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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

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

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

201 East Fourth Street, Cincinnati, Ohio 45202

Telephone: (513) 397-9900

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

Title of each class	Name of each exchange on which registered
Common Shares (par value $0.01 per share)	New York Stock Exchange
Preferred Share Purchase Rights	Cincinnati Stock Exchange
$6^{3}/_{4}$% Preferred Shares	New York Stock Exchange

Securities requested 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 (!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 March 5, 2002, there were 218,792,775 Common Shares outstanding.

At March 5, 2002, the aggregate market value of the voting shares owned by non-affiliates was $1,573,120,052.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's definitive proxy statement dated March 22, 2002 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 Broadwing Inc., as indicated.

Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

This Form 10-K contains "forward-looking" statements, as defined in federal securities laws including the Private Securities Litigation Reform Act of 1995, which are based on Broadwing Inc.'s (together with its consolidated subsidiaries, the "Company") current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs, expectations and future plans and strategies of the Company, are forward-looking statements. These statements involve potential risks and uncertainties; therefore, actual results may differ materially from those expressed or implied in forward-looking statements. 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 the Company's expectations include, but are not limited to: changes in the overall economy; world and national events that may affect the ability of the Company to provide services; changes in competition in markets in which the Company operates; advances in telecommunications technology; the ability of the Company to generate sufficient cash flow to fund its business plan and maintain and strategically grow its optical network; changes in the telecommunications regulatory environment; changes in the demand for the services and products of the Company; the ability of the Company to introduce new service and product offerings in a timely and cost effective basis; the ability of the Company to attract and retain highly qualified employees; the ability of the Company to access capital markets and the successful execution of restructuring initiatives.

Part I

Item 1. Business

General

The Company is a full-service, local and national provider of data and voice communications services, and a regional provider of wireless communications services. The Company seeks to provide world-class service on a national level by combining two sets of strengths: its national optical network and Internet backbone and its state-of-the-art local network with a well-regarded brand name and reputation for service. The Company operates in four business segments: Broadband, Local, Wireless and Other.

The Company completed its merger with the former IXC Communications, Inc. ("IXC", now "Broadwing Communications") on November 9, 1999 (the "Merger") and accounted for this transaction according to the purchase method of accounting. As such, Broadwing Communications' operating results are included in the Company's operating results prospectively from November 9, 1999 and are referred to as the "as reported" results. The Company's "pro forma" results assume that the Merger took place on January 1, 1999 and combine the operating results of the historical Cincinnati Bell Inc. and the former IXC. The pro forma numbers are subject to certain assumptions and related adjustments, all of which pertain to the Merger.

The Company was incorporated under the laws of Ohio in 1873 and remains incorporated under the laws of Ohio. It has its principal executive offices at 201 East Fourth Street, Cincinnati, Ohio 45202 (telephone number (513) 397-9900).

Broadband

The Broadband segment was created as a result of the Merger and reflects the operations of the Company's Broadwing Communications subsidiary. Broadband revenue constituted 51% of consolidated Company revenue in 2001, or two percentage points higher than the 49% generated in 2000.

Broadwing Communications is a nationwide provider of data and voice communications services. These services are provided over approximately 18,500 route miles of fiber-optic transmission facilities. Broadband segment revenue is generated by broadband transport, switched voice services, data and Internet services, information technology consulting and network construction and other services.

Broadband transport services consist of long-haul transmission of data, voice and Internet traffic over dedicated circuits. The majority of revenue from the broadband transport category is generated by private line monthly recurring revenue. However, approximately one-fourth of the revenue is provided by indefeasible-right-of-use agreements (IRU), which cover a fixed period of time and represent the lease of capacity or network fibers. The buyer of IRU services typically pays cash upon execution of the contract. The Company's policy and practice is to amortize these payments into revenue over the life of the contract.

Switched voice services consist of billed minutes of use, primarily for the transmission of voice long-distance services on behalf of both wholesale and retail customers. Switched voice service revenue has been decreasing as a percentage of total Broadband segment revenue as Broadwing Communications has focused its efforts on optimizing profitability of this revenue source. Therefore, the Company has minimized sales to less creditworthy customers, tightened credit to wholesale customers in the wake of increasing bankruptcies and exited its telemarketing operations to a low end customer base. Switched voice services provided 32% and 41% of Broadband segment revenue in 2001 and 2000, respectively, and 50% of Broadband segment pro forma revenue in 1999.

Data and Internet services consist of the sale of high-speed data transport services utilizing technology based on Internet protocol ("IP"), ATM/frame relay, data collocation and web hosting. These services continued to grow as a percentage of segment revenue, increasing from 6% in 2000 to nearly 10% in 2001. The Company envisions a growing market for these types of services, and it expects the Data and Internet services will provide a greater share of Broadband segment revenue in the future.

IT consulting ("IT consulting") consists of information technology consulting services and related hardware sales. These services are provided by Broadwing IT Consulting, a wholly owned subsidiary of Broadwing Communications, which began operating as Broadwing Technology Solutions ("BTS") during 2001. For the year 2001, information technology consulting revenue was $141 million, or $76 million higher than in 2000.

Network construction and other services consist of large, joint-use network construction projects, the receipt of warrants in 2000 related to a field trial of optical equipment and residual revenue in 1999 from a prior sale of dark fiber. The Company typically gains access to rights-of-way or additional fiber routes through its network construction activities. In 2001, network construction projects provided $87 million in revenue, compared to $67 million in network construction and other services revenue in 2000. The Company expects to complete its remaining ongoing project in 2002, and will subsequently exit this line of business.

