

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 1994  
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.

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  . No  .

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At July 29, 1994, 65,414,543 Common Shares were outstanding

Form 10-Q Part I

Cincinnati Bell Inc.

PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF INCOME AND REINVESTED EARNINGS  
(Thousands of Dollars, Except Per Share Amounts)  
(Unaudited)

For the Three Months Ended June 30,		For the Six Months Ended June 30,	
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1994	1993	1994	1993

Revenues				
Telephone operations				
Local service . . . . .	\$ 81,134	\$ 75,011	\$158,345	\$149,016
Network access . . . . .	33,986	34,848	70,339	68,037
Long distance . . . . .	9,115	9,337	18,787	20,896
Other . . . . .	17,615	18,851	34,810	39,940
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	141,850	138,047	282,281	277,889
Information systems . . . . .	73,126	71,950	143,804	140,315
Marketing services . . . . .	54,002	23,139	104,607	47,893
Other telecommunications . . . . .	30,866	29,466	61,221	58,972
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Total Revenues . . . . .	299,844	262,602	591,913	525,069
Costs and Expenses				
Operating expenses . . . . .	154,745	140,090	308,171	274,129
Plant and building services . . . . .	42,538	36,803	82,619	75,754
Depreciation and amortization . . . . .	36,879	34,640	74,044	69,348
Taxes other than income taxes . . . . .	23,202	22,829	47,886	46,401
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Total Costs and Expenses . . . . .	257,364	234,362	512,720	465,632
Operating Income . . . . .	42,480	28,240	79,193	59,437
Other Income (Expense) - Net . . . . .	(192)	1,190	410	11,848
Interest Expense . . . . .	12,498	9,854	24,892	20,229
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Income Before Income Taxes and Cumulative Effect of Accounting Change . . . . .	29,790	19,576	54,711	51,056
Income Taxes . . . . .	11,070	6,076	20,345	16,729
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Income Before Cumulative Effect of Accounting Change . . . . .	18,720	13,500	34,366	34,327
Cumulative Effect of Accounting Change . . . . .	-	-	(2,925)	-
	-----	-----	-----	-----
Net Income . . . . .	18,720	13,500	31,441	34,327
Preferred Dividend Requirements . . . . .	-	1,088	-	2,175
	-----	-----	-----	-----
Income Applicable to Common Shares.	\$ 18,720	\$ 12,412	\$ 31,441	\$ 32,152
Earnings Per Common Share				
Income Before Cumulative Effect of Accounting Change . . . . .	\$ .28	\$ .20	\$ .52	\$ .52
Cumulative Effect of Accounting Change . . . . .	-	-	(.04)	-
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Net Income . . . . .	.28	.20	.48	.52
	-----	-----	-----	-----
Dividends Declared per Common Share . . . . .	\$ .20	\$ .20	\$ .40	\$ .40
	-----	-----	-----	-----
Weighted Average Number of Common Shares Outstanding (000) . . . . .	65,311	61,711	65,197	61,776

CONSOLIDATED STATEMENTS OF INCOME AND REINVESTED EARNINGS (Cont'd)  
(Thousands of Dollars, Except Per Share Amounts)  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1994	1993	1994	1993
Retained Earnings at Beginning of Period . . .	\$226,050	\$345,518	\$227,392	\$342,483
Add: Net Income . . . . .	18,720	13,500	31,441	34,327
Deduct: Common Dividends . . . . .	13,074	12,347	26,116	24,789
Pension Liability Adjustment . . . . .	-	-	1,021	-
Preferred Dividends . . . . .	-	1,088	-	2,175
Acquisition of Common Shares . . . . .	-	426	-	4,453
Issuance of Common Shares Under Employee Plans . . . . .	-	-	-	236
Retained Earnings at End of Period . . . . .	\$231,696	\$345,157	\$231,696	\$345,157

See Notes to Financial Statements.

Form 10-Q Part I

Cincinnati Bell Inc.

