $1.13 billion and net income of $31.4 million, with current assets of $413.4 million and total assets of $6.5 billion. As shown in its most recently filed quarterly report, for the three months ended March 31, 2000, the Company earned total revenues of $470.2 million, with current assets of $358 Million, and total assets of $5.4 billion.

As reflected in the attached certification, Broadwing Inc. has committed itself to provide full financial support for the construction and operations of Broadwing Local Services Inc.

For the foregoing reasons, Broadwing Local Services Inc. respectfully submits that it has sufficient financial capability to provide the alternative local exchange services in the State of Florida, to maintain such service, and to meet its lease and/or ownership obligations.

**** APPENDIX C**

# AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

**Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."**

UTILITY OFFICIAL:

Signature: Rick Pontin — Date: July 13, 2000

Title: President and Chief Operating Officer — Telephone No.: (512) 742-9464

Address: 1122 Capital of Texas Highway South — Fax No.: (512) 742-0239

Austin, Texas 78746-6426

Sworn to and subscribed before me this 13th day of July, 2000.

Marie E. Casar

Notary Public

My Commision expires

MARIE E. CASAR
MY COMMISSION EXPIRES
September 26, 2001

Broadwing

| Broadwing Local Services, Inc.<br>Balance Sheet<br>June 30, 2000<br>$(000's) | | |
|---|---|---|
| | | |
| Cash | $ | 2,000 |
| Total Current Assets | | 2,000 |
| | | |
| Non Current Assets | | - |
| Total Assets | $ | 2,000 |
| | | |
| Due to Parent | $ | 1,700 |
| Total Current Liabilities | | 1,700 |
| | | |
| Non Current Liabilities | | - |
| Total Liabilities | | 1,700 |
| | | |
| Common Stock | | - |
| Paid In Capital | | 300 |
| Retained Earnings | | - |
| Accumulated Other Comprehensive Income | | - |
| Total Shareholders' Equity | | 300 |
| | | |
| Total Liabilities and Shareholders' Equity | $ | 2,000 |

# SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**Form 10-Q**

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended March 31, 2000**

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File Number 0-20803

# BROADWING COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware

1122 Capital of Texas Highway South, Austin, Texas 78746-6426

I.R.S. Employer Identification Number 74-2644120

Telephone - Area Code 512 328-1112

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . No__.

All outstanding shares of the Registrant's common stock are owned by Broadwing Inc.

The number of shares of Preferred Stock outstanding was 395,120 on April 30, 2000.

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### PART I. Financial Information


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CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Millions of Dollars)
(Unaudited)

| | Company | Predecessor |
|---|---|---|
| | Three Months Ended | |
| | March 31, 2000 | March 31, 1999 |
| Revenues | $ 213.0 | $ 161.4 |
| Costs and Expenses | | |
| Cost of providing services and products sold | 126.2 | 104.8 |
| Selling, general and administrative | 89.0 | 51.8 |
| Depreciation and amortization | 74.7 | 36.3 |
| Merger and other infrequent costs | -- | 0.1 |
| Total Costs and Expenses | 289.9 | 193.0 |
| Operating Loss | (76.9) | (31.6) |
| Other Income | -- | 5.9 |
| Minority Interest Expense (Income) | (0.2) | 0.2 |
| Equity Loss in Unconsolidated Entities | 2.0 | 2.9 |
| Interest Expense | 12.9 | 11.0 |
| Net Loss Before Income Taxes | (91.6) | (39.8) |
| Income Tax Provision (Benefit) | (30.4) | 2.4 |
| Net Loss | (61.2) | (42.2) |
| Other Comprehensive Income, Net of Tax: | | |
| Unrealized gain on investments | 27.3 | 133.2 |
| Comprehensive Income (Loss) | $ (33.9) | $ 91.0 |

See Notes to Financial Statements.

# CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars, Except Per Share Amounts)

| | (Unaudited) March 31, 2000 | December 31, 1999 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ -- | $ 56.2 |
| Receivables, less allowances of $39.6 and $36.0 | 107.6 | 77.1 |
| Deferred income tax benefits | 14.7 | 16.8 |
| Prepaid expenses and other current assets | 6.5 | 10.2 |
| Total current assets | 128.8 | 160.3 |
| Property, plant and equipment, net | 1,724.0 | 1,726.4 |
| Goodwill and other intangibles, net | 2,525.1 | 2,561.3 |
| Investments in other entities | 697.4 | 634.2 |
| Investments in unconsolidated subsidiaries | 77.5 | 61.0 |
| Deferred charges and other assets | 5.3 | 4.0 |
| Total Assets | $ 5,158.1 | $ 5,147.2 |
| **LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREOWNERS' EQUITY** | | |
| Current Liabilities | | |
| Short-term debt | $ 6.5 | $ 5.9 |
| Accounts payable | 108.9 | 143.3 |
| Intercompany payable to Parent Company | 945.8 | 442.9 |
| Current portion of unearned revenue and customer deposits | 53.1 | 53.6 |
| Accrued expenses and other current liabilities | 46.7 | 137.6 |
| Total current liabilities | 1,161.0 | 783.3 |
| Long-term debt, less current portion | 212.3 | 597.4 |
| Unearned revenue, less current portion | 634.7 | 633.5 |
| Deferred income taxes | 242.7 | 178.4 |
| Other long-term liabilities | 73.3 | 72.8 |
| Total liabilities | 2,324.0 | 2,265.4 |
| 12 ½% Junior Exchangeable Preferred Stock; $.01 par value; authorized – 3,000,000 shares of all classes of preferred stock; 395,120 shares issued and outstanding and aggregate liquidation preference of $395.1 at March 31, 2000 and December 31, 1999 | 411.5 | 418.2 |
| Commitments and Contingencies | | |
| Shareowners' Equity | | |
| Common shares, $.01 par value, 1,000,000 shares authorized; 500,000 shares issued and outstanding | -- | -- |
| Additional paid-in capital | 2,417.5 | 2,424.6 |
| Retained deficit | (106.7) | (45.5) |
| Accumulated other comprehensive income | 111.8 | 84.5 |
| Total shareowners' equity | 2,422.6 | 2,463.6 |
| Total Liabilities, Redeemable Preferred Stock and Shareowners' Equity | $ 5,158.1 | $ 5,147.2 |

See Notes to Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)
(Unaudited)

| | Company Three Months Ended March 31, 2000 | Predecessor Three Months Ended March 31, 1999 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | $ (61.2) | $ (42.2) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: | | |
| Depreciation and Amortization | 74.7 | 36.3 |
| Provision for doubtful accounts and service credits | 6.5 | 16.3 |
| Deferred income taxes | (30.4) | - |
| Equity in net loss of unconsolidated subsidiaries | 2.0 | 2.9 |
| Other, net | 1.9 | 0.2 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (31.4) | (30.2) |
| Notes receivable from customers and IRU sales | 1.5 | 91.1 |
| Other current assets | 3.8 | (1.1) |
| Deferred charges and other non-current assets | - | 3.6 |
| Accounts payable | 2.2 | 39.2 |
| Current portion of unearned revenue and customer deposits | 0.2 | - |
| Accrued expenses and other current liabilities | (6.8) | (0.1) |
| Other non-current liabilities | (3.1) | (0.8) |
| Net cash provided by (used in) operating activities | (40.1) | 115.2 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (88.9) | (108.1) |
| Investments in unconsolidated subsidiaries | - | (6.2) |
| Proceeds from sale of ownership interest in joint venture | 8.2 | - |
| Net cash used in investing activities | (80.7) | (114.3) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loan from Parent Company | 485.1 | - |
| Proceeds from issuance of debt | 1.1 | - |
| Principal payments on long-term debt and capital lease obligations | (409.4) | (3.4) |
| Payment of preferred dividends | (12.4) | (4.6) |
| Issuance of common stock | - | 4.0 |
| Cash received from merged entity | 0.2 | - |
| Net cash provided by (used in) financing activities | 64.6 | (4.0) |
| Net decrease in cash and cash equivalents | (56.2) | (3.1) |
| Cash and cash equivalents at beginning of period | 56.2 | 264.8 |
| Cash and cash equivalents at end of period | $ - | $ 261.7 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Income taxes (net of refunds) | $ -- | $ 2.3 |
| Interest (net of amounts capitalized) | $ 4.3 | $ 41.0 |
| Non-cash Investing and Financing Activities: | | |
| Accretion on preferred stock | $ 0.5 | $ - |
| Fiber barter agreements | $ 4.8 | $ - |

See Notes to Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## 1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Broadwing Communications Inc. and its subsidiaries (formerly known as IXC Communications, Inc., now referred to as "Broadwing Communications" or "the Company"), a leading provider of telecommunications transmission and switched long-distance services with a coast-to-coast fiber optic network containing approximately 16,000 fiber route miles at March 31, 2000. The Company utilizes its advanced fiber-optic network to provide data and voice services through its network, using both wholesale and retail channels. Broadband transport services are comprised of the lease of dedicated circuits that customers use to transmit voice and data traffic, indefeasible right-to-use ("IRU") agreements and network construction services. Switched services represents the transmission of long-distance switched traffic to resellers and retail business customers through the Company's switches. Data and Internet services include providing frame relay and ATM-based data services, Web hosting and collocation. Other revenues are comprised of network integration and consulting services along with the sale of the related equipment and, in 1999, revenues from the Company's now completed Vyvx project.

The Company became a wholly owned subsidiary of Broadwing Inc. ("the Parent Company") on November 9, 1999, pursuant to the merger with Broadwing Inc. ("the Merger"). On January 1, 2000, the Parent Company contributed the capital stock of its network integration and consulting business, Broadwing IT Consulting ("IT Consulting"), to the Company. Additionally, the Company also entered an agreement with Cincinnati Bell Long Distance ("CBLD") to service the customers of CBLD outside of the Cincinnati area. The contribution of the IT Consulting stock resulted in $11.5 million in assets and $12.4 million in liabilities (at historical cost) being contributed to the Company in January 2000, representing net liabilities of $0.9 million. During the current quarter, the Company recognized $9.0 million in revenues and $9.8 million in expenses related to IT Consulting and $15.0 million in both revenues and expenses related to the CBLD agreement.

The financial statements for periods ended before November 9, 1999 were prepared using the Company's historical basis of accounting and are designated as "Predecessor". The comparability of operating results for the Predecessor periods and periods subsequent to the Merger are affected by the purchase accounting adjustments discussed in Note 2 and the contribution of IT Consulting and the agreement with CBLD discussed above.

These consolidated financial statements 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 shown. All adjustments are of a normal and recurring nature except for those outlined in Notes 2 and 5. Certain prior year amounts have been reclassified to conform to the current classifications with no effect on financial results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The December 31, 1999 condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. It is suggested that these financial statements be read in conjunction with financial statements and notes thereto included in the Company's 1999 Annual Report on Form 10-K.

## 2. MERGER WITH BROADWING INC.

On November 9, 1999, the Company was acquired by the Parent Company through the merger of the Company and a wholly owned subsidiary of the Parent Company, with the Company surviving as a wholly owned subsidiary of the Parent Company. The Company has since been renamed Broadwing Communications Inc.

The aggregate purchase price of $2.2 billion consisted of (all numbers approximate): $0.3 billion in cash for the purchase of five million shares of Company common stock from Trustees of General Electric Pension Trust; the issuance of 68 million shares of the Parent Company's common stock (to stockholders of the Company) valued at $1.6 billion; 155,000 shares of 6 ¾% convertible preferred stock issued by the Parent Company on the Company's behalf and valued at $0.1 billion; and the issuance of 14 million options and warrants to purchase Parent Company common stock valued at $0.2 billion.

The cost of the Merger has been preliminarily allocated to the assets acquired and liabilities assumed according to their estimated fair values at the acquisition date and is subject to adjustment as the assumptions relating to the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

asset and liability valuations are finalized. In addition, the allocation may be impacted by changes in pre-acquisition contingencies identified during the allocation period by the Company relating to certain environmental, litigation, and other matters. As a result, amounts preliminarily allocated to goodwill were decreased by approximately $20.5 million during the first quarter of 2000. The amount allocated to goodwill represents the excess of price paid over the fair value of assets realized and liabilities assumed in the Merger. These amounts are being amortized to expense over a 30-year period.

Included in the allocation of the cost to acquire the Company in the fourth quarter of 1999 were restructuring costs associated with initiatives to integrate operations of the Company with its Parent Company. The restructuring costs recorded in 1999 included the costs of involuntary employee separation benefits related to 263 employees of the Company. As of March 31, 2000, 134 of the employee separations had been completed for a total cash expenditure of $1.5 million. The restructuring plans also included costs associated with the closure of a number of technical and customer support facilities, the decommissioning of certain switching equipment, and the termination of contracts with vendors. The Company expects that most of these restructuring actions will be complete by December 31, 2000, and will result in cash outlays of $7.5 million in 2000.

The following table illustrates activity in this reserve since December 31, 1999:

| | Balance at December 31, 1999 | Expenditure | Balance at March 31, 2000 |
|---|---|---|---|
| **Fourth Quarter:** | | | |
| Employee separations | $ 2.0 | $(1.3) | $ 0.7 |
| Facility closure costs | 2.1 | (1.8) | 0.3 |
| Relocation | 0.2 | -- | 0.2 |
| Other exit costs | 3.2 | (0.1) | 3.1 |
| Total | $ 7.5 | $ (3.2) | $ 4.3 |

3. INVESTMENTS IN OTHER ENTITIES

*PSINet, Inc.*

The Company's investment in PSINet, Inc. ("PSINet") consists of 20.5 million shares of PSINet common stock. This investment had a fair market value of approximately $695.9 million and $631.7 million as of March 31, 2000 and December 31, 1999, respectively. The amount in excess of the Company's basis in the investment is reported as an unrealized gain on marketable securities, net of tax and additional liabilities resulting from the stock price of PSINet. The PSINet investment is classified as "available-for-sale" as defined by Statement of Financial Accounting Standard No. 115. Accordingly, changes in the unrealized gain amount are included in "Other Comprehensive Income" on the accompanying Condensed Consolidated Statement of Income and Comprehensive Income.

*DCI Telecommunications*

In November 1998, the Company entered into an agreement to acquire 4.25 million shares of common stock of DCI Telecommunications, Inc. (DCI) as consideration for payment of amounts due from one of the Company's customers that was also a vendor of DCI. The agreement provided that DCI was to issue additional shares of common stock to the Company if the market value of the shares the Company owned did not reach $17.7 million by June 1, 1999. As of June 1, 1999, and subsequent thereto, the market value of the shares the Company owned was less than the $17.7 million guaranteed in the November 1998 agreement. DCI has publicly disclosed that it does not intend to issue additional shares to the Company. The Company is pursuing the remedies to which it is entitled under the November 1998 agreement. Due to a decline in the financial condition of DCI that is considered permanent, the Company wrote down its investment in DCI by $16.1 million to $1.5 million in 1999. No other adjustment was deemed necessary during the first quarter of 2000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

*Marca-tel*

As of March 31, 2000, the Company holds an indirect investment equal to 30.0% of Marca-Tel S.A. de C.V. (Marca-Tel) as a result of its ownership of 65.4% of Progress International, LLC ("Progress") which, in turn, owns 45.8% of Marca-Tel. The remaining 54.2% of Marca-Tel is owned by a Mexican individual, Formento Radío Beep, S.A. de C.V. and Siemens S.A. de C.V. The other owner of Progress is Westel International, Inc. ("Westel").

*Storm Telecommunications, Ltd.*

In October 1997, Storm Telecommunications, Ltd. ("Storm") was formed. Storm was a joint venture with Telenor Global Services AS ("Telenor"), a subsidiary of the Norwegian national telephone company, to provide telecommunication services to carriers and resellers in Europe. The joint venture was owned 40% by Telenor, 40% by the Company and 20% by Clarion Resources Communications Corporation, an U.S. based telecommunications company in which Telenor owned a controlling interest. In February 2000, the Company sold its investment in Storm, plus amounts due it relating to the joint venture, for $14.4 million. The Company's investment in Storm had been written down to zero prior to the Merger because the Company did not expect to realize any amounts pertaining to this investment. The subsequent recovery of this investment resulted in an $8.2 million adjustment to the preliminary purchase price allocation during the first quarter of 2000.

*Applied Theory, Inc.*

The Company holds a 24.0% interest in Applied Theory that was valued at $77.5 million and $61.0 million on March 31, 2000 and December 31, 1999, respectively. Applied Theory, Inc., a New York-based Internet service provider, was formed in 1996 to provide high quality Internet services for the New York state research and education community. During the first three months of 2000, the Company recognized $2.0 million in losses resulting from its equity method accounting for the Applied Theory investment, as compared to approximately $0.3 million in losses recognized during the first quarter of 1999.

5. RESTRUCTURING CHARGES

In the second quarter of 1999, the Company recorded a charge of approximately $13.1 million to exit certain operations in the switched wholesale business. The restructuring charge consisted of severance and various other costs associated with workforce reduction, network decommissioning, and various terminations. The workforce reduction of 94 people included employees contributing to the sales function and employees contributing to the network operations. These restructuring activities are expected to be substantially complete by June 30, 2000. Due to the Merger, it was determined that the combined companies would need the switches that had been marked for decommissioning in the second quarter's restructuring charge. Additionally, it was determined that the total period contemplated for lease payments relating to an abandoned office would not be required. Consequently, the second quarter restructuring charge was reduced by $1.2 million during the third quarter related to decommissioning the switches and $0.4 million related to a reduction in the lease pay off requirement.

In the third quarter of 1999, the Company recorded a charge of approximately $8.3 million relating to the restructuring of the organization and to exit certain foreign operations. The plan was developed prior to the Merger, by the previous Chief Executive Officer, after reviewing the Company's operations. The workforce reduction of 15 employees included management, administrative and foreign sales personnel. The employees were notified of this program during July and August of 1999. Generally, all of the charges are expected to be paid in 2000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Activity in the first quarter of 2000 related to the accrued restructuring liabilities was as follows (in millions):

| | Balance at December 31, 1999 | Expenditures | Balance at March 31, 2000 |
|---|---|---|---|
| **Second Quarter Restructuring:** | | | |
| Employee separations | $ 1.2 | $ — | $ 1.2 |
| Network Decommissioning | 2.3 | — | 2.3 |
| Terminate contractual obligations and exit facilities | 4.2 | (1.5) | 2.7 |
| Total | $ 7.7 | $ (1.5) | $ 6.2 |
| **Third Quarter Restructuring:** | | | |
| Employee separations | $ 2.9 | $ (2.1) | $ 0.8 |
| Terminate contractual obligations and exit facilities | .5 | (.1) | 0.4 |
| Total | $ 3.4 | $ (2.2) | $ 1.2 |

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consist of the following at March 31, 2000 and December 31, 1999 (in millions):

| | March 31, 2000 | December 31, 1999 |
|---|---|---|
| 9% Senior Subordinated Notes | $ 46.0 | $ 450.0 |
| 12½% Senior Notes | .8 | .8 |
| Capital lease obligations | 11.0 | 11.3 |
| PSINet Forward Sale | 153.2 | 133.9 |
| Other debt | 7.8 | 7.3 |
| Total long-term debt and capital lease obligations | $ 218.8 | $ 603.3 |
| Less current portion | 6.5 | 5.9 |
| Long-term debt and capital lease obligations | $ 212.3 | $ 597.4 |

*9% Senior Subordinated Notes*

In 1998, the Company issued $450 million of 9% senior subordinated notes due 2008 ("the 9% Notes"). In January 2000, $404 million of these 9% Notes were redeemed through a tender offer as a result of the change of control terms of the bond indenture. As a result, the $4.4 million premium paid upon redemption, net of taxes, was recorded as a component of the purchase price allocation during the first quarter of 2000.

The 9% Notes are general unsecured obligations and are subordinate in right of payment to all existing and future senior indebtedness and other liabilities of the Company's subsidiaries. The indenture related to the 9% Notes requires the Company to comply with various financial and other covenants and restricts the Company from incurring certain additional indebtedness.

*PSINet Forward Sale*

The Company's investment in PSINet consists of 20.5 million common shares. In June and July 1999, the Company received approximately $111.8 million representing amounts from a financial institution in connection with two prepaid forward sale contracts on six million shares of the PSINet common stock. This amount is classified as long-term debt and is collateralized by six million shares of PSINet common stock. Each forward-sale obligation for three million shares of PSINet stock may be settled at future dates for a maximum amount of three million shares of PSINet stock, or at the Company's option, the equivalent value in cash.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

*Other*

Pursuant to the Company's May 10, 1999 acquisition of Coastal Telecom Limited Company, the Company assumed $10 million in notes payable. This amount was adjusted to $7.8 million as part of the preliminary purchase price allocation for the Coastal acquisition. This amount remains outstanding at March 31, 2000.

Additionally, $0.8 million remains outstanding on the 12 ½% senior notes (original indebtedness of $285.0 million) that were primarily eliminated through a tender offer in 1998.

The Company has acquired certain facilities and equipment using capital leases. The gross amount of assets recorded under capital leases at March 31, 2000 and December 31, 1999 (capital leases and associated accumulated depreciation was revalued at the Merger date) was $12.0 million and $11.8 million, respectively. The related accumulated depreciation was $3.0 million and $1.2 million at March 31, 2000 and December 31, 1999, respectively.

7. CONTINGENCIES

In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

Certain former members of IXC's previous board of directors, as well as Cincinnati Bell Inc. (now Broadwing Inc.), have been named as a defendant in five stockholder class action suits filed in the Delaware Court of Chancery (the Court). These suits were filed in July 1999 and pertain to the Company's recently completed Merger. The complaints allege, among other things, that the defendants breached their fiduciary duties to the Company's former stockholders by failing to maximize stockholder value in connection with entering into the Merger agreement and sought a court order enjoining completion of the Merger. In an October 27, 1999 ruling, the Court denied plaintiffs' request for a preliminary injunction. The Merger has since closed and management believes that the performance of Broadwing's share price has rendered plaintiffs' arguments moot. While these suits currently remain outstanding and subject to further litigation, the Company does not believe any of plaintiffs' arguments have merit. The Company is in the process of negotiating a possible settlement.

A total of twenty-six Equal Employment Opportunity Commission ("EEOC") charges were filed beginning in September 1999 by Broadwing Telecommunications Inc. employees located in the Houston office (formerly Coastal Telephone, acquired by the Company in May 1999) alleging sexual harassment, race discrimination and retaliation. The Company is continuing its investigation of these charges and is cooperating with the EEOC. The Company and the various complainants are currently engaged in a voluntary mediation proceeding to attempt to resolve this matter.

In the course of closing the Merger, the Company became aware of its possible non-compliance with certain requirements under state and federal environmental laws. Since the Company is committed to compliance with environmental laws, management decided to undertake a voluntary environmental compliance audit of Company facilities and operations and, by letter dated November 9, 1999, disclosed potential non-compliance at Company facilities to U.S. Environmental Protection Agency ("EPA") under the Agency's Self-Policing Policy. The Company made similar voluntary disclosures to various state authorities. By letter dated January 19, 2000, the EPA determined that the Company appears to have satisfied the "prompt disclosure" requirement of the Self-Policing Policy, and established a deadline of May 1, 2000 for the Company to complete its environmental audit of all Company facilities and report any violations to the Agency. This deadline has since been extended to June 15, 2000 and the Company is currently in the process of completing the audit and implementing the steps necessary to correct violations discovered in the course of the audit. The Company intends to complete its environmental audit of these facilities within the time frame established by U.S. EPA and undertake corrective actions necessary to promptly achieve compliance.

The Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to all fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position, although it does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements. In SAB 101 (which will be effective for, and applicable to, the Company's operating results in the second quarter of 2000), the SEC Staff expressed its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

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 Form 10-K for the year ended December 31, 1999. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date thereof.

**DESCRIPTION OF BUSINESS**

Broadwing Communications Inc. ("the Company") is a leading provider of telecommunications transmission and switched long-distance services with a coast-to-coast fiber optic network containing approximately 16,000 fiber route miles at March 31, 2000. The Company utilizes its advanced fiber-optic network to provide data and voice services through its network, using both wholesale and retail channels. Broadband transport services are comprised of the lease of dedicated circuits that customers use to transmit voice and data traffic, indefeasible right-to-use ("IRU") agreements and network construction services. Switched services represents the transmission of long-distance switched traffic to resellers and retail business customers through the Company's switches. Data and Internet services include providing frame relay and ATM-based data services, Web hosting and collocation. Other is comprised of Network integration and consulting services along with the sale of the related equipment and, in 1999, revenues from the Company's now completed Vyvx partnership.

**RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. Results for interim periods may not be indicative of the results for the full years.

On November 9, 1999, the Company completed its merger ("the Merger") with Broadwing Inc. ("the Parent Company"). The Parent Company accounted for the Merger according to the purchase method of accounting, with the purchase price allocation being "pushed down" to the Company's financial statements. The purchase price has been preliminarily allocated to the assets and liabilities assumed according to their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized. Property, plant and equipment was recorded at fair market value based on preliminary appraisal results, and useful lives were assigned to the assets. The excess of cost over the fair value assigned to the net assets acquired was recorded as goodwill and is being amortized using the straight-line method over 30 years. Because the Merger did not take place until November 9, 1999, comparisons of current quarter results with that of the prior year may not yield meaningful results with respect to certain expenses that were effected by the push down accounting adjustments.

On January 1, 2000, the Parent Company contributed the capital stock of Broadwing IT Consulting ("IT Consulting") to the Company. Also effective January 1, 2000, the Company entered into an agreement with Cincinnati Bell Long Distance, Inc. ("CBLD") to service the customers of CBLD outside of the Cincinnati area. Accordingly, the current year's results of operations include those of IT Consulting and amounts related to the service agreement with CBLD. The contribution of the IT Consulting stock resulted in $11.5 million in assets and $12.4 million in liabilities (at historical cost) being contributed to the Company in January 2000, representing net liabilities of $0.9 million. During the current quarter, the Company recognized $9.0 million in revenues and $9.8 million in expense related to IT Consulting and $15.0 million in both revenues and expenses related to the CBLD agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations are as follows:

| ($ Millions) | Company 2000 | Predecessor 1999 | Change | % |
|---|---|---|---|---|
| | Three Months Ended March 31, | | | |
| Revenues: | | | | |
| Broadband transport | $ 91.3 | $ 70.9 | $ 20.4 | 29 |
| Switched services | 103.1 | 77.7 | 25.4 | 33 |
| Data and Internet | 9.6 | 5.2 | 4.4 | 85 |
| Other | 9.0 | 7.6 | 1.4 | 18 |
| Total | 213.0 | 161.4 | 51.6 | 32 |
| Costs and Expenses: | | | | |
| Cost of providing services and products sold | 126.2 | 104.8 | 21.4 | 20 |
| Selling, general and administrative | 89.0 | 51.8 | 37.2 | 72 |
| Total | 215.2 | 156.6 | 58.6 | 37 |
| Earnings Before Interest Taxes, Depreciation and Amortization (EBITDA) | (2.2) | 4.8 | (7.0) | (146) |
| Depreciation and amortization | 74.7 | 36.3 | 38.4 | 106 |
| Merger and other infrequent costs | -- | 0.1 | (0.1) | -- |
| Operating loss | (76.9) | (31.6) | (45.3) | 143 |
| Other Income | -- | 5.9 | (5.9) | -- |
| Minority Interest Expense (Income) | (0.2) | 0.2 | (0.4) | (200) |
| Equity Loss in Unconsolidated Entities | 2.0 | 2.9 | (0.9) | (31) |
| Interest Expense | 12.9 | 11.0 | 1.9 | 17 |
| Net Loss Before Income Taxes | (91.6) | (39.8) | (51.8) | 130 |
| Income Tax Provision (Benefit) | (30.4) | 2.4 | (32.8) | -- |
| Net Loss | $ (61.2) | $ (42.2) | $ (19.0) | 45 |

Net operating revenues increased $51.6 million, or 32%. The increase was due to a $26.2 million improvement in data services (which includes Broadband transport, Data and Internet and Other), and a $25.4 million increase in switched services. Broadband transport improvement was mainly comprised of increases in circuit-lease revenue and IRU revenue, reflecting the amortization of up-front payments. Data and Internet, while only a small percentage of revenues today, grew 85%. Switched service revenue grew to $103 million, an increase of 33%. Higher switched retail revenues, which include the traffic associated with the May 10, 1999 acquisition of Coastal Telecom Limited Company and other related companies under common control ("Coastal"), were partially offset by the decrease in the switched wholesale as a result of the decision to de-emphasize this business. Switched wholesale revenues amounted to less than 40% of total switched services revenues in the first quarter of 2000, down from more than 50% in the prior year quarter. Other revenues increased $1.4 million in the current year quarter, as new revenues provided by the network integration and consulting business more than offset the loss of prior year revenue resulting from the Vyvx project.

Cost of providing services and products sold increased $21.4 million, or 20%, which primarily reflects access charges paid to LECs, transmission lease payments to other carriers and employee and hardware costs in the data-consulting arena. The increase was driven by revenue growth, and was held to a minimum as much of the year-over-year increase in data revenue and voice traffic was carried on the Company's network. Going forward, cost of service expense is expected to grow with revenue, but continue to decline as a percentage of revenue as more of the traffic is carried on the Company's network.

*Selling, general and administrative* expenses for the quarter increased $37.2 million, or 72%. Advertising increased $17 million over the first quarter of 1999 due to the national advertising campaign to launch the "Broadwing" brand. The remainder of the increase was primarily salary-related costs as the Company added approximately 700 employees from March 1999 to March 2000 mainly due to the inclusion of the Coastal and IT Consulting businesses, and costs associated with the CBLD service agreement.

An EBITDA loss of $2.2 million was $7.0 million less than in the prior year and is the result of the items discussed above.

Depreciation and amortization of $74.7 million was approximately $38 million higher, a 106% increase. This increase was the result of continued construction of the fiber-optic network and higher asset balances resulting from the revaluation of network assets and intangibles at the Merger date.

Other income declined from $5.9 million to zero due to lower interest income in the current quarter. Since excess cash is now maintained by the Parent Company, interest income is expected to be near zero in the future.

Equity losses in unconsolidated subsidiaries declined to $2.0 million in the current quarter (versus $2.9 million in the prior year quarter) as two of the three investments that contributed to the first quarter 1999 loss have since been sold. Most recently, the Company sold its interest in the Storm joint venture for $14.4 million, including approximately $6 million for a recovery of amounts receivable from partners in the joint venture.

Interest expense increased 17% in the current quarter to $12.9 million due to additional funding required to continue construction of the fiber-optic network. Interest paid to the Parent Company has partially replaced external financing in the current period, including the redemption of $404 million of the $450 million senior subordinated notes.

Income tax expense declined $32.8 million from a provision of $2.4 million in the first quarter of 1999 to a benefit of $30.4 million in the current quarter. The prior year's tax benefits were substantially offset by a valuation allowance required due to the uncertainty of the future utilization of such benefits. The current year benefits will be partially utilized against the Parent Company's current income in the post-Merger environment. Any remaining benefits will be recognized and carried forward to future periods.

As a result of the above, the Company reported a net loss of $61.2 million, 45% higher than the $42.2 million reported in the prior year period.

**Segment Information**

In accordance with Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," the Company began reporting its results by operating segment in 1998. Historically, management has segregated the operations of the Company into three operating segments; private line, switched long distance and data/Internet. The operations of the Company now comprise a single segment and are reported as such to the Chief Executive Officer of the Parent Company, who functions in the role of chief operating decision maker for the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***FINANCIAL CONDITION***

**Capital Investment, Resources and Liquidity**

Historically, the Company financed the expansion of its network through the issuance of debt and equity securities, the sale of fiber- and capacity-based IRUs, incurring bank debt and borrowing against its ownership in PSINet, Inc. Since the merger, the Company has relied on the credit facility secured by the Parent Company in order to support its cash deficit.

Cash used in operating activities of $40 million represented a $155 million reduction in comparison to the $115 million cash provided in the prior year quarter. This reduction was primarily the result of lower net income and cash payments received for IRU agreements during the current quarter.

Cash used in investing activities decreased $33 million to $81 million in the current quarter, due primarily to a $19 million decline in capital expenditures. This reduction is a function of timing, as the Company is still projecting capital expenditures of $600 million in 2000 and substantial spending thereafter to continue expansion of the fiber-optic network. The Company's remaining joint venture has not required funding since the beginning of the current year versus the $6 million expended in the prior year quarter. The Company's interest in its Storm joint venture was sold in the first quarter of 2000 for $14 million, which included approximately $6 million for a recovery of amounts receivable from partners in the joint venture. Significant further funding of joint ventures is not currently anticipated.

Cash provided by financing activities of approximately $65 million increased $69 million in the current quarter versus a $4.0 million use of cash in the prior year's quarter. A tender offer on the Company's 9% Notes required $404 million in cash that was provided by the Parent Company. Additional funding was also provided by the Parent Company in order to offset the Company's operating loss for the quarter. Approximately $12 million in cash was required in order to pay dividends on the Company's 12 ½% Junior Exchangeable Preferred Stock ("12½% Preferred"). In the prior year quarter, no cash was required to effect these dividend payments since payments were made through additional shares of the 12½% Preferred. However, these dividend payments were partially offset by the elimination of nearly $5 million in dividend payments on former preferred stock issues of the Company that were replaced by the Parent Company in the Merger.

The Company did not maintain a cash balance at March 31, 2000. The Parent Company has established a $2.1 billion credit facility in order to fund the combined company, a portion of which was used to effect the aforementioned $404 million tender offer for the 9% Notes.

The Company seeks to obtain sufficient funding for the following significant cash requirements:

- Network expansion and other capital expenditures
- Lease payments
- Working capital
- Dividends on preferred stock, and
- Debt service

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is required to make payments under existing debt and capital lease arrangements of $4.6 million, $4.1 million and $154.7 million for the remainder of 2000, 2001 and 2002 respectively. The Company is also required to pay quarterly dividends on its 12½% Preferred and cash payments for these dividends totaled $12.4 million for the current quarter. Through February 15, 2001, the Company has the option of paying dividends on the 12½% Preferred with additional shares of this preferred stock. However, its current intention is to continue paying these dividends in cash. In January 2000, $404 million of its $450 million in 9% Senior Subordinated Notes were redeemed through a tender offer due to the change of control terms in the bond indenture. Costs associated with that redemption were considered part of the acquisition accounting and were not reported as an extraordinary charge.

**Qualitative and Quantitative Disclosures about Market Risk**

Effective with the retirement of the revolving credit facility and with new debt being assumed by the Parent Company, the Company is not currently subject to market risk associated with changes in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

Significantly all of the Company's revenue is derived from domestic operations, so risk related to foreign currency exchange rates is considered minimal.

**Item 1. Legal Proceedings**

The information required by this Item is included in Note 7 of the notes to the condensed consolidated financial statements on page 10 of this quarterly report.

**Item 2. Changes in Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

On April 13, 2000, pursuant to a Notice of Action by Written Consent of Stockholder, Company security holders were informed in writing of the election of Richard G. Ellenberger as a director of the Company for a one-year term. Broadwing Inc. is the holder of all outstanding shares of common stock of the Company and has consented in writing to the election of Mr. Ellenberger as a director of the Company. The election of Mr. Ellenberger becomes effective not less than 20 days from the date of mailing of the Notice of Action of Written Consent of Stockholder.

**Item 5. Other Information**

None.

**Item 6. Exhibits and Reports on Form 8-K**

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

(a) Exhibits.

The following are filed as Exhibit(s) to Part I of this Form 10-Q:

| Exhibit Number | |
|---|---|
| 27 | Financial Data Schedule. |

(b) Reports on Form 8-K.

None.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

BROADWING COMMUNICATIONS INC.

May 12, 2000

By: /s/ Kevin W. Mooney
Kevin W. Mooney
Chief Financial Officer

Broadwing

# Broadwing Communications Inc.

## 1999 Form 10-K
## & Annual Report

Broadwing

**Dear Shareholders,**

1999 was a year of tremendous change and strategic progress for Broadwing Communications Inc. ("the Company"). Highlights included:

- **Continued development of its next-generation nationwide fiber-optic communications network, which at year-end extended for 15,700 miles and reached 162 U.S. markets.**
- **Implementation of a new business strategy that positions the Company as an integrated provider of a broad range of communications services to businesses, with a focus on businesses that intensively employ data and Internet connectivity to expand and improve their own service to customers.**
- **Completion of Gemini2000, the first intelligent, coast-to-coast, next-generation Internet backbone to carry commercial and research community traffic.**
- **Following a year-long analysis of strategic alternatives, the acquisition of the Company by a subsidiary of Cincinnati Bell Inc. (now doing business as Broadwing Inc.) to provide a solid foundation for accelerated growth and network development.**

Results for 1999 reflect the dramatic shift in the Company's market strategy and its continued substantial investments in network development.

Revenues of $667 million for 1999 approximately equaled 1998 revenues of $669 million. Sources of that revenue, however, shifted dramatically. Revenues from the Company's data business grew 40% in total, increasing from $235 million to $328 million. This was primarily the result of growth in broadband transport for private line circuits and data and Internet services. Voice revenues decreased 25% to $312 million as the Company de-emphasized its wholesale switched services business. Other revenues increased 38% to $27 million.

The Company's gross profit margin expanded modestly in 1999 to 36% of revenues from 35% of revenues in 1998.

Selling, general and administrative expenses increased sharply as the Company built the staff and systems it needs to sell and support services to a much broader customer base. That led to an earnings before interest, taxes, depreciation and amortization ("EBITDA") loss of $8.6 million in 1999, compared with EBITDA of $90.7 million in 1998.

The Company made several acquisitions, investments and strategic alliances in 1999 designed to accelerate its conversion to a retail provider and to attack new market opportunities.

At the same time, Broadwing Communications developed new products and services designed to attack the burgeoning Internet opportunities. Gemini2000 advanced the concept of high-speed Internet transport by several steps with software that identifies and efficiently routes Internet traffic across a custom-designed OC-48 network, reducing latency and paving the way for new high speed Internet-delivered services, such as Voice over Internet Protocol services and advanced interactive digital video services.

The Company solicited and held strategic discussions with several companies early in 1999, leading to its merger with a subsidiary of Cincinnati Bell in November 1999. That transaction provided substantial financial and operating resources to the Company, vastly improving its competitive position and financial strength.

Finally, the merger has enhanced the Company's relationships with key customers and potential customers and allowed us to strengthen our senior management team. Rick Pontin, a former senior executive of Nextel and MCI who was President and Chief Operating Officer of Cincinnati Bell Telephone Company, became president of the Company in November 1999.

The Company's strategic direction for 2000 is to continue the development of its fiber-optic network, expand and develop its sales force to aggressively attack opportunities with target-market U.S. businesses and to selectively develop new capabilities to better serve those customers.

Although our market environment is extremely competitive and rapidly changing, we believe 2000 will be a turning point that marks the beginning of a new era of growth and financial success for the Company.

Richard G. Ellenberger

Richard G. Ellenberger
Chief Executive Officer

**BROADWING COMMUNICATIONS INC.**
**Combined Annual Report and Form 10-K**
**For the Year Ended December 31, 1999**

The audited balance sheets as of the end of the two most recent fiscal years, the audited statements of income and cash flows for each of the three most recent fiscal years and the supplementary financial information is located on pages 26-39 in the section of this report captioned "Form 10-K, Part II, Item 8."

Information regarding the changes in and disagreements with accountants is located on page 51 in the section of this report captioned "Form 10-K, Part II, Item 9."

Selected financial data is located on page 9 in the section of this report captioned "Form 10-K, Part II, Item 6."

Management's Discussion and Analysis of Financial Condition and Results of Operations is located on pages 10-20 in the section of this report captioned "Form 10-K, Part II, Item 7."

Quantitative and Qualitative Disclosures About Market Risk is located on page 20 in the section of this report captioned "Form 10-K, Part II, Item 7A."

Information regarding the business is located on pages 4-5 in the section of this report captioned "Form 10-K, Part I, Item 1."

The identification of each director and executive officer and information regarding the principal occupation or employment of each such person and the name and principal business of any organization by which such person is located on pages 52-53 in the section of this report captioned "Form 10-K, Part III, Item 10."

Information regarding the market price of and dividends on the registrant's common equity and related security holder matters is located on page 8 in the section of this report captioned "Form 10-K, Part II, Item 5."

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 1999**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________.**

**Commission File Number 0-20803**

# BROADWING COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **74-2644120** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1122 Capital of Texas Highway South, Austin, Texas 78746-6426**

(Registrant's telephone number, including area code): **(512) 328-1112**

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| 12½% Series B Junior Exchangeable Preferred Stock Due 2009 (par value $0.01 per share) | New York Stock Exchange |

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

All outstanding shares of the Registrant's common stock are owned by Cincinnati Bell Inc. dba Broadwing Inc.

The aggregate market value of the Preferred Stock of the Registrant held by non-affiliates of the Registrant on March 20, 2000 based on the closing price of the Preferred Stock on the New York Stock Exchange on such date, was $435,619,800.

The number of shares of Preferred Stock outstanding was 395,120 on March 20, 2000.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Information Statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 1999.

BROADWING COMMUNICATIONS INC.

FORM 10-K
For the Fiscal Year Ended December 31, 1999

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**Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement**

## FORWARD-LOOKING STATEMENTS

"Forward-looking statements" have been included throughout this document. These statements describe the Company's attempt to predict future events. The words "believe," "anticipate," "expect," and similar expressions are used to identify forward-looking statements. You should be aware that these forward-looking statements are subject to a number of risks, assumptions, and uncertainties, such as:

- Risks associated with our capital requirements and existing debt, including the need to provide working capital for operations;
- Risks associated with increasing competition in the telecommunications industry, including industry over-capacity and declining prices;
- Changes in laws and regulations that govern the telecommunications industry; and
- Risks related to continuing our network expansion without delays including the need to obtain permits and rights-of-way.

This list is only an example of some of the risks that may affect the forward-looking statements. If any of these risks or uncertainties materialize (or if they fail to materialize), or if the underlying assumptions are incorrect, then actual results may differ materially from those projected in the forward-looking statements. The Company undertakes no obligation to revise these statements to reflect future events or circumstances.

## ITEM 1. BUSINESS

### Overview

On November 9, 1999, Cincinnati Bell Inc. ("Cincinnati Bell", "Broadwing" or "the Parent Company") acquired IXC Communications, Inc. through the merger of IXC and a wholly owned subsidiary of Cincinnati Bell ("the Merger"), with IXC surviving as a wholly owned subsidiary of CBI. IXC has since been renamed as Broadwing Communications Inc. and the Parent Company is now doing business as Broadwing Inc. A formal proposal to change the name of the Parent Company to Broadwing Inc. is subject to a vote of Cincinnati Bell shareholders on April 19, 2000.

As a result of the merger, all of the then outstanding shares of IXC common stock were converted in a tax-free exchange into approximately 68.5 million shares of Cincinnati Bell common stock, based on a fixed exchange ratio of 2.0976 shares of Cincinnati Bell stock for each share of IXC common stock. In addition, IXC's 7¼% Convertible Preferred Stock and IXC's Depositary Shares representing 1/20$^{th}$ of a share of IXC's 6¾% Convertible Preferred Stock were converted into Cincinnati Bell 7¼% Convertible Preferred Stock and Cincinnati Bell Depositary Shares representing 1/20$^{th}$ of a share of Cincinnati Bell 6¾% Convertible Preferred Stock, respectively. Approximately five million shares of IXC common stock that were owned by Cincinnati Bell at the merger date are being accounted for as if retired and are not included in the aforementioned total. All of the outstanding options, warrants and other equity rights in IXC were converted into options, warrants and the rights to acquire Cincinnati Bell common shares according to the same terms and conditions as the IXC options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.0976.

Broadwing Communications Inc. and its subsidiaries (collectively referred to as "IXC," "Broadwing Communications" or "the Company") is an Austin, Texas based provider of telecommunications services. The Company utilizes an advanced network of approximately 16,000 miles of fiber-optic transmission facilities to provide private line, switched access, data transport, Internet-based and other services to end user customers. Additionally, network capacity is leased (in the form of indefeasible right-to-use agreements) to other telecommunications providers and to Internet service providers.

Data services include private line services and data and Internet services. Private line services represent the long-haul transmission of voice, data and Internet traffic over dedicated circuits and are provided under bulk contracts with customers. Additionally, the private line category includes revenues resulting from indefeasible right-to-use ("IRU") agreements. IRU agreements typically cover a fixed period of time and represent the lease of capacity or network fibers. The Company currently maintains substantial excess network capacity and believes that the sale of IRU agreements has no negative impact on its ability to carry traffic for its wholesale and retail customers. IRU agreements are a standard practice among the Company's competitors. Data and Internet services represent the sale of high-speed data transport services such as frame relay, Internet access, and Internet-based services such as Web hosting and Web server collocation to customers. These revenues constituted a relatively small (3.5%) portion of the Company's 1999 revenues. However, the Company envisions a growing market for these types of services and it expects that the data and Internet category will provide a greater share of the Company's revenues in the future.

Voice services represent billed minutes per use for long distance switched services, consisting of sales to both retail and wholesale customers. The Company currently believes that the best opportunity for switched services margin improvement lies with its retail customers. Accordingly, the Company is de-emphasizing the sale of switched services to wholesale customers. Those revenues declined 42.5% in 1999 versus 1998.

The centerpiece of the Company's assets is its next-generation, fiber-optic network. This network is not yet fully constructed and will require significant expenditures to complete and to maintain. The construction of this network relies on readily available materials and supplies from an established group of vendors and relies on the ability to secure and retain land and rights-of-way for the location of network facilities. The Company may incur significant future expenditures in order to remove these facilities upon expiration of these rights-of-way agreements. In order to satisfy the Company's contractual commitments with respect to IRU agreements, approximately 1,700 fiber route miles must still be constructed at an estimated cost of $82 million.

Since the Company's revenues are conditioned primarily on carrying voice and data traffic and the ratable recognition of contract revenues, its operations follow no particular seasonal pattern. However, the Company does receive a significant portion of its revenues from a relatively small group of interexchange carriers that are capable of constructing their own network facilities.

Prices and rates for the Company's service offerings are primarily established through contractual agreements. Accordingly, the Company is influenced by the marketplace conditions such as the number of competitors, availability of comparable service offerings and the amount of fiber network capacity available from these competitors. The Company is confident that it is able to match these competitors on the basis of technology and is currently pursuing dramatic improvement with regard to critical processes, systems and the execution of its business strategy.

**Employees**

At December 31, 1999, the Company employed approximately 2,200 people, of whom 1,031 provided operational and technical services, 624 provided engineering services and the balance were engaged in administration and marketing. These employees are not represented by labor unions, and the Company considers employees relations to be good. The Company has not experienced any work stoppages.

**Risk Factors**

**Increased Competition Could Compromise Profitability and Cash Flow**

The Company faces competition from well-managed and well-financed companies such as Level 3 Communications, Qwest Communications International, Global Crossings, and Williams Communications. These companies have similarly equipped fiber networks, are well-financed, and have enjoyed certain competitive advantages over the Company in the past. The Company's failure to successfully compete against these competitors could compromise its ability to continue construction of its network, which would have a material adverse effect on its business, financial condition and results of operations.

Competition from other national providers could also impact the Company. The current and planned fiber network capacity of these and the aforementioned competitors could result in decreasing prices even as the demand for high-bandwidth services increases. Most of these competitors have announced plans to expand, or are currently in the process of expanding, their networks. Increased network capacity and traffic optimization could place downward pressure on prices, thereby making it difficult for the Company to maintain profit margins.

**Insufficiency of Cash Flow for Planned Investing and Financing Activities Will Result in a Substantial Amount of Indebtedness**

The Company is committed to the expansion of its nationwide fiber-optic network, and the continued construction of this network will result in a significant amount of capital expenditures in the near term. These initiatives will require a considerable amount of funding in the future, aggregating to approximately $1.3 billion over the next three years. Since the Company does not expect to generate sufficient cash flow to provide for these investing activities, it is dependent on the Parent Company for funding. In order to provide for these cash requirements, the Parent Company has obtained a

$2.1 billion credit facility from a group of 24 banking and non-banking institutions. The Parent Company anticipates that it will substantially increase its indebtedness in 2000 under this credit facility in order to provide for net operating losses, to fund its capital investment program, and to refinance existing debt.

The Company will not be able to provide for its anticipated growth without the Parent Company borrowing from this credit facility. The ability to borrow from this credit facility is predicated on the Parent Company's ability to satisfy certain debt covenants that have been negotiated with lenders. Failure to satisfy these debt covenants could severely constrain the Parent Company's ability to borrow from the credit facility without receiving a waiver from these lenders. If the Company was unable to continue the construction of its fiber-optic network, current and potential customers could be lost to competitors, which would have a material adverse effect on its business, financial condition and results of operations.

**Network Expansion is Dependent on Acquiring and Maintaining Rights-of-Way and Permits**

The expansion of the Company's network also depends on acquiring rights-of-way and required permits from railroads, utilities and governmental authorities on satisfactory terms and conditions and on financing such expansion. In addition, after the network is completed and required rights and permits are obtained, the Company cannot guarantee that it will be able to maintain all of the existing rights and permits. If the Company were to fail to obtain rights and permits or were to lose a substantial number of rights and permits, it would have a material adverse effect on its business, financial condition and results of operations.

**Regulatory Initiatives May Impact the Company's Profitability**

The Company, along with another of Parent Company's subsidiaries, is subject to regulatory oversight of varying degrees at the state and federal levels. Regulatory initiatives that would put either subsidiary at a competitive disadvantage or mandate lower rates for its services could result in lower overall profitability and cash flow for the Parent Company, and thereby increase its reliance on borrowed funds. This could potentially compromise the expansion of the Company's national fiber-optic network, which would have a material adverse effect on its business, financial condition and results of operations.

## ITEM 2. PROPERTIES

The principal properties of the Company consist of: (i) its nationwide fiber optic network completed or under construction, and (ii) the coast-to-coast microwave system consisting of microwave transmitters, receivers, towers and antennae, auxiliary power equipment, transportation equipment, equipment shelters and miscellaneous components. Generally, fiber optic system and microwave relay system components are standard commercial products available from a number of suppliers.

The Company's principal offices are located in Austin, Texas and consist of three separate leased offices. The leases for these facilities expire at different times varying from July 2002 to July 2005. The Company also subleases former office space in two other locations in Austin. The sublease payments satisfy the monthly rental obligations under the original leases. The Company also leases approximately 55 other offices located throughout the United States for sales and administration of its switched long distance and data/Internet businesses.

The Company leases sites for its switches in various metropolitan locations under lease agreements that expire between 2000 and 2005. Five of the Company's 13 voice switches are leased under capital leases from DSC Finance Corporation over a five-year term. In order to build the network, the Company has entered into approximately 387 site, conduit, right-of-way and storage leases. These sites are located across the United States, with lease terms ranging from 5 to 25 years.

The gross investment in fiber-optic transmission facilities and other property and equipment, in millions of dollars, at December 31, 1999 and 1998 was as follows:

| | Company 1999 | Predecessor 1998 |
|---|---|---|
| Land and rights of way | $ 150.3 | $ 4.0 |
| Buildings and leasehold improvements | 253.8 | 39.0 |
| Transmission system | 972.7 | 905.7 |
| Furniture, fixtures, vehicles and other | 129.7 | 12.2 |
| Fiber usage rights | 40.6 | 98.9 |
| Construction in process | 207.1 | 133.9 |
| Total | $1,754.2 | $1,193.7 |

**ITEM 3. LEGAL PROCEEDINGS**

The information required by this item is included in Note 14 of the Notes to Financial Statements that are contained in Item 8, "Financial Statements and Supplementary Data".