The centerpiece of the Broadband segment is its next-generation network. This network is fully operational, includes an Internet backbone and is one of the first in the United States of America to incorporate optical switching technology. In order to maintain its network, Broadwing Communications relies on supplies from certain key external vendors and a variety of other sources.

As revenue from the Broadband segment is primarily generated by usage-based and monthly service fees, the operations of the segment follow no particular seasonal pattern. However, this segment does receive approximately 50% of its revenue from interexchange carriers that have or are capable of constructing their own network facilities, but utilize the Company's broadband transport, switched voice and network construction services to augment their own networks. Remaining revenue in the segment is generated by business enterprise customers through the purchase of broadband transport, internet, switched voice and IT consulting services.

Broadwing Communications faces significant competition from other fiber-based telecommunications companies such as AT&T, WorldCom, Sprint, Level 3 Communications, Qwest Communications International, Williams Communications and several emerging competitors. These competitors attempt to compete on the basis of price, quality, service and product breadth.

Local

The Local segment provides local telephone service, network access, high-speed Internet access, data transport services and switched long-distance, as well as other ancillary products and services to customers in southwestern Ohio, northern Kentucky and southeastern Indiana. This market consists of approximately 2,400 square miles located within a 25-mile radius of Cincinnati, Ohio. Services are provided through the Company's Cincinnati Bell Telephone ("CBT") subsidiary.

CBT's service offerings are generally classified into three major categories: local service, network access, and other services. The Local segment produced 35% and 39% of consolidated Company revenue in 2001 and 2000, respectively, and 44% of pro forma consolidated revenue in 1999.

Local service revenue is primarily from end-user charges for use of the public switched telephone network and for value-added services such as custom calling features. These services are provided to business and residential customers and represented 56% of CBT's revenue in 2001. Network access represented 25% of CBT's revenue in 2001 and came from interexchange carriers for access to CBT's local communications network and business customers for customized access arrangements. Other services provided the remaining 19% of CBT's revenue in 2001 and consisted of the sale and installation of telecommunications equipment, Internet access, inside wire installation and maintenance, resale of Broadwing Communications services and other ancillary services.

CBT has successfully leveraged its embedded network investment to provide value-added services and product bundling packages, resulting in additional revenue with minimal incremental costs. CBT's plant, equipment and network are state-of-the-art and are capable of handling new service offerings as they are developed. All of the network access lines subscribed to CBT are served by digital switches and have the ISDN and Signaling System 7 capability necessary to support enhanced features such as Caller ID, Call Trace and Call Return. The network also includes approximately 2,000 route miles of fiber-optic cable, with synchronous optical network ("SONET") rings linking Cincinnati's downtown with other major business centers. These SONET rings offer increased reliability and redundancy to CBT's major business customers.

In order to maintain its network, CBT relies on supplies from certain key external vendors and a variety of other sources. Since the majority of CBT's revenue results 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 revenue is derived from pricing plans that require regulatory overview and approval. In recent years, these regulated 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, 2001, approximately 38 companies were certified to offer telecommunications services in CBT's local franchise area and 42 companies had sought interconnection agreements with CBT. CBT seeks to maintain a competitive advantage over these carriers through its service quality, network capabilities, innovative products and services, creative product bundling, customer billing and value pricing. CBT has experienced only a 2% net loss in the number of access lines to competitors since 1998.

CBT had approximately 1,032,000 network access lines in service on December 31, 2001, a 2% reduction in comparison to 1,049,000 access lines in service at December 31, 2000. Approximately 68% of CBT's network access lines serve residential customers and 32% serve business customers. In

addition, the sale of higher-bandwidth digital and optical services, measured in voice-grade equivalents, increased 19% and 37% in 2001 and 2000, respectively.

Wireless

The Wireless segment comprises the operations of Cincinnati Bell Wireless LLC ("CBW"), a venture with AT&T Wireless Services ("AWS") in which the Company owns 80.1% and AWS owns the remaining 19.9%. CBW provides advanced wireless 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 CBW's regional and AWS's national networks.

Revenue for the Wireless segment comes primarily from two sources: provision of wireless communications services to its subscribers and the sale of handsets and accessories. In 2001, approximately 94% of revenue for the segment was from services and the remaining 6% was generated by equipment sales. This compares to approximately 93% and 7%, respectively, of 2000 revenue, and 86% and 14%, respectively, of 1999 revenue. In total, the Wireless segment contributed 11% and 9% of consolidated revenue in 2001 and 2000, respectively, and accounted for approximately 23% of consolidated revenue growth in both 2001 and 2000. In 1999, the Wireless segment produced 5% of pro forma consolidated revenue and 70% of pro forma consolidated revenue growth.

Service revenue is generated primarily through subscriber use of CBW's wireless communications network. This network is maintained by CBW in the Greater Cincinnati and Dayton, Ohio operating areas, and by AWS for wireless calls beyond these areas being terminated on AWS's national wireless network. Service revenue is 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. Revenue is also generated when subscribers of other wireless providers initiate calls while roaming in CBW's service area. However, this segment incurs significant expenses when its own wireless subscribers use their handsets in the operating territory of other wireless providers.