CONSOLIDATED BALANCE SHEETS  
(Thousands of Dollars)  
(Unaudited)

	June 30, 1994	December 31, 1993
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents . . . . .	\$ 15,843	\$ 8,668
Receivables less allowances of \$11,251 and \$14,031 . . . . .	250,948	241,669
Material and supplies . . . . .	17,987	21,627
Prepaid expenses . . . . .	28,621	30,391
Other current assets . . . . .	20,868	22,471
	-----	-----
	334,267	324,826
	-----	-----
<b>Property, Plant and Equipment</b>		
Telephone plant . . . . .	1,473,368	1,430,822
Less accumulated depreciation . . . . .	(570,112)	(541,690)
	-----	-----
	903,256	889,132
	-----	-----
Other property . . . . .	316,068	303,917
Less accumulated depreciation . . . . .	(157,585)	(145,480)
	-----	-----
	158,483	158,437
	-----	-----
	1,061,739	1,047,569
	-----	-----

Other Assets		
Intangibles, primarily goodwill - net . . . . .	192,265	192,341
Deferred and other assets . . . . .	44,996	56,324
Other investments . . . . .	40,728	43,030
	-----	-----
	277,989	291,695
	-----	-----
Total Assets . . . . .	\$1,673,995	\$1,664,090
	-----	-----

LIABILITIES AND SHAREOWNERS' EQUITY

Current Liabilities		
Accounts payable . . . . .	\$ 140,036	\$ 132,648
Debt maturing in one year . . . . .	103,709	112,029
Accrued disposal and restructuring costs . . . . .	19,899	35,385
Accrued taxes . . . . .	31,724	38,135
Advanced billing and customers' deposits . . . . .	33,487	31,553
Other . . . . .	25,335	24,587
	-----	-----
	354,190	374,337
	-----	-----
Long-Term Debt . . . . .	528,789	522,888
	-----	-----
Deferred Credits and Other Long-Term Liabilities		
Deferred income taxes . . . . .	166,439	158,438
Unamortized investment tax credits . . . . .	18,122	19,371
Other long-term liabilities . . . . .	80,000	73,441
	-----	-----
	264,561	251,250
	-----	-----
Shareowners' Equity		
Common shares - \$1.00 par value . . . . .	65,368	64,982
Authorized shares: 240,000,000		
Outstanding shares: at June 30, 1994,		
65,368,142;		
at December 31, 1993,		
64,982,178		
Additional paid-in capital . . . . .	229,366	223,257
Reinvested earnings . . . . .	231,696	227,392
Foreign currency translation adjustment . . . . .	25	(16)
	-----	-----
	526,455	515,615
	-----	-----
Total Liabilities and Shareowners' Equity . . . . .	\$1,673,995	\$1,664,090
	-----	-----

See Notes to Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Thousands of Dollars)  
(Unaudited)

For the Six Months  
Ended June 30,  
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	1994	1993
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income . . . . .	\$ 31,441	\$ 34,327
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization . . . . .	74,044	69,348
Cumulative effect of accounting change . . . . .	2,925	-
Provision for loss on receivables . . . . .	2,871	2,998
Other-net . . . . .	7,026	(3,873)
Changes in assets and liabilities		
Decrease (increase) in receivables . . . . .	(14,833)	7,434
Decrease (increase) in other current assets . . . . .	5,410	(158)
Increase (decrease) in accounts payable . . . . .	3,656	(26,940)
Decrease in accrued disposal and restructuring . . . . .	(15,486)	-
Decrease in other current liabilities . . . . .	(2,299)	(6,609)
Increase in deferred income taxes and unamortized investment tax credits . . . . .	8,436	4,819
Decrease (increase) in other assets and liabilities	8,177	(3,575)
	-----	-----
Net cash provided by operating activities . . . . .	111,368	77,771
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures-telephone plant . . . . .	(66,605)	(51,394)
Capital expenditures-other . . . . .	(14,862)	(24,544)
Other-net . . . . .	9,593	7,616
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Net cash used in investing activities . . . . .	(71,874)	(68,322)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings from (payments of) notes payable . . . . .	(9,443)	37,388
Principal payments on long-term debt . . . . .	(2,073)	(1,504)
Proceeds from issuance of common shares . . . . .	4,541	631
Dividends paid . . . . .	(26,049)	(26,912)
Payments made to acquire common shares . . . . .	-	(5,480)
	-----	-----
Net cash used in financing activities . . . . .	(33,024)	4,123
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	705	117
	-----	-----
Net increase in cash and cash equivalents . . . . .	7,175	13,689
Cash and cash equivalents at beginning of period . . . . .	8,668	5,304
	-----	-----
Cash and cash equivalents at end of period . . . . .	\$ 15,843	\$ 18,993
	-----	-----
Cash paid for:		
Interest (net of amount capitalized) . . . . .	\$ 21,722	\$ 17,687
Income taxes . . . . .	\$ 11,681	\$ 14,049