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On October 29, 1999, the Company held a special meeting of its stockholders. The stockholders of the Company approved two proposals. The stockholders approved a proposal to adopt a merger agreement among Cincinnati Bell Inc., Ivory Merger, Inc. (a subsidiary of Cincinnati Bell Inc.), and the Company pursuant to which the Company became a subsidiary of Cincinnati Bell and each outstanding share of the Company common stock, excluding any shares of stock held by the parties to the merger agreement, was converted into the right to receive 2.0976 common shares of Cincinnati Bell common stock. This proposal was approved, with 29,277,958 common shares (99.8%) voting to adopt the merger agreement, 56,826 common shares (0.2%) voting against adoption of the merger agreement, and 8,855 common shares abstaining from and broker non-votes in connection with the proposal. The stockholders also approved a proposal to adopt an agreement governing the Company's internal reorganization between the Company and a wholly owned subsidiary of the Company, involving a merger of the Company and a wholly owned subsidiary of the Company, which took place immediately before the merger of the Company and Cincinnati Bell Inc. This proposal was also approved, with 29,263,888 common shares (99.8%) voting to approve the internal reorganization, 48,091 common shares (0.2%) voting against approval of the internal reorganization, and 31,660 common shares abstaining from and broker non-votes in connection with the proposal. These were the only items submitted for a vote of security holders during this special meeting.

In December 1999, the Company furnished an Information Statement to the stockholders of the Company pursuant to Rule 14c-2 under the Securities Exchange Act of 1934 in connection with an amendment (the "Amendment') to the Restated Certificate of Incorporation, as amended (the "Restated Certificate"), of the Company to change the name of the Company from IXC Communications, Inc. to Broadwing Communications Inc. The Amendment was approved by the Board of Directors of the Company and by Cincinnati Bell, the holder of all of the outstanding shares of common stock of the Company, by written consent in lieu of a meeting pursuant to Section 228(a) of the Delaware General Corporation Law (the "DGCL"). The Information Statement also served as notice to stockholders of an action taken by less than unanimous written consent as required by Section 228(d) of the DGCL. The Information Statement was mailed on or about December 20, 1999 to persons who were stockholders of record on December 2, 1999.

# PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### Market Information

At December 31, 1999, all of the Company's common stock was held by Cincinnati Bell. As such, there is no established public trading market for this common stock.

### Dividend Policy

The Company has never paid any cash dividends on its common stock. Dividends on the Company's 12½% Junior Exchangeable Preferred Stock (the "Preferred Stock") are payable quarterly at the annual rate of 12½% of the aggregate liquidation preference (which amounted to $401.7 million at December 31, 1999, including accrued dividends of approximately $6.6 million). Previously, the Company had elected to pay dividends in additional shares of the Preferred Stock. Effective February 15, 2000, the Company elected to switch to a cash payment option for the Preferred Stock rather than issue additional shares of the Preferred Stock.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial data. The historical financial data has been derived from the audited Consolidated Financial Statements. The selected historical financial data set forth below is qualified in its entirety by, and should be read in conjunction with, Item 1, "Business"; Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and our Consolidated Financial Statements, related notes thereto and other financial information included herein.

| | Predecessor | | | | | Company |
|---|---|---|---|---|---|---|
| | Year Ended December 31, | | | | Period from Jan. 1 to Nov. 9 | Period from Nov. 10 to Dec. 31 |
| | 1995 | 1996 | 1997 | 1998 | 1999 | 1999 |
| | (Dollars in millions) | | | | | |
| **Statement of Operations Data(1):** | | | | | | |
| Net operating revenue | $154.7 | $282.0 | $521.6 | $ 668.6 | $ 568.2 | $ 99.0 |
| Operating income (loss) | 3.4 | (19.9) | (49.5) | (30.8) | (214.1) | (46.5) |
| Loss before extraordinary item | (2.4) | (44.2) | (99.2) | (95.5) | (281.0) | (38.9) |
| Extraordinary gain (loss)(2) | (1.7) | — | | (67.0) | | (6.6) |
| Net income (loss) | (4.2) | (44.2) | (99.2) | (162.5) | (281.0) | (45.5) |
| Other Financial Data(3): | | | | | | |
| EBITDA | $ 22.5 | $ 16.0 | $ 23.2 | $ 90.7 | $ (8.8) | $ 0.2 |

| | Predecessor | | | | Company |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| **Balance Sheet Data(1):** | | | | | |
| Cash and cash equivalents | $ 8.4 | $ 64.1 | $155.9 | $ 264.8 | $ 56.2 |
| Total assets | 365.7 | 485.3 | 968.9 | 1,748.2 | 5,147.2 |
| Total debt and capital lease obligations | 302.8 | 305.6 | 320.7 | 693.0 | 603.3 |
| Redeemable preferred stock | — | — | 403.4 | 447.9 | 418.2 |
| Stockholders' equity (deficit) | 23.5 | 75.3 | (18.7) | (72.5) | 2,463.6 |

(1) On November 9, 1999 (the "merger date"), the Company completed a merger with a wholly owned subsidiary of Cincinnati Bell. This merger was accounted for as a purchase business combination and, accordingly, purchase accounting adjustments, including goodwill, have been pushed down and are reflected in the Company's financial statements subsequent to the merger date. The financial statements for periods before the merger date were prepared using the Company's historical basis of accounting and are designated as "Predecessor." The comparability of operating results for the Predecessor periods and the period from November 10, 1999 to December 31, 1999 are affected by the purchase accounting adjustments.

(2) Extraordinary losses of $1.7 million in 1995, $67.0 million in 1998 and $6.6 million in 1999 relate to the early extinguishment of debt and were recorded net of tax.

(3) EBITDA represents operating income before depreciation, amortization, merger and other infrequent costs, and restructuring expenses. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, and may not be comparable with EBITDA as defined by other companies.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report and the related consolidated financial statements and accompanying notes contain 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to review or update these forward-looking statements or to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

As previously discussed, a wholly owned subsidiary of Cincinnati Bell merged with the Company as of November 9, 1999 and the Company became a wholly-owned subsidiary of Cincinnati Bell. For purposes of the following discussion of results of operations, the financial information for the Predecessor period has been combined with the financial information for the period from November 10, 1999 to December 31, 1999. The comparability of operating results for the Predecessor periods and the period encompassing push down accounting are affected by the purchase accounting adjustments.

**Consolidated Overview**

Broadwing Communications Inc. ("the Company") is a leading provider of telecommunications transmission and switched long-distance services with a coast-to-coast fiber optic network containing approximately 16,000 fiber route miles at December 31, 1999. The Company utilizes its advanced fiber-optic network to provide data and voice services. Data services consist of private line services, indefeasible right-to-use ("IRU") agreements, data and Internet services. Voice services represents long distance switched services provided to resellers and retail business customers. Additions to the network continue to be constructed. The Company provides two main products through its network, using both wholesale and retail channels. Data products include: the lease of dedicated circuits that customers use to transmit data and voice, providing frame relay and ATM-based data services, Web hosting and co-location of Web servers. Long distance switched services represents the transmission of voice traffic over the network through the Company's switches. In addition, the Company reported other revenues of $27.3 million in 1999 and $19.8 million in 1998 related to sales of options in fibers that were jointly owned with another carrier. This revenue was reported net of the basis in those options.

The Data business represented 49.1%, 35.1% and 31.1% of the Company's revenue in 1999, 1998 and 1997, respectively. The Data business is comprised of private line services and data/Internet services. In the private line business, service agreements with customers are generally IRUs for existing capacity or for dark fiber (where up-front payments are received), or long-term leases of capacity which provide for monthly payment due in advance on a fixed-rate per circuit basis. The contracts are priced according to capacity, length of circuit and the term of the contract. Leasing private lines is increasingly competitive as other carriers build and expand their networks. The data and Internet business includes frame relay and ATM-based services, Web hosting and Web server collocation services. The largest component of cost for Data products is the expense of leasing off-net capacity from other carriers to meet specific customer needs, which cannot currently be met on the Company's network due to capacity or geographic constraints. The Company also enters into exchange agreements with other carriers to exchange either capacity or dark fiber usage. Some of the original exchanges of fiber for capacity were accounted for at the fair value of the capacity exchanged, resulting in non-cash revenue and expense in equal amounts over the term of the agreements. From 1997 through 1999, the Company has reported $14.0 million to $19.1 million in revenue and expense relating to these original exchange agreements.

Voice services represented approximately 46.8%, 62.0% and 68.9% of total revenue in 1999, 1998 and 1997, respectively. Long distance switched service is sold on a per-call basis with the customer being charged by the minute of use ("MOU"). These services are sold on a wholesale basis to other resellers and on a retail basis to small and medium size businesses. Payment for the services is due monthly after services are rendered. Rates vary with the duration of the call, day and time of day, and whether the call is intrastate, interstate or international in its destination. Historically, rates have declined due to competition and reduced variable access costs. The main source of costs for long distance switched services is access costs from local exchange carriers ("LEC" or "LECs") and other providers and the expense of leasing off-net capacity from other carriers. The LEC access charges have both a usage and a fixed-rate component and vary according to the local access transport area in which calls originate and terminate. The usage portion of the costs has decreased, driven by mandated reductions by the Federal Communications Commission ("FCC"). Long distance network leasing costs are incurred to carry traffic where the Company's network does not currently reach. These costs are expected to decline as existing traffic is transferred from acquired companies onto the Company's network. However, since the Company cannot feasibly expand its network to all areas of the country, these costs will not be fully eliminated. The long distance switched services business is highly competitive, resulting in a continuing reduction of wholesale and retail rates.

**Merger with Cincinnati Bell Inc. and Restructuring and Other**

On November 9, 1999, the Company merged with a wholly-owned subsidiary of Cincinnati Bell and became a wholly-owned subsidiary of Cincinnati Bell. The Merger was accounted for as a purchase business combination and, accordingly, purchase accounting adjustments including goodwill were pushed down and reflected in the Company's financial statements after November 9, 1999. The financial statements for periods before November 9, 1999 were prepared using IXC's historical basis of accounting and are designated as "Predecessor." The comparability of operating results before and after the Merger are affected by the purchase accounting adjustments.

Cincinnati Bell's cost to acquire the Company has been preliminarily allocated to the assets and liabilities assumed according to their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized. Property, plant and equipment was recorded at fair market value based on preliminary appraisal results, and useful lives were assigned to the assets. The excess of cost over the fair value assigned to the net assets acquired was recorded as goodwill and is being amortized using the straight-line method over 30 years.

Included in the allocation of the cost to acquire the Company are restructuring costs associated with initiatives to integrate operations of the Company with its Parent Company. The restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits related to 263 employees of the Company. As of December 31, 1999, approximately 1% of the employee separations had been completed for a total cash expenditure of $0.2 million. The restructuring plans also included costs associated with the closure of a variety of technical and customer support facilities, the decommissioning of certain switching equipment, and the termination of contracts with vendors. The Company expects that most of these restructuring actions will be complete by December 31, 2000, and will result in cash outlays of $7.5 million in 2000.

**Acquisition Transactions**

Prior to the Merger, the Company made several acquisitions that resulted in goodwill and other intangibles being recorded in the Company's financial statements. Effective with this Merger, all previously acquired goodwill and other intangibles were preliminarily revalued as part of purchase accounting.

During the period from March to June 1998, the Company acquired four Internet businesses to expand the data and Internet product offerings: (1) Data Place, a supplier of complete network systems integration solutions to businesses: (2) NTR Corporation, a company that offers custom back office support to wholesale customers and Internet dial-up services to retail customers: (3) NEI, an Internet consulting company: and (4) SMARTNAP, a company that provides aggregated Internet access, collocation of Web servers, routers and end-site managed connectivity. None of these acquisitions are considered material to the Company's revenue or net income.

On May 10, 1999, the Company acquired a retail long distance reseller, Coastal Telecom Limited Company, and other related companies under common control ("Coastal"), for a purchase price of approximately $110 million. This acquisition was treated as a purchase for accounting purposes and, as such, results of operations for the Company include Coastal after the acquisition date. This acquisition is described more fully in Note 3 of the Notes to Financial Statements that are contained in Item 8 of this report.

Further discussion of the Company's acquisition of Eclipse and the acquisition of the Company by Broadwing follows in Note 3 and Note 2, respectively, of the Notes to Financial Statements that are contained in Item 8 of this report.

**Investments**

*Marca-Tel*

The Company has an indirect investment equal to 30.0% of Marca-Tel S.A. de C.V. (Marca-Tel) resulting from its ownership of 65.4% of Progress International, LLC ("Progress") which, in turn, owns 45.8% of Marca-Tel. The remaining 54.2% of Marca-Tel is owned by a Mexican individual, Formento Radio Beep, S.A. de C.V. ("Radio Beep") and Siemens S.A. de C.V ("Siemens"). The other owner of Progress is Westel International, Inc. ("Westel"). Beginning with the fourth quarter of 1998, the investment in Marca-Tel was reduced to zero, as the amount of cumulative equity losses recognized was equal to the amount of cash invested. Due to the zero investment balance, no further losses have been recorded relating to Marca-Tel. Recognition of losses relating to Marca-Tel will be suspended unless and until that company begins reporting net income and all of the suspended losses have been redeemed. This investment was accounted for using the equity method.

*Storm*

In 1997, the Company formed Storm Telecommunications, Ltd. ("Storm") as a joint venture with Telenor Carrier Services AS ("Telenor"), the Norwegian national telephone company, to provide telecommunication services to carriers and resellers in Europe. The joint venture was owned 40% by the Company, 40% by Telenor and 20% by Clarion Resources Communications Corporation, a U.S.-based telecommunications company in which Telenor owns a controlling interest. This investment was accounted for using the equity method. During the third quarter of 1999, the Company determined that it wanted to exit this joint venture to concentrate on its domestic business. In February 2000, the Company sold its investment in Storm, plus amounts it was due relating to the joint venture, for $14.4 million.

*Applied Theory*

In May 1998, the Company acquired a 34% investment in Applied Theory Communications, Inc. ("Applied Theory"), a New York-based Internet service provider. In 1998 and 1999, the Company invested $65 million in Applied Theory. In 1999, Applied Theory made an initial public offering, diluting the Company's ownership percentage. After acquiring more shares of common stock in 1999, the Company now has a 27.6% investment in Applied Theory. This investment is accounted for using the equity method.

*Unidial*

In December 1997, the Company formed Unidial Communications Services, LLC, ("Unidial"), a joint venture with Unidial, Inc. to sell Unidial products over the Company's network. The Company sold its investment in this joint venture to Unidial in July 1999. During 1999, the Company recorded equity losses of $10.9 million relating to its portion of the net losses of the joint venture and the loss from the sale of its investment in the joint venture. This investment was accounted for using the equity method.

*DCI Telecommunications, Inc.*

In November 1998, the Company entered into an agreement to acquire common stock of DCI Telecommunications, Inc. ("DCI") as consideration for payment of amounts due from one of the Company's customers that was also a vendor of DCI. Due to a decline in the financial condition of DCI that is considered permanent, the Company wrote down its investment in DCI to $1.6 million. The Company owns less than 20% of DCI and does not have significant influence over its operations.

*PSINet Transaction*

In February 1998, the Company consummated an agreement to provide PSINet with an IRU for 10,000 miles of OC-48 transmission capacity on our network over a 20-year period in exchange for approximately 20.4 million shares of PSINet common stock (including an adjustment for PSINet's 2-for-1 stock split in February 2000) with a guaranteed value of $240 million within two years of providing PSINet with the capacity covered in the agreement. In January 1999, the value of the PSINet stock exceeded the guaranteed $240 million threshold, thereby eliminating PSINet's obligation to make additional payments to us. Upon delivery of the transmission capacity to PSINet, the Company will begin to receive a maintenance fee that is expected to increase to approximately $11.5 million per year once the full capacity is delivered. The Company initially accounted for its investment in PSINet using the equity method and recorded its share of PSINet's operating losses. The Company began accounting for this investment on the cost basis at the beginning of the third quarter of 1998 when it was determined that the Company could no longer exercise significant influence over PSINet's operating and financial policies. This determination was made because the Company's equity interest in PSINet was below 20% and it no longer had a representative with a seat on PSINet's board of directors.

*Fiber Sales and IRUs*

The Company has entered into various agreements to sell fiber and capacity usage rights. Sales of these rights are recorded as unearned revenue and are included in other current and other non-current liabilities in the accompanying consolidated balance sheets, when the fiber or capacity is accepted by the customer. Revenue is recognized over the terms of the related agreements. In 1999, the Company received approximately $262.5 million in cash these sales but recognized only $12.2 million as revenue.

*Financing Transactions*

Since 1996, when the Company's common stock was initially offered to the public, it has engaged in the following financing transactions (dollars in millions):

| Date | Amount | Description |
|---|---|---|
| July, 1996 | $ 95.8 | Sale of common stock |
| April, 1997 | $100.0 | Sale of 7¼% convertible preferred stock |
| July, 1997 | $ 28.0 | NTFC credit facility |
| August, 1997 | $300.0 | Sale of 12½% exchangeable preferred stock |
| April and May, 1998 | $155.0 | Sale of 6¾% convertible preferred stock |
| April, 1998 | $450.0 | Sale of 9% senior subordinated notes |
| October, 1998 | $600.0 | Secured $200 million term loan (with $150 million revolving credit facility and $250 million uncommitted special purpose loan facility) |
| June and July, 1999 | $111.8 | Forward sale of six million shares of PSINet common stock |
| May, 1999 | $ 40.0 | Assume $10 million notes as part of merger with Coastal and enter into $30 million credit facility |
| September, 1999 | $310.0 | $310 million credit facility guaranteed by Cincinnati Bell |

Of the indebtedness amounts described above, only the $450 million in 9% senior subordinated notes, the 12½% exchangeable preferred stock, the common stock owned by the Parent Company, the forward sale of the PSINet common stock and a portion of the note assumed in the merger with Coastal remain outstanding as of the date of this report. In January 2000, $404 million of the 9% senior subordinated notes were redeemed through a tender offer due to the change of control terms in the bond indenture.

**Results of Operations**

**1999 Compared to 1998**

*Revenues*

Revenues of $667.2 million were nearly equivalent to the $668.6 million in revenues recorded in the prior year. Voice revenues decreased 25% to $102.3 million, due to a 26% decrease in billed minutes of use resulting from the Company's strategic decision to de-emphasize the wholesale switched services business. This was nearly offset by an increase in Data revenues, increasing 40% to $93.4 million in the current year. Within the Data category, the 35% increase in private line revenues, or $78.9 million, was largely the result of additional capacity available for use on the Company's network, including a $17.6 million increase in service and maintenance revenue associated with indefeasible right to use (IRU) agreements. Data and Internet revenue increased $14.5 million, or 161%, to $23.5 million due largely to revenues contributed by the Internet companies acquired by the Company in 1998. Other revenues of $27.3 million represented a 38% increase and resulted from the sale of options on fiber usage rights that are jointly owned with another carrier.

*Costs and Expenses*

Cost of providing services declined $6.2 million, or 1%, due mainly to a $23 million decrease in access costs resulting from the decision to de-emphasize the wholesale switched services business and increased usage of the Company's own network in order to carry voice and data traffic. This was partially offset by a $17 million, or 16%, increase in transmission lease expense. Consequently, the Data business experienced a 3.3 percentage point improvement in its gross margin due to additional private line revenue being carried on the Company's network.

Selling, general and administrative expenses increased $104.2 million, or 72%, to $248.7 million in 1999. This increase was due in part to increased staffing required to support, sell and market the expanded fiber-optic network and the addition of employees associated with the Coastal acquisition. Total employee headcount increased by nearly 600 in 1999, 60% of which were for sales positions and 40% of which were for network operations.

The EBITDA loss of $8.6 million in 1999 represented a $99.3 million decline as compared to the prior year, and was attributable to the increase in selling, general and administrative expenses described above.

Depreciation and amortization costs of $194.4 million represented an $80.8 million increase, a 71% increase from the previous year. This increase was attributable to the expansion of the fiber-optic network, with more than $600 million in fixed assets being added in 1999. Furthermore, the write-up of the Company's assets as part of purchase accounting in the merger with Cincinnati Bell resulted in amortization expense being applied to more than $2.7 billion in goodwill and other intangibles recorded at the time of the merger.

Restructuring expense increased $19.8 million over the prior year. In the second quarter of 1999, the Company recorded a charge of approximately $13.1 million to exit certain operations in the switched wholesale business. The restructuring charge consisted of severance and various other costs associated with workforce reduction, network decommissioning, and various terminations. The workforce reduction of 94 people included employees contributing to the sales function and employees contributing to the network operations. These restructuring activities are expected to be substantially completed by June 30, 2000. Due to the Merger, it was determined that the Company would need the switches that had been marked for decommissioning in the second quarter's restructuring charge. Additionally, it was determined that the total period contemplated for lease payments relating to an abandoned office would not be required. Consequently, the second quarter's restructuring charge was reduced by $1.2 million during the third quarter related to decommissioning the switches and $0.4 million related to a reduction in the lease pay off requirement.

In the third quarter of 1999, the Company recorded a charge of approximately $8.3 million relating to the restructuring of the organization and exiting certain foreign operations. The plan was developed by the previous Chief Executive Officer after reviewing the Company's operations. The workforce reduction of 15 employees included management, administrative and foreign sales personnel. The employees were notified of this program during July and August of 1999. These restructuring activities are expected to be substantially completed by September 30, 2000.

Interest income declined 33% to $9.6 million in 1999. This reduction was due to lower levels of cash on hand during 1999 as spending to build the network depleted the funding received in the prior year.

Interest expense of $43.7 million represented a $12 million, or 38%, increase over the prior year due to higher average debt levels carried by the Company until the Merger date (at the time of the Merger, debt and capitalized leases were $282.5 million higher than at December 31, 1998).

Equity losses from unconsolidated subsidiaries declined 34% to $21.8 million in 1999 as losses incurred in 1998 for Marca-Tel and PSINet did not occur in 1999. This reduction was partially offset by the losses and write off of the Company's investment in the Unidial joint venture. The Company's investment in Marca-Tel was written down to zero in 1998 with no further significant additional funding required; consequently, no losses were recorded on this investment in 1999. The Company began accounting for its investment in PSINet as an available-for-sale marketable security at the beginning of the third quarter of 1998 when it was determined that the Company could no longer exercise significant influence over PSINet's operating and financial policies. This determination was made because the Company's equity interest in PSINet was below 20% and it no longer had a representative with a seat on PSINet's board of directors.

Other income and expense resulted in a loss of $12.8 million, a $13.0 million decrease from the prior year. This was attributable to a $12.8 million write down in the fair market value of the Company's investment in DCI in the second quarter of 1999.

Extraordinary items related to the early extinguishment of debt affected results for each year. In 1999, costs related to the early extinguishment of the Company's debt because of the merger resulted in a $6.6 million charge, net of taxes. In 1998, the Company recorded an after-tax extraordinary charge of $67.0 million relating to the April 1998 redemption of its 12½% Senior Notes due 2005.

**Results of Operations**

**1998 Compared with 1997**

*Revenues*

Net operating revenue for 1998 increased 28.2% to $668.6 million from $521.6 million in 1997. This improvement came mainly from increases in private line revenue and switched long distance revenue. The private line improvement of $63.8 million was driven by the activation of services relating to an agreement with a significant Internet service provider. The long distance switched services revenue improvement was driven from both retail and wholesale customers. With respect to switched wholesale, minutes of use increased 33% from three billion in 1997 to four billion in 1998. The remaining revenue improvement came partially from the Data business largely due to the acquisition of the four Internet businesses in mid-1998 and partially from the sale of options on fiber usage rights that are jointly owned with another carrier.

*Costs and Expenses*

Cost of providing services principally consists of access charges paid to LECs and transmission lease costs to transmit calls in areas not covered by our network. These costs increased $37.6 million, or 9.5%, to $433.3 million in 1998. This increase is comprised of higher transmission lease expenses due to the Company's leasing of dedicated circuits necessary in order to accommodate customer contracts. The transmission lease expense increase represents 28.3% of the total increase in this category. Higher access costs contributed $4.4 million of the overall increase in this category and was the result of the increased minutes of use in 1998. The final $4.9 million of the increase is due to data and Internet costs related to the higher revenue in 1998. Our gross margin, excluding the $19.8 million in other revenue, improved to 33.2% in 1998 from 24.1% in 1997. This improvement is due to the large increase in private line revenue, largely carried on our network, and to the FCC-mandated decreases in access costs that occurred in mid-1997 through mid-1998.

Selling, general and administrative expenses increased 40.7% from 1997 to $144.5 million in 1998. This increase is due to incremental staffing required to support the larger network and revenue base, particularly in retail operations. The Company experienced significant increases in expanding its information technology infrastructure and retail sales infrastructure.

EBITDA of $90.7 million in 1998 represented a $67.5 million improvement over 1997, as the higher revenues described were accompanied by somewhat higher costs of providing services and selling, general and administative expense.

Depreciation and amortization increased 64.3% to $113.6 million in 1998. These higher costs are principally the result of more of the expanded network being placed in service and depreciated throughout 1998 than throughout 1997. Amortization expense increased due to the amortization of goodwill relating to our Internet-related acquisitions in 1998. These costs are expected to continue increasing in future periods as the Company invests in equipment and fiber to support new higher capacity routes.

Interest income increased 84.6% to $14.3 million in 1998 due to the larger amount of cash on hand in 1998 versus 1997 and interest earned on notes receivable from customers in 1998. Cash on hand was higher during 1998 due to the sale of the $155 million in 6¾% Convertible Preferred Stock in March and April 1998, the sale of the $450 million of 9% Senior Subordinated Notes in April 1998, and the draw-down of $200 million of the $600 credit facility in October 1998, offset by the early redemption of the 12½% Senior Notes in April 1998.

Interest expense was unchanged at $31.7 million year over year as the increased outstanding debt was offset by lower interest rates on the 9% Senior Subordinated Notes and the $600 million credit facility and the redemption of the 12½% senior notes in April 1998.

Equity losses from unconsolidated subsidiaries increased 38.6% to $33.0 million in 1998, as the Company recorded $15.9 million of losses from our indirect investment in Marca-Tel. Although the loss on Marca-Tel was lower in 1998 than in 1997, the inclusion of equity losses from PSINet contributed to the overall increase in 1998. The Company suspended the recording of losses on Marca-Tel in the fourth quarter of 1998 because our investment in Marca-Tel had dropped below zero and will continue to suspend recognition of these losses unless and until Marca-Tel begins reporting net income and all suspended losses have been recovered. Also, the method of accounting for the Company's investment in PSINet was changed at the beginning of the third quarter of 1998 from the equity method to the cost method because the Company no longer had significant influence over the financial or operating policies of PSINet. Other joint ventures held by the Company also reported operating losses in 1998

The extraordinary loss of $67.0 million recorded net of tax in 1998 relates to charges associated with the early extinguishment of the 12½% senior notes in April 1998. There was no such charge in 1997.

As a result of the above, and a $36.6 million increase in preferred stock dividends, the Company reported a net loss applicable to common shareholders of $220.7 million in 1998, compared to $120.8 million in 1997. Higher dividends in 1998 are the result of the preferred stock issued during 1997 being outstanding for a full year in 1998.

**Capital Expenditures**

The Company has spent significant amounts of capital to develop its coast-to-coast fiber-optic network. Capital expenditures on a cash basis were $604 million in 1999, and the Company estimates that it will incur more than $600 million in capital spending in 2000 for fiber expansion and the deployment of additional optronics and data switches required to increase capacity on its network.

**Segment Information**

In accordance with Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information," the Company began reporting its results by operating segment in 1998. Historically, management has segregated the operations of the Company into three operating segments: private line, switched long distance, and data and Internet. The operations of the Company now comprise a single segment and are reported as such to the Chief Executive Officer of the Parent Company, who functions in the role of chief operating decision maker for the Company. Accordingly, the Company has restated segment results for prior periods in order to conform to the current year presentation of operating segments.

Current and prior year segment information also includes the operations of Eclipse, which was acquired by the Company in a transaction accounted for as a pooling of interests.

**Liquidity And Capital Resources**

Prior to 1996, the Company relied on cash flows from the operations of the private line business to provide needed capital. Since 1996, the Company has needed significant additional capital to finance the expansion of its network. Prior to the merger, this capital has been raised primarily through the issuance of debt and equity securities as well as through agreements for IRUs in fibers or capacity sold to customers. Since the merger, the Company has relied on the credit facility secured by the Parent Company in order to support its cash deficit.

Cash provided by operating activities in 1999 decreased $43.0 million to $159.3 million. The decrease was largely the result of lower operating income, somewhat offset by collections on notes receivable and higher accounts payable balances. The Company expects cash provided by operations to be positive on a prospective basis, fueled by the sale of data services over the Company's network.

Cash used in investing activities increased $196.0 million mainly due to a $167.7 million increase in capital spending and an additional $50.6 million spent on acquisitions in 1999, partially offset by a $25.3 million decrease in funding for investments in unconsolidated subsidiaries. Increased capital spending in 1999 had been planned as the Company expanded its network. The reduction in funding for investments in unconsolidated subsidiaries was due to the decision by management to concentrate on the Company's core business and reduce its joint venture activity. The Unidial joint venture was sold in the second quarter of 1999 and the Storm joint venture was sold in January 2000. No further funding of joint ventures is anticipated at this time. The Company expects to require significant amounts of cash for capital spending in 2000 and thereafter.

Cash provided by financing activities decreased $80.0 million as approximately $450 million in capital contributions and loans from the Parent Company were more than offset by approximately $525 million less in debt and equity issues in the current year. The Company expects to satisfy future financing needs from the credit facility obtained by the Parent Company.

As of December 31, 1999, the Company had $56.2 million in cash and cash equivalents. At the time of the Merger, the Company and Parent Company entered into a $1.8 billion credit facility (subsequently amended to $2.1 billion) which will be utilized to fund the combined companies.

In addition to cash on hand, the primary sources for cash over the next 12 months will be cash generated by operations, proceeds of fiber use sales and proceeds from the credit facility discussed above. The primary uses of cash are expected to be expansion of the network and working capital funding.

Capital spending in 2000 is projected to be $600 million, with an additional $700 million in capital spending anticipated over the succeeding two-year period (excluding any acquisitions that may occur).

The Company is required to make payments under various debt and capital lease arrangements of $6.4 million, $4.1 million, and $135.4 million in 2000, 2001 and 2002, respectively (assuming the Company does not exercise its option to settle the PSINet forward sale obligation with the six million PSINet common shares pledged by the Company as part of the forward sale agreement). The Company is also required to make minimum annual lease payments for facilities and equipment used in operating its business. Operating lease payments on these facilities and equipment of $41.9 million, $29.2 million, $22.5 million and $19.8 million are anticipated in 2000, 2001, 2002 and 2003, respectively. Additional operating lease costs, as well as construction and installation agreements with contractors are expected to be incurred in connection with the expansion of our network.

In addition, quarterly dividend payments on the 12½% preferred stock and semi-annual interest payments on the remaining 9% subordinated notes and 12½% senior notes will also be required.

The forward-looking statements set forth above with respect to the estimated cash requirements relating to capital expenditures, the Company's ability to meet such cash requirements and service debt are based on the following assumptions as to future events: (i) there will be no significant delays with respect to our network expansion; (ii) contractors and partners in cost-saving arrangements will perform their obligations; (iii) rights-of-way can be obtained in a timely, cost-effective basis; and (iv) the Company will continue to increase traffic on its network. If these assumptions are incorrect, the Company's ability to achieve satisfactory results could be adversely affected.

**Recently Issued Accounting Standards**

In June 1999, the Financial Accounting Standards Board issued Interpretation No. 43 (FIN 43), an interpretation of Statement of Financial Accounting Standard No. 66, "Accounting for Sales of Real Estate." FIN 43 clarifies the standards for recognition of profit on all real estate sales transactions, including those related to fiber optic cable that cannot be removed and used separately from the real estate without incurring significant costs. This interpretation is effective for all applicable transactions after June 30, 1999. FIN 43 does not present a significant change from the Company's historical accounting for IRU agreements. The accounting for sales of capacity IRUs is evolving and is currently under consideration by accounting standards setters. Any change in accounting standards may affect the timing and method of recognition of these revenues and related costs.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position, although it does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". In SAB 101, the SEC Staff expresses its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

**Contingencies**

In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

Certain former members of the Company's board of directors, as well as Cincinnati Bell Inc., have been named as a defendant in five stockholder class action suits filed in the Delaware Court of Chancery (the Court). These suits were filed in July 1999 and pertain to the recently completed merger with Cincinnati Bell. The complaints allege, among other things, that the defendants breached their fiduciary duties to the Company's former stockholders by failing to maximize stockholder value in connection with entering into the Merger agreement and sought a court order enjoining completion of the Merger. In an October 27, 1999 ruling, the Court denied plaintiffs' request for a preliminary injunction. The Merger has since closed and management believes that the performance of Cincinnati Bell's share price has rendered plaintiffs' arguments moot. While these suits currently remain outstanding and subject to further litigation, the Company does not believe any of plaintiffs' arguments have merit and intends to continue exploring all available options to bring this matter to a close, including discussions toward a possible settlement.

A total of twenty-seven Equal Employment Opportunity Commission ("EEOC") charges were filed beginning in September 1999 by current Broadwing Telecommunications Inc. employees located in the Houston office (formerly Coastal Telephone, acquired by the Company in May 1999) alleging sexual harassment, race discrimination and retaliation. The Company is continuing its investigation of these charges and is cooperating with the EEOC. Many employee interviews have been conducted by the EEOC and discovery is ongoing at the present time.

In the course of closing the Merger with Cincinnati Bell, the Company became aware of possible non-compliance with reporting requirements under certain federal environmental statutes. Since it was impossible to conduct a thorough investigation of all facilities within the ten-day period required to take advantage of the Environmental Protection Agency's (EPA) self-policing policy, the Company, by letter dated November 8, 1999, elected to voluntarily disclose its possible non-compliance to the EPA. By letter dated January 19, 2000, the EPA determined that the "prompt disclosure" requirement of the self-policing policy appears to have been satisfied and established a deadline of May 1, 2000 for the Company to complete its environmental audit of its facilities and report any violations to the Agency. The Company intends to complete its environmental audit of these facilities within the time frame established by the EPA and take whatever corrective actions are indicated.

The Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

**Year 2000 Risks**

The Company's Year 2000 preparations were completed as planned, and because of this preparedness, major impacts to the Company and its customers were avoided. Some degree of minor difficulty was experienced with regard to customer payment issues, but these are considered insignificant and have been resolved or are currently being resolved.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Effective with the retirement of the revolving credit facility and with new debt being assumed by the Parent Company, the Company is not currently subject to market risk associated with changes in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

Significantly all of the Company's revenue is derived from domestic operations, so risk related to foreign currency exchange rates is considered minimal.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

## Report of Management

## Broadwing Communications Inc.

The management of Broadwing Communications Inc. is responsible for the information and representations contained in this report. Management believes that the financial statements have been prepared in accordance with generally accepted accounting principles and that the other information in this report is consistent with those statements. In preparing the financial statements, management is required to include amounts based on estimates and judgments that it believes are reasonable under the circumstances.

In meeting its responsibility for the reliability of the financial statements, management maintains a system of internal accounting controls, which is continually reviewed and evaluated. Our internal auditors monitor compliance with the system of internal controls in connection with their program of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. Management believes that its system provides reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization, that the recorded accountability for assets is compared with the existing assets at reasonable intervals, and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organization arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies, standards and managerial authorities are understood throughout the organization.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Their audit was conducted in accordance with auditing standards generally accepted in the United States.

/S/ KEVIN W. MOONEY

*Kevin W. Mooney*
*Executive Vice President and Chief Financial Officer*

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Broadwing Communications Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Broadwing Communications Inc. and its subsidiaries (the Company) at December 31, 1999, and the results of their operations and their cash flows for the period from November 10, 1999 to December 31, 1999 and for the period from January 1, 1999 to November 9, 1999 (Predecessor), in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Austin, Texas
March 8, 2000

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors
Broadwing Communications, Inc.

We have audited the accompanying consolidated balance sheets of Broadwing Communications, Inc. (formerly IXC Communications, Inc.) and its subsidiaries as of December 31, 1998 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Network Long Distance, Inc., (Network Long Distance) which was combined with the Company on June 3, 1998, in a business combination accounted for as a pooling of interests as described in Note 3 to the consolidated financial statements, which statements reflect net losses constituting ($4.6) million of the related 1997 consolidated financial statement totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Network Long Distance is based solely on the reports of the other auditors. The financial statements of Marca-Tel S.A. de C.V. (Marca-Tel), a corporation in which the Company has an indirect interest, have been audited by other auditors whose reports have been furnished to us; insofar as our opinion on the consolidated financial statements relates to data included for Marca-Tel, it is based solely on their report. In the consolidated financial statements, the Company's equity in the net loss of Marca-Tel is stated at ($15.9) million and ($23.6) million, for 1998 and 1997, respectively.

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

In our opinion, based on our audits and the reports of other auditors for the periods indicated, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadwing Communications, Inc. and its subsidiaries at December 31, 1998, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1998, in conformity with generally accepted accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 28, 1999

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of
Network Long Distance, Inc.:

We have audited the accompanying consolidated balance sheets of Network Long Distance, Inc. (a Delaware Corporation) and subsidiaries as of March 31, 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended March 31, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of National Teleservice, Incorporated, a company acquired during the year ended March 31, 1998 in a transaction accounted for as a pooling of interests. Such statements are included in the consolidated financial statements of Network Long Distance, Inc., and reflect total assets and total revenues of 28.1% and 30.6%, respectively, of the related consolidated totals as of and for the year ended March 31, 1997. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for National Teleservice, Incorporated, is based solely upon the reports of other auditors.

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

In our opinion, based upon our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network Long Distance, Inc. and subsidiaries as of March 31, 1998, and the results of their operations and their cash flows for the years ended March 31, 1998 and 1997, in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Jackson, Mississippi
May 18, 1998

## BROADWING COMMUNICATIONS INC.

## CONSOLIDATED BALANCE SHEETS

**(Dollars in millions)**

| | Company December 31, 1999 | Predecessor December 31, 1998 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 56.2 | $ 264.8 |
| Accounts receivable, net of allowance for doubtful accounts of $36.0 in 1999 and $16.7 in 1998 | 73.4 | 107.6 |
| Current portion of notes receivable | 3.7 | 63.7 |
| Note receivable from Westel | — | 9.4 |
| Current deferred tax assets | 16.8 | 5.0 |
| Prepaid expenses and other current assets | 10.2 | 6.0 |
| Total current assets | 160.3 | 456.5 |
| Property and equipment, net | 1,726.4 | 983.7 |
| Goodwill and other intangibles, net | 2,561.3 | 54.2 |
| Investments in marketable securities | 634.2 | 219.9 |
| Investment in unconsolidated subsidiaries | 61.0 | 9.5 |
| Deferred charges and other non-current assets | 4.0 | 24.4 |
| Total assets | $5,147.2 | $1,748.2 |
| **LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| Current portion of long-term debt | $ 5.9 | $ 14.0 |
| Accounts payable—trade | 95.6 | 33.6 |
| Accrued service cost | 47.7 | 43.2 |
| Accrued employee benefits | 19.4 | 10.8 |
| Taxes payable | 61.1 | 23.7 |
| Customer deposits | 5.7 | 18.6 |
| Current portion of unearned revenue | 47.9 | 33.6 |
| Intercompany payable to Parent Company | 442.9 | — |
| Other current liabilities | 57.1 | 19.2 |
| Total current liabilities | 783.3 | 196.7 |
| Long-term debt and capital lease obligations, less current portion | 597.4 | 679.0 |
| Unearned revenue—noncurrent | 633.5 | 488.4 |
| Deferred tax liability—noncurrent | 178.4 | 6.8 |
| Other noncurrent liabilities | 72.8 | 2.0 |
| 7¼% Junior Convertible Preferred Stock; $.01 par value; authorized—3,000,000 shares of all classes of Preferred Stock; no shares and 1,074,500 shares issued and outstanding (aggregate liquidation preference of $107.5) at December 31, 1999 and 1998, respectively | — | 103.6 |
| 12½% Junior Exchangeable Preferred Stock; $.01 par value; authorized—3,000,000 shares of all classes of Preferred Stock; 395,120 shares and 349,434 shares issued and outstanding (aggregate liquidation preference of $395.1 and $354.9 including accrued dividends of $6.6 and $5.5) at December 31, 1999 and 1998, respectively | 418.2 | 344.2 |
| Stockholders' equity (deficit): | | |
| 6¾% Cumulative Convertible Preferred Stock, $.01 par value; authorized—3,000,000 shares of all classes of Preferred Stock; no shares issued and outstanding at December 31, 1999 and 155,250 shares issued and outstanding at December 31, 1998 | | |
| Common Stock, $.01 par value; authorized—100,000,000 shares; 500,000 shares and 36,409,709 shares issued and outstanding at December 31, 1999 and 1998, respectively | — | .4 |
| Additional paid-in capital | 2,424.6 | 253.4 |
| Accumulated deficit | (45.5) | (326.3) |
| Accumulated other comprehensive income | 84.5 | — |
| Total stockholders' equity (deficit) | 2,463.6 | (72.5) |
| Total liabilities, redeemable preferred stock and stockholders' equity (deficit) | $5,147.2 | $1,748.2 |

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

## BROADWING COMMUNICATIONS INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
### (Dollars in millions)

| | Company | Predecessor | | |
|---|---|---|---|---|
| | Period from November 10 to December 31, 1999 | Period from January 1 to November 9, 1999 | Year Ended December 31, 1998 | Year Ended December 31, 1997 |
| Net operating revenues | $ 99.0 | $ 568.2 | $ 668.6 | $521.6 |
| Operating expenses: | | | | |
| Cost of providing services and products sold | 60.7 | 366.4 | 433.3 | 395.7 |
| Selling, general and administrative | 38.1 | 210.6 | 144.5 | 102.7 |
| Depreciation and amortization | 46.7 | 147.6 | 113.6 | 69.1 |
| Merger and other infrequent costs | — | 37.9 | 8.0 | 3.6 |
| Restructuring | — | 19.8 | — | — |
| Operating loss | (46.5) | (214.1) | (30.8) | (49.5) |
| Interest income | .5 | 9.1 | 14.3 | 7.8 |
| Interest expense | (6.7) | (37.1) | (31.7) | (31.7) |
| Equity loss in unconsolidated entities | (1.5) | (20.3) | (33.0) | (23.8) |
| Other, net | — | (16.1) | .2 | — |
| Loss before income taxes, minority interest and extraordinary loss | (54.2) | (278.5) | (80.9) | (97.2) |
| (Provision) benefit for income taxes | 15.3 | (2.0) | (13.9) | (1.4) |
| Minority interest | — | (.5) | (.7) | (.6) |
| Loss before extraordinary loss | (38.9) | (281.0) | (95.5) | (99.2) |
| Extraordinary loss on early extinguishment of debt, net of taxes | (6.6) | — | (67.0) | — |
| Net loss | (45.5) | (281.0) | (162.5) | (99.2) |
| Other comprehensive income | | | | |
| Unrealized gain on investments, net of tax of $60.4 and $93.2, respectively | 90.5 | 157.1 | — | — |
| Other financing costs, net of tax of $4.0 | (6.0) | — | — | — |
| Total other comprehensive income | 84.5 | 157.1 | — | — |
| Comprehensive income (loss) | $ 39.0 | $(123.9) | $(162.5) | $(99.2) |

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

## BROADWING COMMUNICATIONS INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

### (Shares in thousands, dollars in millions)

| | 10% Senior Series 3 Preferred Stock | | 6¾% Cumulative Convertible Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Stockholders' Equity *(Deficit)* |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| **Balance at December 31, 1996 (Predecessor)** | 13 | — | — | — | 33,817 | $ .4 | $ 138.1 | $ (63.2) | $ — | $ 75.3 |
| Issuance of common stock | — | — | — | — | 1,187 | — | 23.5 | — | — | 23.4 |
| Stock option exercises | — | — | — | — | 63 | — | 2.0 | — | — | 2.0 |
| Accretion of preferred stock | — | — | — | — | — | — | (.7) | — | — | (.7) |
| Preferred dividends paid in kind and accrued | — | — | — | — | — | — | (19.3) | — | — | (19.3) |
| Conversion of Series 3 Preferred Stock | (12) | — | — | — | 605 | — | — | — | — | — |
| Other | — | — | — | — | (97) | — | (.2) | — | — | (.2) |
| Net loss | — | — | — | — | — | — | — | (99.2) | — | (99.2) |
| **Balance at December 31, 1997 (Predecessor)** | 1 | — | — | — | 35,575 | .4 | 143.4 | (162.4) | — | (18.7) |
| Effect of pooling of interests | — | — | — | — | — | — | — | (1.5) | — | (1.5) |
| Redemption of Series 3 Preferred Stock | (1) | — | — | — | — | — | (.7) | — | — | (.7) |
| Issuance of common stock for acquisitions | — | — | — | — | 265 | — | 14.5 | — | — | 14.5 |
| Stock option exercises | — | — | — | — | 594 | — | 6.4 | — | — | 6.4 |
| Issuance of preferred stock | — | — | 155.2 | — | — | — | 148.1 | — | — | 148.1 |
| Preferred dividends paid in kind and accrued | — | — | — | — | — | — | (58.2) | — | — | (58.2) |
| Net loss | — | — | — | — | — | — | — | (162.5) | — | (162.5) |
| **Balance at December 31, 1998 (Predecessor)** | — | — | 155.2 | — | 36,434 | .4 | 253.4 | (326.3) | — | (72.5) |
| Issuance of common stock for acquisitions | — | — | — | — | 699 | — | 25.0 | — | — | 25.0 |
| Issuance of warrants for acquisitions | — | — | — | — | — | — | 1.1 | — | — | 1.1 |
| Stock option exercises | — | — | — | — | 1,036 | — | 22.1 | — | — | 22.1 |
| Conversion of preferred stock to common stock | — | — | — | — | 46 | — | — | — | — | — |
| Unrealized gain on investments, net | — | — | — | — | — | — | — | — | 157.1 | 157.1 |
| Preferred dividends paid in kind and accrued | — | — | — | — | — | — | (55.4) | — | — | (55.4) |
| Other | — | — | — | — | — | — | (0.1) | — | — | (0.1) |
| Net loss | — | — | — | — | — | — | — | (281.0) | — | (281.0) |
| **Balance at November 9, 1999 (Predecessor)** | — | $ — | 155.2 | $ — | 38,215 | $ .4 | $ 246.1 | $(607.3) | $157.1 | $ (203.7) |
| **Balance at November 10, 1999 (Company)** | — | $ — | — | $ — | 500 | $ — | $2,190.4 | $ — | $ — | $2,190.4 |
| Preferred dividends paid in kind and accrued | — | — | — | — | — | — | (6.6) | — | — | (6.6) |
| Contributed capital from Parent Company resulting from payoff of debt | — | — | — | — | — | — | 240.8 | — | — | 240.8 |
| Unrealized gain on investments, net | — | — | — | — | — | — | — | — | 90.5 | 90.5 |
| Other financing costs | — | — | — | — | — | — | — | — | (6.0) | (6.0) |
| Net loss | — | — | — | — | — | — | — | (45.5) | — | (45.5) |
| **Balance at December 31, 1999 (Company)** | — | $ — | — | $ — | 500 | $ — | $2,424.6 | $ (45.5) | $ 84.5 | $2,463.6 |

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

## BROADWING COMMUNICATIONS INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
### (Dollars in millions)

| | Company | Predecessor | | |
|---|---|---|---|---|
| | Period from November 10 to December 31, 1999 | Period from January 1 to November 9, 1999 | Year Ended December 31, 1998 | Year Ended December 31, 1997 |
| **Cash Flows from Operating Activities:** | | | | |
| Net loss | $(45.5) | $(281.0) | $(162.5) | $(99.2) |
| Adjustments to reconcile net loss to cash provided by (used in) Operating activities: | | | | |
| Depreciation | 30.3 | 125.4 | 92.8 | 51.9 |
| Amortization | 16.4 | 22.3 | 21.9 | 18.9 |
| Provision for doubtful accounts and service credits | 5.1 | 75.1 | 55.1 | 20.8 |
| Non-cash merger-related costs | — | — | 1.6 | — |
| Equity in net loss of unconsolidated subsidiaries | 1.5 | 20.3 | 33.0 | 23.8 |
| Writedown of marketable securities | — | 16.1 | — | — |
| Minority interest in net loss of subsidiaries | — | .5 | .7 | .6 |
| Compensation expense on stock options and phantom stock | — | .3 | .2 | 1.4 |
| Extraordinary loss on early extinguishment of debt | 6.6 | — | 70.0 | — |
| Changes in operating assets and liabilities, net of effects of Acquisitions: | | | | |
| Accounts receivable | 27.3 | (49.9) | (56.4) | (70.5) |
| Notes Receivable from customers and IRU sales | — | 65.1 | 50.7 | — |
| Notes Receivable write-off | .2 | 6.4 | | |
| Other current assets | (2.3) | 4.4 | (5.5) | .9 |
| Accounts payable—trade | (2.9) | 79.7 | (24.8) | 26.2 |
| Accrued liabilities and accrued service costs | — | (37.0) | 2.5 | 15.9 |
| Deferred income taxes | (15.3) | — | — | (.4) |
| Deferred charges and other non-current assets | 16.5 | (5.1) | (5.9) | (30.5) |
| Unearned revenue | 79.3 | 28.9 | 131.1 | 60.1 |
| Other non-current liabilities | (29.4) | — | (2.2) | 1.9 |
| Net cash provided by (used in) operating activities | 87.8 | 71.5 | 202.3 | 21.8 |
| **Cash Flows from Investing Activities:** | | | | |
| Release of funds from escrow under 12½% Senior Notes | — | — | — | 69.6 |
| Deposit into escrow under 12½% Senior Notes | — | — | — | (18.1) |
| Purchases of property and equipment | (165.0) | (479.1) | (476.4) | (315.9) |
| Acquisitions, net of cash acquired and common stock issued | — | (73.3) | (22.7) | (2.5) |
| Payments received from notes receivable | .2 | .8 | 5.5 | — |
| Proceeds from sale of property and equipment | 4.0 | (.3) | 2.2 | — |
| Investments in unconsolidated subsidiaries | — | (6.2) | (31.5) | (35.5) |
| Net cash used in investing activities | (160.8) | (558.1) | (522.9) | (302.4) |
| **Cash Flows from Financing Activities:** | | | | |
| Capital contribution from Parent | 240.8 | — | — | — |
| Proceeds from loan from Parent | 211.8 | — | — | — |
| Proceeds from issuance of debt | — | 299.8 | 678.0 | — |
| Net proceeds from sale of preferred stock | — | — | 148.1 | 383.3 |
| Principal payments on long-term debt and capital lease obligations | (387.1) | (25.9) | (367.8) | (11.5) |
| Payments of debt issue costs | — | — | (18.1) | — |
| Redemption of preferred stock | — | — | (.7) | — |
| Payment of preferred dividends | — | (10.4) | (13.7) | — |
| Issuance of common stock: option exercises | — | 22.0 | 5.2 | .2 |
| Other financing activities | — | — | — | .4 |
| Net cash provided by financing activities | 65.5 | 285.5 | 431.0 | 372.4 |
| Effect of change in year-end from merged entities | — | — | (1.5) | — |
| Net increase in cash and cash equivalents | (7.5) | (201.1) | 108.9 | 91.8 |
| Cash and cash equivalents at beginning of period | 63.7 | 264.8 | 155.9 | 64.1 |
| Cash and cash equivalents at end of period | $ 56.2 | $ 63.7 | $ 264.8 | $155.9 |
| **Supplemental Disclosure of Cash Flow Information:** | | | | |
| Cash paid for: | | | | |
| Income taxes | $ (1.0) | $ 2.3 | $ 3.7 | $ .5 |
| Interest, net of amounts capitalized | $ 2.7 | $ 41.0 | $ 31.1 | $ 30.6 |

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

**BROADWING COMMUNICATIONS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Accounting Policies

*Description of Business*

Broadwing Communications Inc. and its subsidiaries (collectively referred to as "IXC", "Broadwing Communications" or "the Company") is an Austin, Texas based provider of telecommunications services. The Company utilizes its advanced fiber-optic network to provide private line, switched access, data transport, Internet-based and other services to end user customers. Additionally, excess network capacity is leased (in the form of indefeasible right-to-use agreements) to other telecommunications providers and to Internet service providers.