Approximately 85% of all service revenue was generated by postpaid subscribers who pay a monthly access fee in advance and usage fees in arrears. The remaining 15% of service revenue was generated by CBW's i-wireless[SM] prepaid service. In October 1999, CBW introduced this prepaid service, allowing for the purchase of a specific number of minutes, in advance, at a fixed price. Since this service leverages CBW's existing network and requires no billing capabilities, it requires minimal incremental capital investment.

Sales of handsets and accessories take place primarily at CBW's retail locations, which consist of stores and kiosks in high-traffic shopping malls and commercial buildings in the Greater Cincinnati and Dayton, Ohio areas. Sales also take place in the retail stores of major electronic retailers pursuant to agency agreements. CBW sells handsets and accessories from a variety of vendors, with the Nokia brand being the most popular among its customers. CBW maintains a supply of equipment and does not envision any shortages that would compromise its ability to add customers. Unlike service revenue (which is a function of wireless handset usage), equipment sales are subject to seasonality, as customers often purchase handsets and accessories as gifts during the holiday season in the Company's fourth quarter. In order to attract customers, CBW typically sells handsets for less than direct cost.

The Wireless segment offers its services over a digital wireless network using Time Division Multiple Access ("TDMA") technology. The Company believes that TDMA technology will meet the existing needs of its customers and enable CBW to introduce new products and services as part of its business plan. As previously mentioned, this segment also relies on AWS's national network for calls outside of CBW's Greater Cincinnati and Dayton, Ohio operating areas. The Company believes that AWS will maintain its national digital wireless network in a form and manner that will allow CBW to attract and retain customers.

The Company is currently evaluating the implementation of Global System for Mobile Communications and General Packet Radio Service ("GSM/GPRS") technology. Several competitors

and the Company's partner, AWS, have announced plans to begin, or have begun, using GSM/GPRS technology in their national networks. This new technology would initially run in parallel with the existing TDMA technology such that both technologies would be supported simultaneously. TDMA handsets are not usable with GSM/GPRS technology and vice versa. However, as the technologies run in parallel, there is no need to replace handsets of existing TDMA subscribers at any given point in time. GSM/GPRS technology provides enhanced wireless data communication. Incremental capital expenditures related to GSM/GPRS are not expected to be significantly higher than current projections because the level of growth capital spending would be reduced as some network components utilizing GSM/GPRS technology are less expensive than comparable TDMA components.

Rates and pricing 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, CBW believes that its combination of technology, pricing, brand name and customer service enable it to succeed in its current operating environment.

As this venture is jointly owned with AWS, income or losses generated by the Wireless segment are shared between the Company and AWS in accordance with respective ownership percentages of 80.1% for the Company and 19.9% for AWS. As a result, 19.9% of the operating income or loss of this segment is reflected as minority interest income or loss in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). Please see Note 7 of the Notes to Consolidated Financial Statements for a more detailed discussion of minority interest.

Other

The Other segment combines the operations of the Cincinnati Bell Any Distance, Cincinnati Bell Directory, ZoomTown.com and Cincinnati Bell Public Communications subsidiaries. Revenue for the Other segment constituted approximately 7% of consolidated Company revenue in both 2001 and 2000. The results of operations of the Company's former Cincinnati Bell Supply subsidiary have not been reflected in this segment since the business was sold in the second quarter of 2000.

Cincinnati Bell Any Distance (formerly Cincinnati Bell Long Distance)

In January 2001, the Company officially established the Cincinnati Bell Any Distance ("CBAD") subsidiary to assume the Cincinnati-based marketing activities for the former Cincinnati Bell Long Distance ("CBLD") and to resell long-distance services to small and medium-sized businesses and residential customers in the Greater Cincinnati and Dayton, Ohio areas. The remaining portion of CBLD's business was then merged into Broadwing Communications. Accordingly, revenue and expenses for the Any Distance service in the Cincinnati area are reported as a component of the Other segment while revenue and expenses associated with non-Cincinnati area customers of the former CBLD are reported in the results of the Broadband segment. In 2001, CBAD produced $63 million in revenue for the Other segment, representing approximately 3% of consolidated revenue compared to $46 million and 2% of consolidated revenue in 2000.

Cincinnati Bell Directory ("CBD")

CBD published Yellow Pages directories and sold directory advertising and informational services in Cincinnati Bell Telephone's local service area. These services were available to approximately 2.4 million residential and business customers in the form of traditional printed directories, an Internet-based service known as "Cincinnati Exchange," and on CD-Rom. In 2001 and 2000, CBD produced $80 million and $78 million of revenue, respectively, or approximately 3% and 4% of consolidated revenue of the Company, respectively. In February 2002, the Company announced an agreement to divest 97.5% of this business for $345 million in cash. The Company closed the sale of CBD on March 8, 2002.

ZoomTown.com ("ZoomTown")

ZoomTown provides managed web hosting nationally, while all other operations are primarily directed to the Greater Cincinnati metropolitan area. In 2001, ZoomTown provided $8 million in revenue. In connection with the Company's restructuring activities during the fourth quarter of 2001, further described in Note 3 of the Notes to Consolidated Financial Statements, ZoomTown's managed web hosting activities will be merged into Broadwing Communications and will be reported in the Broadband segment subsequent to December 31, 2001. In addition, the DSL and internet activities of ZoomTown will be merged into the Company's CBT subsidiary and will be reported in the Local segment subsequent to December 31, 2001.