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

(1) BASIS OF PRESENTATION - The consolidated financial statements of Cincinnati Bell 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 (4). 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. Management believes that the disclosures made are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with financial statements and notes thereto included in the Company's 1993 Annual Report on Form 10-K and the current year's previously issued Form 10-Q.

Certain reimbursable costs previously recorded as information systems revenues in the 1993 Forms 10-Q have been reclassified as a reduction of operating expenses. This reclassification amounted to \$10.2 million and \$18.9 million for the quarter and six months ended June 30, 1993, respectively. This reclassification had no effect on operating income or net income for all periods presented. In addition to the information systems revenue, certain prior year amounts have been reclassified to be consistent with the 1994 presentation.

The consolidated financial statements include the accounts of Cincinnati Bell Inc. and its wholly owned subsidiaries (the "Company"). The significant subsidiaries include: Cincinnati Bell Telephone Company ("CBT"), Cincinnati Bell Information Systems Inc. ("CBIS") and MATRIX Marketing Inc. ("MATRIX").

- (2) DISPOSAL AND RESTRUCTURING OF CBIS OPERATIONS - In late 1993, the Company determined the need to reorganize CBIS, its information systems subsidiary. This reorganization focused on two phases. The first phase was the elimination of non-strategic and underperforming operations. This resulted in CBIS taking action to divest its holdings in its federal operation (CBIS Federal), consolidating its foreign data center operations, and eliminating unprofitable domestic and international activities. The second phase of the plan was to reorganize the remaining operations into strategic business units.

The operating results of the businesses to be sold or discontinued are charged to the reserve for restructuring. Revenues of \$16.1 million and \$29.5 million and operating expenses of \$21.7 and \$41.0 million for the three and six months ended June 30, 1994 were recorded against the restructuring reserve. In addition, \$4.2 million of other expenses, primarily for employee severance costs, were charged to the restructuring reserve during the first six months of 1994. The Company believes that the accrual for the disposal and restructuring at June 30, 1994 is adequate.

The assets of the discontinued operations consist of net current assets of \$7.4 million and net noncurrent assets of \$9.3 million at June 30, 1994. These amounts consist primarily of accounts receivable, property, plant and equipment and related liabilities.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1994	1993	1994	1993
Revenues and Sales . . . . .	\$147,616	\$143,711	\$293,884	\$289,333
Costs and Expenses . . . . .	\$121,643	\$117,562	\$244,341	\$240,979
Income Before Cumulative Effect of Accounting Change . . . . .	\$ 14,668	\$ 15,945	\$ 28,302	\$ 35,787
Cumulative Effect of Accounting Change . . . . .	-	-	\$ (2,405)	-
Net Income . . . . .	\$ 14,668	\$ 15,945	\$ 25,897	\$ 35,787

Results for the six months ended June 30, 1994, include two significant nonrecurring charges. As more fully described in Note (4) to the financial statements, effective January 1, 1994, the Company, including CBT, adopted SFAS 112, "Employers Accounting for Postemployment Benefits". The cumulative effect of this accounting change was recognized in the first quarter 1994 as a change in accounting principle, thereby reducing CBT's net income by \$2.4 million (\$.04 per common share), net of a deferred tax benefit.

Also in the first quarter of 1994, CBT recognized \$2.5 million in incremental postretirement expenses resulting from adjusting deferred amounts to a level that is expected to be recovered in regulated rates. This adjustment reduced net income by \$1.6 million (\$.03 per common share). CBT had received approval from the Public Utilities Commission of Ohio ("PUCO") in 1993 to defer these incremental postretirement expenses while they were being addressed in CBT's request for alternate regulation. CBT is no longer deferring these costs in 1994.