*Basis of Presentation*

The Company is a wholly owned subsidiary of Cincinnati Bell Inc. ("Cincinnati Bell" or "the Parent Company"), which is now doing business as Broadwing Inc. On November 9, 1999 the Company was merged with a wholly owned subsidiary of Cincinnati Bell ("the merger"). The merger was accounted for as a purchase business combination and, accordingly, the preliminary purchase accounting adjustments, including goodwill, have been pushed down and are reflected in these financial statements subsequent to November 9, 1999. The financial statements for periods ended before November 9, 1999 were prepared using the Company's historical basis of accounting and are designated as "Predecessor." The comparability of operating results for the Predecessor periods and the period from November 10 to December 31, 1999 are affected by the purchase accounting adjustments.

*Principles of Consolidation*

The accompanying consolidated financial statements include accounts of the Company and its wholly-owned and majority owned subsidiaries. Less-than-majority owned subsidiaries and subsidiaries for which control is deemed to be temporary, are accounted for using the equity method. For equity method investments, the Company's share of income is calculated according to the Company's equity ownership in the subsidiary. Any differences between the carrying amount of an investment and the amount of the underlying equity in the net assets of the equity investee are amortized over the expected life of the investment. Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

On June 3, 1998, the Company acquired Eclipse in a transaction accounted for as a pooling of interests (See Note 3). All prior period consolidated financial statements presented were restated to include the combined results of operations, financial position and cash flows of Eclipse as though it had always been a part of the Company. On May 10, 1999, the Company acquired Coastal Telecom Limited Company and other related companies under common control ("Coastal") in a transaction accounted for as a purchase. The Company's results subsequent to May 9, 1999 include Coastal.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, money market funds and all investments with an initial maturity of three months or less. All cash equivalents are recorded at cost and classified as available for sale.

**1. Accounting Policies (Continued)**

*Notes Receivable*

From time to time, the Company accepts interest-bearing notes from customers and other debtors when payments are expected to be received over extended periods. Amounts due on notes classified as current are expected to be received within one year.

*Property and Equipment*

Property and equipment is recorded at cost (subject to fair market value adjustments made as part of purchase accounting at the date of the merger with Cincinnati Bell). Depreciation is provided using the straight-line method over the estimated useful lives of the various assets, ranging from three to twenty years. Maintenance and repairs are charged to operations as incurred. Property and equipment recorded under capital leases is included with the Company's owned assets. Amortization of assets recorded under capital leases is included in depreciation expense. Costs associated with uncompleted portions of the fiber optic network are classified as construction in progress in the accompanying consolidated balance sheets. Upon completion, the costs will be classified as transmission systems and depreciated over their useful lives.

Interest is capitalized as part of the cost of constructing the Company's fiber optic network and for amounts invested in companies or joint ventures accounted for using the equity method during pre-operating periods. Interest capitalized during construction periods is computed by determining the average accumulated expenditures for each interim capitalization period and applying an average interest rate. Total interest capitalized during the years ended December 31, 1999, 1998 and 1997 was $23.1 million, $16.2 million, and $7.3 million, respectively.

The Company's property and equipment consisted of the following as of December 31, 1999 and 1998 (in millions):

| | Company 1999 | Predecessor 1998 |
|---|---|---|
| Land and rights of way | $ 150.3 | $ 4.0 |
| Buildings and leasehold improvements | 253.8 | 39.0 |
| Transmission systems | 972.7 | 905.7 |
| Furniture, vehicles and other | 129.7 | 12.2 |
| Fiber usage rights | 40.6 | 98.9 |
| Construction in process | 207.1 | 133.9 |
| | 1,754.2 | 1,193.7 |
| Less: Accumulated depreciation and amortization | (27.8) | (210.0) |
| Property and equipment, net | $1,726.4 | $ 983.7 |

*Long-Lived Assets, Other Assets and Goodwill*

Deferred financing costs are costs incurred in connection with obtaining long-term financing; such costs are amortized as interest expense over the terms of the related debt agreements. Certain costs incurred with the connection of customers to the switched long distance network were deferred and are amortized on a straight-line basis over two years. The acquisition cost of retail customer accounts obtained through an outside sales organization, including certain transaction costs, were deferred and amortized over a period of three years. Goodwill and other intangibles are recorded at cost and

**1. Accounting Policies (Continued)**

amortized on a straight-line basis from 5 to 30 years. Accumulated amortization on all intangible assets amounted to $15.7 million and $37.7 million at December 31, 1999 and December 31, 1998 respectively.

The Company reviews its long-lived assets by comparing the undiscounted cash flows estimated to be generated by those assets with the related carrying amount of the assets. Upon an indication of an impairment, a loss is recorded if the discounted cash flows projected for the assets is less than the assets' carrying value.

*Revenues*

Revenues are generally recognized as services are provided and are presented net of provisions for service credits and bad debts. Private line voice and data circuit revenues are generated primarily by providing capacity on the Company's fiber optic and microwave transmission network at rates established under long-term contractual arrangements or on a month-to-month basis after contract expiration. Switched long-distance service revenues are generated primarily by providing voice and data communication services; customers are billed monthly after services are rendered. Data and Internet revenues are generated by providing a number of services, including Internet service, Web hosting and consulting. Customers are billed monthly, generally after the service is provided.

Sales of indefeasible rights to use ("IRU") fiber or capacity are recorded as unearned revenue at the earlier of the acceptance of the applicable portion of the network by the customer or the receipt of cash. The revenue is recognized over the life of the agreement as services are provided beginning on the date of customer acceptance. Revenue related to the sale of options in fibers that were jointly owned with another carrier was recorded net of the Company's basis in the options.

*Fiber Exchange Agreements*

In connection with its fiber optic network expansion, the Company has entered into various agreements to purchase, sell or exchange fiber usage rights. Purchases of fiber usage rights from other carriers are recorded at cost as a separate component of property and equipment. The recorded assets are amortized over the lesser of the term of the related agreement or the estimated life of the fiber optic cable. Sales of fiber usage rights are recorded as unearned revenue. Revenue is recognized over the terms of the related agreements. Non-monetary exchanges of fiber usage rights (swaps of fiber usage rights with other long distance carriers) are recorded at the cost of the asset transferred or, if applicable, the fair value of the asset received. Agreements to exchange fiber IRUs for capacity are recorded by recognizing the fair market value of the revenue earned and expense incurred under the respective agreements. Exchange agreements account for non-cash revenue and expense, in equal amounts, of $19.1 million in 1999 and 1998, and $14.0 million in 1997.

*Income Taxes*

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods using the liability method.

*Stock-Based Compensation*

The Company accounts for employee stock options under the intrinsic value method. Pro forma disclosures of net income are presented as if the fair value method had been applied.

**1. Accounting Policies (Continued)**

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Reclassifications*

Certain amounts for prior years have been reclassified to conform to the current year presentation.

*Recently Issued Accounting Standards*

In June 1999 the Financial Accounting Standards Board issued Interpretation No. 43 (FIN 43), an interpretation of Statement of Financial Accounting Standard No. 66, "Accounting for Sales of Real Estate." FIN 43 clarifies the standards for recognition of profit on all real estate sales transactions, including those related to fiber optic cable that cannot be removed and used separately from the real estate without incurring significant costs. This interpretation is effective for all applicable transactions after June 30, 1999. FIN 43 does not present a significant change from the Company's historical accounting for IRU agreements. The accounting for sales of capacity IRUs is evolving and is currently under consideration by accounting standard setters. Any change in accounting literature may affect the timing and method of recognition of these revenues and related costs.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to all fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position, although it does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements. In SAB 101, the SEC Staff expresses its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

**2. Merger with Cincinnati Bell Inc. and Restructuring**

On November 9, 1999, the Company was acquired by Cincinnati Bell through the merger of IXC and a wholly owned subsidiary of Cincinnati Bell, with IXC surviving as a wholly owned subsidiary of Cincinnati Bell (the "Merger"). IXC has since been renamed as Broadwing Communications Inc. and the Parent Company is now doing business as Broadwing Inc. A formal proposal to change the name of Cincinnati Bell to Broadwing Inc. is subject to a vote of Cincinnati Bell shareholders on April 19, 2000.

**2. Merger with Cincinnati Bell Inc. and Restructuring (Continued)**

As a result of the Merger, all of the then outstanding shares of IXC common stock were converted in a tax-free exchange into approximately 68.5 million shares of Cincinnati Bell common stock, based on a fixed exchange ratio of 2.0976 shares of Cincinnati Bell stock for each share of IXC common stock. In addition, IXC's 7¼% Convertible Preferred Stock and IXC's Depositary Shares representing 1/20th of a share of IXC's 6¾% Convertible Preferred Stock were converted into Cincinnati Bell 7¼% Convertible Preferred Stock and Cincinnati Bell Depositary Shares representing 1/20th of a share of Cincinnati Bell 6¾% Convertible Preferred Stock, respectively. Approximately five million shares of IXC common stock that were owned by Cincinnati Bell at the merger date are being accounted for as if retired and are not included in the aforementioned total. All of the outstanding options, warrants and other equity rights in IXC were converted into options, warrants and the rights to acquire Cincinnati Bell common shares according to the same terms and conditions as the IXC options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.0976.

The aggregate purchase price of $2.2 billion consisted of (all numbers approximate): $0.3 billion in cash for the purchase of five million shares of IXC stock from Trustees of General Electric Pension Trust; the issuance of 68 million shares of the Parent Company's common stock valued at $1.6 billion, 155,000 shares of 6¾% convertible preferred stock issued by the Parent Company on our behalf and valued at $0.1 billion; and the issuance of 14 million options and warrants to purchase Parent Company common stock valued at $0.2 billion.

The Parent Company accounted for the Merger according to the purchase method of accounting, with the purchase price allocation being "pushed down" to the Company's financial statements. The purchase price has been preliminarily allocated to the assets and liabilities assumed according to their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized. Property, plant and equipment was recorded at fair market value based on preliminary appraisal results, and useful lives were assigned to the assets. The excess of cost over the fair value assigned to the net assets acquired was recorded as goodwill and is being amortized using the straight-line method over 30 years.

The purchase price was allocated to assets and liabilities based on their respective fair values at the Merger date, as listed in the table below:

| | |
|---|---|
| Property, Plant and Equipment | $ 207.0 |
| Other intangibles | 397.0 |
| Debt | (168.0) |
| Deferred tax liabilities | (113.0) |
| Other | 7.0 |
| Subtotal | 330.0 |
| Goodwill | 2,187.5 |
| Total | $2,517.5 |

**2. Merger with Cincinnati Bell Inc. and Restructuring (Continued)**

Included in the allocation of the cost to acquire the Company are restructuring costs associated with initiatives to integrate operations of the Company with its Parent Company. The restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits related to 263 employees of the Company. As of December 31, 1999, approximately 1% of the employee separations had been completed for a total cash expenditure of $0.2 million. The restructuring plans also included costs associated with the closure of a variety of technical and customer support facilities, the decommissioning of certain switching equipment, and the termination of contracts with vendors.

A summary of the exit liabilities recorded in the preliminary allocation of purchase price is as follows:

| | Beginning Balance | Activity | Ending Balance |
|---|---|---|---|
| | Millions of dollars | | |
| Employee separations | $2.2 | $0.2 | $2.0 |
| Facility closure costs | 2.1 | — | 2.1 |
| Relocation | 0.2 | — | 0.2 |
| Other exit costs | 3.2 | — | 3.2 |
| Total accrued restructuring costs | $7.7 | $0.2 | $7.5 |

The Company expects that most of these restructuring actions will be complete by December 31, 2000, and will result in cash outlays of $7.5 million in 2000.

**3. Acquisitions**

*Coastal Telecom Limited Company Acquisition*

On May 10, 1999, the Company acquired Coastal Telecom Limited Company and other related companies under common control ("Coastal"). Coastal is a retail long distance reseller. The purchase price amounted to approximately $110 million and was paid with a combination of $73.2 million of cash (including approximately $10 million paid for working capital items), $10 million of notes payable, $25.0 million of IXC common stock, and warrants to purchase 75,000 shares of IXC common stock. Assets acquired included approximately $103 million of goodwill and approximately $7 million of property and equipment. In connection with the acquisition the Company completed a credit facility with a commercial bank pursuant to which Eclipse, a wholly owned subsidiary, borrowed $27 million and used the proceeds to fund a portion of the Coastal purchase price. All amounts due under this facility were satisfied, and this credit facility was terminated, coincident with the Merger.

*Eclipse Merger*

On June 3, 1998, the Company completed the acquisition of Eclipse through a merger of a Company subsidiary with Eclipse by exchanging approximately 4.1 million shares of its common stock for all of the outstanding common stock of Eclipse. Each share of Eclipse common stock was exchanged for .2998 shares of the Company's common stock. In addition, outstanding Eclipse stock options were converted at the same exchange factor into options to purchase shares of the Company's common stock.

The merger constituted a tax-free reorganization and has been accounted for as a pooling of interests. Accordingly, all prior period consolidated financial statements have been restated to include

**3. Acquisitions (Continued)**

the combined results of operations, financial position and cash flows of Eclipse as though it had always been a part of the Company. Prior to the merger, Eclipse utilized a March 31 fiscal year end. For purposes of the combined results of operations for the year ended December 31, 1997, the amounts include Eclipse's historical results of operations for the years ended March 31, 1998. In order to report cash flow for 1998, a $1.5 million adjustment is included in the 1998 statements of stockholders' equity (deficit) and cash flows, representing Eclipse's first quarter 1998 net income, which is in both the beginning retained earnings balance and the fiscal 1998 net income amount. There were no transactions between Eclipse and the Company prior to the merger; however, certain reclassifications, primarily related to the presentation of certain excise taxes and bad debt provisions, were made to conform Eclipse's accounting policies to those of the Company. The results of operations for the separate companies and the combined amounts presented in the restated consolidated financial statements follow (in millions):

| | Eclipse | Broadwing Communi-cations | Adjustments | Combined |
|---|---|---|---|---|
| **1997 (Predecessor)** | | | | |
| Operating revenue | $105.8 | $420.7 | $(4.9) | $521.6 |
| Operating expenses | 110.2 | 465.9 | (5.0) | 571.2 |
| Net income (loss) | (4.6) | (94.6) | — | (99.2) |

In connection with the merger, the Company recorded in 1998 a charge of $8.0 million for merger related costs, including professional services associated with the merger, termination costs associated with duplicate functions, costs of exiting excess office space, and the write-off of duplicate equipment and software.

*Other Acquisitions*

Prior to its merger with the Company, Eclipse had entered into several business combinations and customer base acquisitions. Certain of those combinations were accounted for using the pooling of interests method, and the results of operations of the acquired businesses are included herein for all periods presented. The results of operations of other businesses acquired through purchase transactions are included herein for only the periods subsequent to their respective purchase. No pro forma financial information for any of the business combinations has been presented in these consolidated financial statements as the revenues, results of operations, and assets of the previously acquired businesses are not material.

**4. Marketable Securities**

*PSINet Investment*

The Company's investment in PSINet consists of 21.6 million shares after adjusting for their February 2000 two-for-one stock split. This investment had a fair market value of approximately $631.7 million as of December 31, 1999. Of the total fair value, $240.0 million was recorded as unearned revenue because it represented the sale of an IRU to PSINet. The remaining fair value, net of tax, was reported as unrealized gain on marketable securities because the PSINet investment is "available-for-sale" as defined in Statement of Financial Accounting Standards (SFAS) No. 115. The change in the unrealized gain amount, net of tax, is included in other comprehensive income on the

**4. Marketable Securities (Continued)**

accompanying Consolidated Statement of Operations (the unrealized gain prior to the Merger with Cincinnati Bell was included in the allocation of purchase price).

In June and July 1999, the Company received approximately $111.8 million representing amounts from a financial institution in connection with two prepaid forward sale contracts on six million shares of the PSINet common stock. This amount is accounted for as notes payable and is collateralized by these six million shares of PSINet common stock owned by the Company. Each forward-sale obligation for three million shares of PSINet stock may be settled at specified dates in the first and second quarter of 2002 for a maximum amount of three million shares of PSINet stock, or, at the Company's option, the equivalent value in cash. Since it is the Company's current intention to settle these obligations in PSINet stock, the carrying amount of the liability is marked-to-market each period with an offsetting adjustment to the "unrealized gain on investments" caption within other comprehensive income.

*DCI Telecommunications*

In November 1998, the Company entered into an agreement to acquire 4.25 million shares of common stock of DCI Telecommunications, Inc. (DCI) as consideration for payment of amounts due from one of the Company's customers that was also a vendor of DCI. The agreement provided that DCI was to issue additional shares of common stock to the Company if the market value of the shares the Company owned did not reach $17.7 million by June 1, 1999. As of June 1, 1999, and subsequent thereto, the market value of the shares the Company owned was less than the $17.7 million guaranteed in the November 1998 agreement. DCI has publicly disclosed that it does not intend to issue additional shares to the Company. The Company is pursuing the remedies to which it is entitled under the November 1998 agreement. Due to a decline in the financial condition of DCI that is considered permanent, the Company wrote down its investment in DCI by $16.1 million to $1.5 million. This writedown was recorded in other income/expense during the pre-Merger period in 1999.

**5. Investments in Unconsolidated Subsidiaries**

*Marca-tel*

As of December 31, 1999, the Company holds an indirect investment equal to 30.0% of Marca-Tel S.A. de C.V. (Marca-Tel) as a result of its ownership of 65.4% of Progress International, LLC ("Progress") which, in turn, owns 45.8% of Marca-Tel. The remaining 54.2% of Marca-Tel is owned by a Mexican individual, Formento Radio Beep, S.A. de C.V. ("Radio Beep") and Siemens S.A. de C.V ("Siemens"). The other owner of Progress is Westel International, Inc. ("Westel"). At December 31, 1998, the Company was owed $9.4 million by Westel, the Company's partner in Progress. The note was secured by a portion of Westel's ownership in Progress, and repayment was due on May 31, 1999. Westel failed to make scheduled payments on the note and thereby transferred their share rights to the Company. Because of that forfeiture, the Company now owns 65.4% of Progress.

*UniDial*

In December 1997, the Company announced a joint venture with UniDial Communications to sell UniDial products exclusively over the Company's network. The Company owned 20% of the joint venture, which was known as UniDial Communications Services, LLC ("Unidial"). In July 1999, the Company entered into an agreement with Unidial Communications, Inc. to sell its share of Unidial Communications Services, LLC (Unidial). In conjunction with this agreement, the Company is relieved

**5. Investments in Unconsolidated Subsidiaries (Continued)**

from making any further capital contributions to Unidial. During 1999, the Company reported losses totaling approximately $10.9 million related to equity losses and the sale of its investment in Unidial. As of December 31, 1999, the Company's investment in Unidial has been written down to zero.

*Storm Telecommunications, Ltd..*

In October 1997, Storm Telecommunications, Ltd. ("Storm") was formed. Storm was a joint venture with Telenor Global Services AS ("Telenor"), a subsidiary of the Norwegian national telephone company, to provide telecommunication services to carriers and resellers in Europe. The joint venture was owned 40% by Telenor, 40% by the Company and 20% by Clarion Resources Communications Corporation, an U.S.-based telecommunications company in which Telenor owned a controlling interest. In February 2000, the Company sold its investment in Storm, plus amounts due it relating to the joint venture, for $14.4 million.

*Applied Theory, Inc.*

In May 1998, the Company purchased a 34% interest in Applied Theory Communications, Inc., a New York-based Internet Service Provider. Applied Theory, Inc. was formed in 1996 to provide high quality Internet services for the New York state research and education community. In 1999, Applied Theory made an initial public offering, diluting the Company's ownership percentage. After acquiring additional shares of common stock in 1999, the Company now has a 27.6% interest in Applied Theory.

Investments in and advances to unconsolidated subsidiaries accounted for using the equity method are as follows at December 31, 1999 and 1998 (in millions):

| | Current Ownership Interest at December 31, 1999 | Balance of Investments and Advances | |
|---|---|---|---|
| | | Company 1999 | Predecessor 1998 |
| Marca-Tel S.A. de C.V | 30.0% | $ — | $(11.8) |
| Applied Theory, Inc. | 27.6% | 61.0 | 10.7 |
| Unidial Communications, Services, LLC | 0% | — | 7.9 |
| Storm Telecommunications Ltd. | 0% | — | 2.7 |
| Total | | $61.0 | $ 9.5 |

**5. Investments in Unconsolidated Subsidiaries (Continued)**

The combined results of operations and financial position from all the investees accounted for using the equity method during 1999 as well as the Company's share of their income (loss) are summarized below (in millions):

| | Company | Predecessor | | |
|---|---|---|---|---|
| | Period from Nov 10 to Dec 31 1999 | Period from Jan 1 1999 to Nov 9, 1999 | 1998 | 1997 |
| IXC's share of losses from equity-method investees | $(1.5) | $(20.3) | $(23.5) | $(23.8) |
| IXC's share of loss from PSINet investment | — | — | (9.5) | — |
| Losses from equity-method invesments | $(1.5) | $(20.3) | $(33.0) | $(23.8) |

*PSINet Transaction*

The Company initially accounted for its investment in PSINet using the equity method and recorded its share of PSINet's operating losses. The Company began accounting for this investment on the cost basis at the beginning of the third quarter of 1998 when it was determined that the Company could no longer exercise significant influence over PSINet's operating and financial policies. This determination was made because the Company's equity interest in PSINet was below 20% and it no longer had a representative with a seat on PSINet's board of directors.

At December 31, 1999, the Company's recorded investment in PSINet was approximately $631.7 million.

**6. Restructuring Charge**

In the second quarter of 1999, the Company recorded a charge of approximately $13.9 million to exit certain operations in the switched wholesale business. The restructuring charge consisted of severance and various other costs associated with workforce reduction, network decommissioning, and various terminations. The workforce reduction of 94 people included employees contributing to the sales function and employees contributing to the network operations. These restructuring activities are expected to be substantially complete by June 30, 2000. Due to the Merger, it was determined that the combined companies would need the switches that had been marked for decommissioning in the second quarter's restructuring charge. Additionally, it was determined that the total period contemplated for lease payments relating to an abandoned office would not be required. As a result, the second quarter's restructuring charge was reduced by $1.2 million during the third quarter related to decommissioning the switches and $0.4 million related to a reduction in the lease pay off requirement.

In the third quarter of 1999, the Company recorded a charge of approximately $8.3 million relating to the restructuring of the organization and to exit certain foreign operations. The plan was developed prior to the Merger, by the previous Chief Executive Officer, after reviewing the Company's operations. The workforce reduction of 15 employees included management, administrative and foreign sales personnel. The employees were notified of this program during July and August of 1999. Generally, all of the charges are expected to be paid by the first quarter of 2000.

**6. Restructuring Charge (Continued)**

Activity in the accrued restructuring liabilities recorded in the second and third quarters of 1999 are as follows (in millions):

| | Restructuring Charge | Utilizations | Adjustments | Accrued at December 31, 1999 |
|---|---|---|---|---|
| **Second Quarter:** | | | | |
| Severance | $ 2.8 | $1.6 | $ — | $1.2 |
| Network Decommissioning | 3.9 | .4 | 1.2 | 2.3 |
| Terminate contractual obligations and exit facilities | 6.4 | 1.8 | .4 | 4.2 |
| Total Restructuring Costs | $13.1 | $3.8 | $1.6 | $7.7 |
| **Third Quarter:** | | | | |
| Severance | $ 7.5 | $4.6 | $ — | $2.9 |
| Terminate contractual obligations and exit facilities | .8 | .3 | — | .5 |
| Total Restructuring Costs | $ 8.3 | $4.9 | $ — | $3.4 |

**7. Long-Term Debt and Capital Lease Obligations**

Long-term debt and capital lease obligations consist of the following at December 31, 1999 and 1998 *(in millions):*

| | Company 1999 | Predecessor 1998 |
|---|---|---|
| Amounts due under Revolving Credit Facility | $ — | $200.0 |
| 9% Senior Subordinated Notes | 450.0 | 450.0 |
| NTFC Credit Facility | — | 23.8 |
| 12½% Senior Notes | .8 | .8 |
| Capital lease obligations | 11.3 | 16.1 |
| PSINet Forward Sale | 133.9 | — |
| Other debt | 7.3 | 2.3 |
| Total long-term debt and capital lease obligations | $603.3 | $693.0 |
| Less current portion | 5.9 | 14.0 |
| Long-term debt and capital lease obligations | $597.4 | $679.0 |

*9% Senior Subordinated Notes*

In 1998, the Company issued $450.0 million of 9% senior subordinated notes due 2008 ("the 9% notes"). The 9% notes are general unsecured obligations and are subordinate in right of payment to all existing and future senior indebtedness and other liabilities of the Company's subsidiaries. The indenture related to the 9% notes requires us to comply with various financial and other covenants and restricts the Company from incurring certain additional indebtedness. In January 2000, $404 million of the 9% senior subordinated notes were redeemed through a tender offer due to the change of control terms in the bond indenture.

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**7. Long-Term Debt and Capital Lease Obligations (Continued)**

*PSINet Forward Sale*

The Company's investment in PSINet consists of 21.6 million shares after adjusting for PSINet's February 2000 two-for-one stock split. In June and July 1999, the Company received approximately $111.8 million representing amounts from a financial institution in connection with two prepaid forward sale contracts on six million shares of the PSINet common stock. This amount is accounted for as notes payable and is collateralized by these six million shares of PSINet common stock. Each forward-sale obligation for three million shares of PSINet stock may be settled at specified dates in the first and second quarter of 2002 for a maximum amount of three million shares of PSINet stock, or at the Company's option, the equivalent value in cash. Since the Company intends to settle these obligations in PSINet stock, the carrying amount of the liability is marked-to-market each period with an offsetting adjustment to "other financing costs" within other comprehensive income.

*Other*

Pursuant to our May 10, 1999 acquisition of Coastal Telecom Limited Company, the Company assumed $10 million in notes payable, of which $7.8 million is still outstanding at December 31, 1999.

Additionally, $.8 million remains outstanding on the 12½% senior notes (original indebtedness of $285.0 million) that were largely eliminated through a tender offer in 1998.

Amounts previously outstanding on the revolving credit facility and the NTFC credit facility were retired as part of the Merger. This early extinguishment of debt resulted in an extraordinary charge of $6.6 million, net of tax, during the post-Merger period of November 10, 1999 to December 31, 1999.

The Company has acquired certain facilities and equipment using capital leases. The gross amount of assets recorded under capital leases at December 31, 1999 and 1998 (capital leases and associated accumulated depreciation was revalued at the Merger date) was $11.8 million and $41.7 million, respectively. The related accumulated depreciation was $1.2 million and $25.0 million at December 31, 1999 and 1998, respectively.

Annual maturities of long term debt and minimum payments under capital leases for the five years after December 31, 1999 are as follows (in millions):

| | Long-Term Debt | Capital Leases | Total |
|---|---|---|---|
| 2000 | $ — | $ 6.4 | $ 6.4 |
| 2001 | — | 4.1 | 4.1 |
| 2002 | 133.9 | 1.5 | 135.4 |
| 2003 | — | .4 | .4 |
| 2004 | — | — | — |
| Thereafter | 458.1 | — | 458.1 |
| | 592.0 | 12.4 | 604.4 |
| Less amounts related to Interest | — | 1.1 | 1.1 |
| | 592.0 | 11.3 | 603.3 |
| Less Current Portion | — | 5.9 | 5.9 |
| | $592.0 | $ 5.4 | $597.4 |

**7. Long-Term Debt and Capital Lease Obligations (Continued)**

In January 2000, $404 million of the 9% senior subordinated notes due 2008 described above were redeemed through a tender offer as a result of the change of control terms of the bond indenture. As a result, the Company will record an extraordinary charge for the debt extinguishment of approximately $4.4 million, net of taxes, in the first quarter of 2000.

**8. Redeemable Preferred Stock**

In 1997, the Company issued $400 million in redeemable preferred stock, consisting of 300,000 shares of 12½% Junior Exchangeable Preferred Stock due 2009 and 1,000,000 shares of 7¼% Junior Convertible Preferred Stock due 2007. Respectively, these preferred stock issues had liquidation preferences of $1,000 and $100 per share and amounted to a carrying value of $344.2 million and $103.6 million at December 31, 1998. These preferred stocks were not included in stockholders' equity because they are mandatorily redeemable. The 7¼% preferred stock was retired coincident with the Merger and replaced by similar preferred stock issued by the Parent Company. Accordingly, the Company no longer reflects the 7¼% preferred stock on its consolidated balance sheet.

**9. Stockholders' Equity**

*6¾ Cumulative Convertible Preferred Stock*

In 1998, the Company sold 155,250 shares of 6¾% cumulative convertible preferred stock for gross proceeds of $155.3 million. At December 31, 1998, this preferred stock was reflected on the consolidated balance sheet with a par value of $2,000 with the remainder included in additional paid-in capital. This preferred stock issue was retired coincident with the Merger and replaced by a similar preferred stock issued by the Parent Company. Accordingly, the Company no longer reflects this preferred stock issue on its consolidated balance sheet.

*Common Stock*

As of December 31, 1998, approximately 36.4 million shares of the Company's common stock were issued and outstanding. In July 1999, the Parent Company acquired 300,000 shares of the Company's common stock as the first step in the Merger. In August 1999, this was followed by an additional purchase of approximately 4.7 million shares of the Company's common stock (both purchases were from General Electric Pension Trust). Upon consummation of the Merger, the remaining 32.6 million shares of the Company's common stock held by its shareholders were exchanged for approximately 68.5 million shares of the Parent Company common stock issued in the Merger. The Company now has outstanding 500,000 common shares that are owned entirely by the Parent Company.

*Additional Paid-In Capital and Accumulated Deficit*

The Company's previous paid-in capital and accumulated deficit were eliminated at the date of the Merger. At December 31, 1998, amounts appearing in the consolidated balance sheet reflect the pre-merger activity of the Company. At December 31, 1999, the additional paid-in capital balance of approximately $2.4 billion reflects the consideration paid by the Parent Company for the Company in the Merger. The accumulated deficit balance of $45.5 million at December 31, 1999 reflects the activities of the Company subsequent to the November 9, 1999 Merger date.

**9. Stockholders' Equity (Continued)**

*Stock Based Compensation*

Prior to the Merger, the Company maintained incentive plans for selected employees. The Company's plans included non-qualified stock options issued at prices equal to the fair market value of the Company's common stock at the date of grant which expire upon the earlier of 10 years from the date of grant or termination of employment, death, or disability. Effective with the Merger, options outstanding under the Company's plans were converted into options to acquire Cincinnati Bell common stock, with the number of shares and exercise price being adjusted in accordance with the exchange ratio of 2.0976 established in the Merger Agreement. All outstanding options under the Company's plans became exercisable and fully vested upon the change in control except for those options issued under the 1998 Plan. The majority of options issued under the 1998 Plan maintained the original vesting schedule. A few selected option grants to executives became exercisable and fully vested according to their agreements.

The Company adopted several stock option plans that provide for the issuance of non-qualified or incentive stock options to employees and directors. Options under these plans are generally awarded at the discretion of the Board of Directors and generally are awarded with exercise prices at least equal to the fair market value of the underlying common stock at the date of grant. Certain options granted in 1996 under one plan were granted at an exercise price less than fair market value, resulting in the recognition of additional compensation expense of $0.1 million, $0.1 million, and $0.2 million in 1999, 1998 and 1997, respectively. Options generally expire after ten years and vest over periods ranging from three to five years. In the event of a change in control, certain of the options outstanding will vest fully.

In 1996 the Company adopted a phantom stock plan (the Directors Plan), pursuant to which $20,000 per year of outside director's fees for certain directors was deferred and treated as if it were invested in shares of the Company's common stock. At the Merger date, this plan was eliminated and all amounts due were paid. Prior to 1998, no shares of common stock were actually purchased and the participants received cash benefits equal to the value of the shares that they were deemed to have purchased under the Director's Plan. Distribution of benefits generally was to occur three years after the deferral. Compensation expense was determined based on the market price of the shares deemed to have been purchased and was charged to expense over the related period. In 1999, 1998, and 1997, the Company recognized $0.3 million, $0.1 million and $0.1 million, respectively, as compensation expense related to the Director's Plan. The Company amended the Directors' Plan in 1998 to allow benefits to be paid in either cash or shares of common stock.

Prior to the pooling-of-interests transaction Eclipse granted stock options to various parties from time to time. The terms and conditions of the Eclipse options, including exercise prices and option expiration periods, were set by Eclipse's board of directors. In connection with the Eclipse merger, all outstanding Eclipse options were converted into substitute options at an exchange rate of .2998 IXC option for each Eclipse option. Such substitute options provided for substantially the same terms and conditions as the original Eclipse options. Under the terms of a stock option agreement with a former officer of a subsidiary of Eclipse a $1.1 million charge for compensation was recorded in fiscal 1997.

The Company accounts for employee stock options under APB 25 and only makes fair value disclosures of option grants. The fair value disclosures assumes that fair value of option grants was calculated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates of 6.4% in 1999, 5.6% in 1998, and 5.2%—6.4% in 1997; no dividend yield; volatility of .874 in 1999, .804 in 1998, and .551 in 1997 (for Eclipse options, fair value was calculated assuming a volatility factor of .376 in 1997); and expected option lives of 4 years.

### 9. Stockholders' Equity (Continued)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Pro forma loss information is as follows (in millions except for weighted average exercise price):

| | Predecessor | | |
|---|---|---|---|
| | Period from Jan 1-Nov 9, 1999 | Year ended December 31, 1998 | 1997 |
| Pro forma loss applicable to common stockholders | $(293.5) | $(237.0) | $(125.6) |

Stock option activity and related information for the period from November 10, 1999 to December 31, 1999, January 1, 1999 to November 9, 1999 and the years ended December 31, 1998 and 1997 are as follows:

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | Options (millions) | Weighted Average Exercise Price | Options (millions) | Weighted Average Exercise Price | Options (millions) | Weighted Average Exercise Price |
| Outstanding at beginning of period | 5.4 | $27.50 | 3.1 | $17.12 | 2.0 | $11.90 |
| Granted | 3.5 | $37.99 | 3.2 | $34.34 | 1.3 | $25.43 |
| Exercised | (.5) | $15.90 | (.6) | $ 8.87 | (.1) | $11.22 |
| Forfeited | (1.0) | $29.93 | (.3) | $25.01 | (.1) | $24.16 |
| Outstanding at end of period | 7.4 | $32.76 | 5.4 | $22.71 | 3.1 | $17.12 |
| Exercisable at end of period | 2.3 | | 1.1 | | 1.0 | |
| Weighted average fair value of options granted during the period | $25.08 | | $21.96 | | $14.67 | |

The following table summarizes outstanding options at November 9, 1999 by price range:

| Outstanding | | | | Exercisable | |
|---|---|---|---|---|---|
| Options (millions) | Range of Exercise Prices | Weighted Average Exercise Price | Weighted Average Contractual Life | Options (millions) | Weighted Average Exercise Price |
| 2.0 | $ 3.01 to $26.00 | $18.22 | 7.9 | .9 | $14.57 |
| 1.6 | $26.25 to $33.94 | $30.87 | 8.6 | 1.0 | $30.21 |
| 2.6 | $34.00 to $38.63 | $38.51 | 9.6 | .1 | $36.49 |
| 1.2 | $38.75 to $59.88 | $47.36 | 8.6 | .3 | $47.96 |
| 7.4 | $ 3.01 to $59.88 | $32.76 | 8.8 | 2.3 | $25.97 |

### 10. Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company places its cash equivalents in quality investments with reputable financial institutions.

### 10. Concentrations of Credit Risk and Major Customers (Continued)

The Company may be subject to credit risk due to concentrations of receivables from companies that are telecommunications providers, Internet service providers, and cable television companies. The Company performs ongoing credit evaluations of customers' financial condition and typically does not require significant collateral.

A relatively small number of customers account for a significant amount of the Company's total revenues. Revenues from the Company's ten largest customers accounted for approximately 38%, 42% and 49% of total revenues in 1999, 1998 and 1997, respectively.

### 11. Income Taxes

Significant components of the benefit (provision) for income taxes attributable to current operations are as follows (in millions):

| | Company | Predecessor | | |
|---|---|---|---|---|
| | Period from November 10 to December 31, 1999 | Period from January 1 to November 9, 1999 | 1998 | 1997 |
| CURRENT: | | | | |
| Federal | $(12.9) | $ — | $ (7.1) | $ — |
| State | (4.5) | (2.1) | (6.8) | (1.8) |
| Total Current | (17.4) | (2.1) | (13.9) | (1.8) |
| DEFERRED: | | | | |
| Federal | 28.7 | — | — | .4 |
| State | 4.0 | — | — | — |
| Total deferred | 32.7 | — | — | .4 |
| Benefit (provision) for income taxes | $ 15.3 | $(2.1) | $(13.9) | $(1.4) |

The following is a reconciliation of the income tax benefit (provision) attributable to continuing operations computed at the U.S. federal statutory tax rate to the income tax benefit (provision) computed using the Company's effective tax rate for each respective period (in millions):

| | Company | Predecessor | | |
|---|---|---|---|---|
| | Period from November 10 to December 31, 1999 | Period from January 1 to November 9, 1999 | 1998 | 1997 |
| Tax benefit at federal statutory rate | $19.0 | $ 96.4 | $ 28.3 | $ 34.1 |
| State income tax benefit (provision) | (.3) | 11.3 | (.3) | 3.7 |
| Change in valuation allowance | — | (108.6) | (39.7) | (37.5) |
| Goodwill amortization | (3.2) | — | — | — |
| Other differences | (.2) | (1.2) | (2.2) | (1.7) |
| Benefit (provision) for income taxes | $15.3 | $ (2.1) | $(13.9) | $ (1.4) |

**11. Income Taxes (Continued)**

Deferred income taxes reflect the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in millions):

| | Company 1999 | Predecessor 1998 |
|---|---|---|
| DEFERRED TAX ASSETS: | | |
| Net operating loss carryforwards | $ 126.2 | $ 22.1 |
| Investment in unconsolidated subsidiaries | 27.7 | 42.6 |
| Deferred revenue | 193.9 | 97.6 |
| Other | 39.7 | 25.4 |
| Gross deferred tax assets | 387.5 | 187.7 |
| Valuation allowance | — | (123.3) |
| Net deferred tax asset | $ 387.5 | $ 64.4 |
| DEFERRED TAX LIABILITIES: | | |
| Depreciation and amortization | $(384.4) | $ (65.2) |
| Unrealized gain on investments | (160.5) | — |
| Other liabilities | (4.2) | (1.0) |
| Gross deferred tax liabilities | (549.1) | $ (66.2) |
| Net deferred tax liabilities | $(161.6) | $ (1.8) |
| AS RECORDED IN THE CONSOLIDATED BALANCE SHEETS: | | |
| Current deferred tax assets | $ 16.8 | $ 5.0 |
| Noncurrent deferred tax liability | (178.4) | (6.8) |
| Gross deferred tax liabilities | $(161.6) | $ (1.8) |

The Company recorded gross deferred tax assets of approximately $346.3 million and gross deferred tax liabilities of approximately $484.3 million upon completion of the Merger. Tax loss carryforwards will generally expire between 2001 and 2018. U.S. tax laws limit the annual utilization of tax loss carryforwards of acquired entities. These limitations should not materially impact the utilization of the tax carryforwards.

As a result of the Merger, the Company released 100% of its valuation allowance in conjunction with the purchase accounting adjustments. Such a reduction results from a determination that it is more likely than not that all of the Company's deferred tax assets will be realized in a post-Merger environment.

**12. Related Party Transactions**

A law firm, of which a former director and stockholder of the Company was a principal, provided certain legal services to the Company in the amount of approximately $4.1 million in 1999, $3.3 million in 1998 and $4.3 million in 1997.

**12. Related Party Transactions (Continued)**

The Company pays interest on amounts borrowed from its Parent Company at a rate of 7.84%. As of December 31, 1999, the Company had outstanding loans of $442.9 million from its Parent Company.

**13. Fair Value of Financial Instruments**

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value.

*Accounts receivable and accounts payable:* The carrying amounts reported in the balance sheets for accounts receivable and accounts payable approximate fair value.

*Notes receivable:* The carrying amounts reported in the balance sheet for notes receivable approximate fair value because of the short-term nature of the notes and because their interest rates are comparable to current rates.

*Marketable Securities:* The fair values of marketable securities are based on quoted market prices.

*Long-term debt:* the fair value is estimated based on year-end closing market prices of the Company's debt and of similar liabilities. The carrying amounts at December 31, 1999 and 1998 were $597.4 million and $679.0 million, respectively, which approximates fair market value. Long-term debt also includes the forward sale of six million shares of PSINet common stock, as further described in Note 7. The Company is adjusting the carrying amount of this liability as required by the forward sale agreement. The carrying amount of this obligation at December 31, 1999 was $133.9 million.

*Preferred stock:* The fair value of the 12½% Exchangeable Preferred Stock is $435.5 million, and is based on the trading value of this instrument at December 31, 1999.

**13. Fair Value of Financial Instruments (Continued)**

*Interest Rate Risk Management:* Effective with the retirement of the revolving credit facility and with new debt being assumed by the Parent Company, the Company is not currently subject to market risk associated with changes in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes.

**14. Commitments and Contingencies**

*Lease Commitments*

Lease expense relating to facilities, equipment and transmission capacity leases, excluding amortization of fiber exchange agreements, was approximately $146.6 million, $120.5 million and $99.1 million for the years ending December 31, 1999, 1998, and 1997, respectively.

At December 31, 1999, the total minimum annual rental commitments under noncancelable leases are as follows:

| | Operating Leases | Capital Leases |
|---|---|---|
| | Millions of dollars | |
| 2000 | $ 41.9 | $ 6.4 |
| 2001 | 29.2 | 4.1 |
| 2002 | 22.5 | 1.5 |
| 2003 | 19.8 | .4 |
| 2004 | 7.8 | — |
| Thereafter | 10.4 | — |
| Total | $131.6 | 12.4 |
| Amount representing interest | | 1.1 |
| Present value of net minimum lease payments | | $11.3 |

*Commitments*

In order to satisfy the contractual commitments that the Company has entered into with respect to IRU agreements, approximately 1,700 fiber route miles must be constructed at an approximate cost of $82 million.

*Contingencies*

In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

Certain former members of the Company's board of directors, as well as Cincinnati Bell Inc., have been named as a defendant in five stockholder class action suits filed in the Delaware Court of Chancery (the Court). These suits were filed in July 1999 and pertain to the recently completed merger with Cincinnati Bell. The complaints allege, among other things, that the defendants breached their fiduciary duties to the Company's former stockholders by failing to maximize stockholder value in connection with entering into the Merger agreement and sought a court order enjoining completion of

**14. Commitments and Contingencies (Continued)**

the Merger. In an October 27, 1999 ruling, the Court denied plaintiffs' request for a preliminary injunction. The Merger has since closed and management believes that the performance of Cincinnati Bell's share price has rendered plaintiffs' arguments moot. While these suits currently remain outstanding and subject to further litigation, the Company does not believe any of plaintiffs' arguments have merit and intends to continue exploring all available options to bring this matter to a close, including discussions toward a possible settlement.

A total of twenty-seven Equal Employment Opportunity Commission ("EEOC") charges were filed beginning in September 1999 by current Broadwing Telecommunications Inc. employees located in the Houston office (formerly Coastal Telephone, acquired by the Company in May 1999) alleging sexual harassment, race discrimination and retaliation. The Company is continuing its investigation of these charges and is cooperating with the EEOC. Many employee interviews have been conducted by the EEOC and discovery is ongoing at the present time.

In the course of closing the Merger, the Company became aware of possible non-compliance with reporting requirements under certain federal environmental statutes. Since it was impossible to conduct a thorough investigation of all facilities within the ten-day period required to take advantage of the Environmental Protection Agency's (EPA) self-policing policy, the Company, by letter dated November 8, 1999, elected to voluntarily disclose its possible non-compliance to the EPA. By letter dated January 19, 2000, the EPA determined that the "prompt disclosure" requirement of the self-policing policy appears to have been satisfied and established a deadline of May 1, 2000 for the Company to complete its environmental audit of its facilities and report any violations to the Agency. The Company intends to complete its environmental audit of these facilities within the time frame established by the EPA and take whatever corrective actions are indicated.

The Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

**15. Valuation and Qualifying Accounts**

Activity in the Company's allowance for doubtful accounts and service credits was as follows (in millions):

| Description | Balance at Beginning of Period | Charged to Revenue | Deductions | Balance at End of Period |
|---|---|---|---|---|
| Period from November 10 to December 31, 1999 | $45.3 | $ 5.1 | $14.4 | $36.0 |
| Period from January 1 to November 9, 1999 | $16.7 | $53.3 | $24.7 | $45.3 |
| Year ended December 31, 1998 | $13.1 | $55.2 | $51.6 | $16.7 |
| Year ended December 31, 1997 | $ 6.4 | $20.7 | $14.0 | $13.1 |

**16. Quarterly Results (Unaudited)**

The following table presents certain unaudited quarterly financial information for each quarter in 1998 and 1999. This information was prepared on the same basis as the audited financial statements appearing elsewhere in this Form 10-K. The operating results for any quarter are not necessarily indicative of results for any future period. The Company may experience substantial fluctuations in

**16. Quarterly Results (Unaudited) (Continued)**

quarterly results in the future as a result of various factors, including customer turnover, price competition and the success of the Company's customers.

| | Predecessor | | | | | | | | Company |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 Quarter Ended | | | | 1999 Quarter Ended | | | | |
| | Mar 31 | Jun 30 | Sep 30 | Dec 31 | Mar 31 | Jun 30 | Sep 30 | Oct 1-Nov 9 | Nov 10-Dec 31 |
| | (Dollars in millions) | | | | | | | | |
| **Statement of Operations Data:** | | | | | | | | | |
| Net operating revenue | $157.6 | $ 155.9 | $185.3 | $169.8 | $161.4 | $ 157.9 | $170.1 | $ 78.8 | $ 99.0 |
| Operating expenses: | | | | | | | | | |
| Cost of providing services | 107.9 | 107.6 | 110.0 | 107.8 | 104.8 | 108.3 | 106.4 | 46.9 | 60.7 |
| Selling, general and administrative | 29.4 | 30.0 | 40.1 | 45.1 | 51.8 | 61.0 | 66.3 | 31.5 | 38.1 |
| Depreciation and amortization | 20.2 | 22.6 | 34.8 | 36.0 | 36.3 | 39.5 | 50.7 | 21.1 | 46.7 |
| Restructuring | — | — | — | — | — | 13.1 | 6.7 | — | — |
| Merger and other infrequent costs (credits) | (.1) | 7.7 | .5 | (.1) | .1 | 12.8 | 1.1 | 23.9 | — |
| Operating income (loss) | $ .2 | $ (12.0) | $ — | (19.0) | $(31.6) | $ (76.8) | $(61.1) | $(44.6) | $(46.5) |
| Net loss | $(17.9) | $(102.5) | $(15.3) | $(26.8) | $(42.2) | $(114.2) | $(69.1) | $(55.5) | $(45.5) |

***17. Segment Reporting***

In accordance with Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information", the Company began reporting its results by operating segment in 1998. Historically, management has segregated the operations of the Company into three operating segments: private line, switched long distance, and data and Internet. The operations of the Company now comprise a single segment and are reported as such to the Chief Executive Officer of the Parent Company, who functions in the role of chief operating decision maker for the Company. Accordingly, the Company has restated segment results for prior periods in order to conform to the current year presentation of operating segments.

Current and prior year segment information also includes the operations of Eclipse, which was acquired by the Company in a transaction accounted for as a pooling of interests.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The Company appointed PricewaterhouseCoopers LLP to audit its books of account and other records for the fiscal year ending December 31, 1999 and dismissed its previous accountants, Ernst & Young LLP. This action was taken in connection with the Merger with Cincinnati Bell, and was approved by the Company's Board of Directors. This action was reported on in a Form 8-K filed by the Company on November 16, 1999. The Company has had no disagreements with PricewaterhouseCoopers LLP or Ernst & Young LLP during the periods reported in these financial statements.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth in the table below are the names, ages (as of March 20, 2000) and current offices held by all executive officers and the sole director of the Company.

| Name | Age | Position With Company | Executive Officer Since |
|---|---|---|---|
| Richard G. Ellenberger | 47 | Chief Executive Officer and Director | 1999 |
| Richard S. Pontin | 46 | President and Chief Operations Officer | 1999 |
| Kevin W. Mooney | 41 | Chief Financial Officer | 1999 |
| Thomas Schilling | 36 | Senior Vice President-Finance | 1999 |
| Jeffrey C. Smith | 48 | Chief Legal/Administrative Officer | 1997 |
| David A. Torline | 50 | Chief Information Officer | 1999 |
| Mark W. Peterson | 45 | Treasurer | 1999 |
| Thomas E. Taylor | 53 | Secretary | 1999 |
| Dominick J. DeAngelo | 57 | President, Internet Data Services | 1999 |

Executive officers of the Company are elected by and serve at the discretion of the Board. None of the executive officers has any family relationship to any nominee for director or to any other executive officer of the Company. Set forth below is a brief description of the business experience for the previous five years of all non-director executive officers.

**RICHARD G. ELLENBERGER,** Chief Executive Officer and sole Director of the Company since November 9, 1999; President and Chief Executive Officer of Broadwing Inc. since March 1, 1999; Chief Operating Officer of Broadwing Inc. since September 1, 1998; President and Chief Executive Officer of Cincinnati Bell Telephone from June 1997 to April 1999; Chief Executive Officer of XLConnect, 1996-1997; President, Business Services of MCI Telecommunications, 1995-1996; Senior Vice President, Worldwide Sales of MCI Telecommunications, 1994-1995; Senior Vice President, Branch Operations of MCI Telecommunications, 1993-1994; Vice President, Southeast Region of MCI Telecommunications, 1992-1993.