Cincinnati Bell Public Communications Inc. ("Public")

Public provides public payphone services to customers in a regional area consisting of fourteen states. Public has approximately 9,200 stations in service and generated approximately $15 million and $14 million in revenue in 2001 and 2000, respectively, or less than 1% of consolidated revenue in each year.

BUSINESS OUTLOOK

Evolving technology, consumer preferences, legislative and regulatory initiatives and convergence of communications technology are causes of 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.

Broadwing Communications faces significant competition from other fiber-based telecommunications companies such as AT&T, WorldCom, Sprint, Level 3 Communications, Qwest Communications International and Williams Communications. Broadwing Technology Solutions competes with Intranet hardware vendors, wiring vendors, and other information technology consulting businesses. In order to achieve competitive advantages, the Company intends to develop new products and services or blend products and services from other subsidiaries into the operations of Broadwing Communications.

Cincinnati Bell Telephone's current and potential competitors include other incumbent local exchange carriers, wireless services providers, interexchange carriers, competitive local exchange carriers, cable operators and others. To date, CBT has signed various interconnection agreements with competitors and approximately 2% of net access lines have been transferred to competitors since 1998.

The Company's other subsidiaries face intense competition in their markets, principally from larger companies. These subsidiaries differentiate themselves by leveraging the strength and recognition of the Company's brand equity, by providing customers with superior service, by focusing on niche markets and by developing and marketing customized bundled services.

Cincinnati Bell Wireless is one of seven active wireless service providers in the Cincinnati and Dayton, Ohio metropolitan market areas.

Cincinnati Bell Any Distance has captured substantial market share in the Greater Cincinnati area since the introduction of its Any Distance offer in January 2000, but faces intense competition from long-distance providers and other resellers. Margins on long-distance rates continue to fall as providers attempt to maintain their subscriber base, which creates the need for substantial advertising in order to capture and retain market share. The web hosting operations of ZoomTown.com (to be assumed by Broadwing Communications subsequent to December 31, 2001) face competition from nationally known web hosting providers.

The Company believes that its reputation for quality service and innovative products can be successfully exported from its local franchise area. The Company has successfully blended its provisioning and marketing expertise with Broadwing Communications' next-generation optical 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 continue to pursue rapid growth in data transport and wireless communications services. The Company also intends to continue to leverage its investment in its local communications network and its regional wireless network to provide new and incremental product and service offerings to its customers in the Greater Cincinnati and Dayton, Ohio markets.

Risk Factors

Increased Competition Could Affect Profitability and Cash Flow

There is substantial competition in the telecommunications industry. The traditional dividing lines between long-distance, local, wireless and internet services are increasingly becoming blurred. Through mergers and various service integration strategies, major providers, including the Company, are striving to provide integrated services across all geographical markets. The Company expects competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services. The Company cannot predict which of many possible future technologies, products and services will be important to maintain its competitive position or what expenditures will be required to develop and provide these technologies, products and services. The Company's ability to compete successfully will depend on the Company's ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing by competitors. To the extent the Company does not keep pace with technological advances or fails to respond timely to changes in competitive factors in the industry, it could lose market share or experience a decline in its revenue and profit margins.

Broadwing Communications faces significant competition from companies such as AT&T, WorldCom, Sprint, Level 3 Communications, Qwest Communications International, Williams Communications and several emerging competitors. The significant capacity of these competitors could result in decreasing prices even as the demand for higher-bandwidth services increases. Increased network capacity and traffic optimization could place downward pressure on prices, making it difficult for the Company to maintain current revenue and profit margins.

CBT faces competition from competitive local exchange carriers, wireless service providers, cable modem providers and Internet access providers. The Company believes CBT will face greater competition as more competitors emerge and focus resources on the Greater Cincinnati metropolitan area.

CBW is one of seven active wireless service providers in the Cincinnati and Dayton metropolitan market areas, most of which are nationally known and well financed. The Company anticipates that competition will cause the market prices for wireless products and services to decline in the future. CBW's ability to compete will depend, in part, on its ability to anticipate and respond to various competitive factors affecting the telecommunications industry. Furthermore, there has been a trend in the wireless communications industry towards consolidation of wireless service providers through joint ventures, reorganizations and acquisitions. The Company expects this consolidation to lead to larger competitors who have greater resources or who offer more services than CBW.

The Company's other subsidiaries operate in a largely local or regional area, and each of these subsidiaries faces significant competition. CBAD's competitors include large national long-distance carriers. ZoomTown competes with nationally respected web hosting providers. Public competes with several other public payphone providers, some of which are national in scope and offer lower prices for coin-based local calling services. Public has continued to be adversely impacted by the growing popularity of wireless communications.

The Company's failure against these competitors would have a material adverse impact on its business, financial condition and results of operations. This would result in increased reliance on

borrowed funds and could impact the Company's ability to maintain its optical, wireline and wireless networks.

Insufficient Cash Flow for Planned Investing and Financing Activities Could Impact the Company's Liquidity

Prior to the Merger, the Company generated sufficient cash flow for its investing and financing needs through mature businesses that benefited from a local telephone franchise, an embedded customer base and relative freedom from competition. However, the Company made a strategic decision to diversify into new communications' businesses. Entering these businesses resulted in substantial start-up costs, net operating losses and net cash outflows.

To successfully compete in these markets, the Company must adequately maintain its present networks and strategically add resources to meet customer expectations. To accomplish these goals, the Company expects to incur approximately $300 million in capital expenditures in 2002. In addition, portions of the Company's credit facility and other long-term debt mature during 2002.