Results for the six months ended June 30, 1993, include a gain from the sale of the residential equipment leasing and PhoneCenter Store businesses to AT&T Consumer Products. The sale increased net income by approximately \$6.5 million (\$.10 per common share). The gain is included in Other Income (Expense) - net.

	June 30, 1994	December 31, 1993
Current Assets . . . . .	\$ 153,137	\$ 159,641
Telephone Plant-Net . . . . .	913,863	900,141
Other Noncurrent Assets . . . . .	21,186	32,161
Total Assets . . . . .	\$1,088,186	\$1,091,943
Current Liabilities . . . . .	\$ 117,850	\$ 139,438

Noncurrent Liabilities . . . . .	202,689	196,389
Long-Term Debt . . . . .	312,219	310,500
Common Shareowner's Equity . . . . .	455,428	445,616
	-----	-----
Total Liabilities and Invested Capital .	\$1,088,186	\$1,091,943
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NOTES TO FINANCIAL STATEMENTS (Cont'd)  
(Unaudited)

(4) CHANGE IN ACCOUNTING PRINCIPLE - Effective January 1, 1994, the Company adopted SFAS 112, "Employers' Accounting for Postemployment Benefits". SFAS 112 requires the accrual of the obligation for benefits provided to former or inactive employees, their beneficiaries and covered dependents after employment but before retirement. These benefits include workers' compensation, disability benefits and health care coverage for a limited time. SFAS 112 changed the Company's method of accounting for postemployment benefits from recognizing costs as benefits are paid, to accruing the expected costs of providing these benefits. The cumulative effect of this accounting change was recognized in the first quarter 1994 as a change in accounting principle, thereby reducing net income by \$2.9 million, which is net of a deferred tax benefit of \$1.6 million. The on-going expense recognized under SFAS 112 is not significantly different from that recorded under prior methods.

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

RESULTS OF OPERATIONS

The Company's consolidated net income for the quarter ended June 30, 1994 was \$18.7 million or an increase of \$5.2 million or 39% compared to the same quarter in 1993. For the first six months of 1994 consolidated net income was \$31.4 million or a decrease of \$2.9 million or 8% compared to the same period in 1993.

Earnings per common share for the quarter ended June 30, 1994 was \$.28, an increase of \$.08 or 40% over the same period in 1993. Earnings per common share for the six months ended June 30, 1994 was \$.48, down \$.04 or 8% when compared to the same period in 1993. Earnings for 1994 were reduced by two nonrecurring charges recorded in the first quarter of 1994. A required change in accounting for postemployment benefits (SFAS 112) and an adjustment to expense certain deferred postretirement costs at CBT reduced net income by \$.07 per common share.

Revenues increased 14% and 13% for the three and six months ended June 30, 1994 while expenses increased 10% for both periods when



compared to 1993. The main cause of the increase in revenues and expenses in 1994 over the prior year was the inclusion of the results of WATS Marketing which was acquired in November 1993. CBIS continued to sharpen its focus on billing and customer support for the wireless communications market by experiencing a sharp increase in revenues for the quarter and six months. Although MATRIXX results benefited from the WATS Marketing acquisition, its underlying business also grew rapidly in 1994.

CBIS Restructuring

The operating results of the businesses to be sold or discontinued are charged to the reserve for restructuring. Revenues of \$16.1 million and \$29.5 million and operating expenses of \$21.7 and \$41.0 million for the three and six months ended June 30, 1994 were recorded against the restructuring reserve. In addition, \$4.2 million of other expenses, primarily for employee severance costs, were charged to the restructuring reserve during the first six months of 1994.

Efforts to sell CBIS Federal are continuing at present. In connection with the restructuring of the remaining CBIS operations, CBIS reduced its non-federal workforce by 220 employees or 9% in April 1994. On July 25, 1994, CBIS announced the sale of the assets of its CMS Division and a related reduction in workforce of 38 employees. The severance costs for these employees were included in the restructuring charges in 1993.

Results for interim periods may not be indicative of the results for the full year.