**RICHARD S. PONTIN,** President and Chief Operating Officer of the Company since November 1999; President and Chief Operating Officer of Cincinnati Bell Telephone, April 1999 to November 1999; Vice President, Engineering & Operations of Nextel Communications, 1997 to 1999; Vice President, National Accounts, MCI Communications, 1996; Vice President Data Services, MCI Communications, 1994-1996; Vice President, Global Alliances, MCI Communications, 1992-1994.

**KEVIN W. MOONEY,** Chief Financial Officer of the Company since November 9, 1999; Executive Vice President and Chief Financial Officer of the Broadwing Inc. since September 1, 1998; Senior Vice President and Chief Financial Officer of Cincinnati Bell Telephone since January 1998; Vice President and Controller of Cincinnati Bell Inc., September 1996 to January 1998; Vice President of Financial Planning and Analysis of Cincinnati Bell Inc., January 1994 to September 1996; Director of Financial Planning and Analysis of Cincinnati Bell Inc., 1990-1994.

**THOMAS SCHILLING,** Senior Vice President of Finance of the Company since December 1999; Chief Financial Officer of AutoTrader.com from November 1998 to December, 1999; Managing Director of MCI Systemhouse from March 1997, to November 1998; Director of Finance from MCI Business Markets Division from November 1995 to March 1997.

**JEFFREY C. SMITH,** Chief Legal/Administrative Officer of the Company since November 1999; Senior Vice President of IXC Communications, Inc. from September 1997 until November 1999; Vice President, General Counsel and Secretary of IXC Communications, Inc. from January 1997 until September 1997; Vice President Planning and Development for Times Mirror Training, a subsidiary of

Times Mirror, from August 1994 to December 1996. Served in a variety of legal capacities, including five years as General Counsel to the Baltimore Sun newspaper and Associate General Counsel and Assistant Secretary at Time Mirror from 1985 through August 1994.position being. Prior to 1985, employed for seven years in private law practice as a trial and business attorney.

**DAVID A. TORLINE,** Chief Information Officer of Broadwing Communications and Broadwing Inc. since November 1999; Vice President., Information Technology of Cincinnati Bell Telephone from January 1995 to November 1999; President, Cincinnati Bell Supply, a subsidiary of Broadwing Inc., from October 1992 to January 1995; Director, Corporate Development of Cincinnati Bell Inc., from October 1989 to October 1992.

**MARK W. PETERSON,** Treasurer of Broadwing Communications Services Inc. and Vice President and Treasurer of Cincinnati Bell Inc. since March, 1999; Vice President and Assistant Treasurer of Sprint Corporation since July, 1996; Senior Advisor of Barents Group LLC, a subsidiary of KPMG Peat Marwick since August 1994; Vice President-Risk Management of Enron Corporation since July 1991.

**THOMAS E. TAYLOR,** General Counsel and Secretary of the Company since November 9, 1999; General Counsel and Secretary of Broadwing Inc. since September 1998; Senior Vice President and General Counsel of Cincinnati Bell Telephone from August 1996 to present; Partner at law firm of Frost & Jacobs from July 1987 to August 1996.

**DOMINICK J. DeANGELO,** President, Internet Data Services of Broadwing Communications Services, Inc. since November 1999; Senior Vice President, Product Management of IXC Communications from April 1999 until November, 1999; Senior Vice President, Marketing, Data Products and Services of IXC Communications, Inc. from July 1998 to April 1999; Vice President, Internet Services of Sprint Corporation ("Sprint") from January 1997 to May 1998; Vice President, Data Voice Product Management at Sprint from December 1995 to January 1997; Assistant Vice President, Data Service at Sprint from January 1993 to December 1995.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in the Company's Information Statement to be filed with the Commission within 120 days after December 31, 1999, and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be contained in the Company's Information Statement to be filed with the Commission within 120 days after December 31, 1999, and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be contained in the Company's Information Statement to be filed with the Commission within 120 days after December 31, 1999, and is incorporated herein by reference.

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 2.1 | Agreement and Plan of Merger dated as of July 20, 1999, among Cincinnati Bell Inc., IXC Communications, Inc. and Ivory Merger Inc. (incorporated by reference to Exhibit 2.1 of Cincinnati Bell Inc.'s Form 8-K dated July 22, 1999 and filed with the Commission on July 23, 1999). |
| 2.2 | Amendment No. 1 dated as of October 13, 1999, among Cincinnati Bell Inc., IXC Communications, Inc. and Ivory Merger Inc. (incorporated by reference to Exhibit 2.1 of Form 8-K dated October 14, 1999 and filed with the Commission on October 14, 1999). |
| 3.1† | Restated Certificate of Incorporation of IXC Communications, Inc., as amended. |
| 3.2† | Bylaws of Broadwing Communications Inc., as amended (incorporated by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 1999 and filed on January 7, 2000, file number 1-5367). |
| 4.1 | Indenture dated as of October 5, 1995, by and among IXC Communications, Inc., on its behalf and as successor-in-interest to I-Link Holdings, Inc. and IXC Carrier Group, Inc., each of IXC Carrier, Inc., on its behalf and as successor-in-interest to I-Link, Inc., CTI Investments, Inc., Texas Microwave Inc. and WTM Microwave Inc., Atlantic States Microwave Transmission Company, Central States Microwave Transmission Company, Telecom Engineering, Inc., on its behalf and as successor-in-interest to SWTT Company and Microwave Network, Inc., Tower Communication Systems Corp., West Texas Microwave Company, Western States Microwave Transmission Company, Rio Grande Transmission, Inc., IXC Long Distance, Inc., Link Net International, Inc. (collectively, the "Guarantors"), and IBJ Schroder Bank & Trust Company, as Trustee (the "Trustee"), with respect to the 12½% Series A and Series B Senior Notes due 2005 (incorporated by reference to Exhibit 4.1 of IXC Communications, Inc.'s and each of the Guarantor's Registration Statement on Form S-4 filed with the Commission on April 1, 1996 (File No. 333-2936) (the "S-4")). |
| 4.2 | Form of 12½% Series A Senior Notes due 2005 (incorporated by reference to Exhibit 4.6 of the S-4). |
| 4.3 | Form of 12½% Series B Senior Notes due 2005 and Subsidiary Guarantee (incorporated by reference to Exhibit 4.8 of IXC Communications, Inc.'s Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on June 13, 1996 (File No. 333-4061) (the "S-1 Amendment")). |
| 4.4 | Amendment No. 1 to Indenture and Subsidiary Guarantee dated as of June 4, 1996, by and among IXC Communications, Inc., the Guarantors and the Trustee (incorporated by reference to Exhibit 4.11 of the S-1 Amendment). |
| 4.5 | Indenture dated as of August 15, 1997, between IXC Communications, Inc. and The Bank of New York (incorporated by reference to Exhibit 4.2 of IXC Communications, Inc.'s Current Report on Form 8-K dated August 20, 1997, and filed with the Commission on August 28, 1997 (the "8-K")). |

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 4.6 | First Supplemental Indenture dated as of October 23, 1997, among IXC Communications, Inc., the Guarantors, IXC International, Inc. and IBJ Shroder Bank & Trust Company (incorporated by reference to Exhibit 4.13 of IXC Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997, and filed with the Commission on March 16, 1998 (the "1997 10-K")). |
| 4.7 | Second Supplemental Indenture dated as of December 22, 1997, among IXC Communications, Inc., the Guarantors, IXC Internet Services, Inc., IXC International, Inc. and IBJ Schroder Bank & Trust Company (incorporated by reference to Exhibit 4.14 of the 1997 10-K). |
| 4.8 | Third Supplemental Indenture dated as of January 6, 1998, among IXC Communications, Inc., the Guarantors, IXC Internet Services, Inc., IXC International, Inc. and IBJ Schroder Bank & Trust Company (incorporated by reference to Exhibit 4.15 of the 1997 10-K). |
| 4.9 | Fourth Supplemental Indenture dated as of April 3, 1998, among IXC Communications, Inc., the Guarantors, IXC Internet Services, Inc., IXC International, Inc., and IBJ Schroder Bank & Trust Company (incorporated by reference to Exhibit 4.15 of IXC Communications, Inc.'s Registration Statement on Form S-3 filed with the Commission on May 12, 1998 (File No. 333-52433)). |
| 4.10 | Purchase Agreement dated as of April 16, 1998, by and among IXC Communications, Inc., CS First Boston, Merrill, Morgan Stanley and Nationsbanc Montgomery Securities LLC (incorporated by reference to Exhibit 4.1 of IXC Communications, Inc.'s Current Report on Form 8-K dated April 21, 1998, and filed with the Commission on April 22, 1998 (the "April 22, 1998 8-K"). |
| 4.11 | Indenture dated as of April 21, 1998, between IXC Communications, Inc. and IBJ Schroder Bank & Trust Company, as Trustee (incorporated by reference to Exhibit 4.3 of the April 22, 1998 8-K). |
| 10.1 | Office Lease dated as of June 21, 1989 with USAA Real Estate Company, as amended (incorporated by reference to Exhibit 10.1 of the S-4). |
| 10.2 | Equipment Lease dated as of December 1, 1994, by and between DSC Finance Corporation and Switched Services Communications, L.L.C.; Assignment Agreement dated as of December 1, 1994, by and between Switched Services Communications, L.L.C. and DSC Finance Corporation; and Guaranty dated December 1, 1994, made in favor of DSC Finance Corporation by IXC Communications, Inc. (incorporated by reference to Exhibit 10.2 of the S-4). |
| 10.3 | Amended and Restated Development Agreement by and between Intertech Management Group, Inc. and IXC Long Distance, Inc. (incorporated by reference to Exhibit 10.7 of IXC Communications, Inc.'s and the Guarantors' Amendment No. 1 to Registration Statement on Form S-4 filed with the Commission on May 20, 1996 (File No. 333-2936) ("Amendment No. 1 to S-4")). |
| 10.4 | Third Amended and Restated Service Agreement dated as of April 16, 1998, among IXC Long Distance, Inc., IXC Carrier, Inc., IXC Broadband, Inc. and Excel Telecommunications, Inc. (incorporated by reference to Exhibit 10.6 of IXC Communications, Inc.'s quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the Commission on May 15, 1998 (the "June 30, 1998 10-Q")). |

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.5 | Equipment Purchase Agreement dated as of January 16, 1996, by and between Siecor Corporation and IXC Carrier, Inc. (incorporated by reference to Exhibit 10.9 of the S-4). |
| 10.6 | IRU Agreement dated as of November 1995 between WorldCom, Inc. and IXC Carrier, Inc. (incorporated by reference to Exhibit 10.11 of Amendment No. 1 to the S-4). |
| 10.7 | Lease dated as of June 4, 1997, between IXC Communications, Inc. and Carramerca Realty, L.P. (incorporated by reference to Exhibit 10.17 of the June 30, 1997 10-Q). |
| 10.8 | IRU and Stock Purchase Agreement dated as of July 22, 1997, between IXC Internet Services, Inc. and PSINet Inc. (incorporated by reference to Exhibit 10.19 of IXC Communications, Inc.'s Amendment No. 1 to Form 10-Q/A for the quarter ended September 30, 1997 filed with the Commission on December 12, 1997 (the "September 30, 1997 10-Q/A")). |
| 10.9 | Joint Marketing and Services Agreement dated as of July 22, 1997, between IXC Internet Services, Inc. and PSINet Inc. (incorporated by reference to Exhibit 10.20 of the September 30, 1997 10-Q/A). |
| 10.10 | Employment Agreement dated April 8, 1999, by and between IXC Communications, Inc. and Valerie G. Walden (incorporated by reference to Exhibit 10.24 of IXC Communications, Inc.'s Form 10-Q dated August 16, 1999 and filed with the Commission on August 16, 1999). |
| 10.11 | Contract for Services dated June 28, 1999, by and between IXC Communications, Inc. and American Business Development Corp. (incorporated by reference to Exhibit 10.27 of IXC Communications, Inc.'s Form 10-Q dated August 16, 1999 and filed with the Commission on August 16, 1999). |
| 10.12 | Joint Reporting Agreement dated June 15, 1999 among the Filing Persons (incorporated by reference to Exhibit 1 of IXC Communications, Inc.'s Amendment No. 1 to Form 13D dated June 15, 1999 and filed with the Commission on June 17, 1999). |
| 10.13 | Master Agreement dated as of June 2, 1999 between MLI and Internet (incorporated by reference to Exhibit 2 of IXC Communications, Inc.'s Amendment No. 1 to Form 13D dated June 15, 1999 and filed with the Commission on June 17, 1999). |
| 10.14 | Securities Loan Agreement dated as of June 2, 1999 between MLI and Internet (incorporated by reference to Exhibit 3 of IXC Communications, Inc.'s Amendment No. 1 to Form 13D dated June 15, 1999 and filed with the Commission on June 17, 1999). |
| 10.15 | Confirmation of OTC Transaction dated as of June 3, 1999 between Merrill Lynch International and IXC Internet Services, Inc. (incorporated by reference to Exhibit 4 of IXC Communications, Inc.'s Amendment No. 2 to Form 13D dated June 25, 1999 and filed with the Commission on June 29, 1999). |
| 10.16 | Confirmation of OTC Transaction dated as of July 6, 1999 between Merrill Lynch International and IXC Internet Services, Inc. (incorporated by reference to Exhibit 1 of IXC Communications, Inc.'s Amendment No. 4 to Form 13D dated July 31, 1999 and filed with the Commission on August 5, 1999). |

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.17 | Lease Agreement dated October 1, 1998, between The Prudential Insurance Company of America (as successor in interest to Kramer 34 HP, Ltd.), as Landlord, and IXC Communications Services, Inc., as Tenant, as amended by the First Amendment to Lease Agreement dated December 29, 1998, the Second Amendment to Lease Agreement dated May 13, 1999, the Third Amendment to Lease Agreement dated June 1999, the Fourth Amendment to Lease Agreement dated August 16, 1999, and the Fifth Amendment to Lease Agreement dated October 1, 1999, relating to certain space in the building commonly known as Kramer 3 in Austin, Texas (incorporated by reference to Exhibit 10.21 of IXC Communication, Inc.'s Form 10-Q/A for the quarter ended September 30, 1999 filed with the Commission on January 7, 2000 (the "January 7, 2000 10-Q/A"). |
| 10.18 | Lease Agreement dated May 13, 1999, between Kramer 34 HP, Ltd., as Landlord, and IXC Communications Services, Inc., as Tenant, as amended by the First Amendment to Lease Agreement dated June 1999, relating to certain space in the building commonly known as Kramer 2 in Austin, Texas (incorporated by reference to Exhibit 10.22 to the January 7, 2000 10-Q/A). |
| 10.19 | Credit Agreement dates as of November 9, 1999, among Cincinnati Bell Inc. and IXC Communications Services, Inc. as Borrowers, Cincinnati Bell Inc. as Parent Guarantor, the Initial Lenders, Initial Issuing Banks and Swing Line Banks named therein, Bank of America, N.A. as Syndication Agent, Citicorp USA, Inc. as Administrative Agent, Credit Suisse First Boston and The Bank of New York, as Co-Documentation Agents, PNC Bank, N.A., as Agent and Salomon Smith Barney Inc. and Banc of America Securities LLC, as Joint Lead Arrangers (incorporated by reference to Exhibit 10.1 of Cincinnati Bell Inc.'s Form 8-K dated November 9, 1999 and filed with the Commission on November 12, 1999). |
| 10.20 | Employment Agreement dated as of September 9, 1997, between Benjamin L. Scott and IXC Communications, Inc. (incorporated by reference to Exhibit 10.21 of IXC Communications Inc.'s Amendment No. 1 to Registration Statement on S-4 filed with the Commission on December 15, 1997 (File No. 333-37157). |
| 10.21 | Employment Agreement dated May 27, 1999, by and between IXC Communications, Inc. and John M. Zrno (incorporated by reference to Exhibit 10.26 of IXC Communications Inc.'s Form 10-Q dated August 16, 1999 and filed with the Commission on August 16, 1999). |
| 10.22 | Employment Agreement dated as of December 7, 1998, by and between IXC Communications, Inc. and Michael W. Vent (incorporated by reference to Exhibit 10.25 of IXC Communications Inc.'s Form 10-K dated March 26, 1999 and filed with the Commission on March 31, 1999). |
| 10.23† | Letter regarding termination of employment of Benjamin Scott dated August 24, 1999. |
| 10.24† | Employment Agreement dated as of November 9, 1999, by and between Broadwing Communications, Inc. and Dominick J. DeAngelo. |
| 21.1† | Subsidiaries of Broadwing Communications Inc. |
| 24.1† | Power of Attorney |
| 27.1† | Financial Data Schedule. |

† Filed herewith.

**(b) Reports on Form 8-K.**

Form 8-K, date of report October 13, 1999, reporting that certain sections of the Company's merger agreement with Cincinnati Bell Inc. had been amended in response to a decision of the Delaware Court of Chancery in the case of Phelps Dodge Corporation vs. Cyprus Amax Minerals Company. The Company's merger agreement with Cincinnati Bell Inc. was previously filed in a Form 8-K, date of report July 26, 1999.

Form 8-K, date of report October 22, 1999, reporting on the Company's results of operations for the three months ended September 30, 1999.

Form 8-K, date of report October 28, 1999, reporting that the Company and PSINet Inc. announced an agreement for the Company to provide PSINet with approximately 14,000 miles of fiber backbone on its coast-to-coast fiber optic network.

Form 8-K, date of report November 2, 1999, reporting that shareholders of Cincinnati Bell Inc. and the Company approved proposals clearing the way for Cincinnati Bell Inc. to acquire the Company.

Form 8-K, date of report November 23, 1999, reporting that the Company's merger with Cincinnati Bell Inc. was successfully completed on November 9, 1999.

Form 8-K, date of report November 23, 1999 reporting that in connection with the Company's merger with Cincinnati Bell Inc. that the Company dismissed its accountants, Ernst & Young LLP and replaced them with PricewaterhouseCoopers LLP, Cincinnati Bell Inc.'s existing accountants.

# SECURITIES AND EXCHANGE COMMISSION
Washinaton, D.C. 20549

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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.

BROADWING COMMUNICATIONS INC.

March 28, 2000

By /s/ KEVIN W. MOONEY

Kevin W. Mooney
*Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ RICHARD G. ELLENBERGER<br>Richard G. Ellenberger | Principal Executive Officer; Chief Executive Officer and Director | March 28, 2000 |
| /s/ KEVIN W. MOONEY<br>Kevin W. Mooney | Chief Financial Officer, Principal Financial and Accounting Officer | March 28, 2000 |

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 10-Q**

_X_ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended March 31, 2000**

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File Number 1-8519

# BROADWING INC.

Incorporated under the laws of the State of Ohio

201 East Fourth Street, Cincinnati, Ohio 45202

I.R.S. Employer Identification Number 31-1056105

Telephone - Area Code 513 397-9900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes_X_. No__.

At April 30, 2000, 213,513,638 common shares were outstanding.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
(Millions of Dollars, Except Per Common Share Amounts)
(Unaudited)

| | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| Revenues | | |
| Broadband | $213.0 | $ 17.2 |
| Local communications | 192.8 | 179.1 |
| Wireless | 36.6 | 15.2 |
| Other communications | 39.1 | 35.8 |
| Intersegment | (11.3) | (5.1) |
| Total Revenues | 470.2 | 242.2 |
| Costs and Expenses | | |
| Cost of providing services and products sold | 226.2 | 107.9 |
| Selling, general and administrative | 158.9 | 56.7 |
| Depreciation and amortization | 110.6 | 32.3 |
| Total Costs and Expenses | 495.7 | 196.9 |
| Operating Income (Loss) | (25.5) | 45.3 |
| Other Income | 7.0 | --- |
| Minority Interest Expense (Income) | 10.9 | (2.3) |
| Equity Loss in Unconsolidated Entities | 2.0 | --- |
| Interest Expense | 36.4 | 8.7 |
| Income (Loss) Before Income Taxes | (67.8) | 38.9 |
| Income Tax Provision (Benefit) | (12.4) | 14.2 |
| Net Income (Loss) | (55.4) | 24.7 |
| Dividends and Accretion Applicable to Preferred Stock | 0.3 | - |
| Net Income (Loss) Applicable to Common Shareholders | $(55.7) | $ 24.7 |
| Other Comprehensive Income (Loss), Net of Tax: | | |
| Unrealized loss on investments | 16.3 | - |
| Comprehensive Income (Loss) | $ (72.0) | $ 24.7 |
| Earnings (Loss) Per Common Share | | |
| Basic | $ (.28) | $ .18 |
| Diluted | $ (.28) | $ .18 |
| Dividends Declared Per Common Share | $ - | $ .10 |
| Average Common Shares Used for Earnings Per Share Calculations | | |
| Basic | 202.3 | 136.4 |
| Diluted | 202.3 | 140.1 |
| Retained Earnings | | |
| Beginning of period | $ - | $ - |
| Net income (loss) | (55.7) | 24.7 |
| Common share dividends declared | - | (13.7) |
| Other | - | .2 |
| End of period | $ (55.7) | $ 11.2 |
| Accumulated Other Comprehensive Income (Loss) | | |
| Beginning of period | $ 166.9 | $ (6.7) |
| Unrealized loss on investments | 16.3 | - |
| End of period | $ 150.6 | $ (6.7) |

See Notes to Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of Dollars, Except Per Share Amounts)

| | (Unaudited) March 31, 2000 | December 31, 1999 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 19.7 | $ 80.0 |
| Receivables, less allowances of $54.5 and $53.6 | 250.5 | 231.0 |
| Material and supplies | 31.7 | 30.3 |
| Deferred income tax benefits | 32.9 | 35.9 |
| Prepaid expenses and other current assets | 23.8 | 36.2 |
| Total current assets | 358.6 | 413.4 |
| Property, plant and equipment, net | 2,526.3 | 2,500.9 |
| Goodwill and other intangibles, net | 2,637.3 | 2,679.9 |
| Investments in other entities | 866.3 | 843.3 |
| Deferred charges and other assets | 72.9 | 71.1 |
| Total Assets | $ 6,461.4 | $ 6,508.6 |
| LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREOWNERS' EQUITY | | |
| Current Liabilities | | |
| Short-term debt | $ 10.5 | $ 9.2 |
| Accounts payable | 162.5 | 230.5 |
| Current portion of unearned revenue and customer deposits | 80.2 | 82.6 |
| Accrued taxes | 4.2 | 88.3 |
| Other current liabilities | 163.8 | 157.5 |
| Total current liabilities | 421.2 | 568.1 |
| Long-term debt, less current portion | 2,209.1 | 2,136.0 |
| Unearned revenue, less current portion | 634.7 | 633.5 |
| Deferred income taxes | 264.1 | 221.8 |
| Other long-term liabilities | 155.2 | 153.8 |
| Total liabilities | 3,684.3 | 3,713.2 |
| Minority interest | 425.9 | 434.0 |
| 7 ¼% Convertible Preferred Stock, redeemable, $.01 par value, 5,000,000 shares authorized, aggregate liquidation preference of $105.8, 1,058,380 shares issued and outstanding at March 31, 2000 and December 31, 1999 | 224.5 | 228.6 |
| Commitments and Contingencies | | |
| Shareowners' Equity | | |
| 6 ¾% Cumulative Convertible Preferred Stock, $.01 par value, 5,000,000 shares authorized, 155,250 shares issued and outstanding at March 31, 2000 and December 31, 1999 | 129.4 | 129.4 |
| Common shares, $.01 par value; 480,000,000 shares authorized; 211,493,352 and 208,678,058 shares issued at March 31, 2000 and December 31, 1999 | 2.1 | 2.1 |
| Additional paid-in capital | 2,045.4 | 1,979.5 |
| Retained earnings (deficit) | (55.7) | - |
| Accumulated other comprehensive income | 150.6 | 166.9 |
| Common stock in treasury, at cost: 7,805,800 shares issued and outstanding at March 31, 2000 and December 31, 1999 | (145.1) | (145.1) |
| Total shareowners' equity | 2,126.7 | 2,132.8 |
| Total Liabilities, Redeemable Preferred Stock and Shareowners' Equity | $ 6,461.4 | $ 6,508.6 |

See Notes to Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)
(Unaudited)

| | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income (loss) | $ (55.7) | $ 24.7 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 110.6 | 32.3 |
| Provision for loss on receivables | 11.3 | 3.7 |
| Non-cash interest expense | 8.5 | -- |
| Realized gain from the sale of marketable securities | (7.3) | -- |
| Other, net | 3.4 | (2.3) |
| Changes in assets and liabilities: | | |
| Increase in receivables | (30.1) | (1.1) |
| Decrease (increase) in other current assets | (.1) | 4.8 |
| Decrease in accounts payable | (38.4) | (16.5) |
| Increase (decrease) in other current liabilities | (53.2) | 5.0 |
| Decrease in unearned revenues | (1.2) | -- |
| Increase (decrease) in deferred income taxes and unamortized investment tax credits | 50.5 | .1 |
| Decrease (increase) in other assets and liabilities-net | 6.5 | (10.0) |
| Net cash provided by operating activities | 4.8 | 40.7 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | (153.9) | (37.1) |
| Proceeds from sale of marketable securities and ownership interest in joint venture | 15.7 | -- |
| Purchase of equity securities | (16.0) | -- |
| Other investing activities, net | .5 | -- |
| Net cash used in investing activities | (153.7) | (37.1) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in short-term debt | 1.4 | 4.1 |
| Borrowings of long-term debt | 470.4 | -- |
| Repayment of long-term debt | (404.1) | (.3) |
| Issuance of common shares | 37.8 | 3.9 |
| Minority interest dividends paid | (12.4) | -- |
| Cash dividends paid | (4.5) | (13.7) |
| Net cash provided by (used in) financing activities | 88.6 | (6.0) |
| Net decrease in cash and cash equivalents | (60.3) | (2.4) |
| Cash and cash equivalents at beginning of period | 80.0 | 10.1 |
| Cash and cash equivalents at end of period | $ 19.7 | $ 7.7 |
| Cash paid for: | | |
| Interest (net of amount capitalized) | $ 41.3 | $ 3.6 |
| Income taxes (net of refunds) | $ -- | $ 6.4 |
| Non-cash Investing and Financing Activities: | | |
| Accretion of preferred stock | $ 4.2 | $ -- |
| Fiber barter agreements | $ 4.8 | $ -- |

See Notes to Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION - The consolidated financial statements include the accounts of Broadwing Inc. and its wholly owned subsidiaries (the Company). The Company is a diversified telecommunications company with principal businesses in four industry segments; Broadband, Local Communications, Wireless and Other Communications.

The Broadband segment utilizes its advanced fiber-optic network to provide broadband transport (previously referred to as "private line"), data transport, Internet services, switched access, network integration and consulting, and other services. This segment also leases network capacity in the form of indefeasable right-to-use agreements ("IRUs"). These services are offered nationally through the Company's new Broadwing Communications, Inc. subsidiary.

The Local Communications segment provides local service, network access (including high-speed data transport), long distance, data and Internet, ADSL transport, as well as sales of communications equipment to customers in southwestern Ohio, northern Kentucky and southeastern Indiana. Services are marketed and delivered via the Company's Cincinnati Bell Telephone (CBT) subsidiary.

The Wireless segment includes the Company's Cincinnati Bell Wireless subsidiary, an 80%-owned venture with AT&T Wireless PCS, Inc. ("AT&T PCS"), which provides advanced digital personal communications to customers in its Greater Cincinnati and Dayton, Ohio operating areas. Services are provided over the Company's regional, and AT&T PCS' national, networks.

The Other Communications Services segment comprises the operations of the Company's Cincinnati Bell Directory (CBD), Cincinnati Bell Long Distance (doing business as Cincinnati Bell Any Distance, or CBAD), Cincinnati Bell Supply (CBS) and ZoomTown.com subsidiaries, as well as its public payphone operations. CBD publishes Yellow Page directories and sells directory advertising and informational services to customers primarily in its Local Communications' segment service area. CBAD resells voice long distance service primarily to small and medium-sized residence and business customers in the same Local Communications segment service area. CBS resells telecommunications and computer equipment in the secondary market. ZoomTown.com provides Web hosting and other Internet-based products and services. The Company is currently evaluating plans to sell, or exit, the CBS business because it does not fit with the Company's long-term strategic plan.

The consolidated financial statements of Broadwing Inc. 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 shown. All adjustments are of a normal and recurring nature except for those outlined in Notes 2, 3 and 5. Certain prior year amounts have been reclassified to conform to the current classifications with no effect on financial results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The December 31, 1999 condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. It is suggested that these financial statements be read in conjunction with financial statements and notes thereto included in the Company's 1999 Annual Report on Form 10-K.

(2) ACQUISITIONS -

**IXC Communications Inc.:**

On November 9, 1999, the Company merged with IXC Communications, Inc. (the Merger). Under the terms of the Merger, each share of IXC common stock was exchanged for 2.0976 shares of the Company's common stock. The aggregate purchase price of $2.2 billion consisted of (all numbers approximate): $0.3 billion in cash for the purchase of five million shares of IXC stock from GE Capital Pension Trust; the issuance of 68 million shares of the Company's common stock valued at $1.6 billion, 155,000 shares of 6 3/4% convertible preferred stock valued at $0.1 billion; and the issuance of 14 million options to purchase Broadwing common stock valued at $0.2 billion. These options were issued coincident with the Merger to replace the then outstanding and unexercised options exercisable for shares of IXC common stock. These options were granted on the same terms and conditions as the IXC options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.0976. The

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Merger was accounted for as a purchase and, accordingly, the operating results of IXC (Broadwing Communications) have been included in the Company's consolidated financial statements since the Merger date of November 9, 1999.

The cost of the Merger has been preliminarily allocated to the assets acquired and liabilities assumed according to their estimated fair values at the acquisition date and is subject to adjustment as the assumptions relating to the asset and liability valuations are finalized. In addition, the allocation may be impacted by changes in pre-acquisition contingencies identified during the allocation period by the Company relating to certain environmental, litigation, and other matters. As a result, amounts preliminarily allocated to goodwill were decreased by approximately $20.7 million during the first quarter of 2000.

The amount allocated to goodwill represents the excess of price paid over the fair value of assets realized and liabilities assumed in the Merger. These amounts are being amortized to expense over a 30-year period.

The following summarized unaudited pro forma financial information assumes the Merger occurred at the beginning of each year:

| Millions of dollars (except per share amounts) Three months ended March 31 | 2000 | 1999 |
|---|---|---|
| Revenues | $470.2 | $403.6 |
| Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) | $ 85.1 | $ 82.3 |
| Net Loss Applicable to Common Shareholders | $ (55.7) | $ (57.0) |
| Loss per common share (basic and diluted) | $ (.28) | $ (.28) |

The unaudited pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Merger occurred on January 1, 1999.

(3) RESTRUCTURING AND OTHER CHARGES

1999 Restructuring Plan

In December 1999, the Company initiated a restructuring plan to integrate the operations of the Company and Broadwing Communications, improve service delivery, and reduce the Company's expense structure. Total restructuring costs and impairments of $18.6 million were recorded in 1999 and consisted of $7.7 million related to Broadwing Communications (recorded as a component of the purchase price allocation) and $10.9 million related to the Company (recorded as a cost of operations). The $10.9 million related to the Company consisted of restructuring and other liabilities in the amount of $9.5 million and related asset impairments in the amount of $1.4 million. The restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits (including severance, medical and other benefits) related to 347 employees which primarily affect customer support, infrastructure and the Company's long distance operations. As of March 31, 2000, approximately 41% of the employee separations had been completed. The restructuring plans also included costs associated with closing a number of technical and customer support facilities, decommissioning certain switching equipment, and terminating contracts with vendors. The following table illustrates activity in this reserve since December 31, 1999:

| Type of costs (in millions): | Balance December 31, 1999 | Expenditures | Balance March 31, 2000 |
|---|---|---|---|
| Employee separations | $ 8.2 | $ (3.4) | $ 4.8 |
| Facility closure costs | 4.4 | (1.8) | 2.6 |
| Relocation | .2 | -- | .2 |
| Other exit costs | 4.4 | (.2) | 4.2 |
| Total | $ 17.2 | $ (5.4) | $ 11.8 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In total, the Company expects these restructuring plans to result in cash outlays of $14.8 million and non-cash items of $3.8 million. Management believes that the remaining balance of $ 11.8 million at March 31, 2000 is adequate to complete the restructuring plan and that most of the related actions will be completed by December 31, 2000.

(4) DEBT – The Company's indebtedness consists of the following:

| Millions of dollars | March 31, 2000 | December 31, 1999 |
|---|---|---|
| Short-Term Debt: | | |
| Current maturities of long-term debt | $ 10.5 | $ 9.2 |
| Total short-term debt | $ 10.5 | $ 9.2 |
| Long-Term Debt: | | |
| Bank notes | $ 1,205.0 | $ 755.0 |
| 9.0% Senior subordinated notes | 46.0 | 450.0 |
| 6 3/4% Convertible subordinated debentures | 418.9 | 412.0 |
| Various CBT notes | 290.0 | 290.0 |
| 7 1/4% Senior subordinated notes | 50.0 | 50.0 |
| PSINet forward sale | 153.2 | 133.9 |
| Capital lease obligations | 38.4 | 37.0 |
| Other | 7.6 | 8.1 |
| Total long-term debt | $ 2,209.1 | $ 2,136.0 |

9% Senior Subordinated Notes

In 1998, IXC issued $450 million of 9% senior subordinated notes due 2008 ("the 9% Notes"). In January 2000, $404 million of these 9% Notes were redeemed through a tender offer as a result of the change of control terms of the bond indenture. As a result, the $4.4 million premium paid upon redemption, net of taxes, was recorded as a component of the purchase price allocation during the first quarter of 2000.

The 9% Notes are general unsecured obligations and are subordinate in right of payment to all existing and future senior indebtedness and other liabilities of the Company's subsidiaries. The indenture related to the 9% Notes requires the Company to comply with various financial and other covenants and may restrict the Company from incurring certain additional indebtedness.

6 ¾% Convertible Subordinated Debentures

In July 1999, the Company issued $400 million of 10-year, convertible subordinated debentures to Oak Hill Capital Partners, L.P. These notes are convertible into common stock of the Company at a price of $29.89 per common share at the option of the holder. For as long as this debt is outstanding, these notes bear a coupon rate of 6.75% per annum, with the associated interest expense being added to the debt principal amount. Through March 31, 2000, the Company has recorded $18.9 million in interest expense and has adjusted the carrying amount of the debt accordingly.

PSINet Forward Sale

The Company's investment in PSINet consists of 20.5 million shares after adjusting for their February 2000 two-for-one stock split. In June and July 1999, Broadwing Communications received approximately $111.8 million representing amounts from a financial institution in connection with two prepaid forward sale contracts on six million shares of the PSINet common stock. This amount is accounted for as notes payable and is collateralized by six million shares of PSINet common stock owned by the Company. Each forward-sale obligation for three million shares of PSINet stock may be settled at future dates for a

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

maximum amount of three million shares of PSINet stock, or at the Company's option, the equivalent value in cash.

Bank Notes

In November 1999, the Company obtained a $1.8 billion credit facility from a group of 24 lending institutions that was amended to $2.1 billion in January 2000. The credit facility consists of $900 million in revolving credit and $750 million in term loans from banking institutions and $450 million in term loans from non-banking institutions. At March 31, 2000, the Company had drawn approximately $1,205 million from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger, as well as additional financing needs since the Merger. Accordingly, the Company has approximately $900 million in additional borrowing capacity under this facility as of the date of this report. This facility's financial covenants require that the Company maintain certain debt to EBITDA ratios, debt to capitalization ratios, fixed to floating rate debt ratios and interest coverage ratios. This facility also contains covenants which, among other things, restrict the Company's ability to incur additional debt, pay dividends, repurchase Company common stock, sell assets or merge with another company.

The interest rates to be charged on borrowings from this credit facility can range from 100 to 225 basis points above the London Interbank Offering Rate (LIBOR), depending on the Company's credit rating. The current borrowing rate is approximately 200 basis points. The Company will incur banking fees in association with this credit facility ranging from 37.5 basis points to 75 basis points, applied to the unused amount of borrowings of the facility.

(5) REDEMPTION AND CONVERSION OF 7 ¼% JUNIOR CONVERTIBLE PREFERRED STOCK

In connection with the Merger, the Company issued shares of 7 ¼% junior convertible preferred stock due 2007 in exchange for similar preferred shares of IXC. Pursuant to the Company's March 21, 2000 redemption offer, approximately 1.1 million of these preferred shares were converted into common shares at a rate of 8.945 common shares for each preferred share, creating approximately 9.5 million additional common shares at April 26, 2000. Approximately 100 shares were redeemed for cash to complete the Company's obligations related to this preferred stock.

(6) EARNINGS (LOSS) PER SHARE - Basic earnings (loss) per share is based upon the average number of common shares outstanding during the period. Diluted earnings (loss) per share reflect the potential dilution that would occur if common stock equivalents were exercised. The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations for net income (loss):

| Share and dollars in millions (except per share amounts) Three months ended | March 31, 2000 | March 31, 1999 |
|---|---|---|
| Numerator: | | |
| Net Income (loss) | $ (55.4) | $ 24.7 |
| Dividends and accretion applicable to preferred stock | (.3) | --- |
| Numerator for basic earnings per common share and earnings per common share assuming dilution – income applicable to common shareowners | $ (55.7) | $ 24.7 |
| Denominator: | | |
| Denominator for basic earnings per common share – weighted average common shares | 202.3 | 136.4 |
| Potential Dilution: | | |
| Stock options | --- | 2.9 |
| Stock based compensation arrangements | --- | .8 |
| Denominator for diluted earnings per common share | 202.3 | 140.1 |
| Basic earnings (loss) per common share | $ (.28) | $ .18 |
| Earnings (loss) per common share assuming dilution | $ (.28) | $ .18 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Options to purchase approximately 2.3 million weighted average shares of common stock at an average of $35.64 per share were outstanding during the three months ended March 31, 2000, but were not included in the computation of diluted EPS because they were anti-dilutive. The 6 ¾% convertible subordinated debentures and 7 ¼% convertible preferred stock were excluded from the diluted EPS calculation because they are anti-dilutive. The inclusion of the convertible debentures and preferred stocks would have added 13.8 million and 9.5 million shares, respectively, to the denominator of the EPS calculation at March 31, 2000.

On April 6, 2000, the Company converted approximately 1.1 million shares of the aforementioned 7¼% convertible preferred stock into approximately 9.5 million shares of its common stock. Accordingly, these 9.5 million shares will be added to the denominator of the EPS calculation during the second quarter of 2000.

(7) BUSINESS SEGMENT INFORMATION – Effective January 1, 2000, the Company changed its definition and composition of strategic operating segments and the related reporting framework. The operating segment changes are described below:

**Broadband Services**
Includes Broadwing Communications, Broadwing IT Consulting (formerly EnterpriseWise IT Consulting) and amounts associated with an agreement between the Company and Cincinnati Bell Long Distance (CBLD) to service the customers of CBLD outside the Cincinnati, Ohio area. IT Consulting and the CBLD service agreement amounts were previously in Other communications Services.

**Local Communications Services**
Includes Cincinnati Bell Telephone. The Company's public payphone business has moved to Other Communications Services. Also, ZoomTown.com's content and web hosting business has moved to Other Communications Services. ADSL transport continues to be included in Cincinnati Bell Telephone's results.

**Wireless Services**
Includes Cincinnati Bell Wireless and is unchanged.

**Other Communications Services**
Includes Cincinnati Bell Supply, Cincinnati Bell Directory, Cincinnati Bell Any Distance (including the portion of the former CBLD that provided voice services to the Cincinnati market), ZoomTown.com and the public payphone business. Cincinnati Bell Directory was formerly the Directory Services segment. Both ZoomTown.com and the public payphone business were previously in Local Communications Services.

Certain corporate administrative expenses have been allocated to segments based upon the nature of the expense. Assets are those assets used in the operations of the segment. The Company's business segment information is as follows:

| Millions of Dollars | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| REVENUES | | |
| Broadband | $ 213.0 | $ 17.2 |
| Local Communications | 192.8 | 179.1 |
| Wireless | 36.6 | 15.2 |
| Other Communications | 39.1 | 35.8 |
| Intersegment | (11.3) | (5.1) |
| | $ 470.2 | $ 242.2 |
| INTERSEGMENT REVENUES | | |
| Broadband | $ .4 | $ -- |
| Local Communications | .8 | 1.5 |
| Wireless | .4 | .2 |
| Other Communications | 9.7 | 3.4 |
| | $ 11.3 | $ 5.1 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

| | | |
|---|---|---|
| EBITDA | | |
| Broadband | $ (2.2) | $ 1.5 |
| Local Communications | 90.5 | 73.7 |
| Wireless | 1.6 | (6.1) |
| Other Communications | (4.4) | 7.7 |
| Corporate and Eliminations | (.4) | .8 |
| | $ 85.1 | $ 77.6 |
| ASSETS | | |
| Broadband | $5,152.9 | $ 8.0 |
| Local Communications | 779.0 | 762.4 |
| Wireless | 280.3 | 221.4 |
| Other Communications | 79.1 | 64.7 |
| Corporate and Eliminations | 170.1 | 16.6 |
| | $ 6,461.4 | $ 1,073.1 |
| CAPITAL ADDITIONS (excluding Acqusitions) | | |
| Broadband | $ 91.7 | $ .3 |
| Local Communications | 43.9 | 28.1 |
| Wireless | 18.0 | 6.7 |
| Other Communications | .3 | 2.0 |
| Corporate and Eliminations | -- | -- |
| | $ 153.9 | $ 37.1 |
| DEPRECIATION AND AMORTIZATION | | |
| Broadband | $ 74.8 | $ 1.3 |
| Local Communications | 29.4 | 27.4 |
| Wireless | 4.5 | 3.3 |
| Other Communications | 1.9 | .3 |
| Corporate and Eliminations | -- | -- |
| | $ 110.6 | $ 32.3 |

(8) CINCINNATI BELL TELEPHONE COMPANY - The following summarized financial information is for the Company's consolidated wholly owned subsidiary, Cincinnati Bell Telephone Company:

| Millions of Dollars | Three Months Ended March 31, 2000 | 1999 |
|---|---|---|
| Revenues | $192.8 | $181.6 |
| Costs and Expenses | 131.7 | 135.7 |
| Operating Income | $ 61.1 | $ 45.9 |
| Net Income | $ 35.8 | $ 26.6 |

Results for the three months ended March 31, 1999 include $2.4 million of Year 2000 programming costs which decreased net income by $1.6 million for the three months ended March 31, 1999.

| Millions of Dollars | March 31, 2000 | December 31, 1999 |
|---|---|---|
| Current Assets | $ 137.8 | $ 148.5 |
| Telephone Plant-Net | 617.0 | 606.9 |
| Other Noncurrent Assets | 24.2 | 26.0 |
| Total Assets | $ 779.0 | $ 781.4 |
| Current Liabilities | $ 151.0 | $ 161.6 |
| Noncurrent Liabilities | 50.0 | 45.1 |
| Long-Term Debt | 323.4 | 322.0 |
| Shareowner's Equity | 254.6 | 252.7 |
| Total Liabilities and Shareowner's Equity | $ 779.0 | $ 781.4 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(9) CONTINGENCIES – In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

The Company, as well as certain former members of IXC's board of directors, has been named as a defendant in five stockholder class action suits filed in the Delaware Court of Chancery (the Court). These suits were filed in July 1999 and pertain to the Company's recently completed merger with IXC. The complaints allege, among other things, that the defendants breached their fiduciary duties to IXC's former stockholders by failing to maximize stockholder value in connection with entering into the merger agreement and sought a court order enjoining completion of the Merger. In an October 27, 1999 ruling, the Court denied plaintiffs' request for a preliminary injunction. The Merger has since closed and management believes that the performance of the Company's share price has rendered plaintiffs' arguments moot. While these suits currently remain outstanding and subject to further litigation, the Company does not believe any of plaintiffs' arguments have merit. The Company is in the process of negotiating a possible settlement.

A total of twenty-six Equal Employment Opportunity Commission ("EEOC") charges were filed beginning in September 1999 by Broadwing Telecommunications Inc. employees located in the Houston office (formerly Coastal Telephone, acquired by IXC in May 1999) alleging sexual harassment, race discrimination and retaliation. The Company is continuing its investigation of these charges and is cooperating with the EEOC. The Company and the various complainants are currently engaged in a voluntary mediation proceeding to attempt to resolve this matter.

In the course of closing the Company's recently completed merger with IXC, the Company became aware of IXC's possible non-compliance with certain requirements under state and federal environmental laws. Since the Company is committed to compliance with environmental laws, management decided to undertake a voluntary environmental compliance audit of the IXC facilities and operations and, by letter dated November 9, 1999, disclosed potential non-compliance at the IXC facilities to the U.S. Environmental Protection Agency ("EPA") under the Agency's Self-Policing Policy. The Company made similar voluntary disclosures to various state authorities. By letter dated January 19, 2000, the EPA determined that IXC appears to have satisfied the "prompt disclosure" requirement of the Self-Policing Policy, and established a deadline of May 1, 2000 for the Company to complete its environmental audit of all IXC facilities and report any violations to the Agency. This deadline has since been extended to June 15, 2000 and the Company is currently in the process of completing the audit and implementing the steps necessary to correct violations discovered in the course of the audit. The Company intends to complete its environmental audit of these facilities within the time frame established by U.S. EPA and undertake corrective actions necessary to promptly achieve compliance.

The Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

(10) RECENTLY ISSUED ACCOUNTING STANDARDS - In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument may need to be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to all fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". In SAB 101 (which will be effective for and applicable to the Company's operating results in the second quarter of 2000), the SEC Staff expressed its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

## MANAGEMENT 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 Form 10-K for the year ended December 31, 1999. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date thereof.

### RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and segment data. Results for interim periods may not be indicative of the results for the full years.

On November 9, 1999, the Company completed its merger with IXC Communications, Inc. ("the Merger") and formed the basis for its Broadwing Communications Inc. subsidiary. The Merger was accounted for as a purchase and, accordingly, the operating results of Broadwing Communications have been included in the Company's financial statements since the Merger date. Because the Merger did not take place until November 9, 1999, comparisons of current quarter results with that of the prior year may not yield meaningful results in the absence of additional pro forma information. With regard to consolidated results and those of the Broadband segment, the Company has provided pro forma information (assuming the Merger occurred at the beginning of each year) to aid in the reader's understanding of the financial results presented in this Form 10-Q. In these instances, financial results and management's discussion thereof will be labeled as "pro forma". The following table summarizes the Company's reported and pro forma financial results for the quarterly periods ending March 31, 2000 and 1999:

| | As Reported Three Months Ended March 31, | | | | Pro Forma Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| ($ Millions) | 2000 | 1999 | Change | % | 2000 | 1999 | Change | % |
| Revenues: | | | | | | | | |
| Broadband | $ 213.0 | $ 17.2 | $ 195.8 | -- | $ 213.0 | $ 178.5 | $ 34.5 | 19 |
| Local communications | 192.8 | 179.1 | 13.7 | 8 | 192.8 | 179.1 | 13.7 | 8 |
| Wireless | 36.6 | 15.2 | 21.4 | 141 | 36.6 | 15.2 | 21.4 | 141 |
| Other communications | 39.1 | 35.8 | 3.3 | 9 | 39.1 | 35.8 | 3.3 | 9 |
| Intersegment | (11.3) | (5.1) | (6.2) | 122 | ( 11.3) | (5.0) | (6.3) | 126 |
| Total | 470.2 | 242.2 | 228.0 | 94 | 470.2 | 403.6 | 66.6 | 17 |
| Costs and expenses: | | | | | | | | |
| Cost of providing services and products sold | 226.2 | 107.9 | 118.3 | 110 | 226.2 | 212.8 | 13.4 | 6 |
| Selling, general and administrative | 158.9 | 56.7 | 102.2 | 180 | 158.9 | 108.5 | 50.4 | 47 |
| Total | 385.1 | 164.6 | 220.5 | 134 | 385.1 | 321.3 | 63.8 | 20 |
| EBITDA | 85.1 | 77.6 | 7.5 | 10 | 85.1 | 82.3 | 2.8 | 3 |
| Depreciation and Amortization | 110.6 | 32.3 | 78.3 | 242 | 110.6 | 89.3 | 21.3 | 24 |
| Operating Income (Loss) | (25.5) | 45.3 | (70.8) | -- | (25.5) | (7.0) | (18.5) | -- |
| Other Income, Net | 7.0 | -- | 7.0 | -- | 7.0 | 5.8 | 12.8 | -- |
| Equity Loss in Unconsolidated Entities | 2.0 | -- | 2.0 | -- | 2.0 | 2.9 | (0.9) | (31) |
| Minority Interest Expense (Income) | 10.9 | (2.3) | 13.2 | -- | 10.9 | 9.4 | 1.5 | 16 |
| Interest Expense | 36.4 | 8.7 | 27.7 | 318 | 36.4 | 26.4 | 10.0 | 38 |
| Income (Loss) Before Income Taxes | (67.8) | 38.9 | (106.7) | -- | (67.8) | (39.9) | (27.9) | -- |
| Income Tax Provision (Benefit) | (12.4) | 14.2 | (26.6) | -- | (12.4) | 15.5 | (27.9) | -- |
| Net Income (Loss) | (55.4) | 24.7 | (80.1) | -- | (55.4) | (55.4) | -- | -- |
| Dividends and Accretion Applicable to Preferred Stock | 0.3 | -- | 0.3 | -- | 0.3 | 1.6 | (1.3) | -- |
| Net Income (Loss) Attributable to Common Shareowners | $(55.7) | $24.7 | $(80.4) | -- | $(55.7) | $(57.0) | $(1.3) | -- |
| Income (Loss) per Common Share (Basic and Diluted) | $ (0.28) | $ .18 | $ (.46) | -- | $ (0.28) | $ (0.28) | $ -- | -- |

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**CONSOLIDATED OVERVIEW**

The discussion and analysis of the Company's Consolidated and Broadband operating results are presented on both a pro forma and as reported basis. All other operating segments are presented on an as reported basis since they were not affected by the Merger.

Revenues of $470 million were $67 million higher than in the first quarter of 1999, owing largely to the growth of the Broadband, Wireless and Local Communications segments. The Broadband segment, encompassing the operations of the Company's new Broadwing Communications Inc. subsidiary, produced more than half of the increase, or $35 million, as a result of growth in broadband transport, data and Internet and network integration and consulting revenues. Revenues from the Wireless segment increased 141%, or $21 million, and were the result of growth in subscribership. The Local Communications segment provided nearly $14 million in additional revenues, representing an 8% increase that came largely from data and broadband transport and value-added services. The Other Communications segment provided a $3 million increase, with growth coming from the new residential long distance offering at Cincinnati Bell Any Distance (CBAD), directory advertising and equipment sales.