In order to provide for its cash requirements, the Company obtained a $2.3 billion credit facility from a group of banking and non-banking institutions. The Company increased its indebtedness under this credit facility by approximately $308 million in 2001 in order to fund its capital investment program. The Company anticipates additional borrowings from this facility during 2002. At the end of 2001, the Company had approximately $350 million in available borrowing capacity from the credit facility. Total availability under this credit facility will decrease throughout 2002 to approximately $1.8 billion due to approximately $335 million related to prepayment of the outstanding term debt facilities from the proceeds of the sale of CBD, $5 million due to scheduled amortization of the term debt facilities and $135 million due to scheduled availability reductions of the revolving credit facility. In addition, $20 million of CBT bonds mature in 2002. The Company believes that its borrowing availability will be sufficient to provide for its financing requirements in excess of amounts generated by operations during 2002.

However, the ability to borrow from the credit facility is predicated on the Company's compliance with debt covenants that have been negotiated with its 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. The Company obtained an amendment to its debt covenants to exclude charges associated with the November 2001 Restructuring Plan (described in Note 3 of the Notes to Consolidated Financial Statements) from the covenant calculations. As of December 31, 2001, the Company was in compliance with all of the covenants of the credit facility.

The recently announced sale of CBD will generate a positive cash inflow, net of expenses related to the transaction of approximately $335 million in 2002, but will reduce annual cash inflows by the amount generated by these operations (approximately $45 million in 2001).

If the Company is unable to meet its cash flow targets going-forward, the Company could experience a material adverse impact on its business, financial condition and results of operations.

Network Utilization is Dependent on Maintaining Rights-of-Way and Permits

The utilization of the Company's network depends on maintaining rights-of-way and required permits from railroads, utilities, governmental authorities and third-party landlords on satisfactory terms and conditions. The Company cannot guarantee that it will be able to maintain all of the existing rights and permits. Although the Company expects to maintain and renew its existing agreements, the loss of a substantial number of existing rights and permits would have a material adverse impact on the Company's business, financial condition and results of operations. Furthermore, the Company may incur significant future expenditures in order to remove its facilities upon expiration of related rights-of-way agreements.

Significant Capital Expenditures Will be Required to Maintain and Strategically Grow the Network

The Company is committed to the maintenance and strategic growth of its nationwide optical network, the deployment of high-speed data transport services both nationally and in its local telephone franchise area and continued infrastructure development for CBW's wireless business.

In support of these initiatives and as a result of the Merger, capital expenditures of $143 million in 1998 more than doubled to $381 million in 1999 and then again to $844 million in 2000, while decreasing in 2001 to $649 million due mainly to the completion of the Company's optical network. Of the $649 million in capital expenditures in 2001, approximately 80% was attributed to the Broadband and Wireless segments (see "Capital Additions" on page 11 of this Form 10-K for additional information as to capital expenditures). The Company's current plans call for a significant reduction in capital spending in 2002 to approximately $300 million, as the optical overbuild of its national network and footprint of CBW's wireless network have been largely completed.

The actual amount of capital required to maintain or expand the Company's network to meet customer demands may vary materially from the Company's estimates. The Company may incur significant additional capital expenditures in 2002 and thereafter as a result of unanticipated expenses, regulatory changes and other events that impact the business. If the Company fails to adequately maintain its networks or expand them to meet customer needs there could be a material adverse impact on the Company's 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 levels. 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.

A further discussion of specific regulatory matters pertaining to the Company and its operations is contained in Item 7 of this Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's Recently Announced Restructuring Initiative is Critical to Its Success

The Company announced a restructuring initiative on November 29, 2001 that included initiatives to consolidate data centers, reduce its expense structure, exit the network construction business, eliminate other non-strategic operations and merge internet and DSL operations into its other operations. The Company recorded a one-time charge of $232 million in the fourth quarter of 2001 related to these initiatives and expects the restructuring plan will reduce costs by approximately $88 million annually, compared to 2001. Successfully completing this initiative by executing the various business strategies that embody the initiative, retaining valued customers and maintaining the Company's employee base will be critical to its continued profitability. Failure to successfully implement this initiative could have an adverse impact on the Company's business, financial condition and results of operations.

Attracting and Retaining Highly Qualified Employees Is Necessary for Competitive Advantage

The Company seeks to achieve competitive advantage by hiring and retaining highly skilled personnel. The Company believes this is of particular importance in an industry which depends on innovation and execution in order to attract and retain customers. If the Company fails to attract or retain these skilled personnel, the Company's financial condition and results of operations could be materially impacted.

The Company's Success Depends on the Introduction of New Products and Services

The Company's success depends on being able to anticipate the needs of current and future enterprise, carrier and residential customers. The Company seeks to meet these needs through new product introductions, service quality, technological superiority and on the ability to bundle services together in packages that are attractive to its customers. If the Company fails to anticipate the needs of these customers and does not introduce the new products and services necessary to attract or retain these customers, it would have a material adverse impact on the Company's business, financial condition and results of operations.

Continuing Softness in the Economy is Having a Disproportionate Effect in the Telecommunications Industry

The downturn in general economic conditions, particularly in the telecommunications services industry, has forced several of the Company's competitors and customers to file for protection from creditors under existing bankruptcy laws and others to reconfigure their capital structure. These companies had significant debt servicing requirements and were unable to generate sufficient cash from operations to both service their debt and maintain their networks. If general economic conditions in the United States remain at current levels for an extended period of time or worsen, there could be a material adverse impact on the Company's business, financial condition and results of operations.