REVENUES

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$299.8	\$262.6	\$37.2	14%
Six months ended	\$591.9	\$525.1	\$66.8	13%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The increases and decreases in revenues are comprised of the following:

TELEPHONE OPERATIONS

Local service

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		

	-----	-----	-----	-----
Three months ended	\$ 81.2	\$ 75.0	\$6.2	8%
Six months ended	\$158.4	\$149.0	\$9.4	6%

Local service revenues increased principally as a result of growth in access lines and the effect of the new Ohio rate plan which was effective May 6, 1994. Access lines have increased 3% from 838,000 at June 30, 1993 to 865,000 at June 30, 1994. The remaining increase was caused by higher revenues from custom calling services and other central office features.

Network access

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$34.0	\$34.8	\$(.8)	(2)%
Six months ended	\$70.3	\$68.0	\$2.3	3%

Network access revenues decreased for the quarter primarily from a reduction in intrastate access revenues and lower independent company settlements. The reduction in intrastate revenues was the result of a decrease in the carrier common line terminating rate in Ohio approved by the PUCO in May 1994. Partially offsetting the decreases was an increase in interstate revenues for higher end user charges and increased minutes of use. For the six month period, network access revenues increased primarily from an increase in interstate revenues from increased minutes of use and higher end user charges partially offset by lower independent company settlements.

Long distance

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$ 9.1	\$ 9.4	\$ (.3)	(3)%
Six months ended	\$18.8	\$20.9	\$(2.1)	(10)%

Long distance revenues decreased for the quarter and six months because of a rate decrease in January 1994 for intraLATA message tolls. Also included in the six months, is a decrease from the effect of higher settlements recorded in the first quarter 1993.

Other

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$17.6	\$18.9	\$(1.3)	(7)%
Six months ended	\$34.8	\$40.0	\$(5.2)	(13)%

The decrease for the quarter is primarily attributable to lower revenues from leasing of business telecommunications equipment. The decrease for the six month period was primarily caused by lower revenues from sales and leasing of telecommunications equipment to residential and business customers. CBT sold its residential equipment leasing and PhoneCenter Store businesses in the first quarter of 1993 and discontinued leasing business equipment in 1993. Billing and collection revenues also decreased for the quarter and six months as the result of a lower volume of business. The declines for both periods were partially offset by increases in sales and marketing commissions and a reduction in the provision for uncollectible accounts.

INFORMATION SYSTEMS

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$ 73.1	\$ 71.9	\$1.2	2%
Six months ended	\$143.8	\$140.3	\$3.5	2%

Information systems revenues in 1994 reflected a significant increase over 1993 after excluding amounts related to operations to be sold or discontinued. Revenues of these operations amounted to \$18.3 million and \$39.9 million for the three and six months ended June 30, 1993, respectively. The majority of the increase resulted from higher data processing services provided to cellular industry customers. In addition, revenues from international customers for the development of telecommunication solutions were higher in 1994.

MARKETING SERVICES

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$ 54.0	\$23.1	\$30.9	134%
Six months ended	\$104.6	\$47.9	\$56.7	118%

Although most of the revenue increase resulted from the WATS

Marketing acquisition in 1993, revenues from inbound and outbound call processing, custom services and business to business operations showed strong increases because of growth in business.

OTHER TELECOMMUNICATIONS

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$30.8	\$29.5	\$1.3	4%
Six months ended	\$61.2	\$59.0	\$2.2	4%

Long distance revenues increased as a result of an increase in the number of customers and higher 800-service revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

COSTS AND EXPENSES

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months ended	\$257.3	\$234.3	\$ 23.0	10%
Six months ended	\$512.7	\$465.6	\$ 47.1	10%

In summary, the primary causes for the increase in costs and expenses were added expenses of the acquired WATS Marketing, increased costs for providing data processing services to cellular industry customers, and increased depreciation expense as the result of changes in regulatory prescribed rates. Chief causes of reductions in expenses were the exclusion of costs and expenses of operations discontinued or sold at CBIS and CBT.