Costs and expenses of $385 million (less depreciation and amortization) were $64 million higher than in the first quarter of 1999, of which $23 million was due to advertising to launch the new brand and new products and services. An additional $14 million in costs and expenses resulted from the growth of the Wireless segment. Costs of providing services and products sold was $226 million, a $13 million increase, nearly all of which was attributable to maintenance of the fiber-optic network and revenue growth within the Broadband segment. Selling, general and administrative (SG&A) expenses of $159 million increased $50 million over the prior year as a result of heavy spending on the Company's advertising campaigns mentioned above and an increased sales force to support both new and existing products and services.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of $85 million represented a modest improvement over the prior year. Significant EBITDA improvements by the Local Communications and Wireless segments were somewhat offset by the declining EBITDA of the Other Communications segment and a small EBITDA loss for the Broadband segment. The declining EBITDA of the Broadband and Other Communications segments are largely attributable to advertising expenditures of $17 million to launch the Company's nationwide presence and $6 million related to its Any Distance long-distance offer. The Company anticipates an improvement in EBITDA as the focus of these advertising efforts shift from general informational advertising to a more product-oriented approach.

Depreciation and amortization expenses increased $21 million for the first three months of 2000, $16 million of which was the result of the continued construction of the fiber-optic network. Higher depreciation and amortization expenses were also incurred by the Local Communications and Wireless segments as each continues to add to its respective network infrastructure.

An operating loss of $26 million represented a $19 million decline in comparison to the prior year quarter, with decreases by the Broadband and Other Communications segments being slightly offset by the improvements of the Local Communications and Wireless segments.

Minority interest expense of $11 million represented a $2 million increase versus the prior year quarter. This was the result of AT&T PCS' 19.9% minority interest in the operating loss of the Company's wireless business (an income item to the Company) being slightly less than in the prior year quarter, and higher dividends and accretion on the 12 ½% preferred stock of Broadwing Communications (an expense item).

Interest expense increased $10 million due to higher average debt levels necessary to fund continued construction of the fiber-optic network (see further discussion of indebtedness under "Financial Condition" and in the Notes to Financial Statements).

The Company realized a gain of $7 million on the sale of approximately 100,000 shares of the common stock of an investee that the Company classifies as an "available for sale" security under SFAS 115.

The Company had a $2 million loss resulting from an equity investee accounted for under the equity method.

MANAGEMENT DISCUSSION AND ANALYSIS OF
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Income taxes decreased $28 million as a function of lower pre-tax income, somewhat offset by the effect of certain non-deductible expenses such as goodwill amortization and minority interest dividends. The Company's previous effective tax rate of approximately 35% will not be sustainable to future periods due to significant levels of non-deductible expense such as goodwill amortization and minority interest dividends.

The Company reported a net loss of $55 million during the first quarter, equal to the amount reported in the prior year. The net loss applicable to common shareholders and loss per common share was $56 million or $.28 per common share, respectively, and virtually equal to the $57 million and $.28 reported in the prior year quarter.

Consolidated Overview on an As Reported Basis:

Revenues of $470 million were $228 million higher than in the first quarter of 1999, owing largely to acquisitions and growth of the company's wireless business. Costs and expenses of $385 million (less depreciation and amortization) were $221 million higher than in the first quarter of 1999, nearly 90% of which was attributable to the operations of the recently acquired Broadband segment. Increases in addition to the Merger are explained in the pro forma results above.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of $85 million represented a 10% improvement over the prior year. Significant EBITDA improvements by the Local Communications and Wireless segments were somewhat offset by the declining EBITDA of the Other Communications segment and the inclusion of the Broadband segment for the first full quarter. EBITDA margin experienced a significant decline, decreasing to 18% in the current quarter due to higher maintenance to support the fiber-optic network and to introduce the Company's new brand name, nationwide presence and new products and services. The Company anticipates an improvement in EBITDA as the focus of its advertising effort shifts from general informational advertising to a more product-oriented approach.

The Company reported a net loss of $55 million during the first quarter, an $80 million decline versus the prior year. The net loss applicable to common shareholders was $56 million in the first quarter, or a $.28 loss per common share. In the prior year quarter, net income applicable to common shareholders and basic and diluted earnings per common share was $25 million and $.18 respectively.

| BROADBAND ON A PRO FORMA BASIS | As Reported Three Months Ended March 31, | | | | Pro Forma Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| ($ Millions) | 2000 | 1999 | Change | % | 2000 | 1999 | Change | % |
| Revenues: | | | | | | | | |
| Broadband transport | $ 91.3 | $ --- | $ 91.3 | n/m | $ 91.3 | $ 70.9 | $ 20.4 | 29 |
| Switched services | 103.1 | 15.1 | 88.0 | n/m | 103.1 | 92.8 | 10.3 | 11 |
| Data and Internet | 9.6 | --- | 9.6 | n/m | 9.6 | 5.2 | 4.4 | 85 |
| Other | 9.0 | 2.1 | 6.9 | n/m | 9.0 | 9.6 | (.6) | (6) |
| Total | 213.0 | 17.2 | 195.8 | n/m | 213.0 | 178.5 | 34.5 | 19 |
| Costs and expenses: | | | | | | | | |
| Cost of providing services and products sold | 126.2 | 10.0 | 116.2 | n/m | 126.2 | 114.8 | 11.4 | 10 |
| Selling, general and administrative | 89.0 | 5.7 | 83.3 | n/m | 89.0 | 57.4 | 31.6 | 55 |
| Total | 215.2 | 15.7 | 199.5 | n/m | 215.2 | 172.2 | 43.0 | 25 |
| EBITDA | $ (2.2) | $1.5 | $ (3.7) | n/m | $ (2.2) | 6.3 | (8.5) | (135) |

The Broadband segment comprises the operations of the Company's Broadwing Communications Inc. subsidiary, a leading provider of telecommunications transmission and switched long-distance services with a coast-to-coast fiber optic network containing approximately 16,000 fiber route miles at March 31, 2000. The Company utilizes its advanced fiber-optic national network to provide data and voice services through its network, using both wholesale and retail channels. Broadband transport services are comprised of the lease of dedicated circuits that customers use to transmit voice and data traffic, indefeasible right-to-use ("IRU") agreements and network construction services.

MANAGEMENT DISCUSSION AND ANALYSIS OF
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Switched services represents the transmission of long-distance switched traffic to resellers and retail business customers through the Company's switches. Data/Internet services include providing frame relay and ATM-based data services, Web hosting and collocation. Other is comprised of Network integration and consulting services along with the sale of the related equipment and, in 1999, revenues from the Company's now completed Vyvx project.

Revenues increased $35 million, or 19%. The increase was due to a $24 million improvement in data services (which includes Broadband transport, Data and Internet and Other), and a $10 million increase in switched services. Broadband transport improvement was mainly comprised of increases in circuit-lease revenue and IRU revenue. Switched service revenue grew 11% year over year to $103 million. Increases in the switched services revenues, including the traffic associated with the May 10, 1999 acquisition of Coastal Telcom Limited Company and other related companies under common control ("Coastal"), were partially offset by the decrease in the wholesale portion of switched services revenues as a result of the decision to de-emphasize this business. At March 31, 2000, wholesale revenues are now less than 40% of the switched services, whereas they comprised more than 50% a year ago. Data and Internet, while only a small percentage of total revenues today, grew 86%. Other revenues grew more than 300% due to network integration and consulting sales, but this was offset by the completion of the Vyvx project which provided $7 million of revenues in 1999.

Cost of services primarily reflects access charges paid to LECs, transmission lease payments to other carriers and employee and hardware costs in the data-consulting arena. The increase was driven by revenue growth, and was held to a minimum as much of the year-over-year increase in data revenue and voice traffic was carried on the Company's network. The gross profit margin increased from 36% to 41% in the first quarter of 2000 versus the prior year. Going forward, cost of service expense is expected to continue to grow with revenue, but decline as a percentage of revenue as more of the traffic is carried on the Company's network.

Selling, general and administrative costs for the quarter increased $32 million, or 55%. Advertising increased $17 million over the first quarter of 1999 due to the national advertising campaign to launch the "Broadwing" brand. The remainder of the increase was primarily salary-related costs as the Company added approximately 600 employees from March 1999 to March 2000 mainly due to the inclusion of the Coastal and the expansion of the retail and IT consulting businesses. Selling, general and administrative expenses are expected to decline due to the completion of the initial branding campaign.

An EBITDA loss of $2 million was $9 million less than in the prior year and is the result of the items discussed above.

<u>Broadband on an As Reported Basis:</u>

Revenues increased $196 million to $213 million in current quarter due to increases in all categories resulting from the Merger. Additional growth came from network integration and consulting revenues provided by the IT Consulting subsidiary.

Cost of providing services and products sold increased $116 million due to the Merger and growth in the IT Consulting business. SG&A expenses increased for the same reasons as well as the increased advertising, resulting in an $83 million increase.

An EBITDA loss of $2 million is $4 million less than in the prior year quarter and is a result of the items discussed above.

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LOCAL COMMUNICATIONS

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| ($ Millions) | 2000 | 1999 | Change | % |
| Revenues | | | | |
| Local service | $111.3 | $104.1 | $ 7.2 | 7 |
| Network access | 48.3 | 45.7 | 2.6 | 6 |
| Other services | 33.2 | 29.3 | 3.9 | 13 |
| Total | 192.8 | 179.1 | 13.7 | 8 |
| Costs and Expenses: | | | | |
| Cost of providing services and products sold | 66.4 | 70.5 | (4.1) | (6) |
| Selling, general and administrative | 35.9 | 34.9 | 1.0 | 3 |
| Total | 102.3 | 105.4 | (3.1) | (3) |
| EBITDA | $ 90.5 | $ 73.7 | $ 16.8 | 23 |
| Access lines (In thousands) | 1,049 | 1,044 | 5 | 1 |
| Voice grade equivalents (In thousands) | 558 | 416 | 142 | 34 |

The Local Communications segment provides local service, network access (including high-speed data transport), long distance, data and Internet, ADSL transport, sales and installation of communications equipment and other ancillary telecommunications services through its Cincinnati Bell Telephone subsidiary.

Total revenues of $193 million were 8% higher than the $179 million recorded in the prior year quarter, owing to growth in all categories. The local service category provided most of the revenue growth for the segment, increasing 7% for the quarter, or $7 million. For local services, growth came primarily from data transport and value-added services. These services, in the aggregate, contributed more than 80% of the increase for this category, or $6 million. CBT added nearly 40,000 new subscribers for its Complete Connections® calling service bundle during the first quarter, bringing total subscribership and penetration rates to 139,000 and 20%, respectively. Similar success was achieved with regard to the Company's ZoomTown℠ ADSL product, with subscribership now topping 24,000 as a result of the 6,000 subscribers added this quarter. The growth of the ZoomTown℠ service resulted in $1 million in added revenues in comparison to the prior year quarter. A small increase in access lines contributed the remainder of the increase for the category.

Network access revenues were 6% higher, or $3 million. The sale of high capacity digital services (expressed in voice grade equivalents, or VGEs) increased 34%, resulting in approximately $4 million in new revenues for the network access category. The Company also realized approximately $1 million in additional revenues due to the recovery of mandated telecommunications costs. In spite of a 9% increase in access minutes of use, switched access revenues were approximately $2 million lower due to decreased per-minute rates as part of the optional incentive rate regulation at the Federal level in July 1999.

Other services revenue increased 13% over the prior year quarter, or $4 million. The Company's competitive pricing structure for the high-speed Internet access (ZoomTown℠) and Internet service provider (FUSE®) bundle resulted in increased subscribership for FUSE®, which added 5,000 new subscribers for the quarter. FUSE® revenues have grown nearly $1 million since the first quarter of last year. Other increases in the category are attributable to agency fees for sales of CBAD services, higher rent and facilities collocation revenue and a lower loss on receivables versus the prior year quarter.

CBT continues to improve its EBITDA, profitability and margins by leveraging the fixed investment in its telecommunications network to offer new products and services without significant incremental costs.

Costs and expenses of $102 million (excluding depreciation and amortization) were $3 million less than in the prior year, representing a 3% decrease and the lowest quarterly total in more than a year. Costs of providing services decreased by $4 million versus the prior year quarter, as lower spending for network switching right-to-use fees and lower operating taxes were partially offset by an increase in customer care expenses incurred in support of new products and services.

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Selling, general and administrative expenses increased by $1 million in comparison to the prior year quarter as decrease in Y2K spending were more than offset by additional advertising and call center expenses incurred in support of new calling service bundles and the Company's ZoomTown[SM] ADSL service.

As a result of the revenue increase and expense decrease detailed above, EBITDA grew from $74 million in the prior year quarter to the current quarter total of $91 million, a 23% increase.

WIRELESS

| ($ Millions) | Three Months Ended March 31, 2000 | 1999 | Change | % |
|---|---|---|---|---|
| Revenues: | | | | |
| Service | $ 33.2 | $ 12.5 | $ 20.7 | 166 |
| Equipment | 3.4 | 2.7 | .7 | 26 |
| Total | 36.6 | 15.2 | 21.4 | 141 |
| Costs and expenses: | | | | |
| Cost of providing services and products sold | 17.6 | 11.3 | 6.3 | 56 |
| Selling, general and administrative | 17.4 | 10.0 | 7.4 | 74 |
| Total | 35.0 | 21.3 | 13.7 | 64 |
| EBITDA | $ 1.6 | $ (6.1) | $ 7.7 | 126 |
| Number of subscribers (thousands) | 199.5 | 70.5 | 129.0 | 183 |
| Customer churn | 1.1% | 1.4% | | 21 |
| Average revenue per unit, postpaid customers (ARPU) | $66 | $67 | $(1) | (1) |

The Wireless segment comprises the operations of Cincinnati Bell Wireless LLC ("CBW"), an 80%-owned venture with AT&T Wireless PCS, Inc. ("AT&T PCS"), which provides advanced digital personal communications services and sales of related communications equipment to customers in its Greater Cincinnati and Dayton, Ohio operating areas. Services are provided over the Company's regional, and AT&T PCS' national, wireless networks.

Revenues of $37 million far exceeded that of the prior year quarter, gaining 141% versus the $15 million recorded in the prior year quarter. The vast majority of revenues for this segment, or approximately $33 million, were derived from service revenues. Remaining revenues resulted from the sale of handsets and associated accessories. Service revenues are growing on the basis of increasing subscribership, consistent ARPU and low customer churn. Approximately 37,000 subscribers were added during the quarter, with significant growth from both the postpaid and prepaid categories (20,000 and 17,000, respectively). ARPU from postpaid subscribers was $66 for the quarter; approximately equal to the $67 generated in the prior year quarter. Customer churn remains low and is among the best in the industry, decreasing to 1.1% of postpaid subscribers for the first quarter. The launch of CBW's new i-wireless[SM] prepaid service in the fourth quarter of 1999 resulted in $2 million in new revenues in comparison to the prior year as subscribership grew from approximately 11,000 subscribers at the end of 1999 to more than 28,000 at the end of the current quarter. i-wireless[SM] also represents an efficient use of the Company's wireless network due to its use of off-peak minutes.

Costs and expenses of $35 million (excluding depreciation and amortization) increased 64% versus the prior year quarter, largely as a function of increasing subscribership. Costs and expenses were divided equally between costs of providing services and products sold and selling, general and administrative expenses, totaling approximately $18 million each in the current quarter.

Cost of providing services consists largely of incollect expense (whereby CBW incurs costs associated with its subscribers using their handset while in the territory of another wireless service provider), network operations costs, interconnection expenses and cost of equipment sales. These costs were 34% of revenue in the first three months of 2000, considerably better than the 56% reported during the same period in the prior year.

Selling, general and administrative expenses include the high cost of customer acquisition and include the subsidy of customer handsets, advertising, distribution and promotional expenses. These costs totaled $17.5 million for the

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quarter due to the significant growth in subscribership. The cost per gross addition (CPGA) was $385 for postpaid subscribers. Selling, general and administrative costs dropped significantly as a percentage of total revenue, decreasing from 66% in the prior year quarter to 48% for the first three months of 2000.

A significant improvement in EBITDA was achieved during the first quarter as a function of increasing revenues and the expense controls noted above. EBITDA was positive for the first time in the relatively short existence of the wireless business, which exceeded the Company's projections by approximately one year. (CBW began operations in May 1998). EBITDA of $2 million represented a $8 million improvement over the prior year quarter, with a similar effect on EBITDA margin. EBITDA margin increased to 4.3%, a significant increase over the negative 40.1% margin reported for the prior year quarter.

OTHER COMMUNICATIONS

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| ($ Millions) | 2000 | 1999 | Change | % |
| Revenues | $ 39.1 | $ 35.8 | $ 3.4 | 9 |
| Costs and expenses: | | | | |
| Cost of providing services and products sold | 25.3 | 20.6 | 4.7 | 23 |
| Selling, general and administrative | 18.2 | 7.5 | 10.8 | 144 |
| Total | 43.5 | 28.1 | 15.4 | 55 |
| EBITDA | $ (4.4) | $ 7.7 | $ (12.1) | (157) |

The Other Communications Services segment comprises the operations of the Company's Cincinnati Bell Directory (CBD), Cincinnati Bell Long Distance (doing business as Cincinnati Bell Any Distance, or CBAD), Cincinnati Bell Supply (CBS) and ZoomTown.com subsidiaries, as well as its public payphone operations. CBD publishes Yellow Page directories and sells directory advertising and informational services to customers primarily in its Local Communications' segment service area. CBAD resells voice long distance service primarily to small and medium-sized residence and business customers in the same Local Communications segment service area. CBS resells telecommunications and computer equipment in the secondary market. ZoomTown.com provides Web hosting and other Internet-based products and services. The Company is currently evaluating plans to sell, or exit, the CBS business because it does not fit with the Company's long-term strategic plan.

Revenues of $39 million for the quarter represented a 9% increase, or $3 million, versus the prior year quarter. CBAD produced the majority of the revenue increase, gaining $2 million on the success of its new "Any Distance" service offering. This offer was successful in capturing a 40% market share by the end of the first quarter, representing 252,000 subscribers. CBD (which accounts for approximately 50% of the revenues for this segment) also reported higher revenues, increasing $1 million or 6% on the strength of the successful 1999 sales campaign. CBS contributed an additional $1 million revenue increase versus the prior year quarter due to higher sales of telecommunications equipment.

Costs and expenses (excluding depreciation and amortization) increased $15 million, or 55%. Costs of providing services were approximately $5 million higher, with all subsidiaries reporting increases. These increases were primarily the result of the Any Distance offer, higher sales volumes at CBS and the operations of the Company's new ZoomTown.com subsidiary. CBD also reported an increase in direct costs resulting from higher sales commissions and printing costs for its directories. SG&A expenses were also higher for each subsidiary, increasing by nearly $11 million in total versus the prior year quarter. Of the increase for the category, $6 million was the result of advertising and promotional efforts in support of the Any Distance offer. Versus the prior year when it did not have operations, the Company's new ZoomTown.com subsidiary reported a $1 million increase in SG&A expenses (consisting largely of customer care, consulting and other operational expenses). CBS reported a $1 million increase, reflecting higher employee costs and the move to a new facility.

EBITDA was reduced to a negative $4 million as a result of the above, nearly $12 million less than in the prior year. The Company anticipates improvement in EBITDA and EBITDA margin once it begins to fully realize the benefits of the advertising and promotional efforts necessary to advance the Any Distance offer and leverage its existing billing, customer care and network infrastructure.

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**FINANCIAL CONDITION**

Capital Investment, Resources and Liquidity

The Company's continued transformation from a wireline voice communications provider focused on its local franchise to a nationwide provider of data and voice communications and a regional provider of wireless services has resulted in significantly different financing requirements. Although the Company expects to generate positive cash flow from operations in 2000, capital expenditures and other investing needs continue to increase the Company's borrowings.

In order to provide for these cash requirements and other general corporate purposes, the Company recently obtained a $2.1 billion credit facility from a group of 24 lending institutions. The credit facility consists of $900 million in revolving credit and $750 million in term loans from banking institutions and $450 million in term loans from non-banking institutions. In January 2000, pursuant to a tender offer, the Company borrowed approximately $400 million in order to redeem the majority of the outstanding 9% senior subordinated notes assumed during the Merger. This tender offer was required under the terms of the note indenture due to a change in control provision. At March 31, 2000, the Company had drawn approximately $1.2 billion from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger. Accordingly, the Company has approximately $900 million in additional borrowing capacity under this facility as of the date of this report. Separately, the Company also has ownership position in four publicly traded companies which were valued at $864 million as of March 31, 2000. The sale of these securities is subject to limitations including registration rights.

On April 6, 2000, the Company completed the conversion of its 7¼% convertible preferred stock, exchanging 9,466,000 shares of its common stock for 1,058,292 shares of the 7 ¼% preferred stock, based on a conversion factor of 8.9446 common shares for each of the preferred shares. Conversion of these preferred shares into common stock of the Company eliminates approximately $8 million per year in dividend payment requirements.

The interest rates to be charged on borrowings from the credit facility can range from 100 to 225 basis points above the London Interbank Offering Rate (LIBOR), depending on the Company's credit rating. The current borrowing rate is approximately 200 basis points. The Company will incur banking fees in association with this credit facility ranging from 37.5 basis points to 75 basis points, applied to the unused amount of borrowings of the facility.

The Company is also subject to financial covenants in association with the credit facility. These financial covenants require that the Company maintain certain debt to EBITDA ratios, debt to total capitalization ratios, fixed and floating rate debt ratios and interest coverage ratios. This facility also contains certain covenants which, among other things, may restrict the Company's ability to incur additional debt, pay dividends, repurchase Company common stock, and sell assets or merge with another company.

As of the date of this filing, the Company maintains the following credit ratings:

| Entity | Description | Standard and Poor's | Duff & Phelps Credit Rating Service | Moody's Investor Service |
|---|---|---|---|---|
| BRW | Corporate Credit Rating | BB+ | BB+ | Ba2 |
| CBT | Corporate Credit Rating | BB+ | BBB+ | Baa3 |

Cash Flow

For the first three months of 2000, cash provided by operating activities was $5 million, compared to $41 million in 1999 due to lower earnings. Decreases in other current assets and increases in other current liabilities were more than offset by decreases in accounts payable and accrued liabilities, and increases in other assets and liabilities.

The Company's significant investing activities are capital expenditures and equity investments. Capital expenditures for the quarter were approximately $154 million, considerably higher than the $37 million spent in the prior year period. This increase is attributable to expenditures associated with continued construction of the Company's nationwide fiber-optic network, additional equipment purchases by CBT, and higher levels of capital investment at CBW. Capital expenditures to maintain and grow the nationwide fiber network, complete the wireless network expansion, and maintain the local Cincinnati network are expected to be approximately $805 million in 2000, consistent with amounts spent by the Company on a pro forma basis in 1999.

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In contrast to the first three months of 1999 (when $14 in common stock dividends were paid to shareowners), no dividends were paid on common stock in the first three months of 2000. Approximately $5 million in preferred stock dividends were paid to shareowners during the first quarter of 2000 (this amount was offset by approximately $4 million in accretion that was neither a source nor use of cash). The Company switched to cash payments of dividends on its 12 ½% preferred stock in February 2000 and approximately $12 million in dividends were paid on this preferred stock in the first quarter of 2000. This amount is included in the "Minority Interest (Income) Expense" caption in the Consolidated Statements of Income and Retained Earnings.

Balance Sheet

The following comparisons are relative to December 31, 1999.

The change in cash and cash equivalents and capital expenditures are discussed above. Accounts receivable increased as a result of increased revenues. Increased inventory levels are attributable to equipment requirements associated with new product offerings. Goodwill and other intangibles decreased as a result of adjustments relating to the Merger and amortization expense (see Note 2). Restructuring liabilities recorded in conjunction with the 1999 restructuring plan decreased as a result of cash expenditures during the first quarter of 2000. Increases to common stock outstanding and additional paid in capital are due to stock option exercises in the first quarter of 2000.

## REGULATORY MATTERS AND COMPETITIVE TRENDS

**Federal** – In February 1996, Congress enacted the Telecommunications Act of 1996 (the 1996 Act), the primary purpose of which was to introduce greater competition into the market for telecommunications services. Since February 1996, the Federal Communications Commission (FCC) has initiated numerous rulemaking proceedings to adopt regulations pursuant to the 1996 Act. The 1996 Act and the FCC's rulemaking proceedings can be expected to impact CBT's in-territory local exchange operations in the form of greater competition. However, these statutes and regulations also create opportunities for the Company to expand the scope of its operations, both geographically and in terms of products and services offered.

**Ohio** – The TELRIC phase of CBT's alternative regulation case, which will establish the rates CBT can charge to competitive local exchange carriers for unbundled network elements, remains pending. The PUCO issued its decision on the methodology CBT must use to calculate these rates on November 4, 1999. On January 20, 2000, the PUCO denied all parties' requests for rehearing except for one issue regarding nonrecurring charges. On March 17, 2000, CBT filed an appeal to the Ohio Supreme Court with respect to several issues. CBT's initial brief is due May 30, 2000. Nevertheless, CBT has submitted new cost studies as required by the PUCO's orders and is awaiting comments. After a period for review of the studies and resolution of any disputes, CBT is to file a tariff implementing the resulting rates.

**Kentucky** – On June 29, 1998, CBT filed an application with the Public Service Commission of Kentucky (PSCK) seeking approval of an alternative regulation plan similar to the Commitment 2000 plan approved by the PUCO in Ohio. On January 25, 1999, the PSCK issued an order approving the Kentucky alternative regulation plan with certain modifications. One of the modifications was the adoption of an earnings-sharing provision whereby customers would receive one-half of earnings on equity in excess of 13.5%. The PSCK also ordered that residential rates be frozen for three years and required rate reductions of approximately $3 million per year versus current rates. On February 12, 1999, CBT filed a petition seeking rehearing of the PSCK's January 25, 1999 order. On July 26, 1999, the PSCK issued an order that eliminated the automatic earnings-sharing provision and revised the required rate reductions to $2.3 million per year, instead of the $3 million per year previously ordered.

## BUSINESS OUTLOOK

Evolving technology, the preferences of consumers, the legislative and regulatory initiatives of policy makers and the convergence of other industries with the telecommunications industry are causes for increasing competition. The range of communications services, the equipment available to provide and access such services, and the number of competitors offering such services continue to increase. These initiatives and developments could make it difficult for the Company to maintain current revenue and operating margins.

CBT's current and potential competitors include other incumbent local exchange carriers, wireless services providers, interexchange carriers, competitive local exchange carriers and others. To date, CBT has signed various interconnection agreements with competitors and approximately 7,200 net access lines have been transferred to competitors.

Broadwing Communications faces significant competition from other fiber-based telecommunications companies such as Level 3 Communications, Qwest Communications International, Global Crossing and Williams Communications. These companies have enjoyed a competitive advantage over Broadwing Communications in the past due to better business execution. The Company feels that Broadwing Communications is well equipped to match these competitors on the basis of technology and has been working to improve on critical processes, systems and the execution of its business strategy. In order to achieve competitive advantage, the Company intends to develop or blend even more products and services from other subsidiaries into the operations of Broadwing Communications. This will be done as deemed necessary by the Company. Broadwing IT Consulting competes with Intranet hardware vendors, wiring vendors, and other network integration and consulting businesses.

The Company's other subsidiaries face intense competition in their markets, principally from larger companies. These subsidiaries primarily seek to differentiate themselves by leveraging the strength and recognition of the Company's brand equity, by providing customers with superior service and by focusing on niche markets and opportunities to develop and market customized packages of services. CBW is one of six active wireless service providers in the Cincinnati and Dayton, Ohio metropolitan market areas. CBD's competitors are directory services companies, newspapers and other media advertising services providers in the Cincinnati metropolitan market area and now competes with its former sales representative for Yellow Pages directory customers. This competition may affect CBD's ability to grow or maintain profits and revenues. CBS's competitors include vendors of new and used computer and communications equipment operating regionally and across the nation.

Cincinnati Bell Any Distance captured considerable market share in the Greater Cincinnati area during this quarter, but still faces intense competition from larger long distance providers and other resellers. As a matter of necessity, margins on long distance minutes continue to fall as providers attempt to hold on to their subscriber base.

The Company believes that its reputation for quality service and innovative products can be successfully exported outside of its local franchise area. The Company plans to blend its provisioning and marketing expertise with Broadwing Communications' next-generation fiber-optic network in order to introduce advanced calling and data transport services throughout the United States. The Company intends to retain market share with respect to its current service offerings and pursue rapid growth in data transport services. The Company also intends to leverage its investment in its local communications network and its regional wireless network and national partnership with AT&T PCS to provide new and incremental product and service offerings.

**Business Development** - To enhance shareholder value, the Company continues to review opportunities for acquisitions, divestitures, equity investments and strategic partnerships.

**Qualitative and Quantitative Disclosures about Market Risk**

The Company is exposed to the impact of interest rate changes. To manage its exposure to interest rate changes, the Company uses a combination of variable rate short-term and fixed rate long-term financial instruments. The Company may, from time to time, employ a small number of financial instruments to manage its exposure to fluctuations in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes. Management is reviewing steps necessary to mitigate this exposure.

Interest Rate Risk Management – The Company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs.

**Item 1. Legal Proceedings**

The information required by this Item is included in Note 9 of the notes to the condensed consolidated financial statements on page 12 of this quarterly report.

**Item 2. Changes in Securities and Use of Proceeds**

On April 6, 2000, the Company converted approximately 1.1 million shares of its 7 ¼% convertible preferred stock into approximately 9.5 million shares of its common stock, based on a conversion factor of 8.945 common shares for each share of convertible preferred stock. Holders had the option to convert their shares of preferred stock into shares of the Company's common stock, or accept a cash payment in lieu of this conversion feature. A cash payment was made for approximately 100 preferred shares that were not converted by the holders.

The Company is restricted as to the payment of certain dividends as defined in the Credit Agreement that is filed as Exhibit (3)(a) to this Report on Form 10-Q.

**Item 3. Defaults Upon Senior Securities**

None.

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

There were no matters submitted to a vote of security holders during the first quarter of 2000.

The Company's annual meeting of shareholders was conducted on April 19, 2000. At this meeting, shareholders voted on:

i. Election of three directors for three-year terms expiring in 2003,
ii. Amendment of the Company's Articles of Incorporation to change the Company's official name to Broadwing Inc.,
iii. Approval of the amended Broadwing Inc. 1997 Long Term Incentive Plan,
iv. Approval of the amended Broadwing Inc. Short Term Incentive Plan, and
v. Appointment of PricewaterhouseCoopers LLP as independent accountants for audit of the Company's financial statements for the year 2000.

The results of such votes were as follows:

i. Richard G. Ellenberger was elected as a director with 171,558,492 common shares voting for election and 1,919,895 shares voting against election. Karen M. Hoguet was elected as a director with 171,634,748 common shares voting for election and 1,843,639 shares voting against election. David B. Sharrock was elected as a director with 171,643,140 common shares voting for election and 1,835,247 shares voting against election.

ii. The proposal to amend the Company's Articles of Incorporation to change the Company's official name to Broadwing Inc. was approved with 170,847,428 common shares voting for the proposal, 1,784,879 common shares voting against the proposal, and 846,080 common shares which were abstentions or broker non-votes.

iii. The proposal to approve the amended Broadwing Inc. 1997 Long Term Incentive Plan was approved with 153,924,278 common shares voting for the proposal, 18,292,191 common shares voting against the proposal, and 1,261,918 common shares which were abstentions or broker non-votes.

iv. The proposal to approve the amended Broadwing Inc. Short Term Incentive Plan was approved with 164,674,785 common shares voting for the proposal, 7,446,374 common shares voting against the proposal, and 1,357,228 common shares which were abstentions or broker non-votes.

v. PricewaterhouseCoopers LLP was ratified as the Company's independent accountants with 171,966,558 common shares voting for ratification, 874,495 common shares voting against ratification, and 637,334 common shares which were abstentions or broker non-votes.

A shareholder proposal recommending a change to the method of executive incentive compensation was included in the Company's proxy statement, but was not submitted for shareholder vote because the item was not properly presented at the shareholder meeting.

**Item 5. Other Information**

See Item 2 above for a discussion regarding the conversion of the Company's 7 ¼% convertible preferred stock into common shares of the Company.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits.

The following are filed as Exhibits to Part I of this Form 10-Q:

| Exhibit Number | |
|---|---|
| (3)(a) | Articles of Incorporation of Broadwing Inc., as amended and restated effective April 19, 2000. |
| (10)(i)(1) | Credit Agreement dated as of January 12, 2000 among Cincinnati Bell Inc. (aka Broadwing Inc.) and IXCS as Borrowers, Cincinnati Bell Inc. as Parent Guarantor, the Initial Lenders, Initial Issuing Banks and Swing Line Banks named herein, Bank of America, N.A., as Syndication Agent, Citicorp USA, Inc., as Administrative Agent, Credit Suisse First Boston and The Bank of New York, as Co-Documentation Agents, PNC Bank, N.A., as Agent and Salomon Smith Barney Inc. and Banc of America Securities LLC, as Joint Lead Arrangers. |
| (10)(iii)(A)(1) | Short Term Incentive Plan of Broadwing Inc., as amended and restated effective January 1, 2000. |
| (10)(iii)(A)(2) | Broadwing Inc. Long Term Incentive Plan, as amended and restated effective January 1, 2000. |
| (27) | Financial Data Schedule |

(b) Reports on Form 8-K.

None.

## SIGNATURE

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.

Broadwing Inc.

Date: May 12, 2000

/s/ Kevin W. Mooney
Kevin W. Mooney
Chief Financial Officer

1999 Form 10-K

1999 **FORM 10-K**

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1999

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 1-8519

**Cincinnati Bell Inc.**
**dba**
**Broadwing Inc.**

An Ohio Corporation

I.R.S. Employer No. 31-1056105

201 East Fourth Street, Cincinnati, Ohio 45202
Telephone Number 513 397-9900

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Shares (par value $0.01 per share) | New York Stock Exchange |
| Preferred Share Purchase Rights | Cincinnati Stock Exchange |
| 6.75% Preferred Shares | New York Stock Exchange |
| 7.25% Preferred Shares | New York Stock Exchange |

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

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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 X No___

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

At February 25, 2000, there were 202,550,808 Common Shares outstanding.

At February 25, 2000, the aggregate market value of the voting shares owned by non-affiliates was $5,880,482,640.

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DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's definitive proxy statement dated March 17, 2000 issued in connection with the annual meeting of shareholders (Part III)

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This report contains trademarks, service marks and registered marks of the Company and its subsidiaries, as indicated.

## Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

Form 10-K contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs and expectations of the Company and its subsidiaries, are forward-looking statements. These statements involve potential risks and uncertainties; therefore, actual results may differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they were made. The Company does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Important factors that may affect these expectations include, but are not limited to: changes in the overall economy; changes in competition in markets in which the Company and its subsidiaries operate; advances in telecommunications technology; the ability of the Company to generate sufficient cash flow to fund its business plan and expand its fiber-optic network; changes in the telecommunications regulatory environment; changes in the demand for the services and products of the Company and its subsidiaries; the ability of the Company and its subsidiaries to introduce new service and product offerings in a timely and cost effective basis; and integration of the Company's new Broadwing Communications subsidiary.

# Part I

### Item 1. Business

*General*

As a result of its merger with IXC Communications Inc., Cincinnati Bell Inc., an Ohio corporation, announced it would begin doing business as Broadwing Inc. ("the Company") on November 15, 1999.

The Company is a diversified telecommunications services holding company. The Company's segments are strategic business units that offer distinct products and services to targeted market segments of customers.

The Local Communications segment provides local service, network access, data networking, Internet-based services, sales of communications equipment, local toll, and other ancillary telecommunications services through its Cincinnati Bell Telephone ("CBT") and ZoomTown.com ("ZT") subsidiaries. These two subsidiaries function as a fully integrated wireline communications provider.

The Broadband segment utilizes an advanced fiber-optic network to provide data transport, Internet, private line, switched access and other services. Additionally, network capacity is leased (in the form of indefeasible right-to-use agreements) to other telecommunications providers and to Internet service providers.

The Wireless segment comprises the operations of Cincinnati Bell Wireless LLC (an 80%-owned venture with AT&T Wireless PCS, Inc.), which provides advanced digital personal communications services to customers in its Cincinnati and Dayton, Ohio operating areas.

The Directory segment comprises the operations of Cincinnati Bell Directory, which publishes Yellow Pages directories and sells directory advertising and informational services in Cincinnati Bell Telephone's franchise area. These services are available to the customer in the form of traditional printed directories, an Internet-based service known as "Cincinnati Exchange," and on CD-Rom.

Other Communications combines the Cincinnati Bell Long Distance (CBLD) (also doing business as Cincinnati Any Distance), Cincinnati Bell Supply (CBS), and Broadwing IT Consulting segments. CBLD resells long distance, voice, data, frame relay, and Internet access services to small- and medium-sized business and residential customers in a six-state area of the midwest. CBS sells new computers and resells telecommunications equipment. Broadwing IT Consulting provides network integration and consulting services as well as the sale of related equipment.

The Company is incorporated under the laws of Ohio and has its principal executive offices at 201 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900).

*Strategy*

The Company believes that its reputation for service quality, well-regarded brand name, telecommunications industry knowledge and focus, and marketing and provisioning expertise can be successfully transferred to a national audience via its newly acquired, nationwide fiber-optic network and Internet backbone. Additionally, the Company seeks to expand on its existing capabilities by partnering with targeted industry leaders with different capabilities such as Cisco Systems, PSINet, ZeroPlus.com, Corvis, Lucent Technologies and AT&T.

By leveraging these competitive strengths, the Company believes that it can increase the market penetration of its existing services, effectively market new services, establish and deliver its data network solutions and wireless capabilities, and capture the full benefit of its strategic relationships.

The Company is focusing its efforts on several key initiatives;

- use its advanced telecommunications network consisting of more than 18,000 total fiber route miles to facilitate the widespread deployment of high-speed data transport services,
- stimulate and service the demand for wireless communications services,
- maintain market share in voice communications,
- create unique product-bundling solutions from the products and services of its subsidiaries.

*Local Communications*

Local Communications services are provided by the Company's Cincinnati Bell Telephone (CBT) and ZoomTown.com subsidiaries. CBT's product and service offerings are generally classified into three major categories: local service, network access, and other services. Revenues from this segment were 66%, 81% and 80%, respectively, of consolidated Company revenues for 1999, 1998 and 1997.

CBT provides telecommunications services to business and residential customers in the Cincinnati metropolitan market area. This market is about 2,400 square miles located approximately within a 25-mile radius of Cincinnati and it includes all or significant parts of four counties of southwestern Ohio, six counties in northern Kentucky and two counties in southeastern Indiana. Approximately 98% of Cincinnati Bell Telephone's network access lines are in one local access transport area.

Local service revenues are primarily from end-user charges for use of the public switched telephone network and for value-added services and custom-calling features. These services are provided to business and residential customers and represented 57% of CBT's total revenues for 1999. Network access revenues accounted for 25% of CBT's 1999 revenues and are from interexchange carriers for access to CBT's local communications network and from business customers for customized access arrangements. Other services represent the remaining 18% of CBT's 1999 revenues and are for the sale of telecommunications equipment, Internet access, sales and installation of communications equipment, commissions from sales agency agreements and other ancillary services.

CBT has successfully leveraged its embedded network investment to provide value–added services and unique product bundling packages, resulting in additional revenue with minimal incremental costs. CBT's plant, equipment and network are modern and capable of handling new service offerings as they are developed. Of its network access lines, 97% are served by digital switches, 100% have ISDN capability and 100% have Signaling System 7 capability, which supports enhanced features such as Caller ID, Call Trace and Call Return. The network also includes more than 2,800 route miles of fiber-optic cable, with nine rings of cable equipped with SONET technology linking Cincinnati's downtown and other major business centers. These SONET rings offer increased reliability and redundancy to CBT's major business customers. CBT's capital investment has been held relatively constant in recent years, normally ranging between $130 million and $150 million per year. However, the Company's desire to facilitate widespread deployment of its high-speed digital subscriber line service (Zoomtown) and equip its entire network for these types of high-speed data transport services has required, and will continue to require, additional capital investment.

In order to maintain its network, CBT relies on readily available supplies from a variety of external vendors. Since the majority of CBT's revenues result from use of the public switched telephone network, its operations follow no particular seasonal pattern. CBT's franchise area is granted under regulatory authority, and is subject to increasing competition from a variety of competitors. CBT is not aware of any regulatory initiative that would restrict the franchise area in which it is able to operate. A significant portion of its revenues are derived from pricing plans that require regulatory overview and approval. In recent years, these pricing plans have resulted in decreasing or fixed rates for some services, offset by price increases and more flexibility for other services. As of December 31, 1999, 42 companies were certified to offer telecommunications services in CBT's local franchise area and have sought interconnection agreements with CBT (13 of which are still in negotiations). CBT seeks to maintain competitive advantage over these carriers through its service quality, technologically equivalent or superior network, innovative products and services, creative bundling ideas for product and customer billing, and value pricing. CBT continues to report net gains in access lines in spite of this increased level of competition.

CBT had approximately 1,055,000 network access lines in service on December 31, 1999, an increase of 2.1% or 22,000 lines from December 31, 1998. Approximately 68% of CBT's network access lines serve residential customers and 32% serve business customers. In addition, voice-grade equivalents, a measure used to express the sale of higher-bandwidth services, increased 34% and 40% in 1999 and 1998, respectively.

*Broadband*

The Broadband segment was created as a result of the Company's merger with IXC Communications, Inc. (IXC) on November 9, 1999, and reflects the operations of Broadwing Communications Inc. (formerly IXC) from that date forward. Broadband revenues constituted only 8.8% of consolidated Company revenues in 1999, which does not fully reflect this segment's importance to the Company's future operations.

Broadwing Communications Inc. is a nationwide provider of data and voice communications services. These services are provided over approximately 16,000 route miles of fiber optic transmission facilities. Revenues for the Broadband segment come chiefly from its private line and switched services, categories constituting 46.3% and 48.9%, respectively, of Broadband segment revenues in the post-merger period.

Private line services provided by this segment represent the long-haul transmission of voice, data and Internet traffic over dedicated circuits, and are provided under bulk contracts with customers. Additionally, the private-line category includes revenues resulting from indefeasible right-to-use ("IRU") agreements. IRU agreements typically cover a fixed period of time and represent the lease of network fibers. The Company currently maintains enough network capacity and believes that the sale of IRU agreements has no negative impact on its ability to carry traffic for its retail customers. IRU agreements are standard practice among Broadwing Communication's competitors.

Switched services represent billed minutes per use for long distance services and consist of sales to both retail and wholesale customers. The Company currently believes that the best opportunity for switched services margin improvement lies with its retail customers. Accordingly, the Company is de-emphasizing the sale of switched services to wholesale customers. In the post-merger period, revenues from wholesale customers represented 42% of switched services revenue, a significantly smaller percentage than reported for the comparable 1998 period.

Data and Internet services represent the sale of high-speed data transport services such as frame relay, Internet access, and Internet-based services such as Web hosting to retail customers. In the post-merger period, these revenues constituted a relatively small 4.8% of Broadband segment revenues. However, the Company envisions a growing market for these types of services and it expects that the Data and Internet category will provide a greater share of Broadband segment revenues in the future.

The centerpiece of the Broadband segment is its next-generation, fiber-optic network. This network is not yet fully constructed, and will require significant expenditures to complete and to maintain. The construction of this network relies on a supply of readily-available materials and supplies from an established group of vendors. Construction of the network also relies on the ability to secure and retain land and rights-of-way for the location of network facilities, and the Company may incur significant future expenditures in order to remove these facilities upon expiration of these rights-of-way agreements.

Since revenues from this segment are conditioned primarily on telephone usage and the ratable recognition of contract revenues, its operations follow no particular seasonal pattern. However, this segment does receive a significant portion of its revenues from a relatively small group of interexchange carriers that are capable of constructing their own network facilities.

In order to satisfy the contractual commitments that Broadwing has entered into with respect to IRU agreements, approximately 1,700 fiber route miles must still be constructed at an estimated cost of $82 million.

Prices and rates for this segment's services offerings are primarily established through contractual agreements. Accordingly, they are influenced by marketplace conditions such as the number of competitors, availability of comparable service offerings, and the amount of fiber network capacity available from these competitors. Broadwing faces significant competition from other fiber-based telecommunications companies such as Level 3 Communications, Qwest Communications International, Global Crossings and Williams Communications. These companies have similarly equipped fiber networks, are well-financed, and have enjoyed certain competitive advantages over Broadwing Communications in the past. Broadwing Communications is confident that it is able to match these competitors on the basis of technology and is currently pursuing dramatic improvement with regard to critical processes, systems, and the execution of its business strategy.

*Wireless*

The Wireless Segment comprises the operations of Cincinnati Bell Wireless LLC, an 80%-owned venture with AT&T PCS, Inc. The Company acquired its 80% ownership interest from AT&T PCS on December 31, 1998.

Revenues for the Wireless segment arise primarily from two sources: provision of wireless communications services to its subscribers and the sale of handsets and associated equipment and accessories. In 1999, approximately 88% of revenues for the segment were from services and the remaining 12% were from equipment sales and other. The Wireless segment as a whole contributed 8.1% of current year consolidated Company revenues and also supplied more than 37% of the growth in consolidated revenues versus the prior year.

Service revenues are generated through subscriber use of the Company's wireless communications network. This network is maintained by the Company with respect to the Greater Cincinnati and Dayton, Ohio operating areas with wireless calls beyond these areas being terminated on AT&T PCS' national wireless network. Service revenues are generated through a variety of rate plans, which typically include a fixed number of minutes for a flat monthly rate, with additional minutes being charged at a per-minute-of-use rate. Additional revenues are generated by this segment when subscribers of other wireless providers initiate wireless calls using their own handsets on the Company's network. However, significant expenses are also incurred by this segment as its own wireless subscribers use their handsets in the operating territory of other wireless providers.

Nearly all service revenues are primarily generated on a post-paid basis, in that subscribers pay in arrears, based on usage. In October 1999, the Company introduced a new prepaid wireless service known as i-Wireless℠. This service is targeted primarily at youth and allows for the purchase of a specific number of minutes, in advance, at a fixed price. Since this service leverages the Company's existing network and requires no billing capabilities, it does not require significant incremental capital investment.

Sales of handsets and associated equipment take place primarily at the Company's retail locations, which consist of store locations and kiosks in high-traffic shopping malls and commercial buildings in the Cincinnati and Dayton, Ohio areas. The Company sells handsets and equipment from a variety of vendors; the Nokia brand is most popular with its customers. The Company maintains a supply of equipment and does not envision any shortages that would compromise its ability to add new customers. Unlike service revenues (which are a function of wireless handset usage), some degree of seasonality is experienced with respect to sales of equipment. Reasons for this phenomenon are two-fold: (1) handsets and equipment are often given as gifts during holiday seasons, and (2) the Company focuses a considerable amount of its marketing and promotional efforts towards these seasons. In order to attract customers, handsets are typically subsidized by the Company, i.e., sold for less than direct costs. This is a typical practice in the wireless industry.

The Wireless segment offers its services over a digital wireless network using Time Division Multiple Access (TDMA) technology. The Company believes that TDMA technology is sufficiently robust to meet the existing needs of its customers and to enable it to introduce new products and services as part of its business plan. As previously mentioned, this segment is reliant on AT&T PCS' national network for calls outside of its Greater Cincinnati and Dayton, Ohio operating areas. The Company believes that AT&T PCS will maintain its national digital wireless network in a form and manner that will allow Cincinnati Bell Wireless to attract and retain customers.

Rates and prices for this segment are determined as a function of marketplace conditions. As such, rates can and will be influenced by the pricing plans of as many as six active wireless service competitors. As evidenced by its record of attracting and retaining customers since its entry into the wireless business in 1998, the Company believes that its combination of technology, pricing and customer service enable it to succeed in its current operating environment. The Wireless segment has both consumer and business customers and does not believe that the loss of any one customer or small group of customers would have a material impact on its operations.

Given that this venture is jointly owned with AT&T PCS, net income or losses generated by this segment are shared between Cincinnati Bell Wireless and AT&T PCS in accordance with respective ownership percentages. As a result, 19.9% of the adjusted net income or loss for this segment is reflected as minority interest income or loss in the Company's Consolidated Statements of Income and Comprehensive Income (Loss).

*Directory*

The Directory segment is comprised of the operations of Cincinnati Bell Directory, which publishes Yellow Pages directories and sells directory advertising and informational services in Cincinnati Bell Telephone's franchise area. These services are available to more than 1.2 million residential and business customers in the form of traditional printed directories, an Internet-based service known as "Cincinnati Exchange," and on CD-Rom.

The majority of the revenues for this segment come from publishing, and it is the Company's practice to recognize revenues, and associated direct expenses over the lifespan of the respective publications (generally twelve months). Revenues for this segment constituted 7%, 8% and 9%, respectively, of consolidated Company revenues for 1999, 1998 and 1997. Primary expenses of this segment are sales commissions paid to sales agents and printing costs associated with its directory publications.

*Other Communications*

Other Communications combines the operations of the Cincinnati Bell Long Distance, Cincinnati Bell Supply, and Broadwing IT Consulting segments. Revenues for this segment constituted 12% of consolidated Company revenues for 1999 and each of the preceding two years.

Cincinnati Bell Long Distance Inc. (CBLD)

CBLD is an integrated communications provider that resells long distance telecommunications services and products as well as voice mail and paging services mainly in Ohio, Indiana, Michigan, Kentucky and Pennsylvania. CBLD is licensed, however, as a long distance provider in every state except Alaska. Its principal market focus is small-and medium-sized business and residential customers. CBLD augments its high-quality long-distance services with calling plans, network features and enhanced calling services to create customized packages of communications services for its clients. CBLD has added new data communications services for business customers, including high-speed dedicated and dial-up Internet access services and other high-speed data transport using frame relay technology. The operations of CBLD were integrated into Broadwing Communications in January 2000. Also in January 2000 CBLD started doing business as Cincinnati Bell Any Distance.

Cincinnati Bell Supply Company (CBS)

CBS markets telecommunications and computer equipment. Its principal market is the secondary market for refurbished telecommunications systems, including AT&T and Lucent branded systems. CBS's competitors include vendors of new and used computer and communications equipment operating regionally and across the nation. The Company is finalizing plans to sell or exit this business in 2000 as it does not fit the Company's long-term strategic plan.

Broadwing IT Consulting

Broadwing IT Consulting provides network integration and consulting services as well as the sale of related equipment. Its principal market is small- to medium-sized businesses. Competitors include Intranet hardware vendors, wiring vendors and other network integration and consulting businesses. The operations of Broadwing IT Consulting were integrated into Broadwing Communications in January 2000.

### *Increased Competition Could Compromise CBT's Profitability and Cash Flow*

*Local*

With regard to local markets, CBT continues to be the predominate provider of voice and data communications in the Greater Cincinnati and Northern Kentucky areas. This business is becoming increasingly competitive. CBT offers modern telecommunications services (such as its ZoomTown℠ high-speed Asynchronous Digital Subscriber Line (ADSL) service and its FUSE® Internet access services) to its local customers, but faces competition from cable modem and Internet access providers. The Company believes CBT will face greater competition as more competitors surface and focus additional resources on the Greater Cincinnati and Northern Kentucky metropolitan areas.