A Significant Portion of the Company's Revenue Is Derived from Telecommunications Carriers

Eight of the Company's top ten customers, which as a group accounted for approximately 17% of total revenue in 2001, are large telecommunications carriers. The Company's largest customer, who accounted for approximately 5% of revenue in 2001, is in Chapter 11 bankruptcy proceedings. Non-IRU revenue from this customer approximated 1% of consolidated revenue. The remaining revenue from this customer, approximating 4% of consolidated revenue, is generated by the amortization of IRU agreements for which consideration had been previously received. In addition, interexchange carriers generate approximately 50% of Broadband segment revenue. Most of the Company's arrangements with large customers do not provide the Company with guarantees that customer usage will be maintained at current levels. In addition, construction of their own facilities by certain of the Company's customers, construction of additional facilities by competitors or further consolidation in the telecommunications industry involving the Company's customers could lead such customers to reduce or cease their use of the Company's network. To the extent these large customers cease to employ the Company's network to deliver their services, or cannot pay outstanding accounts receivable balances, the Company could experience a material adverse impact on its business, financial condition and results of operations.

Labor Negotiations May Impact the Company's Profitability

Approximately 2,000 hourly employees in the Company's Cincinnati Bell Telephone operation are represented by a union and covered by a collective bargaining agreement. These employees are represented by the Communications Workers of America (the "CWA"). The Company's collective bargaining agreement with the CWA will expire in May 2002.

The Company is in the process of negotiating a new collective bargaining agreement with the CWA. A work stoppage could occur if these negotiations fail, which, if protracted, could adversely affect the Company's profits. In recent years the Company has not had significant work stoppages.

Terrorist Attacks and Other Acts of Violence or War May Affect the Financial Markets and the Company's Business, Financial Condition and Results of Operations

As a result of the September 11, 2001 terrorist attacks and subsequent events, there has been considerable uncertainty in world financial markets. The full effect of these events, as well as concerns about future terrorist attacks, on the financial markets is not yet known, but could adversely affect the

Company's ability to obtain financing on terms acceptable to it, or at all, to finance the Company's capital expenditures or working capital.

Terrorist attacks may negatively affect the Company's operations and financial condition. There can be no assurance that there will not be further terrorist attacks against the United States of America or U.S. businesses. These attacks or armed conflicts may directly impact the Company's physical facilities or those of its customers and vendors. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. They could result in an economic recession in the United States or abroad. Any of these occurrences could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company is Dependent on Limited Sources of Supply for Certain Key Network Components

Where possible and practical, the Company utilizes commercially available technologies and products from a variety of vendors. However, the Company relies on one supplier, Corvis, for its advanced optical switching and transport equipment on the core of its long-haul network. There can be no assurance that the Company will be able to obtain such equipment from Corvis in the future. If the Company cannot obtain adequate replacement equipment or service from Corvis or an acceptable alternate vendor, the Company could experience a material adverse impact on its business, financial condition and results of operations.

Network Failure and Transmission Delays and Errors Could Expose the Company to Potential Liability

The Company's network utilizes a variety of communication equipment, software, operating protocols and components of others' networks for the high-speed transmission of data and voice traffic among various locations. The Company is held to high quality and delivery standards in its customer contracts. Network failures or delays in data delivery could cause service interruptions resulting in losses to the Company's customers. Failures or delays could expose the Company to claims by its customers that could have a material impact on the financial condition and operating results of the Company's business.

The Company Expects to Experience Significant Change in the Wireless Communications Industry

The wireless communications industry is experiencing significant technological change. This includes the increasing pace of digital upgrades, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products and changes in customer needs and preferences. In addition, uncertainty exists as to the pace and extent that customer demand for wireless services will continue to increase. As a result, the prospects of the Company's wireless business and those of the industry remain uncertain.

The Company Expects to Refinance Existing Indebtedness

In order to maintain compliance with the covenants of the $2.3 billion credit facility and refinance existing indebtedness, the Company expects to access the capital markets during or before 2003. The Company cannot be certain that it will be able to refinance its indebtedness when required or that satisfactory terms of any refinancing will be available. If the Company is unable to refinance its indebtedness or obtain new financing under these circumstances, the Company will be required to consider asset sales, equity financing, debt restructuring and any other options available.

Capital Additions

The capital additions of the Company have historically been for its fiber-optic transmission facilities, telephone plant in its local service area, development of the infrastructure for its wireless business and construction of data centers to meet anticipated demand for web hosting and data collocation services. 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 1997 through 2001:

$ in millions	Local Telephone Operations	Fiber-Optic Transmission Facilities	Wireless Infrastructure	Other	Total Capital Additions
2001	$ 117.3	$ 460.7	$ 52.0	$ 18.5	$ 648.5
2000	$ 151.9	$ 591.7	$ 84.2	$ 16.1	$ 843.9
1999	$ 152.1	$ 166.1	$ 55.9	$ 7.1	$ 381.2*
1998	$ 134.9	—	$ 2.2	$ 6.3	$ 143.4
1997	$ 140.0	—	—	$ 18.4	$ 158.4

* Includes capital additions for the Broadband segment from the November 9, 1999 closing date of the Merger until the end of the year. On a pro forma basis in 1999, total capital additions were $819 million. The difference between pro forma and as-reported capital additions, or $438 million, is attributable to "fiber-optic transmission facilities" and is not reflected in the above table.