Telephone operations costs and expenses increased for the three and six months primarily because of higher depreciation and amortization expense, postretirement benefit costs and the effect of a change in the vacation policy in 1993. Depreciation and amortization expense increased from Federal and Kentucky approved depreciation rate represcriptions that were effective January 1, 1994. On June 2, 1994 the Public Utilities Commission of Ohio approved new depreciation rates effective July 1, 1994. It is estimated that CBT's 1994 depreciation expense will be approximately \$10 million more than in 1993 because of the change in prescribed rates. Postretirement costs are higher in 1994 than in 1993 because of CBT's deferral of approximately \$1 million of costs per quarter in 1993 (See note 3 to the financial statements). The deferral was discontinued in the first quarter of 1994 and \$2.5 million of the deferred amount was expensed. Effective in January 1993, CBT

revised its vacation policy for the period in which management and non-management employees earned vacation in order to be on an equivalent basis with the Company's other subsidiaries. The vacation policy change decreased expenses in 1993. Partially offsetting the six months increase were the results of cost containment efforts and the effect of CBT's sale of its residential equipment leasing and PhoneCenter Store businesses in the first quarter 1993.

Costs and expenses of the Information Systems segment increased in 1994 when compared to 1993 after adjusting 1993 amounts for the operations to be sold or discontinued. Costs and expenses for these operations amounted to \$21.7 million and \$45.2 million for the three and six months ended June 30, 1994. Data center expenses increased because of a higher volume of data processing services and higher costs for providing those services. Costs for the development of telecommunications solutions for international customers increased because of a higher volume of business. In addition, expenses related to upgrading computer workstations increased costs and expenses for the quarter. Staff reductions, attrition and a lower contractor base will result in a substantial reduction in personnel and related costs in the future.

Marketing services costs and expenses increased primarily from the WATS acquisition mentioned previously and higher direct costs as a result of increased revenues in the inbound and outbound call processing operations and business to business operations.

Other telecommunications services costs and expenses included a \$3.0 million provision for inventory loss during the second quarter 1993. The long distance business experienced an increase in direct costs associated with the increased revenues and higher Ohio property taxes resulting from a change in tax classification of the property used in the business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

OTHER INCOME (EXPENSE) - NET

(In millions)	June 30		Increase (Decrease)	Change
	1994 ----	1993 ----		
Three months ended	\$ (.2)	\$ 1.1	\$ (1.3)	(118)%
Six months ended	\$ .4	\$11.8	\$ (11.4)	(97)%

The most important reason for the decrease for the six months is the inclusion of a \$9.8 million gain from the sale of CBT's residential equipment leasing and PhoneCenter Store businesses in the first quarter of 1993. In addition, the quarter and six months of 1993 include income from the Cincinnati-Anixter joint venture which was terminated at the end of 1993.

INTEREST EXPENSE

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months	\$12.5	\$ 9.8	\$2.7	28%
Six months	\$24.9	\$20.2	\$4.7	23%

A higher average interest rate on total debt outstanding caused the increase in interest expense. This was the result of refinancing short-term debt with long-term debt with higher interest rates during the last six months of 1993 and higher average balances of debt outstanding from the WATS acquisition.

#### INCOME TAXES

(In millions)	June 30		Increase (Decrease)	Change
	1994	1993		
	----	----	-----	-----
Three months	\$11.0	\$ 6.0	\$5.0	83%
Six months	\$20.3	\$16.7	\$3.6	22%

Higher income before taxes was the principal reason for the increase in income taxes. The Company's effective tax rate was 37.2% for the three months and six months ended June 30, 1994 compared to 31.0% and 32.8% for the same periods last year, respectively. The reasons for the higher annual effective tax rate were principally due to the new tax law which increased rates and non-deductible expenses along with changes in the expectation of taxable income in 1994 versus 1993.

#### FINANCIAL CONDITION

Cash provided by operating activities for the six months ended June 30, 1994 was \$111.4 million, an increase of \$33.6 million. The excess of cash from operations over the amounts of cash flows invested and dividend payments was used to reduce short-term borrowings.

The primary use of capital resources continued to be capital expenditures. Capital expenditures were \$81.5 million for the first six months in 1994 compared to the \$75.9 million for the same period in 1993. Included in the capital expenditures were capitalized software development costs of \$4.5 million and \$13.5 million, respectively. Capital expenditures for telephone plant were higher from an increase in access lines and modernization of equipment. Capital expenditures for 1994 are expected to be approximately \$160 million of which \$95 million is for additions to property, plant and equipment of CBT.

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The Company's debt to capitalization ratio at June 30, 1994 was 54.6% compared to 47.8% at June 30, 1993. The increase is due primarily to the impact of the special charges in late 1993 and the acquisition of WATS Marketing in November, 1993.