With the exception of Broadwing Communications (discussed below under "National"), the Company's other subsidiaries operate in a largely local or regional area, and each of these subsidiaries face significant competition. CBD's competitors are directory services companies, newspapers and other media advertising services providers in the Cincinnati metropolitan market area. CBD now competes with its former sales representative for Yellow Pages directory customers; such competition may affect CBD's ability to grow or maintain profits and revenues. CBLD's competitors include interexchange carriers and certain local telecommunications services companies. CBS's competitors include vendors of new and used communications and computer equipment, operating regionally and across the nation. Cincinnati Bell Wireless, LLC is one of six active wireless service providers in the Cincinnati and Dayton metropolitan market areas, most of which are nationally known and well financed. Broadwing IT Consulting provides network integration and consulting services and competes with a variety of Intranet hardware vendors, wiring vendors and other integration and consulting businesses.

The Company's inability to succeed against these competitors would compromise its profitability and cash flow. This would result in increased reliance on borrowed funds and could affect its ability to continue expansion of its national fiber-optic and regional wireless networks.

*National*

The addition of the Broadwing Communications subsidiary presents the Company with significant opportunities to reach a nationwide customer base and provide new services to local customers. However, the Company's success in this regard will depend on its ability to meet customers' price, quality and customer service expectations. With entry into this national market, the Company now faces competition from well-managed and well-financed companies such as Level 3 Communications, Qwest Communications International, Global Crossings, and Williams Communications. As with competition in the local arena, the Company's failure against these competitors could compromise its ability to continue construction of its network, which could have a material adverse effect on its business, financial condition and results of operations.

Competition from other national providers could also have another effect on the Company. The current and planned fiber network capacity of these and other competitors could result in decreasing prices even as the demand for high-bandwidth services increases. Most of these competitors have announced plans to expand, or are currently in the process of expanding, their networks. Increased network capacity and traffic optimization could place downward pressure on prices, thereby making it difficult for the Company to maintain profit margins.

### *Insufficiency of Cash Flow for Planned Investing and Financing Activities Will Result in a Substantial Amount of Indebtedness*

The Company's recent history of generating sufficient cash flow in order to provide for investing and financing needs has changed. Prior to 1998, the Company consisted largely of mature businesses that benefited from a local telephone franchise, an embedded customer base and relative freedom from competition.

The growth in demand for wireless, data and Internet-based communications, however, has made it necessary and prudent for the Company to diversify into these new businesses. Entering these businesses requires the Company to explore new markets in an attempt to reach new customers, and has resulted in substantial start-up costs, net operating losses and a drain on cash flow. The need to continue construction of the Company's fiber-optic network in support of these services will require a significant amount of additional funding, aggregating to approximately $1.8 billion over the next three years.

In order to provide for these cash requirements, the Company has obtained a $2.1 billion credit facility from a group of 24 banking and non-banking institutions. The Company anticipates that it will substantially increase its indebtedness in 2000 under this credit facility in order to provide for net operating losses, to fund its capital investment program, and to refinance existing debt.

The Company will not be able to provide for its anticipated growth without borrowing from this credit facility. The ability to borrow from this credit facility is predicated on the Company's ability to satisfy certain debt covenants that have been negotiated with lenders. Failure to satisfy these debt covenants could severely constrain the Company's ability to borrow from the credit facility without receiving a waiver from these lenders. If the Company were unable to continue the construction of its fiber-optic network, current and potential customers could be lost to competitors, which could have a material adverse effect on its business, financial condition and results of operations.

***Network Expansion is Dependent on Acquiring and Maintaining Rights-of-Way and Permits***

The expansion of the Company's network also depends on acquiring rights-of-way and required permits from railroads, utilities and governmental authorities on satisfactory terms and conditions and on financing such expansion. In addition, after the network is completed and required rights and permits are obtained, the Company cannot guarantee that it will be able to maintain all of the existing rights and permits. If the Company were to fail to obtain rights and permits or were to lose a substantial number of rights and permits, it could have a material adverse effect on its business, financial condition and results of operations.

***A Significant Amount of Capital Expenditures Will be Required to Fund Expansion of the Network***

The Company is committed to the expansion of its nationwide fiber-optic network, the widespread deployment of high-speed data transport services in its local telephone franchise area and continued infrastructure development for its wireless business. These initiatives will require a considerable amount of funding.

The Company's annual capital expenditures for its local Telecommunications business ranged between $100 million and $160 million over the last four years. In 1999, growth of the wireless business and capital spending in the post-merger period more than doubled these amounts (to nearly $400 million in the current year). The Company's current plans call for more than $800 million in capital spending in 2000 in order to continue expansion of the fiber optic network. Heavy capital spending is also planned in subsequent years, with the Company planning to spend nearly $1 billion over the succeeding two-year period.

The Company believes that it is imperative to invest heavily in its network in order to offer leading-edge products and services to its customers. Failure to construct and maintain such a network would leave the Company vulnerable to customer loss to other fiber-optic network providers, and would cause slower than anticipated growth. This would have a material adverse effect on our business, financial condition and results of operations.

***Regulatory Initiatives May Impact the Company's Profitability***

The Company's most profitable subsidiary, CBT, is subject to regulatory oversight of varying degrees at both the state and federal level. Regulatory initiatives that would put CBT at a competitive disadvantage or mandate lower rates for its services could result in lower profitability and cash flow for the Company, thereby increasing its reliance on borrowed funds. This could potentially compromise the expansion of its national fiber-optic network and development of its wireless business.

A further discussion of specific regulatory matters pertaining to the Company and its operations is contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Capital Additions

The capital additions of the Company are primarily for its fiber-optic transmission facilities, telephone plant in its local service area, and for development of the infrastructure for its wireless business. As a result of these expenditures, the Company expects to be able to introduce new products and services, respond to competitive challenges and increase its operating efficiency and productivity.

The following is a summary of capital additions for the years 1995 through 1999:

Dollars in Millions

| | Local Telephone Operations | Fiber-Optic Transmission Facilities | Wireless Infrastructure | Other | Total Capital Additions |
|---|---|---|---|---|---|
| **1999** | **$152.2** | **$165.0** | **$ 55.9** | **$ 8.3** | **$381.4** |
| 1998 | $ 134.9 | — | $2.2 | $ 6.5 | $143.6 |
| 1997 | $140.0 | — | — | $18.4 | $158.4 |
| 1996 | $101.4 | — | — | $ 4.9 | $106.3 |
| 1995 | $ 90.3 | — | — | $ 2.5 | $ 92.8 |

The total investment in local telephone operations plant increased from approximately $1,447 million at December 31, 1994, to approximately $1,856 million at December 31, 1999, after giving effect to retirements but before deducting accumulated depreciation at either date.

Capital additions for 2000 are estimated to be approximately $800 million, excluding any acquisitions that may occur in 2000.

*Employees*

At December 31, 1999, the Company and its subsidiaries had approximately 6,000 employees. CBT had approximately 2,000 employees covered under a collective bargaining agreement with the Communications Workers of America, which is affiliated with the AFL-CIO. The collective bargaining agreement expires in May 2002.

*Business Segment Information*

The amounts of revenues, intersegment revenues, EBITDA, assets, capital additions, depreciation and amortization attributable to each of the business segments of the Company for the year ended December 31, 1999, are set forth in Note 15 of the Notes to Financial Statements contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Item 2. Properties

The property of the Company is principally composed of its nationwide fiber-optic transmission system, telephone plant in its local telephone franchise area, and the infrastructure associated with its wireless business in the Greater Cincinnati and Dayton, Ohio operating areas. As this investment is extensive and geographically dispersed, it does not lend itself to description by character and location of principal units. Each of the Company's subsidiaries maintains some investment in furniture and office equipment, computer equipment and associated operating system software, leasehold improvements and other assets. Facilities leased as part of an operating lease arrangement are expensed as incurred and are not included in the totals below.

With regard to its local telephone operations, substantially all of the central office switching stations are owned and situated on land owned by the Company. Some business and administrative offices are located in rented facilities, some of which are treated as capitalized leases and included in the "Furniture, fixtures, vehicles and other" caption below. Fiber-optic transmission facilities consist largely of fiber-optic cable, associated optronics and the land and rights-of-way necessary to place these facilities. The wireless infrastructure consists primarily of transmitters, receivers, towers, antennae and associated land and rights-of-way.

The gross investment in fiber-optic transmission facilities, telephone plant, wireless infrastructure and other property, in millions of dollars, at December 31, 1999 and 1998 was as follows:

| | **1999** | 1998 |
|---|---|---|
| Land and rights of way | **$ 155.9** | $ 5.0 |
| Buildings and leasehold improvements | **428.3** | 164.0 |
| Telephone plant | **1,697.2** | 1,438.5 |
| Transmission system | **1,074.4** | 65.9 |
| Furniture, fixtures, vehicles and other | **225.7** | 187.4 |
| Construction in process | **232.0** | 12.4 |
| Total | **$3,813.5** | $1,873.2 |

Properties of the Company are divided between operating segments as follows:

| | **1999** | 1998 |
|---|---|---|
| Local Communications | **48.7%** | 92.9% |
| Broadband | **46.0%** | — |
| Wireless | **4.5%** | 5.8% |
| Other Communications | **0.8%** | 1.3% |
| Total | **100.0%** | 100.0% |

## Item 3. Legal Proceedings

The information required by this Item is included in Note 19 of the Notes to Financial Statements that are contained in Item 8, "Financial Statements and Supplementary Data."

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

On October 29, 1999, the Company conducted a special meeting of its security holders in order to vote on the issuance of the Company's common stock to stockholders of IXC in the merger of IXC and a subsidiary of the Company. This was the only item submitted for a vote of security holders during this special meeting. The Company's shareholders approved the merger, with 82,156,679 common shares (87.04%) voting in favor of the merger, 12,238,220 common shares (12.04%) voting against the merger, and 1,417,918 common shares abstaining from the vote.

## Item 4A. Executive Officers of the Registrant (during 1999)

The names, ages and positions of the executive officers of the Company as of 12/31/99 are as follows:

| Name | Age | Title |
|---|---|---|
| James D. Kiggen (a) | 67 | Chairman of the Board |
| Richard G. Ellenberger (a)(b)(d) | 46 | President and Chief Executive Officer |
| John T. LaMacchia (a)(b)(c) | 57 | President and Chief Executive Officer |
| Kevin W. Mooney | 41 | Executive Vice President and Chief Financial Officer |
| Thomas E. Taylor | 53 | General Counsel and Secretary |
| Richard S. Pontin | 46 | President and Chief Operating Officer of Broadwing Communications Inc. |
| John F. Cassidy | 45 | President, Cincinnati Bell Enterprises |
| Jack J. Mueller | 43 | President, Cincinnati Bell Telephone |

(a) Member of the Board of Directors

(b) Member of the Executive Committee

(c) Effective February 28, 1999, Mr. LaMacchia resigned as President and Chief Executive Officer of the Company but continues to serve as a Director of the Company.

(d) Effective March 1, 1999, upon Mr. LaMacchia's resignation, Mr. Ellenberger became President and Chief Executive Officer of the Company.

Officers are elected annually but are removable at the discretion of the Board of Directors.

**JAMES D. KIGGEN,** Chairman of the Board of the Company since January 1, 1999; Chairman of the Board of Xtek, Inc., 1985-1999; Chief Executive Officer of Xtek, Inc., 1985-1998; President of Xtek, Inc., 1985-1995. Director of Fifth Third Bancorp and its subsidiary, Fifth Third Bank, and The United States Playing Card Company.

**RICHARD G. ELLENBERGER,** President and Chief Executive Officer of the Company since March 1, 1999; Chief Operating Officer of the Company since September 1, 1998; President and Chief Executive Officer of CBT since June, 1997; Chief Executive Officer of XLConnect, 1996-1997; President, Business Services of MCI Telecommunications, 1995-1996; Senior Vice President, Worldwide Sales of MCI Telecommunications, 1994-1995; Senior Vice President, Branch Operations of MCI Telecommunications, 1993-1994; Vice President, Southeast Region of MCI Telecommunications, 1992-1993.

**JOHN T. LAMACCHIA,** President and Chief Executive Officer of CellNet Data Systems, Inc. since May 1999, President and Chief Executive Officer of the Company, 1993 – February 28, 1999; President and Chief Operating Officer of the Company, 1988-1993; Chairman of Cincinnati Bell Telephone, 1993 - 1999. Director of The Kroger Company, Burlington Resources Inc. and CellNet Data Systems, Inc.

**KEVIN W. MOONEY,** Executive Vice President and Chief Financial Officer of the Company since September 1, 1998; Senior Vice President and Chief Financial Officer of CBT since January 1998; Vice President and Controller of the Company, September 1996 to January 1998; Vice President of Financial Planning and Analysis of the Company, January 1994 to September 1996; Director of Financial Planning and Analysis of the Company, 1990-1994.

**THOMAS E. TAYLOR**, General Counsel and Secretary of the Company since September 1998; Senior Vice President and General Counsel of Cincinnati Bell Telephone from August 1996 to present; Partner at law firm of Frost & Jacobs from July 1987 to August 1996.

**RICHARD S. PONTIN,** President and Chief Operating Officer of Broadwing Communications since November 1999; President and Chief Operating Officer of Cincinnati Bell Telephone, April 1999 to November 1999; Vice President, Engineering & Operations of Nextel Communications, 1997 to 1999; Vice President, National Accounts, MCI Communications, 1996; Vice President Data Services, MCI Communications, 1994-1996; Vice President, Global Alliances, MCI Communications, 1992-1994.

**JOHN F. CASSIDY,** President, Cincinnati Bell Enterprises since August, 1999; President of Cincinnati Bell Wireless since 1996; Senior Vice President, National Sales & Distribution of Rogers Cantel in Canada from 1992-1996.

**JACK J. MUELLER,** President of Cincinnati Bell Telephone since November 1999; General Manager of Cincinnati Bell Telephone's Residential and Business Markets February 1999-November 1999; President and CEO of Cincinnati Bell Directory 1996-1999; Vice President of Cincinnati Bell Directory 1990-1996.

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Security Holder Matters.

**Market Information**

The Company's common shares (symbol: BRW) are listed on the New York Stock Exchange and on the Cincinnati Stock Exchange. As of February 25, 2000, there were approximately 127,000 holders of record of the 202,550,808 outstanding common shares of the Company. The high and low sales prices* and dividends declared per common share** each quarter for the last two fiscal years are listed below:

| Quarter | | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|---|
| **1999** | **High** | **$ 23 7/16** | **$ 26 1/2** | **$ 26 1/2** | **$ 37 7/8** |
| | **Low** | **$ 16 1/16** | **$ 19 5/8** | **$ 16 5/16** | **$ 18 3/4** |
| | **Dividend Declared** | **$ .10** | **$ .10** | **$ —** | **$ —** |
| 1998 | High | $ 14 11/16 | $ 15 5/8 | $ 13 9/16 | $ 15 7/16 |
| | Low | $ 12 9/16 | $ 11 11/16 | $ 9 7/16 | $ 8 13/16 |
| | Dividend Declared | $ .10 | $ .10 | $ .10 | $ .10 |

Effective November 15, 1999, the ticker symbol for the Company's common shares changed to BRW from CSN.

* Prices adjusted to reflect distribution of shares of Convergys Corporation on December 31, 1998.

** Dividends discontinued after quarterly dividend declared on June 21, 1999.

**Dividends**

The Company discontinued its dividend payment on its common shares effective after the second quarter 1999 dividend payment in August 1999. The Company does not intend to pay dividends on its common shares in the foreseeable future. Furthermore, the Company's future ability to pay dividends is restricted by certain covenants and agreements pertaining to outstanding indebtedness. The Company is required to pay dividends on its 6¾% and 7¼% preferred shares, and is paying dividends in cash rather than shares of Broadwing Communications 12½% preferred shares on February 15, 2000.

## Item 6. Selected Financial Data

| Millions of dollars except per share amounts | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| **Results of Operations** | | | | | |
| Revenues | **$1,131.1** | $ 885.1 | $834.5 | $779.8 | $736.0 |
| Costs and expenses, less depreciation and amortization | **795.4** | 595.1 | 539.8 | 507.9 | 478.7 |
| EBITDA (a) | **335.7** | 290.0 | 294.7 | 271.9 | 257.3 |
| Depreciation and amortization | **181.0** | 111.1 | 124.3 | 121.0 | 116.3 |
| Restructuring and other charges (credits) (b) | **10.9** | (1.1) | (21.0) | (29.7) | 131.6 |
| Operating income | **143.8** | 180.0 | 191.4 | 180.6 | 9.4 |
| Equity loss in unconsolidated entities | **15.3** | 27.3 | — | — | — |
| Minority interest and other income (expense) | **4.5** | (2.4) | (2.7) | 0.5 | (9.1) |
| Interest expense | **61.7** | 24.2 | 30.1 | 27.9 | 45.4 |
| Income (loss) before income taxes, extraordinary items and cumulative effect of change in accounting principle | **71.3** | 126.1 | 158.6 | 153.2 | (45.1) |
| Income taxes | **33.3** | 44.3 | 56.3 | 53.7 | (16.0) |
| Income (loss) from continuing operations | **38.0** | 81.8 | 102.3 | 99.5 | (29.1) |
| Income from discontinued operations, net of taxes (c) | **—** | 69.1 | 91.3 | 85.5 | 3.8 |
| Income (loss) before extraordinary items | **38.0** | 150.9 | 193.6 | 185.0 | (25.3) |
| Extraordinary items and cumulative effect of change in accounting principle (d) | **(6.6)** | (1.0) | (210.0) | — | (7.0) |
| Net income (loss) | **31.4** | 149.9 | (16.4) | 185.0 | (32.3) |
| Dividends and accretion applicable to preferred stock | **2.1** | — | — | — | — |
| Net income (loss) applicable to common shareholders | **$29.3** | **$149.9** | **$(16.4)** | **$185.0** | **$(32.3)** |
| Basic earnings (loss) per common share: | | | | | |
| Income (loss) from continuing operations | **$ .25** | $ .60 | $ .76 | $ .74 | $ (.22) |
| Income from discontinued operations, net of taxes | — | .51 | .67 | .64 | .03 |
| Extraordinary items, net of taxes | **(.05)** | (.01) | (1.55) | — | (.05) |
| Income (loss) | **$ .20** | $ 1.10 | $ (.12) | $ 1.38 | $ (.24) |
| Diluted earnings (loss) per common share: | | | | | |
| Income (loss) from continuing operations | **$ .24** | $ .59 | $ .74 | $ .73 | $ (.22) |
| Income from discontinued operations, net of taxes | — | .50 | .67 | .62 | .03 |
| Extraordinary items, net of taxes | **(.04)** | (.01) | (1.53) | — | (.05) |
| Income (loss) | **$ .20** | $ 1.08 | $ (.12) | $ 1.35 | $ (.24) |
| Dividends declared per common share | **$ .20** | $ .40 | $ .40 | $ .40 | $ .40 |
| Weighted average common shares (millions) | | | | | |
| Basic | **144.3** | 136.0 | 135.2 | 133.9 | 132.0 |
| Diluted | **150.7** | 138.2 | 137.7 | 137.2 | 133.5 |
| **Financial Position** | | | | | |
| Total assets (c) (d) | **$ 6,508.6** | $ 1,041.0 | $ 1,275.1 | $ 1,415.9 | $ 1,363.8 |
| Long-term debt | **$ 2,136.0** | $ 366.8 | $ 268.0 | $ 271.2 | $ 370.0 |
| Redeemable Preferred stock | **$ 228.6** | — | — | — | — |
| Total debt | **$ 2,145.2** | $ 553.0 | $ 399.5 | $ 409.0 | $ 423.7 |
| Common shareowners' equity (c) (d) | **$ 2,132.8** | $ 142.1 | $ 579.7 | $ 634.4 | $ 478.1 |
| Cash flow from continuing operations | **$ 313.9** | $ 212.3 | $ 197.4 | $ 132.0 | $ 151.5 |

(a) EBITDA represents operating income before depreciation, amortization, and restructuring and related charges or credits. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, and may not be comparable with EBITDA as defined by other companies.
(b) See Note 3 of Notes to Financial Statements. (c) See Note 12 of Notes to Financial Statements.
(d) See Notes 13 and 5 of Notes to Financial Statements.

Broadwing Inc. (the Company) is a full-service provider of wireline and wireless telecommunications services that conducts its operations through the following reportable segments:

**Local Communications** — The Company provides local service, network access, long distance, data and Internet, ADSL, transport, and payphone services, as well as sales of communications equipment to customers in southwestern Ohio, northern Kentucky and southeastern Indiana. Services are marketed and delivered via the Company's Cincinnati Bell Telephone (CBT) and ZoomTown.com (ZT) subsidiaries.

**Broadband** — The Company utilizes its advanced fiber-optic network to provide data transport, Internet services, private line, switched access, and other services nationwide. This segment also leases network capacity in the form of indefeasable right-to-use agreements ("IRUs"). These services are offered through the Company's new subsidiary, Broadwing Communications, Inc. (formerly IXC Communications, Inc.).

**Wireless** — The Wireless segment includes the Company's Cincinnati Bell Wireless subsidiary (an 80%-owned venture with AT&T Wireless PCS, Inc.) which provides advanced digital personal communications to customers in its Greater Cincinnati and Dayton, Ohio operating areas.

**Directory** — The Company sells directory advertising and information services through printed directories and the Internet, primarily to business customers in its Local Communications segment service area. This segment's most identifiable product is the Yellow Pages directory produced by the Company's Cincinnati Bell Directory (CBD) subsidiary.

**Other Communications** — Other Communications combines several of the Company's other segments: Cincinnati Bell Long Distance (CBLD) , Cincinnati Bell Supply (CBS), and Broadwing IT Consulting. CBLD resells long distance, voice, data, frame relay, and Internet access services to small- and medium-sized business and residential customers throughout a six-state region of the midwest. CBS sells new computers and resells telecommunications equipment in the secondary market, and Broadwing IT Consulting provides network integration and consulting services.

This report and the related consolidated financial statements and accompanying notes contain 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to review or update these forward-looking statements or to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## Consolidated Overview

The Company is now a full-service, local and national provider of data and voice telecommunications services, and a regional provider of wireless communications services. Upon its November 9, 1999 merger with IXC Communications, Inc. (hereinafter referred to as "the Merger"), the Company acquired a high-speed fiber-optic network capable of providing private line, switched access, data, Internet-based, and other advanced communications services. This complements the strong service offerings that were provided on a local or regional basis (local service, long distance, data transport, Internet access and related communications equipment) primarily in the Cincinnati area. The national network has also contributed an important new source of revenue and cash flow to the Company: the sale of IRUs.

The Company seeks to provide world-class service on a national level by combining two sets of strengths: its well-regarded brand name and reputation for service in its regional franchise area and its newly acquired, nationwide fiber-optic network and Internet backbone. The Company further enhances these capabilities by partnering with targeted industry leaders such as Cisco Systems, PSINet, ZeroPlus.com, Lucent Technologies and AT&T.

## Results of Operations

### 1999 Compared to 1998

In 1999, the Company transformed itself from a provider of local communications services into a national provider of voice and data communications. The transition began in 1998 with the spin-off of Convergys Corporation, a former subsidiary that held the Company's information and customer management businesses, and was solidified with the acquisition of IXC and its high-speed, fiber optic network and national presence. The acquisition of an 80% interest in the wireless business from AT&T-PCS on December 31, 1998 also added significant growth to our local and regional service offerings.

The Merger and the acquisition of the wireless business from AT&T-PCS had a significant impact on 1999 operating results. Of the $246 million in additional revenues in 1999, more than 77% (or $190 million) came from these new businesses. While the Company continues to expand its product and service offerings, as well as its geographic footprint, all previously existing segments reported strong results. Revenues from Local Communications increased 4%, or $31.7 million, Directory grew 2%, or $1.3 million, and Other Communications grew 24%, or $25.2 million. The growth in the Other Communications segments was due to the expansion of the sale of communications equipment and the addition of the network integration and consulting business through an acquisition in November 1998.

Costs and expenses, excluding depreciation, amortization and special charges, were $795.4 million, up $200.3 million, or 34%. Of this increase, $98.7 million was due to the Merger and $116.2 million was due to Cincinnati Bell Wireless, which became a consolidated entity upon completion of the acquisition of the wireless business from AT&T-PCS on December 31, 1998. Excluding these two additions, operating expenses were down $14.6 million from the prior year. EBITDA margins excluding Broadwing Communications and Cincinnati Bell Wireless increased 5.5 percentage points. Depreciation and amortization expense increased $69 million over 1998, with $47 million as a result of the Merger and $14 million attributable to the wireless business.

In December 1999, the Company's management approved restructuring plans which included initiatives to integrate operations of the Company and Broadwing Communications improve service delivery, and reduce the Company's expense structure. Total restructuring costs and impairments of $18.6 million were recorded in the fourth quarter related to these initiatives. The $18.6 million consisted of $7.7 million relating to Broadwing Communications (recorded as a component of the preliminary purchase price allocation) and $10.9 million relating to the Company (recorded as a cost of operations). The $10.9 million relating to the Company consisted of restructuring and other liabilities in the amount of $9.5 million and related asset impairments in the amount of $1.4 million.

The Company's estimated restructuring costs were based on management's best estimate of those costs based on available information. The restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits related to 347 employees (263 Broadwing Communication employees and 84 other employees). As of December 31, 1999, approximately 1% of the employee separations had been completed for a total cash expenditure of $0.4 million. Employee separation benefits include severance, medical and other benefits, and primarily affect customer support, infrastructure, and the Company's long distance operations. The restructuring plans also included costs associated with the closure of a variety of technical and customer support facilities, the decommissioning of certain switching equipment, and the termination of contracts with vendors.

In connection with the restructuring plan, the Company performed a review of its long-lived assets to identify any potential impairments in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed of." Accordingly, the Company recorded a $1.4 million charge as an expense of operations, resulting from the abandonment and write-off of certain assets including duplicate network equipment. In total, we expect these restructuring related activities to result in cash outlays of $14.8 million and non-cash items of $3.8 million. The Company expects that most of the restructuring actions will be completed by December 31, 2000.

Operating income decreased by $36.2 million from the prior year reflecting the losses of the Broadband and Wireless segments which were $46.5 million and $40.3 million, respectively. Also included in operating income was the $10.9 million charge for business restructuring mentioned above. Excluding these items, operating income increased by $57.4 million due primarily to the operations of the Local Communications segment.

The Company recorded equity losses in unconsolidated entities in both years. In 1999, the Company recorded a 13% share of the operating losses of IXC due to its ownership of IXC common stock from August 16, 1999 to the November 9, 1999 closing date of the Merger. In 1998, the Company recorded a $27.3 million loss on its wireless venture with AT&T-PCS because it agreed to fund its proposed share of the wireless business losses from inception to the close of the acquisition on December 31, 1998. The Company managed the operations of the venture while awaiting regulatory approval of the acquisition. As mentioned above, the results for this business are consolidated in Company operations in 1999.

Minority interest and other income (expense) resulted in income of $4.5 million for the year, a $6.0 million increase over 1998. Of this amount, $9.3 million of minority interest income was recorded as AT&T PCS' 19.9% share in the losses of our wireless subsidiary. This was partially offset by $6.9 million in preferred stock dividends accreted to the 12.5% preferred stockholders of Broadwing Communications and treated as minority interest. Remaining amounts in this category are largely attributable to interest income.

Interest expense increased significantly in 1999, owing to higher average debt levels associated with the Merger, the issuance of $400 million in 6¾% Convertible Subordinated Notes in July 1999, and the amortization of debt issuance costs and bank commitment fees associated with the Company's new $2.1 billion credit facility and these convertible subordinated notes. Of the $37.5 million increase in interest expense, $13.4 million is attributable to the operations of the Wireless business and approximately $24.0 million is related to the Merger.

Income taxes decreased $11 million, or 25%, in comparison to the prior year, as a function of lower pre-tax income and the offsetting impact of nondeductible expenses such as goodwill amortization and preferred stock dividends.

Extraordinary items related to the early extinguishment of debt affected results for each year. In 1999, costs related to the early extinguishment of Broadwing Communications' debt as a result of the Merger resulted in a $6.6 million charge, net of taxes. The spin-off of Convergys Corporation in 1998 reduced the borrowing capacity that was needed from the Company's then-existing credit facility and some debt and a portion of that credit facility were retired, resulting in a $1.0 million extraordinary charge, net of tax.

As a result of the above, income from continuing operations decreased from $81.8 million to $38.0 million and earnings per common share (EPS) from continuing operations decreased from $.60 in 1998 to $.25 in 1999. Excluding the Merger, EPS from continuing operations would have been $.82, a 37% increase over 1998.

Discontinued Operations for 1995 through 1998 includes the results of the Convergys Corporation (Convergys), the billing and customer management operations that were divested on December 31, 1998 through a tax free spin-off.

**1998 Compared to 1997**

Revenues were $885.1 million, up 6% from $834.5 million in 1997, primarily as a result of increased activities in Local Communications segment. Increases in the Company's suite of custom calling services, through bundling of services as well a pay-per-use option, and increased data transport services accounted for a majority of the increase.

Costs and expenses, less depreciation, amortization and special charges, were $595.1 million, up 10% from $539.8 million in 1998. Of this increase $10 million, or 20%, was due to an increase Y2K and regulator mandated costs. Other increases were primarily due to increased headcount and higher wages. As a result, the EBITDA margin decreased two percentage points to 33%.

Income from continuing operations in 1998 was $81.8 million, or $.59 per common share, compared with $102.3 million, or $.74 per common share in 1997. In 1998, the Company recognized $1.1 million in special credits resulting from the 1995 business restructuring, compared with $21.0 million in 1997 (see Note 3 of Notes to Financial Statements). The Company also recorded a $27.3 million loss on its wireless venture in 1998, while no such loss was recorded in 1997. Excluding special credits and the wireless dilution, income from continuing operations on a per common share basis was $.72 in 1998 compared with $.64 in 1997.

Extraordinary items affected both years. In 1998, retirement of long-term debt and a portion of a credit facility resulted in an extraordinary charge of $1.0 million, net of taxes. In 1997, the discontinuation of Statement of Financial Accounting Standard No. 71,"Accounting for the Effects of Certain Types of Regulation," at CBT resulted in a non-cash charge of $210.0 million after-tax.

## Local Communications

The Local Communications segment provides local service, network access, (including high-speed data transport), long distance, data and Internet, ADSL transport, sales of communications equipment, and other ancillary telecommunications services through its Cincinnati Bell Telephone (CBT) and ZoomTown.com (ZT) subsidiaries. These two subsidiaries function as a fully integrated, wireline communications provider.

| ($ in millions) | 1999 | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Local service | **$426.4** | $407.9 | 5 | $386.2 | 6 |
| Network access | **185.3** | 180.9 | 2 | 170.0 | 6 |
| Other services | **138.4** | 129.6 | 7 | 113.9 | 14 |
| Total | **750.1** | 718.4 | 4 | 670.1 | 7 |
| Costs and expenses: | | | | | |
| Cost of providing service | **282.0** | 296.6 | (5) | 267.6 | 11 |
| Selling, general and administrative expense | **142.7** | 152.4 | (6) | 145.6 | 5 |
| Y2K and regulator-mandated | **4.6** | 21.5 | (79) | 10.6 | 103 |
| Total | **429.3** | 470.5 | (9) | 423.8 | 11 |
| EBITDA | **$320.8** | $247.9 | 29 | $246.3 | 1 |
| EBITDA margin | **42.8%** | 34.5% | 24 | 36.8% | (6) |
| Access lines (thousands) | **1,055** | 1,033 | 2 | 1,005 | 3 |
| VGEs (thousands) | **518** | 387 | 34 | 276 | 40 |

### 1999 Compared to 1998

The Local Communications segment posted another strong performance in 1999, with revenues and EBITDA increasing by 4% and 29% respectively. The combination of revenue growth and a focus on cost control efforts resulted in an 8.3 percentage point increase in EBITDA margin.

### Revenues

Revenues of $750.1 million were 4% higher than the $718.4 million recorded in the prior year, owing to growth in all categories. The local service category provided most of the revenue growth for the segment, growing 5% for the year, or nearly $19 million. Within this category, growth came primarily from new product bundling offers (e.g. Complete Connections® added 110,000 subscribers within the year), new products (e.g. the Zoomtown℠ ADSL product launched late in 1998 grew to 18,000 subscribers by December 31, 1999), and data transport. These services, in the aggregate, contributed more than 80% of the increase for this category, or $15 million. Access line growth was responsible for the remainder of the increase, with a 2% increase in lines contributing approximately $4 million in additional revenue for the year.

Network access revenues were 2% higher, or $4.4 million. The sale of high capacity digital services (expressed in voice grade equivalents, or VGEs) increased 34%, resulting in approximately $13 million in new revenues for the category. The Company also realized approximately $5 million in additional revenues due to the recovery of mandated telecommunications costs. In spite of a 7% increase in access minutes of use, switched access revenues were approximately $14 million lower due to decreased per-minute rates initiated as part of the Company's Commitment 2000 program in Ohio and the optional incentive rate regulation at the Federal level.

Other services revenue increased approximately $9 million, or 7%, for the year, with the Company's FUSE® Internet access service contributing more than $2 million of the increase (a 44% revenue growth for this service). Other increases in the category are attributable to higher rent and facilities collocation revenue ($6 million). A lower provision for loss on receivables in the current year also contributed to the revenue increase in the current year.

### Costs and Expenses

Excluding depreciation, amortization and special charges, costs and expenses of $429.3 million were $41.2 million less than the prior year, representing a 9% decrease.

Costs of providing services decreased by nearly $15 million for the year, $8 million of which is attributable to lower expenditures for payroll and temporary labor sources resulting from CBT's continuing efforts at increasing productivity. These efforts have resulted in a 4% increase in access lines per employee since the beginning of 1999.

Selling, general and administrative expenses decreased by nearly $10 million versus the prior year. Advertising expense increased approximately $1 million for the year in support of new calling services bundles and the Company's ZoomTown ADSL service. Consulting and contract services were approximately $7 million less, due to lower usage of external labor sources. Computer programming expenses and right-to-use fees decreased approximately $14 million for the year, due to a reduction in projects initiated and the capitalization of approximately $10 million in internal use software as required by AICPA Statement of Position 98-1. These expense decreases were somewhat offset by approximately $14 million in increases related to materials and supplies, rent, and reciprocal compensation to Internet service providers.

Year-2000 programming expenses were approximately $6 million lower than in the prior year, reflecting the progress previously made on critical systems and the conclusion of remediation efforts by year-end. No mandated telecommunications costs were incurred in 1999 since the local portability and interconnection requirements were met in the prior year (when the Company incurred nearly $11 million of such costs).

As a result of the revenue increase and expense decrease detailed above, EBITDA grew from $247.9 million in 1998 to $320.8 million in 1999, a 29% increase.

### 1998 Compared to 1997

The Local Communications segment showed strong performance in 1998, enjoying the benefits of continued growth in access lines, voice grade equivalents and value-added services, such as Caller ID and other custom calling features. This, in combination with increased usage of the Company's network on a minutes-of-use basis, contributed significantly to the increase in revenue over 1997.

### Revenues

Revenues increased $48.3 million, or 7%. Local service revenues increased $21.7 million, primarily due to access line growth of 3% and increased usage of the Company's suite of custom calling services.

Network access revenues increased $10.9 million, or 6%. This was primarily due to growth in high-capacity digital service and an associated 40% increase in voice grade equivalents. Minutes of use increased 7% along with an increase in end-user access charges, but these were offset by a reduction of interstate per-minute rates instituted by the Federal Communications Commission (FCC) and by a reduction in intrastate rates instituted as part of the Company's "Commitment 2000" plan as approved by the Public Utilities Commission of Ohio.

Revenues from other services increased $15.7 million, or 14%. Revenues from the Company's National Payphone Clearinghouse business and commissions associated with the deregulation of the public payphone business increased $6.9 million in 1998. The Company's FUSE® Internet access service increased $2.6 million in 1998. The remainder of the increase in this category is attributable to equipment and wiring sales and network integration and consulting revenues, partially offset by increased uncollectible expense of $4.3 million.

### Costs and Expenses

Excluding depreciation and amortization, costs and expenses increased $35.7 million, or 9%. Approximately $12 million of the increase was attributable to higher headcount and associated wages. Right-to-use fees for network switching systems decreased by more than $2 million but were offset by increased expenditures for contract and consulting services. Expenses also increased approximately $5 million due to mandated charges to fund universal service initiatives and $2 million for increased advertising.

Year-2000 programming expenses totaled $10.9 million, representing nearly a $7 million increase. Regulator-mandated interconnection and local number portability expenses totaled $10.6 million in 1998, over $4 million more than the prior year.

## Broadband

IXC became a subsidiary of the Company on November 9, 1999 as a result of the Merger. Subsequent to the acquisition date, the Company changed the name of IXC to Broadwing Communications, Inc. (Broadwing Communications). Operations of the Broadwing Communications subsidiary comprise the Broadband segment and are included in the Company's financial results prospectively from November 9, 1999. For purposes of comparability, portions of the following discussion assume the Broadband segment existed from January 1, 1998. These references will generally include a reference to Pro Forma results.

The Broadband segment utilizes an advanced, expansive, fiber-optic network to provide data transport, Internet services, private line, switched access, and other services. Broadwing Communication's network-based delivery solutions are designed to address the speed and capacity requirements of the global telecommunications market. Excess network capacity is also leased (in the form of IRUs) to other telecommunications and Internet service providers.

| | Post-merger | Pro Forma | | % Change |
|---|---|---|---|---|
| ($ in millions) | **1999** | **1999** | 1998 | 1999 vs 1998 |
| Revenues: | | | | |
| Private Line | **$45.8** | **$304.3** | $225.4 | 35 |
| Switched Services | **48.4** | **312.1** | 414.4 | (25) |
| Data and Internet | **4.8** | **23.5** | 9.0 | 161 |
| Other | — | **27.3** | 19.8 | 38 |
| Total | **99.0** | **667.2** | 668.6 | n/m |
| Cost and expenses: | | | | |
| Cost of providing service | **60.7** | **427.1** | 433.3 | (1) |
| Selling, general and administrative expense | **38.1** | **248.7** | 144.5 | 72 |
| Total | **98.8** | **675.8** | 577.8 | 17 |
| EBITDA | **$ 0.2** | **$(8.6)** | $90.8 | (109) |
| EBITDA margin | **n/m** | **(1)** | 14 | (107) |

### 1999 Compared to 1998

#### Revenues

Broadband revenues totaled $99 million in the post-merger period. On a Pro Forma 1999 basis, revenues were $667.2 million compared to $668.6 million in 1998. The reduction in switched services revenues of $102 million resulted from the strategic decision to de-emphasize the wholesale switched services business, and was offset by increases in all of Broadwing Communications' other service offerings. Private line revenues increased $78.9 million, or 35%, on a Pro Forma basis as a result of an increase in other carriers utilizing Broadwing Communication's next-generation broadband network . Data and Internet revenues increased $14.5 million, or 161%, as these services became a primary focus in 1999.

#### Costs and Expenses

Broadband costs and expenses, excluding depreciation and amortization expenses of $46.7 million, were $98.8 million in 1999. Of this amount, $60.7 million was for cost of providing services and $38.1 million was for selling, general and administrative expenses. Broadband's gross margin was 39% and EBITDA was $0.2 million.

On a Pro Forma basis, costs and expenses, excluding depreciation, amortization and special charges, were $98 million, or 17% greater than the prior year. Costs of providing services decreased by over $6 million, or 1%, due mainly to a $22.5 million decrease in access costs. This reduction was a direct result of Broadwing Communications making greater utilization of its fiber optic network as well as the reduction in minutes of use caused by the decision to de-emphasize the switched wholesale business. The decrease in access costs was offset somewhat by an increase in transmission and Internet expenses of $16.4 million. Gross margin increased to 36% in 1999 due mainly to Broadwing's greater focus on higher margin products such as private line and data and Internet.

Selling, general and administrative expenses increased by $104.0 million, or 72%, versus the prior year. This increase is due in part to increased staffing required to support, sell and market the expanded fiber optic network. Broadwing Communications is migrating from focusing on network construction to sales and marketing as the network increased from approximately 9,300 to 15,700 fiber route miles during 1999. Headcount increased by approximately 600 in 1999 versus 1998, 60% of which were in sales positions and the remaining 40% was for network operations.

## Wireless

The Wireless segment comprises the operations of Cincinnati Bell Wireless LLC (an 80%-owned venture with AT&T Wireless PCS, Inc.), which provides advanced digital personal communications services and sales of related communications equipment to customers in its Greater Cincinnati and Dayton, Ohio operating areas.

On December 31, 1998, the Company acquired an 80% ownership interest in this business. Accordingly, current year results for the wireless business are reflected in the operating results of the Company beginning January 1, 1999. The agreement between Cincinnati Bell Wireless and AT&T PCS specified that, prior to the acquisition, the Company and AT&T PCS would operate under an interim agreement whereby losses would be funded in the same percentages as the proposed venture. In 1998, this resulted in a loss of $27.3 million, which was recorded as an equity loss in unconsolidated entities.

| ($ in millions) | 1999 |
|---|---|
| Revenues | **$91.4** |
| Costs and expenses: | |
| Cost of providing service | **58.6** |
| Selling, general and administrative expense | **58.4** |
| Total | **117.0** |
| EBITDA | **$(25.6)** |
| EBITDA margin | **(28.0)%** |
| Net Income | **$(28.5)** |

### Revenues

Revenues for this segment have been increasing steadily over the course of 1999, with a year-end total of $91.4 million. The vast majority of revenues for this segment, or $80 million, were service revenues. An additional $13 million in revenues were derived from the sale of handsets and associated accessories. Service revenues are growing on the basis of increasing subscribership (95,000 and 56,000 postpaid customers were added in 1999 and 1998, respectively) generating an average monthly revenue per user (ARPU) of $65 and low customer churn of 1.43% per month. Although it did not drive significant growth in service revenues, the launch of CBW's new i-wireless[sm] prepaid service added 11,000 new subscribers in the fourth quarter of 1999.

### Costs and Expenses

The costs of providing service is primarily comprised of incollect expense (whereby CBW incurs costs associated with its subscribers using their handset while in the territory of another wireless service provider), network operations costs, interconnection expenses and cost of equipment sales. These costs were 64% of revenue in 1999.

Selling, general and administrative expenses include the high cost of customer acquisition, including the subsidy of customer handsets, advertising, distribution and promotional expenses. With the significant growth of the wireless business, these costs totaled $46 million, or a cost per gross addition (CPGA) of $376 for postpaid subscribers, and contributed heavily to our EBITDA loss of $25.6 million.

The $28.5 million net loss for the current year (which includes interest and income tax expense, offset by the minority share of the net loss) was dilutive to the Company's earnings in the amount of $.19 per common share.

## Directory Services

The Directory segment is comprised of the operations of the Company's Cincinnati Bell Directory subsidiary, which publishes Yellow Pages directories and sells directory advertising and informational services in Cincinnati Bell Telephone's franchise area. These services are available to the customer in the form of traditional printed directory, an Internet-based service known as "Cincinnati Exchange," and on CD-Rom.

The majority of the revenues for this segment come from publishing, and it is the Company's practice to recognize revenues, and associated direct expenses, over the lifespan of the respective publications (generally twelve months). Primary expenses of this segment are sales commissions paid to sales agents and printing costs associated with its directory publications.

| ($ in millions) | 1999 | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| Revenues | **$74.2** | $72.9 | 2 | $72.9 | — |
| Costs and expenses: | | | | | |
| Cost of providing service | **27.5** | 27.8 | (1) | 29.8 | (7) |
| Selling, general and administrative expense | **19.5** | 19.7 | (1) | 18.2 | 8 |
| Total | **47.0** | 47.5 | | 48.0 | |
| EBITDA | **$27.2** | $25.4 | 7 | $24.9 | 2 |
| EBITDA margin | **36.7%** | 34.8% | 5 | 34.1% | 2 |

### 1999 Compared to 1998

#### Revenues

Revenues of $74.2 million exceeded results of the prior year by approximately $1 million, or 2%, as the positive outcome of the 1999 sales campaign began to materialize. The majority of the growth for this segment ($0.6 million) came from local advertisers, with an additional $0.3 million coming from the national advertisers.

#### Costs and Expenses

Costs and expenses of $47.0 million were virtually unchanged for the year, decreasing by $0.5 million, or 1%, due primarily to lower sales commissions. Printing costs and other SG&A expenses were held constant the prior year.

EBITDA of $27.2 million was $1.8 million higher, or 7%, than in the prior year. EBITDA margin of 36.7% represents a five percent improvement over the 34.8% margin recorded in the prior year.

### 1998 Compared to 1997

#### Revenues

Despite the arrival of full-scale competition in our market area during 1998, the Directory segment managed to preserve its revenue stream versus 1997. While some degree of competitive loss was felt from two new competitors, one of which was previously a sales agent for the Company, revenues were maintained as a result of the introduction of new listing options that resulted in additional revenues.

#### Costs and Expenses

Costs and expenses in 1998 were virtually unchanged in comparison to the prior year. Sales commissions decreased as a result of slightly lower sales volume and a renegotiated commission rate. Advertising spending increased as new campaigns were designed to preserve market share and stimulate demand for value-added listings.

## Other Communications Services

Other Communications combines the Cincinnati Bell Long Distance (CBLD), Cincinnati Bell Supply (CBS), and Broadwing IT Consulting (formerly EnterpriseWise) segments. CBLD resells long distance, voice, data, frame relay, and Internet access services to small- and medium-sized business and residential customers in a regional area consisting mainly of six states. CBS sells new computers and resells telecommunications equipment in the secondary market, and Broadwing IT Consulting provides network integration and consulting services as well as the sale of related equipment.

| ($ in millions) | **1999** | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| Revenues | **$131.3** | $106.1 | 24 | $ 101.7 | 4 |
| Cost and expenses: | | | | | |
| Cost of providing service | **93.1** | 66.3 | 40 | 63.9 | 4 |
| Selling, general and administrative expense | **35.2** | 24.8 | 42 | 20.3 | 22 |
| Total | **128.3** | 91.1 | 41 | 84.2 | 8 |
| EBITDA | **$3.0** | $15.0 | (80) | 17.5 | (14) |
| EBITDA margin | **2.3%** | 14.1% | (84) | 17.2% | (18) |

### 1999 Compared to 1998

#### Revenues

Revenues were up $25.2 million, or 24%, in 1999. CBS accounted for $9.8 million of the revenue increase as a result of sales of communication equipment through its existing sales force and its new call center. Broadwing IT Consulting provided additional revenue of $14.3 million, of which slightly more than half was derived from the sale of hardware. CBLD contributed $1.7 million increase in revenues as decreases in its existing voice products were offset by sales of new data and Internet services.

#### Costs and Expenses

Costs and expenses increased 41% or $37.2 million. Costs of providing services accounted for approximately $27 million of this increase. Of this, $13 million was attributable to costs of materials and hardware associated with sales, $5 million was for employee-related expenses associated with the network integration consulting business added in November 1998, and the remainder was for increased cost of service in the new and existing CBLD services.

SG&A expenses were approximately $10 million higher than in the prior year, the majority of which can be attributed to employee costs associated with entry into new businesses. These were incurred by all subsidiaries within this segment, with CBLD incurring the largest increase ($5 million) due to its introduction of data transport, high-speed Internet, and local exchange services. An additional $4.2 million in SG&A expense is attributable to Broadwing IT Consulting, a business that had minimal effect on 1998 operations due to its acquisition by the Company late in that year. CBS incurred approximately $1 million in additional SG&A costs this year in order to establish a new call center in support of a sales agency arrangement it has with Lucent Technologies.

For these operations combined, EBITDA of $3 million was $12 million less than the prior year for the reasons noted above.

Coincident with the merger, the Company performed a strategic reassessment of its business unit structure. As a result, the Company is finalizing plans to sell, or exit, the CBS business in 2000 as it does not fit with the Company's long-term strategic plan. Also, the operations of CBLD and Broadwing IT Consulting were integrated into Broadwing Communications in January 2000.

### 1998 Compared to 1997

#### Revenues

Revenues increased $4.4 million, or 4%. CBLD contributed a substantial gain in revenues over the prior year, adding $10 million of revenue as a result of increased subscribership and usage. CBS reported a $5.6 million decline in its revenues, due to the reduction in sales volume with a major customer and lower salvage prices on reclaimed materials for resale.

#### Costs and Expenses

Costs and expenses increased $6.9 million, or 8%. CBLD experienced increased selling and administrative expenses to acquire new subscribers and enter the data market with the introduction of frame relay service and Internet access. CBS reported lower product costs due to the decreased sales volume previously discussed.

## Depreciation and Amortization

Depreciation and amortization expense increased $69 million over 1998, of which $47 million was a result of the Merger and $14 million was attributable to the wireless business. The Company anticipates depreciation and amortization expense to be approximately $470 million in 2000 due to a full year of the merged company results.

## Interest Expense

| ($ in millions) | **1999** | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| | **$61.7** | $24.2 | 155 | $30.1 | (20) |

### 1999 Compared to 1998

Interest expense increased significantly in 1999, owing to higher average debt levels associated with the Merger, the issuance of $400 million in 6¾% convertible subordinated notes in July 1999, and the amortization of debt issuance costs and bank commitment fees associated with the Company's new $2.1 billion credit facility and these convertible subordinated notes.

Of the $37.5 million increase in interest expense, $13.4 million is attributable to the operations of the Wireless business and approximately $24.0 million is related to the Merger.

### 1998 Compared to 1997

Interest expense declined in 1998 due to lower weighted average interest rates and an increase in interest during construction in 1998.

## Income Taxes

| ($ in millions) | **1999** | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| Income taxes | **$33.3** | $44.3 | (25) | $56.3 | (21) |
| Effective tax rate | **46.7%** | 35.1% | 33 | 35.5% | (1) |

### 1999 Compared to 1998 and 1998 Compared to 1997

Income tax expense decreased in 1999 primarily due to lower overall pretax income resulting from higher pre-tax losses generated by the Wireless segment and pre-tax losses generated by the new Broadband segment. The Company's previous effective tax rate of approximately 35% will not be sustainable for future periods due to significant levels of non-deductible expense such as goodwill amortization and minority interest dividends.

The 1998 decrease (versus 1997) was the result of lower pre-tax income, primarily due to the wireless venture loss. The effective tax rates between these two years were comparable.

## Extraordinary Items, Net of Taxes

| ($ in millions) | 1999 | 1998 | % Change 99 vs. 98 | 1997 | % Change 98 vs. 97 |
|---|---|---|---|---|---|
| | **$6.6** | $1.0 | n/m | $210.0 | — |

**1999 Compared to 1998 and 1998 Compared to 1997**

Extraordinary items affected both years. In 1999, costs related to the early extinguishment of debt as a result of the Merger resulted in a $6.6 million charge, net of taxes. In 1998, the spin-off of Convergys resulted in the retirement of debt and a portion of a then-existing credit facility, resulting in a $1.0 million charge, net of tax.

In 1997, the Company discontinued the application of SFAS 71 which resulted in an extraordinary, non-cash charge of $210.0 million, net of income taxes.

## Financial Condition, Liquidity, and Capital Resources

**Capital Investment, Resources and Liquidity**

The Company continued its transformation from a wireline voice communications provider focused on its local franchise to a nationwide provider of data and voice communications and a regional provider of wireless services. As a result, the financing needs of the Company have changed significantly. Although the Company generated positive cash flow from operations in 1999, and expects to again in 2000, capital expenditures and other investing needs will increase the Company's borrowings.