Employees

At December 31, 2001, the Company had approximately 5,400 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. This collective bargaining agreement expires in May 2002. The Company is in the process of negotiating a new collective bargaining agreement with the CWA.

Business Segment Information

The amount of revenue, intersegment revenue, EBITDA, assets, capital additions and depreciation and amortization attributable to each of the Company's business segments for the year ended December 31, 2001 are set forth in Note 15 of the Notes to Consolidated Financial Statements that are contained in Item 8 of this Report on Form 10-K, "Financial Statements and Supplementary Schedules."

Item 2. Properties

Broadwing Inc. and its subsidiaries own or maintain telecommunications facilities in 39 states. Principal office locations are in Cincinnati, OH; Austin, TX; Reston, VA; Indianapolis, IN; and Baton Rouge, LA.

The property of the Company is principally composed of its nationwide optical transmission system, telephone plant in its local telephone franchise area (i.e., Greater Cincinnati), and the infrastructure associated with its wireless business in the Greater Cincinnati and Dayton, Ohio operating areas. Each of the Company's subsidiaries maintains some investment in furniture and office equipment, computer equipment and associated operating system software, 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 "Buildings and leasehold improvements" caption below.

Fiber-optic transmission facilities consist largely of fiber-optic cable, conduit, optronics, rights-of-way and structures to house the equipment. The wireless infrastructure consists primarily of transmitters, receivers, towers, and antennae.

The gross investment in property, plant and equipment, in millions of dollars, at December 31, 2001 and 2000 is comprised of the following ($ in millions):

	2001	2000
Land and rights-of-way	$ 159.3	$ 157.6
Buildings and leasehold improvements	393.0	403.7
Telephone plant	1,962.3	1,839.7
Transmission facilities	2,163.3	1,587.4
Furniture, fixtures, vehicles and other	205.5	150.9
Construction in process	257.1	509.1
Total	$ 5,140.5	$ 4,648.4

The gross investment in property, plant, and equipment includes $78.1 million and $65.8 million of assets accounted for as capital leases in 2001 and 2000, respectively. These assets are included in the captions "Buildings and leasehold improvements," "Telephone plant," "Transmission facilities" and "Furniture, fixtures, vehicles and other."

Properties of the Company are divided between operating segments as follows:

	2001	2000
Broadband	52.9%	51.8%
Local	40.2%	42.0%
Wireless	6.0%	5.5%
Other	0.9%	0.7%
Total	100.0%	100.0%

Item 3. Legal Proceedings

The information required by this Item is included in Note 19 of the Notes to Consolidated Financial Statements that are contained in Item 8 of this Report on Form 10-K, "Financial Statements and Supplementary Data."

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

None.

Item 4A. Executive Officers of the Registrant

The names, ages and positions of the executive officers of the Company as of December 31, 2001 are as follows:

Name	Age	Title
James D. Kiggen (a)(b)(c)	69	Chairman of the Board
Richard G. Ellenberger (a)(b)(c)	49	President, Chief Executive Officer and Chairman-Elect
Kevin W. Mooney	43	Chief Operating Officer
John F. Cassidy	47	President and Chief Operating Officer, Cincinnati Bell
Jeffrey C. Smith	50	Chief Human Resources Officer, General Counsel and Corporate Secretary
Mary E. McCann	39	Senior Vice President, Corporate Finance
Michael W. Callaghan	54	Senior Vice President, Corporate Development
David A. Torline	52	Chief Information Officer

(a) Member of the Board of Directors

(b) Member of the Executive Committee

(c) Mr. Kiggen will retire from the position of Chairman of the Board effective April 29, 2002. Mr. Ellenberger has been appointed by the Board of Directors to succeed Mr. Kiggen upon his retirement.

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 1999; Chairman of the Board of Xtek, Inc. (manufacturer of engineered steel products for heavy industry) 1985-1999; Director of Xtek, Inc. 1999-2000; Chief Executive Officer of Xtek, Inc., 1981-1998; President of Xtek, Inc., 1979-1995. Director of Fifth Third Bancorp and its subsidiary, The Fifth Third Bank, and The United States Playing Card Company. Chairman of the Executive Committee and Chairman of the Governance and Nominating Committee.

RICHARD G. ELLENBERGER, President and Chief Executive Officer of the Company since March 1999; Chairman-Elect of the Company since January 2002; Chief Operating Officer of the Company from July 1998 to March 1999; President and Chief Executive Officer of Cincinnati Bell Telephone Company from 1997-1998; Chief Executive Officer of Broadwing Communications Inc. since November 9, 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. Director of the Company since 1998; member of the Executive Committee.

KEVIN W. MOONEY, Chief Operating Officer of the Company since November 2001; Executive Vice President and Chief Financial Officer of the Company from September 1998 to November 2001; Senior Vice President and Chief Financial Officer of Cincinnati Bell Telephone since January 1998; Vice President and Controller of the Company, 1996-1998; Vice President of Financial Planning and Analysis of the Company, 1994-1996; Director of Financial Planning and Analysis of the Company, 1990-1994.

JOHN F. CASSIDY, President and Chief Operating Officer of Cincinnati Bell since May 2000; President of 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; Vice President, Sales and Marketing, Ericsson Mobile Communications from 1990-1992; Vice President, Sales and Marketing, General Electric Company from 1988-1990.