In May 1994, Moody's placed under review the Company's commercial paper rated P-1 and senior unsecured debt rated A2, and CBT's unsecured debt rated Aa2. The reason given to the Company was that it derives the bulk of its credit support from CBT. For CBT, Moody's stated that the review is necessary in order to further assess the implications of the introduction of new incentive regulatory framework in Ohio on CBT's ability to generate adequate levels of return to sustain its cash flow.

Management believes that the Company has adequate internal and external resources available to finance its business development, construction and dividend programs. The Company maintains adequate lines of credit with several institutions to provide support for borrowings and general corporate purposes.

### CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") 112, "Employers' Accounting for Postemployment Benefits". The cumulative effect of this accounting change was recognized as a change in accounting principle, thereby reducing net income for the year by \$2.9 million, which is net of a deferred tax benefit of \$1.6 million.

### REGULATORY MATTERS

#### ALTERNATIVE REGULATION

Pursuant to procedures established by the PUCO, local exchange companies are permitted to file plans proposing alternative forms of regulation for competitive services and basic service rates. CBT filed for a threshold increase in rates with an alternative regulation proposal in 1993. Thereafter, CBT and the intervenors signed a settlement agreement which was approved by the PUCO on May 5, 1994 increasing revenues by \$11.9 million annually or 3.75% on Ohio regulated services. The alternative regulation commitments and new rates became effective May 6, 1994. CBT's authorized rate of return on capital will be 11.18%, but CBT can earn up to 11.93% in a monitoring period without any retargeting of rates. Earnings higher than 11.93% result in retargeting of rates in the next monitoring period. This alternative regulation plan provides increased pricing flexibility in some areas, which allows CBT to be more responsive to customers and more competitive.

#### OPTIONAL INCENTIVE REGULATION

For interstate services, CBT began to operate under an Optional Incentive Regulation (OIR) plan in January 1994. This is an alternative form of regulation for small and mid-sized companies with more emphasis on price regulation similar to price caps. The plan involves the following:

- - OIR does not impose a productivity offset.
- - CBT can retain higher levels of profit if it improves its productivity/efficiency up to a maximum of 12.75% under OIR versus 11.50% under rate of return regulation.
- - Ratepayers benefit from efficiency gains because the gains are flowed through in the form of lower rates in the next tariff period when rates are retargeted to the authorized

rate of return.

- - CBT need not be permanently committed to OIR in contrast with price cap regulation.

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Form 10-Q Part I

Cincinnati Bell Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

In addition, CBT has more pricing flexibility. Rate changes and new services can be made on a 14 day notice without cost support if CBT sets rates no higher than a geographically adjacent price cap local exchange carrier. This allows CBT to be more responsive to customers and more competitive. Historical revenue requirements and demand are used instead of forecasts.

DEPRECIATION REPRESRIPTION

In January 1994, CBT completed a successful triennial depreciation represcription with regulators from the Federal Communications Commission, the PUCO and the Public Service Commission of Kentucky. The new depreciation rates were effective January 1, 1994 in the interstate and Kentucky jurisdictions. CBT has obtained permission to use new rates in Ohio effective July 1, 1994.

EFFECTS OF REGULATORY ACCOUNTING

CBT presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by SFAS 71, "Accounting for the Effects of Certain Types of Regulation". Under SFAS 71, CBT records certain assets and liabilities because of the actions of regulators. Amounts charged to operations for depreciation expense reflect estimated useful lives and methods prescribed by regulators rather than those that might otherwise apply to unregulated enterprises. In the event CBT determines that it no longer meets the criteria for following SFAS 71, the accounting impact to CBT would be an extraordinary non-cash charge to operations of an amount which would be material. Criteria that give rise to the discontinuance of SFAS 71 include increasing competition, which restricts CBT's ability to establish prices to recover specific costs, and a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. CBT periodically reviews these criteria to ensure that continuing application of SFAS 71 is appropriate.

BUSINESS OUTLOOK

Cincinnati Bell operates businesses in several different markets. Each of the businesses has fluctuations in revenues and operating earnings as the result of the overall level, timing and terms of many contracts. These circumstances may increase the variability of financial results on a quarter-to-quarter basis.