In anticipation of these funding needs, the Company eliminated the dividend payment on common stock and issued $400 million in 6 3/4% convertible subordinated notes. The proceeds of these notes were used to affect the Merger, namely to purchase shares of IXC for cash and to purchase treasury shares of the Company's common stock.

In order to provide for these cash requirements and other general corporate purposes, the Company also obtained a $2.1 billion credit facility from a group of 24 lending institutions. The credit facility consists of $900 million in revolving credit and $750 million in term loans from banking institutions and $450 million in term loans from non-banking institutions. At December 31, 1999, the Company had drawn approximately $755 million from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger. In January 2000, the Company borrowed approximately $400 million in order to redeem the majority of the outstanding 9% senior subordinated notes assumed during the Merger as part of a tender offer. This tender offer was required under the terms of the note indenture due to the change in control provision and resulted in an extraordinary loss of $4 million, net of tax. Accordingly, the Company has approximately $900 million in additional borrowing capacity under this facility as of the date of this report. Separately, the Company also has ownership position in four publicly traded companies. The value of these holdings was $928.4 million as of December 31, 1999. The sale of these securities are subject to limitations including registration rights.

The interest rates to be charged on borrowings from this credit facility can range from 100 to 225 basis points above the London Interbank Offering Rate (LIBOR), depending on the Company's credit rating. The current borrowing rate is approximately 200 basis points. The Company will incur banking fees in association with this credit facility ranging from 37.5 basis points to 75 basis points, applied to the unused amount of borrowings of the facility.

The Company is also subject to financial covenants in association with the credit facility. These financial covenants require that the Company maintain certain debt to EBITDA ratios, debt to total capitalization ratios, fixed and floating rate debt ratios and interest coverage ratios. This facility also contains certain covenants which, among other things, restrict the Company's ability to incur additional debt, pay dividends, repurchase Company common stock, and sell assets or merge with another company.

As a result of the Merger the Company's corporate credit ratings were downgraded in 1999. As of the date of this filing, the Company maintains the following credit ratings:

| Entity | Description | Standard and Poor's | Duff & Phelps Credit Rating Service | Moody's Investor Service |
|---|---|---|---|---|
| BRW | Corporate Credit Rating | BB+ | BB+ | Ba2 |
| CBT | Corporate Credit Rating | BB+ | BBB+ | Baa3 |

Capital expenditures to maintain and grow the nationwide fiber network, complete the wireless network expansion, and maintain the local Cincinnati network are expected to be approximately $805 million in 2000, consistent with $816 million on a Pro Forma basis in 1999.

**Balance Sheet**

Nearly all balance sheet categories have increased significantly from the prior year due to the Merger. Cash and cash equivalents increased by $70 million over the prior year largely from the receipt of approximately $76 million in cash on December 30, 1999 related to an IRU agreement with PSINet. The increase in accounts receivable and related allowances are primarily a result of the Merger. The increase in the reserve percentage reflects accruals for disputes and bad debts arising as a result of provisioning issues and the de-emphasis of the switched wholesale business at Broadwing Communications. In addition to the Merger, property, plant and equipment increased due to the Company's investment in its wireless and local communications business. Goodwill and other intangibles increased by nearly $2.2 billion and $0.4 billion, respectively, nearly all of which was related to the Merger. Investments in unconsolidated entities represents equity investments in PSINet, Applied Theory, PurchasePro.com, and ZeroPlus.com (which have been adjusted to market value in accordance with SFAS 115). The increases to short-term and long-term debt are attributable to the issuance of $400 million in 6¾% convertible subordinated notes and the refinancing of long-term debt upon the Merger. The current and long-term amounts associated with unearned revenues relate to the sale of IRU agreements.

In 1999, the $405 million dollar increase in the Minority Interest caption is attributable to 12½% preferred shares previously issued by IXC. Effective with the Merger, the Company replaced the previously existing 6¾% and 7¼% preferred stock issues at IXC with its own preferred stock. These preferred stock issues were reflected at fair value upon the Merger date, and have resulted in the addition of approximately $229 million and $129 million, respectively, in additional redeemable and non-redeemable preferred stock. Additional paid in capital increased during 1999 primarily from the issuance of approximately 68 million new shares of common stock in the Merger. The increase in accumulated other comprehensive income is largely attributable to unrealized holding gains (net of tax) on the equity investments previously discussed. Also, the Company engaged in a share repurchase program that reduced shareholders' equity by $145 million.

**Cash Flow**

The cash provided by operating activities of $314 million was $102 million higher than in the prior year. The increase was largely attributable to a $75 million increase in unearned revenues related to IRU agreements.

The Company engaged in several investment activities of significance in 1999, several of which were related to the Merger. Capital expenditures of approximately $381 million represented a $238 million increase over the prior year, with Broadwing Communications spending $165 million in the post-merger period and a $53 million increase related to infrastructure development for the wireless business. The Company also capitalized $10 million in software development costs in 1999 pursuant to its adoption of AICPA Statement of Position 98-1.

In the current year, net cash paid for acquisitions totaled $247 million, $233 million of which was attributable to the Merger. Remaining expenditures for acquisitions represented additional investment in the wireless business and the purchase of a long distance reseller. The purchase of the marketable securities of two unaffiliated e-commerce vendors required an additional $13 million in cash.

The Company incurred net debt of $429 million more than in the prior year, of which $400 million was issued to Oak Hill Capital Partners in July 1999 in the form of 6.75% convertible subordinated debentures (see Note 5 of Notes to Financial Statements). Dividends paid to shareholders of $46 million in 1999 were $9 million less than in the prior year. The Company received an additional $37 million versus the prior year from the exercise of employee stock options. The Company also used $145 million in 1999 in order to purchase shares of its own common stock as part of a share repurchase program.

## Regulatory Matters and Competitive Trends

**Federal** – In February 1996, Congress enacted the Telecommunications Act of 1996 (the 1996 Act), the primary purpose of which was to introduce greater competition into the market for telecommunications services. Since February 1996, the Federal Communications Commission (FCC) has initiated numerous rulemaking proceedings to adopt regulations pursuant to the 1996 Act. The 1996 Act and the FCC's rulemaking proceedings can be expected to impact CBT's in-territory local exchange operations in the form of greater competition. However, these statutes and regulations also create opportunities for the Company to expand the scope of its operations, both geographically and in terms of products and services offered.

**Ohio** – CBT's alternative regulation case dealing with the rates CBT can charge to competitive local exchange carriers for unbundled network elements is pending. The PUCO issued its decision on the methodology CBT must use to calculate these rates on November 4, 1999. On January 20, 2000, the PUCO denied all parties' requests for rehearing except for one issue regarding nonrecurring charges. CBT was required to submit new cost studies by February 28, 2000. After a period for review of the studies and resolution of any disputes, CBT is to file a tariff implementing the resulting rates.

**Kentucky** – On June 29, 1998, CBT filed an application with the Public Service Commission of Kentucky (PSCK) seeking approval of an alternative regulation plan similar to the Commitment 2000 plan approved by the PUCO in Ohio. On January 25, 1999, the PSCK issued an order approving the Kentucky alternative regulation plan with certain modifications. One of the modifications was the adoption of an earnings-sharing provision whereby customers would receive one-half of earnings on equity in excess of 13.5%. The PSCK also ordered that residential rates be frozen for three years and required rate reductions of approximately $3 million per year versus current rates. On February 12, 1999, CBT filed a petition seeking rehearing of the PSCK's January 25, 1999 order. On July 26, 1999, the PSCK issued an order which eliminated the automatic earnings-sharing provision and revised the required rate reductions to $2.3 million per year, instead of the $3 million per year previously ordered.

### Business Outlook

Evolving technology, the preferences of consumers, the legislative and regulatory initiatives of policy makers and the convergence of other industries with the telecommunications industry are causes for increasing competition. The range of communications services, the equipment available to provide and access such services, and the number of competitors offering such services continue to increase. These initiatives and developments could make it difficult for the Company to maintain current revenue and profit levels.

CBT's current and potential competitors include other incumbent local exchange carriers, wireless services providers, interexchange carriers, competitive local exchange carriers and others. To date, CBT has signed various interconnection agreements with competitors and approximately 7,200 net access lines have been transferred to competitors.

Broadwing Communications faces significant competition from other fiber-based telecommunications companies such as Level 3 Communications, Qwest Communications International, Global Crossings and Williams Communications. These companies have, in the past, enjoyed a competitive advantage over Broadwing Communications due to better business execution. The Company feels that Broadwing Communications is well equipped to match these competitors on the basis of technology and has been working to improve on critical processes, systems and the execution of its business strategy.

The Company's other subsidiaries face intense competition in their markets, principally from larger companies. These subsidiaries primarily seek to differentiate themselves by leveraging the strength and recognition of the Company's brand equity, by providing customers with superior service and by focusing on niche markets and opportunities to develop and market customized packages of services. CBD's competitors are directory services companies, newspapers and other media advertising services providers in the Cincinnati metropolitan market area. CBD now competes with its former sales representative for Yellow Pages directory customers. This competition may affect CBD's ability to grow or maintain profits and revenues. CBW is one of six active wireless service providers in the Cincinnati and Dayton, Ohio metropolitan market areas. CBS's competitors include vendors of new and used computer and communications equipment operating regionally and across the nation. Broadwing IT Consulting competes with Intranet hardware vendors, wiring vendors, and other network integration and consulting businesses.

The Merger is a response to these competitive pressures and represents a belief that the Company's reputation for quality service and innovative products can be successfully exported outside of its local franchise area. The Company plans to blend its provisioning and marketing expertise with Broadwing Communications' next-generation fiber-optic network in order to introduce advanced calling and data transport services throughout the U.S. The Company intends to retain market share with respect to its current service offerings and pursue rapid growth in data transport services. The Company also expects that each of its current subsidiaries will benefit from this business combination through the addition of new potential customers, sales channels and markets.

**Contingencies**

In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. However, the Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

**Year-2000 Readiness**

In order to ready its network and customer support systems for the Year 2000 (Y2K), the Company incurred expenses of $4.6 million and $10.9 million in 1999 and 1998 respectively. Year 2000 preparations were completed as planned, and as a result of this preparedness, major impacts to the Company and its customers were avoided. Some degree of minor difficulty was experienced with regard to customer payment issues, but these are considered insignificant and have been resolved or are currently being resolved.

**Recently Issued Accounting Standards**

On January 1, 1999, the Company adopted AICPA Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires the capitalization of certain expenditures for software that is purchased or internally developed for use in the business. As compared to prior years when these types of expenditures were expensed as incurred, the 1999 adoption of SOP 98-1 resulted in the capitalization of $10 million of internal use software development costs, which are being amortized over a three-year period.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to all fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements. In SAB 101, the SEC Staff expresses its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

**Business Development**

In order to enhance shareowner value, the Company actively reviews opportunities for acquisitions, divestitures and strategic partnerships.

## Item 7A. Qualitative and Quantitative Disclosures about Market Risk

The Company is exposed to the impact of interest rate changes. To manage its exposure to interest rate changes, the Company uses a combination of variable rate short-term and fixed rate long-term financial instruments. The Company may, from time to time, employ a small number of financial instruments to manage its exposure to fluctuations in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes or enter into interest rate transactions for speculative purposes. Management is reviewing steps necessary to mitigate this exposure.

Interest Rate Risk Management – The Company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs.

The following table describes the financial instruments that were held by the Company at December 31, 1999, excluding the PSINet forward sale and capital leases:

| ($ in millions) | 2000-2002 | 2003 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|
| Long-term debt | $20.0 | $20.0 | $1,917.0 | $1,957.0 | $1,805.0 |
| Average interest rate | 4.4% | 6.2% | 7.7% | 7.5% | — |

## Item 8. Financial Statements and Supplementary Schedules

### Index to Consolidated Financial Statements


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

### Report of Management

The management of Cincinnati Bell Inc. dba Broadwing Inc. is responsible for the information and representations contained in this report. Management believes that the financial statements have been prepared in accordance with generally accepted accounting principles and that the other information in this report is consistent with those statements. In preparing the financial statements, management is required to include amounts based on estimates and judgments that it believes are reasonable under the circumstances.

In meeting its responsibility for the reliability of the financial statements, management maintains a system of internal accounting controls, which is continually reviewed and evaluated. Our internal auditors monitor compliance with the system of internal controls in connection with their program of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. Management believes that its system provides reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization, that the recorded accountability for assets is compared with the existing assets at reasonable intervals, and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organization arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies, standards and managerial authorities are understood throughout the organization.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Their audit was conducted in accordance with auditing standards generally accepted in the United States.

The Audit and Finance Committee of the Board of Directors, which is composed of five directors who are not employees, meets periodically with management, the internal auditors and PricewaterhouseCoopers LLP to review their performance and responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent accountants periodically meet alone with the Audit and Finance Committee and have access to the Audit and Finance Committee at any time.

*Kevin W. Mooney*
*Executive Vice President and Chief Financial Officer*

### Report of Independent Accountants

*To the Board of Directors and the*
*Shareowners of Cincinnati Bell Inc. dba Broadwing Inc.*

In our opinion, the accompanying consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Cincinnati Bell Inc. dba Broadwing Inc. (the Company) and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, in 1999 the Company adopted AICPA Statement of Position 98-1 and changed its method of accounting for internal use software development costs.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
March 8, 2000

## Consolidated Statements of Income and Comprehensive Income(Loss)

**Broadwing Inc.**

| Millions of dollars except per share amounts — Year ended December 31 | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Revenues** | **$1,131.1** | $885.1 | $834.5 |
| **Costs and Expenses:** | | | |
| Costs of providing services and products sold | **508.7** | 369.6 | 344.6 |
| Selling, general and administrative | **286.7** | 225.5 | 195.2 |
| Depreciation and amortization | **181.0** | 111.1 | 124.3 |
| Restructuring and other charges (credits) | **10.9** | (1.1) | (21.0) |
| **Operating Income** | **143.8** | 180.0 | 191.4 |
| Equity Loss in Unconsolidated Entities | **15.3** | 27.3 | — |
| Minority Interest and Other Income (Expense), Net | **4.5** | (2.4) | (2.7) |
| Interest Expense | **61.7** | 24.2 | 30.1 |
| Income from Continuing Operations Before Income Taxes | **71.3** | 126.1 | 158.6 |
| Income Taxes | **33.3** | 44.3 | 56.3 |
| Income from Continuing Operations | **38.0** | 81.8 | 102.3 |
| Income from Discontinued Operations, Net of Taxes | — | 69.1 | 91.3 |
| Income Before Extraordinary Items | **38.0** | 150.9 | 193.6 |
| Extraordinary Items, Net of Taxes | **(6.6)** | (1.0) | (210.0) |
| **Net Income (Loss)** | **31.4** | 149.9 | (16.4) |
| Dividends and Accretion Applicable to Preferred Stock | **2.1** | — | — |
| **Net Income (Loss) Applicable to Common Shareholders** | **$29.3** | $ 149.9 | $(16.4) |
| **Net Income (Loss)** | **$31.4** | $149.9 | $(16.4) |
| Other Comprehensive Income (Loss), Net of Tax: | | | |
| Unrealized gain on investments | **170.0** | — | — |
| Currency translation adjustments | — | (4.8) | (1.6) |
| Additional minimum pension liability adjustment | **3.6** | (2.5) | 0.8 |
| Total other comprehensive income (loss) | **173.6** | (7.3) | (0.8) |
| **Comprehensive Income (Loss)** | **$205.0** | $ 142.6 | $(17.2) |
| **Basic Earnings (Loss) Per Common Share** | | | |
| Income from Continuing Operations | **$ .25** | $ .60 | $ .76 |
| Income from Discontinued Operations, Net of Taxes | — | .51 | .67 |
| Extraordinary Items, Net of Taxes | **(.05)** | (.01) | (1.55) |
| Net Income (Loss) | **$ .20** | $ 1.10 | $ (.12) |
| **Diluted Earnings (Loss) Per Common Share** | | | |
| Income from Continuing Operations | **$ .24** | $ .59 | $ .74 |
| Income from Discontinued Operations, Net of Taxes | — | .50 | .67 |
| Extraordinary Items, Net of Taxes | **(.04)** | (.01) | (1.53) |
| Net Income (Loss) | **$ .20** | $ 1.08 | $ (.12) |
| **Weighted Average Common Shares Outstanding (millions)** | | | |
| Basic | **144.3** | 136.0 | 135.2 |
| Diluted | **150.7** | 138.2 | 137.7 |

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

# Consolidated Balance Sheets



| Millions of dollars at December 31 | 1999 | 1998 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 80.0** | $ 10.1 |
| Receivables, less allowances of $53.6 and $12.0 | **231.0** | 138.0 |
| Material and supplies | **30.3** | 16.9 |
| Deferred income tax benefits | **35.9** | 13.8 |
| Prepaid expenses and other current assets | **36.2** | 18.6 |
| Total current assets | **413.4** | 197.4 |
| Property, Plant and Equipment, Net | **2,500.9** | 698.2 |
| Goodwill and Other Intangibles, Net | **2,679.9** | 103.3 |
| Investments in Other Entities | **843.3** | 2.5 |
| Deferred Charges and Other Assets | **71.1** | 39.6 |
| Total Assets | **$6,508.6** | $1,041.0 |
| Liabilities, Redeemable Preferred Stock, and Shareowners' Equity | | |
| Current Liabilities | | |
| Short-term debt | **$ 9.2** | $ 186.2 |
| Accounts payable | **230.5** | 57.9 |
| Current portion of unearned revenue and customer deposits | **82.6** | 26.8 |
| Accrued taxes | **88.3** | 40.6 |
| Other current liabilities | **157.5** | 93.8 |
| Total current liabilities | **568.1** | 405.3 |
| Long-Term Debt, less current portion | **2,136.0** | 366.8 |
| Unearned Revenue, less current portion | **633.5** | — |
| Deferred Income Taxes | **221.8** | 6.3 |
| Other Long-Term Liabilities | **153.8** | 91.5 |
| Total liabilities | **3,713.2** | 869.9 |
| Minority Interest | **434.0** | 29.0 |
| 7 1/4% Convertible Preferred Stock, redeemable, $.01 par value; authorized – 5,000,000 shares of all classes of Preferred Stock; 1,058,380 shares issued and outstanding at December 31, 1999 (aggregate liquidation preference of $105.8 at December 31, 1999) | **228.6** | — |
| Commitments and Contingencies | | |
| Shareowners' Equity | | |
| 6 3/4% Cumulative Convertible Preferred Stock, $.01 par value; authorized – 5,000,000 shares of all classes of Preferred Stock; 155,250 shares issued and outstanding at December 31, 1999 | **129.4** | — |
| Common shares, $.01 par value; 480,000,000 shares authorized; 208,678,058 and 136,381,509 shares issued | **2.1** | 1.4 |
| Additional paid-in capital | **1,979.5** | 147.4 |
| Retained earnings | — | — |
| Accumulated other comprehensive income (loss) | **166.9** | (6.7) |
| Common stock in treasury, at cost 1999 – 7,805,800 shares, 1998 – no shares | **(145.1)** | — |
| Total shareowners' equity | **2,132.8** | 142.1 |
| Total Liabilities, Redeemable Preferred Stock and Shareowners' Equity | **$6,508.6** | $1,041.0 |

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

# Consolidated Statements of Cash Flows

**Broadwing Inc.**

| Millions of dollars — Year ended December 31 | **1999** | 1998 | 1997 |
|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | |
| Net income (loss) | **$31.4** | $ 149.9 | $(16.4) |
| Less: income from discontinued operations, net of taxes | **—** | (69.1) | (91.3) |
| Income (loss) from continuing operations | **31.4** | 80.8 | (107.7) |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities: | | | |
| Depreciation | **159.9** | 110.5 | 123.9 |
| Amortization | **21.1** | 0.6 | 0.4 |
| Restructuring and related charges (credits) | **10.6** | (1.1) | (21.0) |
| Provision for loss on receivables | **28.5** | 15.8 | 7.3 |
| Extraordinary items, net of taxes | **6.6** | 1.0 | 210.0 |
| Non-cash interest expense | **15.8** | 1.9 | (6.4) |
| Minority interest | **(3.0)** | — | — |
| Equity loss in unconsolidated entities | **15.3** | 27.3 | — |
| Change in operating assets and liabilities net of effects from acquisitions: | | | |
| Decrease (increase) in receivables | **(3.4)** | (24.9) | (26.3) |
| Decrease (increase) in prepaid expenses and other current assets | **(16.7)** | 2.1 | (7.4) |
| Increase (decrease) in accounts payable | **(17.1)** | 40.9 | 45.1 |
| Increase (decrease) in other current liabilities | **46.3** | (7.5) | (43.2) |
| Increase in unearned revenues | **75.0** | — | — |
| Increase (decrease) in deferred income taxes | **(24.7)** | (12.8) | (4.1) |
| Decrease (increase) in other assets and liabilities, net | **(31.7)** | (22.3) | 26.8 |
| Net cash provided by operating activities of continuing operations | **313.9** | 212.3 | 197.4 |
| **Cash Flows From Investing Activities:** | | | |
| Capital expenditures | **(381.4)** | (143.6) | (158.4) |
| Payments for acquisitions, net of cash acquired | **(247.0)** | (165.6) | — |
| Purchase of marketable securities | **(12.8)** | — | — |
| Other investing activities, net | **—** | — | 4.6 |
| Net cash used in investing activities of continuing operations | **(641.2)** | (309.2) | (153.8) |
| **Cash Flows From Financing Activities:** | | | |
| Issuance of long-term debt | **1,175.0** | 150.0 | — |
| Repayment of long-term debt | **(221.2)** | (51.2) | (99.6) |
| Short-term borrowings, net | **(371.4)** | 54.7 | 109.5 |
| Debt issuance costs | **(31.5)** | — | — |
| Issuance of common shares-exercise of stock options | **37.0** | 0.3 | 9.1 |
| Purchase of treasury shares | **(145.1)** | — | — |
| Dividends paid | **(45.6)** | (54.4) | (54.3) |
| Net cash provided by (used in) financing activities of continuing operations | **397.2** | 99.4 | (35.3) |
| Net cash provided by discontinued operations | **—** | (0.2) | (0.2) |
| Net increase (decrease) in cash and cash equivalents | **$ 69.9** | $ 2.3 | $ 8.1 |
| Cash and cash equivalents at beginning of year | **10.1** | 7.8 | (0.3) |
| Cash and cash equivalents at end of year | **$ 80.0** | $ 10.1 | $ 7.8 |

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

# Consolidated Statements of Shareowners' Equity



| Dollars and shares in millions | 6¾% Cumulative Convertible Preferred Stock Shares | 6¾% Cumulative Convertible Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Treasury Stock Shares | Treasury Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 1997** | — | — | 135.1 | $1.4 | — | — | $346.8 | $293.5 | $(7.3) | $634.4 |
| Shares issued under shareowner and employee plans | — | — | 1.0 | — | — | — | 17.7 | (0.8) | — | 16.9 |
| Net loss | — | — | — | — | — | — | — | (16.4) | — | (16.4) |
| Additional minimum pension liability adjustment | — | — | — | — | — | — | — | — | 0.8 | 0.8 |
| Currency translation adjustments | — | — | — | — | — | — | — | — | (1.6) | (1.6) |
| Dividends on common shares, $.40 per share | — | — | — | — | — | — | — | (54.4) | — | (54.4) |
| **Balance at December 31, 1997** | — | — | 136.1 | 1.4 | — | — | 364.5 | 221.9 | (8.1) | 579.7 |
| Shares issued under shareowner and employee plans | — | — | 0.3 | — | — | — | — | — | — | — |
| Net income | — | — | — | — | — | — | — | 149.9 | — | 149.9 |
| *Additional minimum pension* liability adjustment | — | — | — | — | — | — | — | — | (2.5) | (2.5) |
| Currency translation adjustments | — | — | — | — | — | — | — | — | (4.8) | (4.8) |
| Restricted stock issuance | — | — | — | — | — | — | (4.9) | — | — | (4.9) |
| Dividends on common shares, $.40 per share | — | — | — | — | — | — | — | (54.6) | — | (54.6) |
| Spin-off of Convergys | — | — | — | — | — | — | (212.2) | (317.2) | 8.7 | (520.7) |
| **Balance at December 31, 1998** | — | — | 136.4 | 1.4 | — | — | 147.4 | — | (6.7) | 142.1 |
| Shares issued under shareowner and employee plans | — | — | 3.2 | — | — | — | 46.3 | — | — | 46.3 |
| Net income | — | — | — | — | — | — | — | 31.4 | — | 31.4 |
| Additional minimum pension liability adjustment | — | — | — | — | — | — | — | — | 3.6 | 3.6 |
| Unrealized gain on investments | — | — | — | — | — | — | — | — | 170.0 | 170.0 |
| Restricted stock amortization | — | — | 0.7 | — | — | — | 5.1 | — | — | 5.1 |
| Dividends: | | | | | | | | | | |
| Common Shares, at $.20 per share | — | — | — | — | — | — | — | (27.5) | — | (27.5) |
| Preferred Shares | — | — | — | — | — | — | 1.8 | (3.9) | — | (2.1) |
| Equity issued in connection with Merger | 0.2 | 129.4 | 68.4 | 0.7 | — | — | 1,778.9 | — | — | 1,909.0 |
| *Treasury shares repurchased* | — | — | — | — | (7.8) | (145.1) | — | — | — | (145.1) |
| **Balance at December 31, 1999** | **0.2** | **$129.4** | **208.7** | **$ 2.1** | **(7.8)** | **$(145.1)** | **$1,979.5** | **$ —** | **$166.9** | **$2,132.8** |

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

## 1. Accounting Policies

### Description of Business

The Company provides diversified communications services through businesses in four material segments: Local Communications, Broadband, Wireless, and Directory. On November 9, 1999 the Company merged with IXC Communications in a transaction accounted for as a purchase. Accordingly, IXC's operations (renamed Broadwing Communications) have been included in the consolidated financial statements for all periods subsequent to November 9, 1999 (See Note 2).

**Basis of Consolidation —** The consolidated financial statements include the consolidated accounts of Cincinnati Bell Inc. dba Broadwing Inc. (the Company), and its majority owned subsidiaries in which the Company exercises control. Less-than-majority-owned subsidiaries are accounted for using the equity method. For equity method investments, the Company's share of income is calculated according to the Company's equity ownership. Any differences between the carrying amount of an investment and the amount of the underlying equity in the net assets of the investee are amortized over the expected life of the asset. Investments over which we do not exercise significant influence are reported at fair value. Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

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

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

**Materials and Supplies —** Materials and supplies are carried at the lower of average cost or market.

**Property, Plant and Equipment —** Property, plant and equipment are stated at cost. The Company's provision for depreciation of telephone plant is determined on a straight-line basis using the whole life and remaining life methods. As a result of the discontinuation of SFAS 71 in the fourth quarter of 1997, CBT recognized shorter, more economically realistic lives than those prescribed by regulators and increased its accumulated depreciation balance by $309.0 million (see Note 13). Provision for depreciation of other property is based on the straight-line method over the estimated useful life. Repairs and maintenance expense items are generally charged to expense as incurred. Telephone plant is retired at its original cost, net of cost of removal and salvage, and is charged to accumulated depreciation. For other property, plant and equipment, retired or sold, the gain or loss is recognized in other income.

**Long-Lived Assets, Other Assets and Goodwill —** Deferred financing costs are costs incurred in connection with obtaining long-term financing; such costs are amortized as interest expense over the terms of the related debt agreements. Certain costs incurred with the connection of customers to the switched long distance network (deferred network costs) are amortized on a straight-line basis over two years. Goodwill resulting from the purchase of businesses and other intangibles are recorded at cost and amortized on a straight-line basis from 5 to 40 years. Broadwing reviews the carrying value of long-lived assets and goodwill for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount, with the loss measured based on discounted expected cash flows.

**Revenue Recognition —** Local service revenues are billed monthly, in advance, with revenues being recognized when earned. Remaining revenues (with the exception of those described below) are billed and recognized as services are provided. Directory segment revenues and related directory costs are generally deferred and recognized over the life of the associated directory, normally twelve months. Indefeasible right-to-use agreements, or IRUs, represent the lease of excess network capacity and are recorded as unearned revenue at the earlier of the acceptance of the applicable portion of the network by the customer or the receipt of cash. Associated IRU revenue is then recognized over the life of the agreement as services are provided, beginning on the date of customer acceptance. IRU and related maintenance revenue are included in the private line category for the Broadband segment.

**Advertising** — Costs related to advertising are expensed as incurred and amounted to $22.3 million, $11.1 million, and $8.1 million in 1999, 1998, and 1997, respectively.

**Fiber Exchange Agreements** — In connection with the fiber optic network expansion, the Company entered into various agreements to exchange fiber usage rights. Non-monetary exchanges of fiber usage are recorded at the cost of the asset transferred or, if applicable, the fair value of the asset received. The Company accounts for agreements with other carriers to exchange fiber for capacity by recognizing the fair value of the revenue earned and expense incurred under the respective agreements. Exchange agreements accounted for non-cash revenue and expense (in equal amounts) of $2.7 million in 1999.

**Income Taxes** — The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods using the liability method. For financial statement purposes, deferred investment tax credits are being amortized as a reduction of the provision for income taxes over the estimated useful lives of the related property, plant and equipment.

**Stock-Based Compensation** — Compensation cost is measured under the intrinsic value method. Pro forma disclosures of net income and earnings per share are presented as if the fair value method had been applied.

**Financial Instruments** — In the normal course of business, the Company may, from time to time, employ a small number of financial instruments to manage its exposure to fluctuations in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

**Regulatory Accounting** — In the fourth quarter of 1997, the Company discontinued accounting under Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation," at Cincinnati Bell Telephone (see Note 13).

**Reclassifications** — Certain prior year amounts have been reclassified to conform to the current classifications with no effect on financial results.

**Recently Issued Accounting Standards** — On January 1, 1999, the Company adopted AICPA Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires the capitalization of certain expenditures for software that is purchased or internally developed for use in the business. As compared to prior years when these types of expenditures were expensed as incurred, the 1999 adoption of SOP 98-1 resulted in the capitalization of $10 million of internal use software development costs, which are being amortized over a three-year period.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that a derivative instrument be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS 133 has been subsequently amended through the release of SFAS 137, which provides for a deferral of the effective date of SFAS 133 to all fiscal years beginning after June 15, 2000. As a result, implementation of SFAS 133 is not mandatory for the Company until January 1, 2001. Management is currently assessing the impact of SFAS 133 on the Company's results of operations, cash flows and financial position.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements." In SAB 101, the SEC Staff expresses its views regarding the appropriate recognition of revenue with regard to a variety of circumstances, some of which are of particular relevance to the Company. The Company is currently evaluating SAB 101 to determine its impact on the financial statements.

## 2. Acquisitions

### IXC Communications Inc.:

On November 9, 1999, the Company merged with IXC Communications, Inc. (the Merger). Under the terms of the Merger, each share of IXC common stock was exchanged for 2.0976 shares of the Company's common stock. The aggregate purchase price of $2.2 billion consisted of (all numbers approximate): $0.3 billion in cash for the purchase of five million shares of IXC stock from GE Capital Pension Trust; the issuance of 68 million shares of the Company's common stock valued at $1.6 billion, 155,000 shares of 6¾% convertible preferred stock valued at $0.1 billion; and the issuance of 14 million options to purchase Broadwing common stock valued at $0.2 billion. These options were issued coincident with the merger to replace the then outstanding and unexercised options exercisable for shares of IXC common stock. These options were granted on the same terms and conditions as the IXC options, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 2.0976. The Merger was accounted for as a purchase and, accordingly, the operating results of IXC (Broadwing Communications) have been included in the Company's consolidated financial statements since the Merger date of November 9, 1999.

The cost of the Merger has been preliminarily allocated to the assets acquired and liabilities assumed according to their estimated fair values at the acquisition date and is subject to adjustment when the assumptions relating to the asset and liability valuations are finalized. In addition, the allocation may be impacted by changes in pre-acquisition contingencies identified during the allocation period by the Company relating to certain environmental, litigation, and other matters. The results of a preliminary allocation of the purchase price are as follows:

Fair market value adjustments:

| | |
|---|---|
| Property, Plant & Equipment | $ 207.0 |
| Other intangibles | 397.0 |
| Debt | (168.0) |
| Deferred tax Liabilities | (113.0) |
| Other | 7.0 |
| Subtotal | $330.0 |
| Goodwill | $2,187.5 |
| Total | $2,517.5 |

The amount allocated to goodwill represents the excess of price paid over the fair value of assets realized and liabilities assumed in the Merger. These amounts will be amortized to expense over a 30-year period.

**Cincinnati Bell Wireless:**

On December 31, 1998 the Company paid approximately $162 million in cash to AT&T PCS in exchange for an 80% interest in the Wireless business, including a PCS license and other assets and liabilities. The goodwill, licenses, and other intangibles related to this purchase were approximately $96 million and are being amortized to expense on a straight-line basis over a 20- to 40-year period.

The following summarized unaudited Pro forma financial information assumes both the Merger and the acquisition of the wireless business occurred at the beginning of each year:

| Millions of dollars (except per share amounts) | Year ended December 31 | **1999** | 1998 |
|---|---|---|---|
| Revenues | | **$1,699.4** | $1,572.0 |
| EBITDA | | **326.8** | 341.8 |
| Loss from continuing operations | | **(349.5)** | (202.7) |
| Net Loss | | **$(356.1)** | $(140.2) |
| Loss from continuing operations per common share | | **$(1.76)** | $(1.02) |
| Loss per common share | | **$(1.79)** | $(.72) |

These unaudited Pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Merger and the acquisition of the wireless business had occurred on January 1, 1998.

## 3. Restructuring and Other Charges (Credits)

### 1999 Restructuring Plan

In December 1999, the Company's management approved restructuring plans which included initiatives to integrate operations of the Company and Broadwing Communications, improve service delivery, and reduce the Company's expense structure. Total restructuring costs and impairments of $18.6 million were recorded in the fourth quarter related to these initiatives. The $18.6 million consisted of $7.7 million relating to Broadwing Communications (recorded as a component of the preliminary purchase price allocation) and $10.9 million relating to the Company (recorded as a cost of operations). The $10.9 million relating to the Company consisted of restructuring and other liabilities in the amount of $9.5 million and related asset impairments in the amount of $1.4 million. The restructuring related liabilities recorded in the fourth quarter of 1999 were comprised of the following:

| Millions of dollars | Broadwing,excluding Broadwing Communications | Broadwing Communications | Total |
|---|---|---|---|
| Employee separations | $6.0 | $2.2 | $8.2 |
| Facility closure costs | 2.3 | 2.1 | 4.4 |
| Relocation | — | 0.2 | 0.2 |
| Other exit costs | 1.2 | 3.2 | 4.4 |
| Total accrued restructuring costs | $ 9.5 | $ 7.7 | $ 17.2 |

The Company's estimated restructuring costs were based on management's best estimate of those costs based on available information. The restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits related to 347 employees (263 Broadwing Communication employees and 84 other employees). As of December 31, 1999, approximately 1% of the employee separations had been completed for a total cash expenditure of $0.4 million. Employee separation benefits include severance, medical and other benefits, and primarily affect customer support, infrastructure, and the Company's long distance operations. The restructuring plans also included costs associated with the closure of a variety of technical and customer support facilities, the decommissioning of certain switching equipment, and the termination of contracts with vendors.

In connection with the restructuring plan, the Company performed a review of our long-lived assets to identify any potential impairments in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed of." Accordingly, the Company recorded a $1.4 million charge as an expense of operations, resulting from the abandonment of certain assets including duplicate network equipment.

In total, the Company expects these restructuring related activities to result in cash outlays of $14.8 million and non-cash items of $3.8 million, and that most of the restructuring actions will be completed by December 31, 2000.

### 1995 Restructuring Plan

In 1995, the Company implemented a restructuring plan to provide for the voluntary and involuntary separation of more than 1,300 employees. The Company recorded charges of $131.6 million to reflect the cost of this plan. The Company recorded $21 million of non-cash pension settlement gains in 1997 and reversed $1.1 million in restructuring liabilities in 1998 upon substantial completion of the 1995 restructuring plan.

## 4. Investments in Other Entities

Investments in Equity Method Securities – The Company holds a 27% ownership investment in Applied Theory. The book value and market value of this investment at December 31, 1999 were $61.0 million and $157.1 million, respectively.

Investments in Marketable Securities – Investments held in PSINet, Purchase Pro and ZeroPlus.com are classified as an "available-for-sale" securities under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Accordingly, the Company recorded these investments at fair value and recorded the unrealized holding gains net of tax in comprehensive income, and adjusted the carrying value of these investments. The book value and related market value of these securities were $524.3 million and $771.3 million, respectively, as of December 31, 1999.

## 5. Debt

Debt consists of the following:

| Millions of dollars at December 31 | **1999** | 1998 |
|---|---|---|
| Short-Term Debt: | | |
| *Commercial paper* | — | $185.5 |
| Current maturities of long-term debt | **$9.2** | 0.7 |
| *Total short-term debt* | **$9.2** | $186.2 |
| Long-Term Debt | | |
| Bank Notes | **$755.0** | — |
| 9.0% Senior subordinated notes | **450.0** | — |
| 6.75% Convertible notes | **412.0** | — |
| Various CBT Notes | **290.0** | $290.0 |
| 7.25% Senior subordinated notes | **50.0** | 50.0 |
| PSINet forward sale | **133.9** | — |
| Capital lease obligations | **37.0** | 26.8 |
| *Other* | **8.1** | — |
| Total long-term debt | **$2,136.0** | $366.8 |

*Average balances* of short-term debt and related interest rates for the last three years are as follows:

| Millions of dollars | **1999** | 1998 | 1997 |
|---|---|---|---|
| Average amounts of short-term debt outstanding during the year* | **$190.0** | $87.5 | $64.2 |
| Maximum amounts of short-term debt at any month-end during the year | **$230.0** | $185.5 | $129.5 |
| Weighted average interest rate during the year** | **4.9%** | 5.6% | 5.7% |

* Amounts represent the average daily face amount of notes.

** Weighted average interest rates are computed by dividing the daily average face amount of notes into the aggregate related interest expense.

**9% Senior Subordinated Notes**

In 1998 IXC issued $450.0 million of 9% senior subordinated notes due 2008 ("the 9% notes"). The 9% notes are general unsecured obligations and are subordinate in right of payment to all existing and future senior indebtedness and other liabilities of our subsidiaries. The indenture related to the 9% notes requires us to comply with various financial and other covenants and restricts the Company from incurring certain additional indebtedness.

In January 2000, $404 million of these 9% notes were redeemed through a tender offer as a result of the change of control terms of the bond indenture. As a result, the Company recorded an extraordinary charge for the debt extinguishment of approximately $4.4 million, net of taxes.

**6.75% Convertible Notes**

In July 1999, the Company issued $400 million of 10-year, convertible subordinated debentures to Oak Hill Capital Partners, L.P. These notes are convertible into common stock of the Company at a price of $29.89 per common share at the option of the holder. For as long as this debt is outstanding, these notes bear a coupon rate of 6.75% per annum, with the associated interest expense being added to the debt principal amount. Through December 31, 1999, the Company has recorded $12.0 million in interest expense and has adjusted the carrying amount of the debt accordingly.

**PSINet Forward Sale**

The Company's investment in PSINet consists of 21.6 million shares after adjusting for their February 2000 two-for-one stock split. In June and July 1999, Broadwing Communications received approximately $111.8 million representing amounts from a financial institution in connection with two prepaid forward sale contracts on six million shares of the PSINet common stock. This amount is accounted for as notes payable and is collateralized by these six million shares of PSINet common stock owned by the Company. Each forward-sale obligation for three million shares of PSINet stock may be settled at specified dates in the first and second quarter of 2002 for a maximum amount of three million shares of PSINet stock, or at the Company's option, the equivalent value in cash. Since it is the Company's current intention to settle these obligations in PSINet stock, the carrying amount of the liability is marked-to-market each period with an offsetting adjustment to the "unrealized gain on investments" caption within other comprehensive income.

**Bank Notes**

In November 1999, the Company obtained a $2.1 billion credit facility from a group of 24 lending institutions. The credit facility consists of $900 million in revolving credit and $750 million in term loans from banking institutions and $450 million in term loans from non-banking institutions. At December 31, 1999, the Company had drawn approximately $755 million from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger. In January 2000, the Company borrowed approximately $400 million in order to redeem the outstanding 9% Senior Subordinated Notes assumed during the Merger as part of a tender offer. This tender offer was required under the terms of the bond indenture due to the change in control provision. Accordingly, the Company has approximately $900 million in additional borrowing capacity under this facility as of the date of this report. This facility's financial covenants require that the Company maintain certain debt to EBITDA ratios, debt to capitalization ratios, fixed to floating rate debt ratios and interest coverage ratios. This facility also contains covenants which, among other things, restrict the Company's ability to incur additional debt, pay dividends, repurchase Company common stock, sell assets or merge with another company.

The interest rates to be charged on borrowings from this credit facility can range from 100 to 225 basis points above the London Interbank Offering Rate (LIBOR), depending on the Company's credit rating. The current borrowing rate is approximately 200 basis points. The Company will incur banking fees in association with this credit facility ranging from 37.5 basis points to 75 basis points, applied to the unused amount of borrowings of the facility.

Annual maturities of long-term debt and minimum payments under capital leases for the five years subsequent to December 31, 1999 are as follows:

| Millions of dollars | at December 31 | 1999 |
|---|---|---|
| Debentures/Notes | | |
| Year of Maturity | | |
| 2000 | | $ — |
| 2001 | | — |
| 2002 | | 20.0 |
| 2003 | | 20.0 |
| 2004 | | — |
| 2005 | | 325.0 |
| *Thereafter* | | 1,592.0 |
| Subtotal | | 1,957.0 |
| PSINet Forward Sale | | 133.9 |
| Capital leases and other | | 45.1 |
| Total | | $2,136.0 |

Interest expense recognized on the Company's debt is as follows:

| Millions of dollars | Year ended December 31 | **1999** | 1998 | 1997 |
|---|---|---|---|---|
| Interest expense: | | | | |
| Long-term debt | | **$55.8** | $20.8 | $23.2 |
| Short-term debt | | **5.5** | 4.9 | 6.1 |
| Other | | **0.4** | (1.5) | 0.8 |
| Total | | **$61.7** | $ 24.2 | $ 30.1 |

*Interest capitalized during 1999, 1998 and 1997 was $3.8 million, $1.9 million and $1.3 million, respectively.*

Extraordinary items related to the early extinguishment of debt affected both years. In 1999, costs related to the early extinguishment of Broadwing Communications' debt as a result of to the Merger resulted in a $6.6 million charge, net of taxes. The spin-off of Convergys Corporation in 1998 reduced the borrowing capacity that was needed from the Company's then-existing credit facility and some debt and a portion of that credit facility were retired, resulting in a $1.0 million extraordinary charge, net of tax.

## 6. Minority Interest

| Millions of dollars | Year ended December 31 | **1999** | 1998 |
|---|---|---|---|
| Minority interest consists of: | | | |
| 12.5% Exchangeable Preferred Stock | | **$418.2** | $ — |
| Minority Interest in Cincinnati Bell | | | |
| Wireless held by AT&T PCS | | **13.1** | 29.0 |
| Other | | **2.7** | |
| Total | | **$434.0** | $ 29.0 |

Broadwing Communications has outstanding approximately $400 million, or 400,000 shares of 12 1/2% Junior Exchangeable Preferred Stock (12 1/2% Preferreds). The 12 1/2% Preferreds are mandatorily redeemable on August 15, 2009 at a price equal to their liquidation preference ($1,000 a share), plus accrued and unpaid dividends. Dividends on the 12 1/2% Preferreds are currently being effected through additional shares of the 12 1/2% Preferreds. This option is available to the Company until February 15, 2001, at which time all dividends are required to be paid in cash. The Company converted to a cash pay option for these dividends on February 15, 2000. Dividends on the 12 1/2% Preferreds are classified as minority interest expense in the Consolidated Statements of Income and Comprehensive Income. At the Merger date, and as part of purchase accounting, the 12 1/2% Preferreds were adjusted to fair market value which exceeds the redemption value. As such, the accretion of the difference between the new carrying value and the mandatory redemption value is treated as an offsetting reduction to minority interest expense.

AT&T PCS maintains a 19.9% ownership in the Company's Cincinnati Bell Wireless (CBW) subsidiary. The balance is adjusted as a function of AT&T PCS' 19.9% share of the adjusted net income (or loss) of CBW, with an offsetting amount being reflected in the Consolidated Statements of Income and Comprehensive Income under the caption "Minority Interest and Other Income (Expense), Net."

## 7. Common and Preferred Shares

### Common Shares

Par value of the common shares is $.01 per share. At December 31, 1999 and 1998, common shares outstanding were 200.9 million and 136.4 million, respectively. Common shares outstanding at December 31, 1999 include the issuance of 68.4 million shares in association with the Merger. In July 1999, the Company's Board of Directors approved a share repurchase program authorizing the repurchase of as much as $200 million in common shares of the Company. As of December 31, 1999, the Company had repurchased approximately 7.8 million shares of Company common stock at a cost of $145 million.

### Common Share Purchase Rights Plan

In the first quarter of 1997, the Company's Board of Directors adopted a Share Purchase Rights Plan by granting a dividend of one preferred share purchase right for each outstanding common share to shareowners of record at the close of business on May 2, 1997. Under certain conditions, each right entitles the holder to purchase one-thousandth of a Series A Preferred Share. The rights cannot be exercised or transferred apart from common shares, unless a person or group acquires 15% or more of the Company's outstanding common shares. The rights will expire May 2, 2007, if they have not been redeemed.

### Preferred Shares

The Company is authorized to issue up to four million voting preferred shares and one million nonvoting preferred shares.

In connection with the Merger, the Company issued 155,250 shares of 6 3/4% cumulative convertible preferred stock. The 6 3/4% convertible preferred stock can be converted at any time at the option of the holder into common stock of the Company. The conversion rate is 28.84 shares of Company common stock per share of 6 3/4% convertible preferred stock. Dividends on the 6 3/4% convertible preferred stock are payable quarterly in arrears in cash or common stock.

Also in connection with the Merger, the Company issued approximately $100 million (1,074,000 shares) of 7 1/4% junior convertible preferred stock due 2007. As of the date of this report 1,058,380 shares remain outstanding. The 7 1/4% convertible preferred stock is convertible at the option of the Holder into shares of common stock at a conversion rate of 8.94 shares of common stock for each share of 7 1/4% convertible preferred stock. The shares are redeemable at a price of 104.83% on April 3, 2000. On March 31, 2007, the 7 1/4% convertible preferred stock must be redeemed at a price equal to the liquidation preference ($100 per share) plus accrued and unpaid dividends. If paid in kind, dividends accrue at 8 3/4%. The difference between the carrying value of the 7 1/4% convertible preferred stock and its redemption value is being accreted to additional paid-in-capital through the mandatory redemption date, and this accretion is included in dividends and accretion applicable to preferred stock. Since this preferred stock is mandatorily redeemable, it is not classified within shareowners' equity.

## 8. Earnings Per Common Share

Basic earnings per common share are based upon the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the potential dilution that would occur if common stock equivalents were exercised. The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations for income from continuing operations, before extraordinary items, for the following periods:

| Shares and dollars in millions (except per share amounts) Year ended December 31 | **1999** | 1998 | 1997 |
|---|---|---|---|
| Numerator: | | | |
| Income from continuing operations | **$38.0** | $81.8 | $102.3 |
| Preferred Stock dividends | **2.1** | — | — |
| Numerator for basic earnings per common share and earnings per common share assuming dilution – income applicable to common shareowners | **$35.9** | $81.8 | $102.3 |
| Denominator: | | | |
| Denominator for basic earnings per common share – weighted average common shares | **144.3** | 136.0 | 135.2 |
| Potential dilution: | | | |
| Stock options | **5.6** | 1.7 | 1.9 |
| Stock-based compensation arrangements | **.8** | .5 | .6 |
| Denominator for diluted earnings per common share | **150.7** | 138.2 | 137.7 |
| Basic earnings from continuing operations per common share | **$.25** | $.60 | $.76 |
| Earnings from continuing operations per common share assuming dilution | **$.24** | $.59 | $.74 |

Options to purchase 4,107,471 weighted average shares of common stock at an average of $20.75 per share were outstanding during the year ended December 31, 1999, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The 6 3/4% convertible debentures and 7 1/4% convertible preferred stocks are also excluded from the diluted EPS calculation because they are anti-dilutive. The inclusion of the convertible debentures and preferred stocks would have added 13.8 million and 9.5 million shares, respectively, to the denominator of the EPS calculation.

## 9. Income Taxes

Income tax expense consists of the following:

| Millions of dollars Year ended December 31 | 1999 | 1998 | 1997 |
|---|---|---|---|
| Current: | | | |
| Federal | **$52.3** | $51.1 | $57.3 |
| State and local | **6.9** | 7.6 | 4.3 |
| Total current | **59.2** | 58.7 | 61.6 |
| Deferred: | | | |
| Federal | **(21.2)** | (12.1) | (5.0) |
| State and local | **(3.5)** | (0.7) | 0.9 |
| Total deferred | **(24.7)** | (12.8) | (4.1) |
| Investment tax credits | **(1.2)** | (1.6) | (1.2) |
| Total | **$33.3** | $44.3 | $56.3 |

Income taxes decreased $11 million in comparison to the prior year as a function of lower pre-tax income and the offsetting impact of nondeductible expenses such as goodwill amortization and preferred stock dividends.

The following is a reconciliation of the statutory Federal income tax rate with the effective tax rate for each year:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| U.S. Federal statutory rate | **35.0%** | 35.0% | 35.0% |
| State and local income taxes, net of federal income tax benefit | **3.4** | 3.3 | 0.9 |
| Amortization of non-deductible intangible assets | **4.6** | — | — |
| Dividends on preferred stock | **3.2** | — | — |
| Investment and research tax credits | **(0.9)** | (1.6) | (1.5) |
| Other differences | **1.4** | (1.6) | 1.1 |
| Effective rate | **46.7%** | 35.1% | 35.5% |

The income tax effects relating to other comprehensive income components were $104.0 million in 1999. These tax impacts were not significant in 1998 and 1997.

The components of the Company's deferred tax assets and liabilities are as follows:

| Millions of dollars at December 31 | 1999 | 1998 |
|---|---|---|
| Deferred tax assets: | | |
| Loss carryforwards | **$126.2** | — |
| Unearned revenues | **193.9** | — |
| Investment in subsidiaries | **46.5** | 9.6 |
| Other | **80.0** | 39.3 |
| Total deferred tax asset | **$446.6** | $48.9 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | **$400.8** | $22.3 |
| Unrealized gain on investments | **227.1** | — |
| Other | **4.6** | — |
| Total deferred tax liabilities | **$ 632.5** | $22.3 |
| Net deferred tax (liability) asset | **$(185.9)** | $26.6 |

The Company recorded gross deferred tax assets of approximately $346.3 million and gross deferred tax liabilities of approximately $484.3 million upon the Merger. Tax loss carryforwards will generally expire between 2001 and 2018. U.S. tax laws limit the annual utilization of tax loss carryforwards of acquired entities. These limitations should not materially impact the utilization of the tax carryforwards.

## 10. Employee Benefit Plans

### Pensions and Post-retirement Plans

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for non-management employees and one supplementary, nonqualified, unfunded plan for certain senior managers.

The pension benefit formula for the management plan is a cash balance plan; the pension benefit is determined by a combination of compensation-based credits and annual guaranteed interest credits. The non-management pension is also a cash balance plan; the pension benefit is determined by a combination of service and job-classification-based credits and annual interest credits. Benefits for the supplementary plan are based on years of service and eligible pay. Funding of the management and non-management plans is achieved through contributions to an irrevocable trust fund. The contributions are determined using the aggregate cost method.

The Company uses the projected unit credit cost method for determining pension cost for financial reporting purposes. It accounts for certain benefits provided under early retirement packages, discussed in Note 3 as a special termination benefit.

The Company also provides health care and group life insurance benefits for retirees with a service pension. The Company funds its group life insurance benefits through Retirement Funding Accounts and funds health care benefits using Voluntary Employee Benefit Association (VEBA) trusts. It is the Company's practice to fund amounts as deemed appropriate from time to time. Contributions are subject to IRS limitations developed using the aggregate cost method. The associated plan assets are primarily equity securities and fixed income investments. The Company recorded an accrued post-retirement benefit liability of $44.9 million at December 31, 1999.

The following information relates to all Company non-contributory defined-benefit pension plans, post-retirement healthcare, and life insurance benefit plans.

Effective January 1, 1999, after the spin-off of Convergys, pension assets were divided between the pension trusts of the Company and Convergys so that each company's plans had the required assets to meet the minimum requirements set forth in applicable benefit and tax regulations. The remaining assets in excess of the minimum requirements were divided between the pension trusts of the Company and Convergys in accordance with the Employee Benefits Agreement between the two companies.

Pension and post-retirement benefit cost are as follows:

| Millions of dollars Year ended December 31 | Pension Benefits 1999 | 1998 | 1997 | Postretirement and Other Benefits 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| Service cost (benefits earned during the period) | **$6.0** | $4.8 | $ 3.7 | **$1.8** | $1.5 | $1.3 |
| Interest cost on projected benefit obligation | **30.3** | 18.1 | 20.0 | **14.4** | 15.3 | 15.2 |
| Expected return on plan assets | **(37.8)** | (23.3) | (23.0) | **(10.3)** | (9.4) | (7.3) |
| Settlement gains | — | — | (21.0) | — | — | — |
| Curtailment loss | — | 1.4 | 0.2 | — | — | — |
| Amortization of: | | | | | | |
| Transition (asset)/obligation | **(2.4)** | (1.3) | (1.5) | **4.9** | 4.9 | 4.9 |
| Prior service cost | **1.5** | 0.7 | 0.7 | **0.3** | 0.2 | 0.2 |
| Net (gain)/loss | **0.3** | 0.3 | 0.3 | **(0.3)** | (0.2) | (0.1) |
| Actuarial net pension cost (income) | **$ (2.1)** | $ 0.7 | $ (20.6) | **$ 10.8** | $ 12.3 | $ 14.2 |

Reconciliation of the beginning and ending balance of the plans' funded status were:

| Millions of dollars Year ended December 31 | Pension Benefits 1999 | 1998 | Postretirement and Other Benefits 1999 | 1998 |
|---|---|---|---|---|
| Change in benefit obligation: | | | | |
| Benefit obligation at January 1 | **$476.5** | $ 457.5 | **$234.8** | $222.3 |
| Service cost | **6.0** | 4.8 | **1.8** | 1.5 |
| Interest cost | **30.2** | 18.1 | **14.4** | 15.2 |
| Amendments | **8.9** | 1.4 | **(0.4)** | — |
| Actuarial (gain) loss | **(44.1)** | 34.3 | **(34.1)** | 12.3 |
| Curtailment | — | 0.9 | — | — |
| Benefits paid | **(42.8)** | (40.5) | **(15.3)** | (16.5) |
| Benefit obligation at December 31 | **$434.7** | $476.5 | **$201.2** | $234.8 |
| Change in plan assets: | | | | |
| Fair value of plan assets at January 1 | **$579.3** | $543.2 | **$127.9** | $112.1 |
| Actual return on plan assets | **125.0** | 71.8 | **9.3** | 17.5 |
| Employer contribution | **4.7** | 4.8 | **13.4** | 14.8 |
| Benefits paid | **(42.8)** | (40.5) | **(15.3)** | (16.5) |
| Fair value of plan assets at December 31 | **$666.2** | $579.3 | **$135.3** | $127.9 |
| Reconciliation to Balance Sheet: | | | | |
| Funded status | **$231.5** | $102.8 | **$(65.9)** | $(106.9) |
| Unrecognized transition asset | **(12.0)** | (14.4) | **62.9** | 68.6 |
| Unrecognized prior service cost | **26.6** | 19.2 | **2.7** | 2.6 |
| Unrecognized net gain | **(237.1)** | (105.5) | **(44.6)** | (11.8) |
| Net amount recognized | **$9.0** | $2.1 | **$(44.9)** | $(47.5) |

The combined net prepaid benefit expense consists of:

| Millions of dollars | Year ended December 31 | Pension Benefits **1999** | 1998 |
|---|---|---|---|
| Prepaid benefit cost | | **$42.0** | $38.2 |
| Accrued benefit liability | | **(39.1)** | (44.2) |
| Intangible asset | | **1.3** | 1.2 |
| Accumulated other comprehensive income | | **4.8** | 6.9 |
| Net amount recognized | | **$ 9.0** | $ 2.1 |

At December 31, 1999 and 1998, Pension plan assets include $51.4 million in Company common stock and $52.8 million in Company and Convergys common stocks, respectively.

The following are the weighted average assumptions as of December 31:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| At December 31 | **1999** | 1998 | 1997 | **1999** | 1998 | 1997 |
| Discount rate – projected benefit obligation | **7.75 %** | 6.50% | 7.00% | **7.75 %** | 6.50% | 7.00% |
| Expected long-term rate of return on Pension and VEBA plan assets | **8.25 %** | 8.25% | 8.25% | **8.25 %** | 8.25% | 8.25% |
| Expected long-term rate of return on retirement fund account assets | — | — | — | **8.00%** | 8.00% | 8.00% |
| Future compensation growth rate | **4.50 %** | 4.00% | 4.00% | **4.50%** | 4.00% | 4.00% |

The assumed health care cost trend rate used to measure the post-retirement health benefit obligation at December 31, 1999, was 7.43% and is assumed to decrease gradually to 4.5% by the year 2004. In addition, a one percentage point change in assumed health care cost trend rates would have the following effect on the post-retirement benefit costs and obligation:

| Millions of dollars | 1% Increase | 1% Decrease |
|---|---|---|
| 1999 service and interest costs | $ 0.5 | $ (0.4) |
| Post-retirement benefit obligation at December 31, 1999 | $ 6.6 | $ (5.8) |

**Savings Plans**

The Company sponsors several defined contribution plans covering substantially all employees. The Company's contributions to the plans are based on matching a portion of the employee contributions or on a percentage of employee earnings or net income for the year. Total Company contributions to the defined contribution plans were $4.5 million, $4.0 million and $3.4 million for 1999, 1998, and 1997, respectively. These amounts exclude $6.8 million and $5.8 million in 1998 and 1997 respectively, related to the spin-off of Convergys.

## 11. Stock-Based Compensation Plans

During 1999 and in prior years, certain employees of the Company were granted stock options and other stock-based awards under the Company's Long-Term Incentive Plan (Company LTIP). Under the Company LTIP, options are granted with exercise prices that are no less than market value of the stock at the grant date. Generally, stock options have ten-year terms and vesting terms of three to five years. There were no Company stock appreciation rights granted or outstanding during the three-year period ended December 31, 1999. The number of shares authorized and available for grant (excluding those granted in the Merger) under this plan were approximately 20 million and 8 million, respectively at December 31, 1999.

Effective December 31, 1998, awards outstanding under the Company LTIP were modified such that, for each Company option or share award, the holder also received a Convergys option or share award pursuant to Convergys' Long-Term Incentive Plan (Convergys LTIP). These Convergys stock options or share awards have the same vesting provisions, option periods and other terms and conditions as the original Company options. In addition, upon completion of the Merger, the historic IXC options were exchanged for Company options with the same vesting provisions, option periods, and other terms and conditions of the original IXC options.

The Company follows the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation," but applies Accounting Principles Board Opinion 25 and related interpretations in accounting for its plans. If the Company had elected to recognize compensation cost for the issuance of the Company or Convergys options to employees based on the fair value at the grant dates for awards consistent with the method prescribed by SFAS 123, net income and earnings per share would have been impacted as follows:

| Millions of dollars except per share amounts | Year ended December 31 | **1999** | 1998 | 1997 |
|---|---|---|---|---|
| Net income (loss): | | | | |
| As reported | | **$31.4** | $149.9 | $(16.4) |
| Pro forma compensation expense, net of tax benefits | | **(7.8)** | (2.1) | (5.1) |
| Total pro forma | | **$23.6** | $147.8 | $(21.5) |
| Diluted earnings (loss) per share: | | | | |
| As reported | | **$ .20** | $ 1.08 | $ (.12) |
| Pro forma | | **$ .14** | $ 1.06 | $ (.16) |

The pro forma effect on net income (loss) for all periods shown above is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995. In addition, the pro forma disclosure for all periods shown does not take into consideration pro forma IXC option grants prior to the Merger. Additionally, the pro forma disclosure for 1998 includes incremental compensation expense based on the difference in the fair value of the replacement options issued at the date of the distribution to employees who held Company options.

The weighted average fair values at the date of grant for the Company options granted to employees during 1999 and 1998 were $8.40 and $8.73, respectively. Such amounts were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | **1999** | 1998 | 1997 |
|---|---|---|---|
| Expected dividend yield | — | 1.4% | 1.8% |
| Expected volatility | **48.0%** | 25.0% | 29.9% |
| Risk-free interest rate | **6.4%** | 5.7% | 6.2% |
| Expected holding period — years | **4** | 4 | 4 |

Presented below is a summary of the status of outstanding Company stock options issued to employees, the issuance of Convergys options to Company option holders at the date of distribution, and related transactions:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Company options held by employees at January 1, 1997 | 2,518 | $13.14 |
| Granted | 357 | $30.01 |
| Exercised | (196) | $10.08 |
| Forfeited/expired | (15) | $23.90 |
| Company options held by employees at December 31, 1997 | 2,664 | $17.16 |
| Granted | 374 | $31.25 |
| Exercised | (124) | $12.02 |
| Forfeited/expired | (80) | $28.26 |
| Company options held by employees at December 31, 1998 | 2,834 | $20.33 |
| Effect of Convergys Split | 4,450 | $11.61 |
| Company options held by employees at January 1, 1999 | 7,284 | $8.72 |
| Granted in IXC acquisition | 14,583 | $15.78 |
| Granted to employees | 11,341 | $19.38 |
| Exercised | (3,198) | $11.57 |
| Forfeited/expired | (1,308) | $17.55 |
| Company options held by employees at December 31, 1999 | 28,702 | $15.81 |

The following table summarizes the status of Company stock options outstanding and exercisable at December 31, 1999:

| *Shares in thousands* | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| $1.440 to $12.981 | 7,785 | 6.14 | $8.02 | 5,802 | $6.80 |
| $12.994 to $16.781 | 11,150 | 9.11 | $16.13 | 2,515 | $15.38 |
| $17.500 to $25.406 | 7,993 | 9.36 | $20.18 | 2,169 | $20.48 |
| $25.450 to $31.563 | 1,774 | 6.08 | 28.36 | 520 | 26.80 |
| Total | 28,702 | | $15.81 | 11,006 | $12.40 |

Restricted stock awards during 1999, 1998 and 1997 were 739,250 shares, 320,000 shares, and 126,000 shares, respectively. The weighted average market value of the shares on the grant date were $17.37 in 1999 and, on a pre-spin-off basis, $32.59, and $29.48 in 1998 and 1997, respectively. Restricted stock awards generally vest within one to five years. Total compensation expense for restricted stock awards during 1999, 1998, and 1997 was $5.7 million, $.6 million and $.6 million, respectively.

On January 4, 1999, the Company announced stock option grants to each of its approximately 3,500 employees. According to the terms of this program, stock option grant recipients remaining with the Company until January 4, 2002, can exercise their options to purchase up to 500 common shares each. The exercise price for these options is $16.75 per share, the average of the opening and closing prices for the Company's common stock on the date of the grant. This plan includes a provision for option grants to future employees, in smaller amounts and at an exercise price based on the month of hire. Grant recipients must exercise their options prior to January 4, 2009. The Company does not expect a significant amount of dilution as a result of this grant.

## 12. Discontinued Operations

On December 31, 1998, the Company completed the tax-free spin-off of its Convergys subsidiary by distributing shares of Convergys common stock to Company shareowners on a one-for-one basis, resulting in a $520.7 million reduction in the Company's common shareowners' equity in 1998.

For 1998 and all prior periods, the consolidated financial statements have been restated to reflect the disposition of Convergys as discontinued operations. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of Convergys have been reported as discontinued operations in the financial statements.

Summarized financial information for the discontinued operations is as follows:

| Millions of dollars | Year ended December 31 | 1998 | 1997 |
|---|---|---|---|
| **Results of Operations** | | | |
| Revenues | | $1,387.3 | $922.3 |
| Income before income taxes | | 118.3 | 138.3 |
| Income taxes | | 49.2 | 47.0 |
| Net income | | $ 69.1 | $ 91.3 |
| **Financial Position** | | | |
| Current assets | | $ 360.5 | $ 265.8 |
| Total assets | | 1,450.9 | 654.4 |
| Current liabilities | | 697.9 | 216.7 |
| Total liabilities | | 930.2 | 223.6 |
| Net assets of discontinued operations | | $ 520.7 | $ 430.8 |

Income before income taxes includes allocated interest expense of $33.7 million and $5.4 million in 1998 and 1997, respectively. Interest expense was allocated based on the capital structure of Convergys anticipated at the date of distribution and the Company's weighted average interest rates. The effective tax rates for discontinued operations were 42% and 34%, respectively.

In 1998 and 1997, the Company had revenues from Convergys of $10.1 million and $18.6 million, respectively, resulting from the provision of communications and other services.

In 1998 and 1997, the Company incurred costs for services provided by Convergys of $49.8 million and $49.6 million, respectively, resulting from billing and customer management services.

The Company and Convergys entered into the Plan of Reorganization and Distribution Agreement (the Plan) dated July 20, 1998. The Plan provided, among other things, that the Company indemnify Convergys for all liabilities arising from the Company's business and operations and for all contingent liabilities related to the Company's business and operations otherwise assigned to the Company. The Plan provided for the equal sharing of contingent liabilities not allocated to one of the companies. In addition, the Company has a number of other agreements with Convergys regarding federal, state and local tax allocation and sharing, employee benefits, general services, billing and information services provided to the Company by Convergys, and telecommunications support services provided by the Company to Convergys.

## 13. Discontinuation of SFAS 71

In the fourth quarter of 1997, the Company determined that the application of SFAS 71, "Accounting for the Effects of Certain Types of Regulation", was no longer appropriate as a result of changes in CBT's competitive and regulatory environment. Accordingly, the application of SFAS 71 was discontinued at CBT, resulting in an extraordinary non-cash charge of $210.0 million, which is net of a related tax benefit of $129.2 million.

The components of the charge are as follows:

| Millions of dollars | |
|---|---|
| Reduction in plant-related balances | $327.7 |
| Elimination of other net regulatory assets and liabilities | 11.5 |
| Total pre-tax charge | $339.2 |
| Total after-tax charge | $210.0 |

The change in plant balances primarily represents an increase in accumulated depreciation of $309.0 million for the removal of an embedded regulatory asset resulting from the use of regulatory lives for depreciation of plant assets which have typically been longer than the estimated economic lives. The adjustment was supported by a discounted cash flow analysis which estimated amounts of plant that may not be recoverable from future cash flows. The adjustment also included elimination of accumulated depreciation reserve deficiencies recognized by regulators and amortized as part of depreciation expense and an adjustment of approximately $9.5 million to fully depreciate analog switching equipment scheduled for replacement.

The discontinuance of SFAS 71 also required CBT to eliminate from its balance sheet the effects of any other actions of regulators that had been recognized as assets and liabilities pursuant to SFAS 71, but would not have been recognized as assets and liabilities by enterprises in general. Prior to the discontinuance of SFAS 71, CBT had recorded deferred income taxes (and a regulatory asset) based upon the cumulative amount of income tax benefits previously flowed through to ratepayers. The discontinuation of SFAS 71 at CBT had no effect on the accounting for the Company's other subsidiaries.

## 14. Additional Financial Information

**Balance Sheet**

| Millions of dollars Year ended December 31 | 1999 | 1998 | Depreciable Lives (Yrs.) |
|---|---|---|---|
| **Property Plant and Equipment, Net:** | | | |
| Land and rights of way | **$155.9** | $ 5.0 | 0 - 30 |
| Buildings and Leasehold Improvements | **428.3** | 164.0 | 5 - 40 |
| Telephone Plant | **1,697.2** | 1,438.5 | 6 - 29 |
| Transmission system | **1,074.4** | 65.9 | 5 - 20 |
| Furniture, vehicles, and other | **225.7** | 187.4 | 8 - 15 |
| Construction in Process | **232.0** | 12.4 | — |
| | **3,813.5** | 1,873.2 | |
| Less: Accumulated depreciation | **1,312.6** | 1,175.0 | |
| Property Plant and Equipment, Net | **$2,500.9** | $698.2 | |

| Millions of dollars Year ended December 31 | 1999 | 1998 | Amortization Lives (Yrs.) |
|---|---|---|---|
| **Goodwill and other intangibles:** | | | |
| Goodwill | **$2,247.7** | $ 94.6 | 5 - 40 |
| Assembled workforce | **24.0** | — | 2 - 4 |
| Installed customer base | **373.0** | — | 2 - 20 |
| Other Intangibles | **60.6** | 14.3 | 3 - 40 |
| | **2,705.3** | 108.9 | |
| Less: Accumulated amortization | **(25.4)** | (5.6) | |
| Goodwill and Other Intangibles | **$2,679.9** | $ 103.3 | |

| Millions of dollars Year ended December 31 | 1999 | 1998 |
|---|---|---|
| **Other current liabilities:** | | |
| Accrued payroll and benefits | **$ 48.9** | $ 33.9 |
| Accrued interest | **18.8** | 15.1 |
| Accrued restructuring costs | **30.2** | 0.5 |
| Other current liabilities | **59.6** | 44.3 |
| Total | **$ 157.5** | $ 93.8 |
| **Accumulated other comprehensive income (loss):** | | |
| Unrealized gain on investments | **$170.0** | — |
| Additional minimum pension liability | **(3.1)** | (6.7) |
| Total | **$166.9** | $ (6.7) |

**Statement of Cash Flows**

| Millions of dollars Year ended December 31 | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Cash paid for:** | | | |
| Interest (net of amount capitalized) | **$53.8** | $26.8 | $29.6 |
| Income taxes (net of refunds) | **$40.2** | $81.4 | $82.8 |
| **Noncash investing and financing activities:** | | | |
| Common stock, warrants and options issued in purchase of business | **$1,909.0** | — | — |
| Preferred stock dividends | **$ 12.0** | — | — |
| Accretion of preferred stock | **$ 2.4** | — | — |
| Fiber exchange agreements | **$ 2.7** | — | — |

## 15. Business Segment Information

The Company is organized on the basis of products and services. The Company's segments are strategic business units that offer distinct products and services and are aligned with specific subsidiaries of the Company. The Company operates in the five business segments described below.

The Local Communications segment provides local, long distance, data networking and transport, Internet and payphone services, as well as sales of communications equipment, in southwestern Ohio, northern Kentucky, and southeastern Indiana. Services are marketed and sold to both residential and business customers and delivered via the Company's Cincinnati Bell Telephone and Zoomtown.com subsidiaries.

The Broadband segment utilizes an advanced, fiber-optic network to provide private line, switched access, data transport, Internet-based, and other services to end user customers. Additionally, excess network capacity is leased (in the form of indefeasible right-to-use agreements) to other telecommunications providers and to Internet service providers.

The Wireless segment holds the Company's Cincinnati Bell Wireless subsidiary (an 80%-owned venture with AT&T Wireless PCS, Inc.) which provides advanced digital personal communications and sales of related communications equipment to customers in its Greater Cincinnati and Dayton, Ohio operating areas.

The Directory segment sells directory advertising and information services primarily to business customers in the aforementioned area. This segment's identifiable product is the Yellow Pages directory delivered via the Company's Cincinnati Bell Directory subsidiary.

Other Communications combines the operations of Cincinnati Bell Long Distance (CBLD), Cincinnati Bell Supply (CBS), and Broadwing IT Consulting segments. CBLD resells long distance, voice, data, frame relay, and Internet access services to small- and medium-sized business customers in a regional area consisting mainly of six states. CBS sells new computers and resells telecommunications equipment in the secondary market, and Broadwing IT Consulting provides network integration and consulting services.

The Company evaluates performance of its segments and allocates resources to them based on EBITDA (earnings before interest, taxes, depreciation, amortization, and restructuring and other charges/credits). EBITDA is commonly used in the communications industry to measure operating performance. EBITDA is not intended to represent cash flows for the periods. Because EBITDA is not calculated identically by all companies, the amounts presented for the Company may not be comparable to similarly titled measures of other companies.

The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e., at current market prices. The accounting policies of the business segments are the same as those described in Accounting Policies (see Note 1). Certain corporate administrative expenses have been allocated to segments based upon the nature of the expense.

| Millions of dollars Year ended December 31 | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Revenues** | | | |
| Local Communications | **$ 750.1** | $718.4 | $670.1 |
| Broadband | **99.0** | — | — |
| Wireless | **91.4** | — | — |
| Directory | **74.2** | 72.9 | 72.9 |
| Other Communications | **131.3** | 106.1 | 101.7 |
| Intersegment | **(14.9)** | (12.3) | (10.2) |
| Total | **$1,131.1** | $885.1 | $834.5 |
| **Intersegment Revenues** | | | |
| Local Communications | **$ 6.8** | $ 6.8 | $6.0 |
| Broadband | — | — | — |
| Wireless | — | — | — |
| Directory | **0.4** | 0.4 | — |
| Other Communications | **7.7** | 5.1 | 4.2 |
| Total | **$14.9** | $12.3 | $10.2 |
| **EBITDA** | | | |
| Local Communications | **$320.8** | $ 247.9 | $ 246.3 |
| Broadband | **0.2** | — | — |
| Wireless | **(25.6)** | (0.8) | (2.8) |
| Directory | **27.2** | 25.5 | 25.0 |
| Other Communications | **3.0** | 14.6 | 17.2 |
| Corporate and Eliminations | **10.1** | 2.8 | 9.0 |
| Total | **$335.7** | $290.0 | $294.7 |
| **Assets** | | | |
| Local Communications | **$781.4** | $ 749.5 | $ 706.4 |
| Broadband | **5,154.0** | — | — |
| Wireless | **268.4** | 212.1 | — |
| Directory | **26.9** | 28.4 | 30.6 |
| Other Communications | **55.7** | 35.2 | 32.6 |
| Corporate and Eliminations | **222.2** | 15.8 | 74.7 |
| Total | **$6,508.6** | $1,041.0 | $844.3 |
| **Capital Additions** | | | |
| Local Communications | **$152.2** | $ 134.9 | $ 140.0 |
| Broadband | **165.0** | — | — |
| Wireless | **55.9** | 2.2 | 1.5 |
| Directory | **0.2** | 0.1 | — |
| Other Communications | **8.1** | 3.9 | 5.6 |
| Corporate | — | 2.5 | 11.3 |
| Total | **$381.4** | $ 143.6 | $ 158.4 |
| **Depreciation and Amortization** | | | |
| Local Communications | **$113.8** | $106.2 | $ 120.6 |
| Broadband | **46.7** | — | — |
| Wireless | **14.3** | — | — |
| Directory | **0.1** | 0.1 | — |
| Other Communications | **6.1** | 3.7 | 3.3 |
| Corporate | — | 1.1 | 0.4 |
| Total | **$181.0** | $ 111.1 | $ 124.3 |

## 16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate, where practicable, the fair value of each class of financial instruments:

Cash and cash equivalents, and short-term debt — the carrying amount approximates fair value because of the short-term maturity of these instruments.

Accounts receivable and accounts payable – the carrying amounts reported in the balance sheets for accounts receivable and accounts payable approximate fair value.

Notes receivable – the carrying amounts reported in the balance sheet for notes receivable approximate fair value because of the short-term nature of the notes and because their interest rates are comparable to current rates.

Long-term debt — the fair value is estimated based on year-end closing market prices of the Company's debt and of similar liabilities. The carrying amounts at December 31, 1999, and 1998 were $1,957.0 million and $340.0 million, respectively. The estimated fair values at December 31, 1999 and 1998 were $1,805.0 million and $355.1 million, respectively. Long-term debt also includes the forward sale of six million shares of PSINet common stock, as further described in Note 5. The Company is adjusting the carrying amount of this liability as required by the forward sale agreement. The carrying amount of this obligation at December 31, 1999 was $133.9 million.

Convertible preferred stock – the fair values of the 7 1/4% Convertible Preferred Stock and the 12 1/2% Exchangeable Preferred Stock were $285.8 million and $435.5 million, respectively, and were based on the trading values of these items at December 31, 1999.

Interest rate risk management —The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company continuously monitors the ratio of variable to fixed interest rate debt to maximize its total return. As of December 31, 1999, approximately 61% of debt was long-term, fixed-rate debt and approximately 39% was bank loans with variable interest rates.

## 17. Cincinnati Bell Telephone Company

The following summarized financial information is for the Company's consolidated wholly owned subsidiary, Cincinnati Bell Telephone Company:

**Income Statement**

| Millions of dollars Year ended December 31 | **1999** | 1998 | 1997 |
|---|---|---|---|
| Revenues | **$750.1** | $ 718.4 | $ 670.1 |
| Costs and expenses | **$544.2** | $ 576.6 | $ 523.3 |
| Net income before extraordinary item | **$119.3** | $ 81.7 | $ 85.2 |
| Net income (loss) | **$119.3** | $ 81.1 | $ (124.8) |

**Balance Sheet**

| Millions of dollars at December 31 | **1999** | 1998 |
|---|---|---|
| Current assets | **$148.5** | $151.6 |
| Telephone plant – net | **606.9** | 580.8 |
| Other noncurrent assets | **26.0** | 17.1 |
| Total assets | **$781.4** | $749.5 |
| Current liabilities | **$161.6** | $144.2 |
| Noncurrent liabilities | **45.1** | 38.7 |
| Long-term debt | **322.0** | 317.1 |
| Shareowner's equity | **252.7** | 249.5 |
| Total liabilities and shareowner's equity | **$781.4** | $749.5 |

## 18. Quarterly Financial Information (Unaudited)

All adjustments necessary for a fair statement of income for each period have been included.

| Millions of dollars except per common share amounts | 1st | 2nd | 3rd | 4th | Total |
|---|---|---|---|---|---|
| **1999** | | | | | |
| **Revenues** | **$242.2** | **$253.6** | **$262.4** | **$ 372.9** | **$ 1,131.1** |
| **EBITDA** | **$ 77.6** | **$ 84.4** | **$ 91.6** | **$ 82.1** | **$ 335.7** |
| **Operating Income** | **$ 45.3** | **$ 51.8** | **$ 58.3** | **$ (11.6)** | **$ 143.8** |
| **Income from:** | | | | | |
| **Continuing Operations** | **$ 24.7** | **$ 28.3** | **$ 25.8** | **$ (40.8)** | **$ 38.0** |
| **Extraordinary Item** | **$ -** | **$ -** | **$ -** | **$ (6.6)** | **$ (6.6)** |
| **Net Income** | **$ 24.7** | **$ 28.3** | **$ 25.8** | **$ (47.4)** | **$ 31.4** |
| **Basic Earnings Per Common Share** | **$ .18** | **$ .21** | **$ .19** | **$ (.29)** | **$ .20** |
| **Diluted Earnings Per Common Share** | **$ .18** | **$ .20** | **$ .19** | **$ (.29)** | **$ .20** |

In the fourth quarter of 1999, the extraordinary item was for the early extinguishment of long-term debt associated with the Merger. This reduced net income by $6.6 million, or $.04 per common share, net of tax. The third quarter results have been restated to reflect an equity share of IXC's losses as part of the step acquisition that was finalized on November 9, 1999.

| Millions of dollars except per common share amounts | 1st | 2nd | 3rd | 4th | Total |
|---|---|---|---|---|---|
| 1998 | | | | | |
| Revenues | $216.5 | $219.5 | $222.6 | $ 226.5 | $ 885.1 |
| EBITDA | $ 68.1 | $66.5 | $ 75.5 | $ 79.9 | $ 290.0 |
| Operating Income | $ 41.2 | $ 39.5 | $ 47.1 | $ 52.2 | $ 180.0 |
| Income from: | | | | | |
| Continuing Operations | $ 22.5 | $ 16.1 | $ 21.0 | $ 22.2 | $ 81.8 |
| Discontinued Operations, Net of Taxes | $ 0.3 | $ 26.4 | $ 27.4 | $ 15.0 | $ 69.1 |
| Extraordinary Item | $ — | $ — | $ — | $ (1.0) | $(1.0) |
| Net Income | $ 22.8 | $ 42.5 | $ 48.4 | $ 36.2 | $ 149.9 |
| Basic Earnings Per Common Share | $ .17 | $ .31 | $ .36 | $ .26 | $ 1.10 |
| Diluted Earnings Per Common Share | $ .16 | $ .31 | $ .35 | $ .26 | $ 1.08 |

In the fourth quarter of 1998, the extraordinary items were for the early extinguishment of long-term debt and a portion of a credit facility. Net of tax, this reduced net income by $1.0 million or $.01 per common share.

## 19. Commitments and Contingencies

### Lease Commitments

The Company leases certain facilities and equipment used in its operations. Total rental expenses were approximately $23.4 million, $11.7 million and $10.5 million in 1999, 1998 and 1997, respectively.

At December 31, 1999, the total minimum annual rental commitments under noncancelable leases are as follows:

| Millions of dollars | Operating Leases | Capital Leases |
|---|---|---|
| 2000 | $49.9 | $ 7.5 |
| 2001 | 36.1 | 7.5 |
| 2002 | 27.8 | 7.4 |
| 2003 | 24.1 | 4.5 |
| 2004 | 10.6 | 4.7 |
| Thereafter | 20.1 | 36.3 |
| Total | $168.6 | 67.9 |
| Amount representing interest | | 32.0 |
| Present value of net minimum lease payments | | $35.9 |

### Commitments

In order to satisfy the contractual commitments that Broadwing has entered into with respect to IRU agreements, approximately 1,700 fiber route miles must be constructed at an approximate cost of $82 million.

### Contingencies

In the normal course of business, the Company is subject to various regulatory proceedings, lawsuits, claims and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance.

The Company, as well as certain former members of IXC's board of directors, has been named as a defendant in five stockholder class action suits filed in the Delaware Court of Chancery (the Court). These suits were filed in July 1999 and pertain to the Company's recently completed merger with IXC. The complaints allege, among other things, that the defendants breached their fiduciary duties to IXC's former stockholders by failing to maximize stockholder value in connection with entering into the merger agreement and sought a court order enjoining completion of the merger. In an October 27, 1999 ruling, the Court denied plaintiffs' request for a preliminary injunction. The Merger has since closed and management believes that the performance of the Company's share price has rendered plaintiffs' arguments moot. While these suits currently remain outstanding and subject to further litigation, the Company does not believe any of plaintiffs' arguments have merit. The Company intends to continue exploring all available options to bring this matter to a close, including discussions toward a possible settlement.

A total of twenty-seven Equal Employment Opportunity Commission ("EEOC") charges were filed beginning in September 1999 by current Broadwing Telecommunications Inc. employees located in the Houston office (formerly Coastal Telephone, acquired by IXC in May 1999) alleging sexual harassment, race discrimination and retaliation. The Company is continuing its investigation of these charges and is cooperating with the EEOC. Many employee interviews have been conducted by the EEOC and discovery is ongoing at the present time.

In the course of closing Merger, the Company became aware of IXC's possible non-compliance with reporting requirements under certain federal environmental statutes. Since it was impossible to conduct a thorough investigation of all IXC facilities within the 10-day period required to take advantage of the EPA's self-policing policy, IXC, by letter dated November 8, 1999, elected to voluntarily disclose its possible non-compliance to the EPA. By letter dated January 19, 2000, the EPA determined that IXC appears to have satisfied the "prompt disclosure" requirement of the self-policing policy, and established a deadline of May 1, 2000 for the Company to complete its environmental audit of all IXC facilities and report any violations to the Agency. The Company intends to complete its environmental audit of these facilities within the time frame established by the

EPA and take whatever corrective actions are indicated.

The Company believes that the resolution of such matters for amounts in excess of those reflected in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No disagreements with accountants on any accounting or financial disclosure or auditing scope or procedure occurred during the period covered by this report.

## PART III

### Item 10. Directors and Executive Officers of the Registrant

The information required by this Item regarding directors of Broadwing can be found in the Proxy Statement for the Company's 2000 Annual Meeting of Shareholders, dated March 17, 2000, and incorporated herein by reference.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure in Part I of this report under the caption "Executive Officers of the Registrant" since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

### Items 11 and 12. Executive Compensation and Security Ownership of Certain Beneficial Owners and Management

The information required by these items can be found in the Proxy Statement for the Company's 2000 Annual Meeting of Shareholders dated March 17, 2000, and incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions

Not Applicable.

## Item 14. Exhibits and Reports on Form 8-K.

### Exhibits

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

| Exhibit Number | DESCRIPTION |
|---|---|
| (2.1)(a) | Agreement and Plan of Merger, dated as of July 20, 1999, among Cincinnati Bell Inc., an Ohio corporation, IXC Communications, Inc., a Delaware corporation, and Ivory Merger Inc., a Delaware corporation. (Exhibit 2.1 to Form 8-K date of report July 23, 1999, File No. 1-8519). |
| (2.1)(b) | Amendment No. 1 dated as of October 13, 1999, among Cincinnati Bell Inc., an Ohio corporation, IXC Communications, Inc. a Delaware corporation, and Ivory Merger, Inc. a Delaware corporation, to the Agreement and Plan of Merger dated as of July 23, 1999, among Cincinnati Bell Inc., IXC Communications, Inc. and Ivory Merger Inc. (Exhibit 2.1 to Form 8-K, date of report October 14, 1999 File No. 1-8519). |
| (3)(a) | Amended Articles of Incorporation effective November 9, 1989. (Exhibit (3)(a) to Form 10-K for 1989, File No. 1-8519). |
| (3)(b)+ | Certificate of Amendment by the Board of Directors to the Amended Articles of Incorporation including the description of each of the Cincinnati Bell 7¼% Junior Convertible Preferred Shares Due 2007 and the Cincinnati Bell 6¾% Cumulative Convertible Preferred Shares effective November 9, 1999. |
| (3)(c) | Amended Regulations of the registrant. (Exhibit 3.2 to Registration Statement No. 2-96054). |
| (4)(a) | Provisions of the Amended Articles of Incorporation and the Amended Regulations of the registrant which define the rights of holders of Common Shares and the Preferred Shares are incorporated by reference to such Amended Articles filed as Exhibits (3)(a) and 3(b) hereto and such Amended Regulations filed as Exhibit (3)(c) hereto. |
| (4)(b)(i) | Rights Agreement dated as of April 29, 1997, between the Company and The Fifth Third Bank which includes the form of Certificate of Amendment to the Amended Articles of Incorporation of the Company as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on May 1, 1997). |
| (4)(b)(ii) | Amendment No. 1 to the Rights Agreement dated as of July 20, 1999, between the Company and The Fifth Third Bank (Exhibit 1 to Amendment No. 1 of the Company's Registration Statement on Form 8-A filed on August 6, 1999). |
| (4)(b)(iii) | Amendment No. 2 to the Rights Agreement dated as of November 2, 1999, between the Company and The Fifth Third Bank (Exhibit 1 to Amendment No. 2 of the Company's Registration Statement on Form 8-A filed on November 8, 1999). |
| (4)(c)(i) | Indenture dated July 1, 1993, between Cincinnati Bell Inc., Issuer, and The Bank of New York, Trustee, in connection with $50,000,000 of Cincinnati Bell Inc. 7¼% Notes Due June 15, 2023. (Exhibit 4-A to Form 8-K, date of report July 12, 1993, File No. 1-8519). |
| (4)(c)(ii) | Indenture dated August 1, 1962, between Cincinnati Bell Telephone Company and Bank of New York, Trustee (formerly, The Central Trust Company was trustee), in connection with $20,000,000 of Cincinnati Bell Telephone Company Forty Year 4⅜% Debentures, Due August 1, 2002. (Exhibit 4(c)(iii) to Form 10-K for 1992, File No. 1-8519). |

| | |
|---|---|
| (4)(c)(iii) | Indenture dated as of October 27, 1993, among Cincinnati Bell Telephone Company, as Issuer, Cincinnati Bell Inc., as Guarantor, and The Bank of New York, as Trustee. (Exhibit 4-A to Form 8-K, date of report October 27, 1993, File No. 1-8519). |
| (4)(c)(iv) | Indenture dated as of November 30, 1998 among Cincinnati Bell Telephone Company, as Issuer, Cincinnati Bell Inc., as Guarantor, and The Bank of New York, as Trustee. (Exhibit 4-A to Form 8-K, date of report November 30, 1998, File No. 1-8519). |
| (4)(c)(v) | Investment Agreement dated as of July 21, 1999, among Cincinnati Bell, Oak Hill Capital Partners L.P. and certain related parties of Oak Hill (Exhibit 4.9 to Form S-4 filed on September 13,1999, File No. 1-8519). |
| (4)(c)(vi) | Indenture dated as of July 21, 1999 among Cincinnati Bell Inc., and The Bank of New York, as Trustee (Exhibit 4.10 to Form S-3 filed on November 10, 19999, File No. 1-8519). |
| (4)(c)(vii) | No other instrument which defines the rights of holders of long term debt of the registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request. (4)(b)(ii) Amendment No. 1 to the Rights Agreement dated as of July 20, 1999, between the Company and The Fifth Third Bank (Exhibit 1 to Amendment No. 1 of the Company's Registration Statement on Form 8-A filed on August 6, 1999). |
| (10)(i)(1) | Credit Agreement dated as of November 9, 1999 among Cincinnati Bell and IXCS as the Borrowers, Cincinnati Bell as Parent Guarantor, the Initial Lenders, Initial Issuing Banks and Swing Line Banks named herein, Bank of America, N.A., as Syndication Agent, Citicorp USA, Inc., as Administrative Agent, Credit Suisse First Boston and The Bank of New York, as Co-Documentation Agents, PNC Bank, N.A., as Agent and Salomon Smith Barney Inc. and Banc of America Securities LLC, as Joint Lead Arrangers. (Exhibit 10.1 to Form 8-K, date of report November 12, 1999, File No. 1-8519). |
| (10)(iii)(A)(1)* | Short Term Incentive Plan of Cincinnati Bell Inc., as amended January 1, 1995. (Exhibit (10)(iii)(A)(1)(i) to Form 10-K for 1995, File No. 1-8519). |
| (10)(iii)(A)(2)* | Cincinnati Bell Inc. Deferred Compensation Plan for Outside Directors, as amended and restated effective February 1, 1999. (Exhibit (10)(iii)(A)(2) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(3)(i)* | Cincinnati Bell Inc. Pension Program, as amended effective November 4, 1991. (Exhibit (10)(iii)(A)(4)(ii) to Form 10-K for 1994, File No. 1-8519). |
| (10)(iii)(A)(3)(ii)* | Cincinnati Bell Pension Program, as amended and restated effective March 3, 1997. (Exhibit (10)(iii)(A)(3)(ii) to Form 10-K for 1997, File No. 1-8519). |
| (10)(iii)(A)(4)* | Employment Agreement dated January 1, 1999 between the Company and Richard G. Ellenberger. (Exhibit (10)(iii)(A)(9) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(5)* | Employment Agreement effective January 1, 1999 between the Company and Kevin W. Mooney. (Exhibit (10)(iii)(A)(ii) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(6)* | Employment Agreement dated January 1, 1999 between the Company and Thomas E. Taylor. (Exhibit (10)(iii)(A)(12) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(7)* | Employment Agreement effective April 9, 1999 between the Company and Richard S. Pontin. (Exhibit (10)(iii)(A)(1) to Form 10-Q for the quarter ended June 30, 1999, File No. 1-8519). |
| (10)(iii)(A)(8)*+ | Employment Agreement dated January 1, 1999 between the Company and John F. Cassidy. |
| (10)(iii)(A)(9)* | Cincinnati Bell Inc. Executive Deferred Compensation Plan, as amended and restated effective October 25, 1998. (Exhibit (10)(iii)(A)(13) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(10)* | Cincinnati Bell Inc. 1997 Long Term Incentive Plan. (Exhibit (10)(iii)(A)(14)(iii) to Form 10-K for 1997, File No. 1-8519). |

| | |
|---|---|
| (10)(iii)(A)(11)* | Cincinnati Bell Inc. 1997 Stock Option Plan for Non-Employee Directors, as revised and restated effective February 1, 1999. (Exhibit (10)(iii)(A)(15) to Form 10-K for 1998, File No. 1-8519). |
| (10)(iii)(A)(12)* | Cincinnati Bell Inc. 1989 Stock Option Plan. (Exhibit (10)(iii)(A)(14) to Form 10-K for 1989, File No. 1-8519). |
| (12)+ | Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends. |
| (21)+ | Subsidiaries of the Registrant. |
| (23)+ | Consent of Independent Accountants. |
| (24)+ | Powers of Attorney. |
| (27.1, 27.2, 27.3) | Financial Data Schedules. |

\+ Filed herewith.

* Management contract or compensatory plan required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

The Company will furnish, without charge, to a security holder upon request, a copy of the Proxy Statement, portions of which are incorporated by reference, and will furnish any other exhibit at cost.

**Reports on Form 8-K.**

Form 8-K, date of report October 13, 1999, reporting that certain sections of the Company's merger agreement with IXC Communications, Inc. had been amended in response to a decision of the Delaware Court of Chancery in the case of Phelps Dodge Corporation vs. Cyprus Amax Minerals Company. The Company's merger agreement with IXC Communications, Inc was previously filed in a Form 8-K, date of report July 23, 1999.

Form 8-K, date of report October 22, 1999, reporting on the Company's results of operations for the three months ended September 30, 1999.

Form 8-K, date of report November 8, 1999, setting forth certain historical financial statements of the Company's merger partner, IXC Communications, Inc.

Form 8-K, date of report November 12, 1999, reporting that the Company's merger with IXC Communications, Inc. was successfully completed on November 9, 1999.

Form 8-K, date of report December 30, 1999, setting forth certain historical financial statements of IXC Communications, Inc.

Form 8-K, date of report December 30, 1999, setting forth certain proforma historical financial statements of the Company and IXC Communications, Inc.

BROADWING INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Millions of Dollars)

| | | Additions | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Period | Charged to Expenses | Charged to Other Accounts | Deductions | Balance At End of Period |
| **Allowance for Doubtful Accounts** | | | | | |
| Year 1999 | $ 12.0 | $ 21.1 | $ 51.6(a) | $ 31.1(b) | $53.6 |
| Year 1998 | $ 9.1 | $ 18.1 | $11.0(a) | $ 26.2(b) | $12.0 |
| Year 1997 | $6.1 | $12.2 | $ 5.5(a) | $14.7(b) | $ 9.1 |
| **Reserves Related to Business Restructuring** | | | | | |
| Year 1999 | $ .5 | $ 10.9 | $ 33.9(c) | $ 15.1 | $ 30.2 |
| Year 1998 | $5.3 | $ — | $ — | $ 4.8 | $.5 |
| Year 1997 | $8.7 | $ — | $ — | $ 3.4 | $ 5.3 |

(a) Primarily includes amounts previously written off which were credited directly to this account when recovered and an allocation of the purchase price for receivables purchased from Interexchange Carriers. In 1999, amounts include $45.3 million assumed on 11/9/99 as part of the Company's merger with IXC Communications, Inc. (IXC).

(b) Primarily includes amounts written off as uncollectible.

(c) Includes amounts assumed as part of the Company's merger with IXC.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

March 17, 2000

By /s/ Kevin W. Mooney
Kevin W. Mooney
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Signature | Title | Date |
| --- | --- | --- |
| RICHARD G. ELLENBERGER*<br>Richard G. Ellenberger | Principal Executive Officer; President, Chief Executive Officer and Director | |
| KEVIN W. MOONEY*<br>Kevin W. Mooney | Principal Accounting and Financial Officer; Executive Vice President and Chief Financial Officer | |
| PHILLIP R. COX*<br>Phillip R. Cox | Director | |
| J. TAYLOR CRANDALL*<br>J. Taylor Crandall | Director | |
| WILLIAM A. FRIEDLANDER*<br>William A. Friedlander | Director | |
| KAREN M. HOGUET*<br>Karen M. Hoguet | Director | |
| RICHARD D. IRWIN*<br>Richard D. Irwin | Director | |
| JAMES D. KIGGEN*<br>James D. Kiggen | Chairman of the Board and Director | |
| JOHN T. LAMACCHIA*<br>John T. LaMacchia | Director | |
| DANIEL J. MEYER*<br>Daniel J. Meyer | Director | |
| MARY D. NELSON*<br>Mary D. Nelson | Director | |
| DAVID B. SHARROCK*<br>David B. Sharrock | Director | |
| JOHN M. ZRNO*<br>John M. Zrno | Director | |

*By: /s/ Kevin W. Mooney
Kevin W. Mooney
as attorney-in-fact and on his behalf
as Chief Financial Officer

March 17, 2000

**Exhibit B**
**Technical and Managerial Qualifications**

**Richard S. Pontin** is President and Chief Operating Officer of Broadwing Communications. He is responsible for developing, establishing, and executing the company's national growth and operational plans. Mr. Pontin reports directly to Richard G. Ellenberger, Broadwing's President and Chief Executive Officer.

Prior to his current position, Mr. Pontin served as Cincinnati Bell Telephone's Chief Operating Officer and also led the transition during Cincinnati Bell's merger with IXC Communications to form Broadwing.

Previously, Mr. Pontin served as Vice President of Engineering and Operations at Nextel Communications, a leading provider of digital wireless services, headquartered in McLean, Virginia. His responsibilities included establishing the company's engineering function, overseeing the development of Nextel's national network operations center and building Nextel's procurement and construction program management functions.

Mr. Pontin held key leadership positions at MCI Communication's engineering, operations, international business development and national account sales divisions. He also served as MCI's vice president of global alliances.

A native of Pennsylvania, Mr. Pontin earned a Bachelor of Science degree and MBA from Drexel University.

**Mark W. Peterson** is Vice President and Treasurer of Cincinnati Bell Inc. He is responsible for treasury, risk management, financial planning, acquisition analysis and investments. Mr. Peterson reports to Kevin Mooney, Chief Financial Officer.

Mr. Peterson joined Cincinnati Bell Inc. in March, 1999. Prior to his joining CBI, Mr. Peterson was Vice President and Assistant Treasurer of Sprint where he managed domestic treasury. In this position, he was responsible for cash management, foreign exchange hedging, stock buy back program, interest rate risk management, bank and investment bank relationship, bank loan syndication, and issuance of public debt and equity. While at Sprint he conducted over $11 billion in financing for various Sprint ventures including Sprint PCS. He was involved in the formation, planning, documentation and execution of the IPO for Sprint PCS and related financings.

Prior to joining Sprint, he spent 18 years in banking, investment banking, risk management and treasury positions with Continental Bank, First City National Bank, Enron Corporation and KPMG Peat Marwick. Mr. Peterson is from Texas, earned a bachelor's degree in economics from Augustana College in Rock Island, Illinois and resides in Cincinnati, Ohio.

**F. Clifton Steed** is Vice President of Network Operations at Broadwing Communications. He is responsible for the operation and maintenance of Broadwing's assets deployed nationwide, including fiber optic cables, high-speed digital transmission systems and advanced data and IP networks. He is also responsible for the Austin, Texas based Network Operations Center, which is used to monitor and control the national network previously described. Mr. Steed reports directly to Rick Pontin, President and COO of Broadwing Communications.

Mr. Steed joined the company in December 1992. Prior to Broadwing, Steed, with nearly 30 years of telecommunications experience, was division head, Telecommunications Plans and Programs for the Arabian American Oil Company (ARAMCO), based in Saudi Arabia. He also held various other positions in the telecommunications industry, including nine years with Southwestern Bell Telephone Company.

Mr. Steed is a licensed professional engineer in Texas and Kansas. He is a member of the Institute of Electrical and Electronic Engineers (IEEE).

He earned a bachelor's of science mechanical engineering degree from the University of Missouri – Rolla.

**Mike Jones** is Senior Vice President of Engineering at Broadwing Communications. Jones, a 20-year veteran of the telecommunications industry, is responsible for network engineering, network planning, network construction, and access management. He is also responsible for the construction of Broadwing's data collocation centers across the country. Mr. Jones reports directly to Rick Pontin, President and COO of Broadwing Communications.

Mr. Jones joined the company in 1997 as vice president of facilities and construction, and later served as vice president of network construction. In these roles, he oversaw the implementation of Broadwing's nationwide, industry-leading fiber optic network, including route development, rights of way, outside plant, and technical facilities. He also negotiated agreements related to the company's fiber network expansion.

Prior to joining Broadwing, Mr. Jones served as vice president of Network Business Development at Diamondback International Inc., a Texas provider of professional services for the telecommunications industry. In this capacity, he provided business development and consulting services to numerous companies, including Nortel and LCI. Jones also held a number of management and senior technical positions at MCI and GTE in network implementation, contract development, strategic network planning, program management, and major systems development.

Jones earned a B.S. degree in computer science and mathematics at George Mason University.

**Maxine Moreau** is Chief Services Officer of Broadwing Communications, where she is responsible for provisioning, billing and customer care for the company, reports directly to Rick Pontin, President and COO of Broadwing Communications.

Moreau joined the company in 1996 as vice president of customer care for the its carrier division. Later, she served as vice president of billing operations, and in August of 1999, she was named vice president of customer operations for Broadwing. In this position, she played a critical role in establishing the company as an industry leader in customer service and provisioning, and recently spearheaded Broadwing's effort to offer the industry's first installation guarantee program.

Prior to joining Broadwing, Moreau spent 13 years at CenturyTel, where she held various operations management and leadership positions, including line of business manager for long distance, director of industry relations, senior regulatory analyst, and IT program project manager.

WAS1 #852880 v1

## CERTIFICATION

The purpose of this certification is to confirm that the unaudited balance sheet in this filing is true and correct, and that Broadwing Inc. will support the construction and operations of its subsidiary, Broadwing Local Services Inc. in the State of Florida.

Date: 7-17-00

Richard S. Pontin
President–Broadwing Local Services Inc.

Date: 7-17-00

Mark W. Peterson
Treasurer–Broadwing Local Services Inc.

WAS1 #853270 v1

Connie Thomas

CONNIE THOMAS
Notary Public, State of Texas
My Commission Expires
MARCH 10, 2001