Customer demands, technology, the preferences of policy makers and the convergence of other industries with the telecommunications industry are causes of increasing competition in the telecommunications industry for CBT. 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. Federal and state regulators are encouraging changes that promote competition in the industry. These impacts are expected to make it very challenging to maintain and grow telephone revenues.



CBT is evaluating the way it conducts business in order to further improve customer responsiveness and quality. CBT is evaluating regulatory changes that will be needed. Also, CBT is evaluating productivity improvement programs that could involve retraining of employees, re-engineering of systems, restructure of its organization, resource levels and other operating costs.

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Form 10-Q Part I

Cincinnati Bell Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

On August 2, 1994, the Company announced that CBIS signed a major contract renewal through 1999 with McCaw Cellular Communications Inc., the largest cellular service provider in the United States. CBIS currently provides billing for McCaw's cellular properties. Given the continuing growth of the cellular market, the contract is expected to generate revenues for CBIS in excess of \$600 million.

MATRIX has taken aggressive steps to capture efficiencies by integrating the WATS acquisition. The continued trend in the outsourcing of telemarketing is important for MATRIX'S continued growth.

The success of the other businesses will be determined by how well they meet the changing needs of their customers.

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Form 10-Q Part II

Cincinnati Bell Inc.

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  
-----

11 Computation of Earnings per Common Share

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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SIGNATURES

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

Cincinnati Bell Inc.

Date August 12, 1994  
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/s/ Brian C. Henry  
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Brian C. Henry  
Executive Vice President and  
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549  
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FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d)  
of the Securities Exchange Act of 1934  
for the quarterly period ended June 30, 1994  
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CINCINNATI BELL INC.

(Exact Name of Registrant as specified in its charter)  
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EXHIBITS

INDEX TO EXHIBITS

Filed Pursuant to Item 601 of Regulation S-K

Exhibit No.	Title of Exhibit	Page
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(11)	Computation of Earnings per Common Share	*

Exhibit 11  
to  
Form 10-Q for the Quarterly  
Period Ended June 30, 1994

CINCINNATI BELL INC.

COMPUTATION OF EARNINGS PER COMMON SHARE

(Dollars in thousands, except per share amounts; shares in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1994	1993	1994	1993
Income before cumulative effect of accounting change	\$18,720	\$13,500	\$34,366	\$34,327
Cumulative effect of accounting change . . . . .	-	-	(2,925)	-
Net Income . . . . .	18,720	13,500	31,441	34,327
Preferred dividend requirements . . . . .	-	1,088	-	2,175
Income applicable to common shares . . . . .	\$18,720	\$12,412	\$31,441	\$32,152
Weighted average number of common shares outstanding . . . . .	65,311	61,711	65,197	61,776
Common share conversions applicable to common share options . . . . .	8	148	8	148
Total number of shares for computing primary earnings per common share . . . . .	65,319	61,859	65,205	61,924
Average contingent issues of common shares from convertible preferred shares . . . . .	-	3,158	-	3,158
Total number of shares for computing fully diluted earnings per common share . . . . .	65,319	65,017	65,205	65,082
<b>EARNINGS PER COMMON SHARE</b>				
As reported				
Income before accounting change . . . . .	\$ .28	\$ .20	\$ .52	\$ .52
Cumulative effect of accounting change . . . . .	-	-	(.04)	-
Net income . . . . .	\$ .28	\$ .20	\$ .48	\$ .52
Primary				
Income before accounting change . . . . .	\$ .28	\$ .20	\$ .52	
\$ .52				
Cumulative effect of accounting change . . . . .	-	-	(.04)	-
Net income . . . . .	\$ .28	\$ .20	\$ .48	\$ .52
Fully Diluted				
Income before accounting change . . . . .	\$ .28	\$ .20	\$ .52	\$ .53
Cumulative effect of accounting change . . . . .	-	-	(.04)	-
Net income . . . . .	\$ .28	\$ .20	\$ .48	\$ .53

Earnings per common share for the six months ended June 30, 1994 and 1993 as reported in the Consolidated Statements of Income were based on the weighted average number of common shares outstanding for the respective periods. Primary and fully diluted earnings per common share were not shown in the Consolidated Statements of Income as they differ from the reported earnings per common share by less than three percent or are anti-dilutive.