JEFFREY C. SMITH, Chief Human Resources Officer of the Company since November 2001; General Counsel and Corporate Secretary of the Company since February 2001; 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 Times Mirror from 1985 through August 1994. Prior to 1985, employed for seven years in private law practice as a trial and business attorney.

MARY E. MCCANN, Senior Vice President, Corporate Finance of the Company since December 2001; Vice President, Controller of the Company from February 1999 to December 2001; Director of Financial Planning of Cincinnati Bell Telephone from April 1998 to February 1999; Manager of Financial Reporting and Analysis of Cincinnati Bell Telephone from August 1996 to April 1998; Senior Financial Analyst from May 1995 to August 1996.

MICHAEL W. CALLAGHAN, Senior Vice President, Corporate Development of the Company since March 1999; Vice President, Corporate Development of Convergys Corporation, 1994-1999; Corporate Director of Video and Interactive Services of Ameritech from 1991-1994; President of Scripps Howard Cable, 1984-1991.

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

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 March 5, 2002, there were approximately 105,500 holders of record of the 218,792,775 outstanding common shares of the Company. The high and low daily closing prices during each quarter for the last two fiscal years are listed below:

Quarter		1st	2nd	3rd	4th
2001	High	$ 28.75	$ 26.95	$ 25.38	$ 16.92
	Low	$ 18.82	$ 16.38	$ 14.68	$ 7.79
2000	High	$ 40.50	$ 36.75	$ 29.94	$ 28.25
	Low	$ 29.63	$ 22.00	$ 23.69	$ 20.00

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 currently 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 6 3/4% preferred shares. Additionally, the Company converted to a cash pay option on its Broadwing Communications 12 1/2% preferred shares on November 16, 1999, and subsequently made its first cash payment on February 15, 2000. Dividends on

the 12 1/2% preferred shares are accounted for in the caption "Minority interest expense (income)" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Item 6. Selected Financial Data

The Selected Financial Data should be read in conjunction with the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this document.

$ in millions, except per share amounts	2001	2000	1999	1998	1997
Operating Data					
Revenue	$ 2,350.5	$ 2,050.1	$ 1,102.0	$ 861.4	$ 804.4
Operating expenses, excluding restructuring and other charges (credits)	2,279.9	2,011.8	952.4	687.4	640.4
Restructuring and other charges (credits)(a)	241.9	(0.8)	10.9	(1.1)	(21.0)
Operating income (loss)	(171.3)	39.1	138.7	175.1	185.0
Interest expense(b)	168.1	163.6	61.6	24.1	30.1
Loss (gain) on investments(c)	(11.8)	356.3	—	—	—
Income (loss) from continuing operations before income taxes, extraordinary items and cumulative effect of change in accounting principle	(366.4)	(542.1)	65.9	121.3	152.3
Net income (loss)	$ (286.2)	$ (377.1)	$ 31.4	$ 149.9	$ (16.4)
Earnings (loss) per common share(d):					
Basic	$ (1.36)	$ (1.82)	$ 0.20	$ 1.10	$ (0.12)
Diluted	$ (1.36)	$ (1.82)	$ 0.20	$ 1.08	$ (0.12)
Dividends declared per common share	—	—	$ 0.20	$ 0.40	$ 0.40
Weighted average common shares outstanding (millions)					
Basic	217.4	211.7	144.3	136.0	135.2
Diluted	217.4	211.7	150.7	138.2	137.7
Financial Position					
Property, plant and equipment, net	$ 3,059.5	$ 2,979.0	$ 2,500.6	$ 698.2	$ 573.2
Total assets(e)(f)	6,312.0	6,477.6	6,505.4	1,041.8	1,273.8
Long-term debt(b)	2,702.0	2,507.0	2,136.0	366.8	268.0
Total debt(b)	2,852.0	2,521.0	2,145.2	553.0	399.5
Redeemable preferred stock(g)	—	—	228.6	—	—
Shareowners' equity(e)	1,678.4	2,021.5	2,132.8	142.1	579.7
Other Data					
Cash flow from continuing operations	$ 259.1	$ 332.2	$ 314.5	$ 205.9	$ 194.7
EBITDA(h)	625.5	498.0	330.5	285.0	288.3
Capital expenditures	648.5	843.9	381.2	143.4	158.4

(a) See Note 3 of Notes to Consolidated Financial Statements.

(b) See Note 5 of Notes to Consolidated Financial Statements.

(c) See Note 4 of Notes to Consolidated Financial Statements.

(d) See Note 9 of Notes to Consolidated Financial Statements.

(e) See Note 2 of Notes to Consolidated Financial Statements.

(f) See Note 13 of Notes to Consolidated Financial Statements.

(g) See Note 8 of Notes to Consolidated Financial Statements.

(h) EBITDA represents net income (loss) from continuing operations before interest, income tax expense (benefit), depreciation, amortization, restructuring and other charges (credits), minority interest expense (income), equity loss in unconsolidated entities, loss (gain) on investments, other expense (income), extraordinary items and the effect of changes in accounting principles. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net income (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. The Company has presented certain information regarding EBITDA because the Company believes that EBITDA is generally accepted as providing useful information regarding a company's ability to service and incur debt. In addition, the Company uses EBITDA as a key measurement of operating segment performance.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" which follows should be read in conjunction with the "Risk Factors," Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements.

Broadwing Inc. ("the Company") is a full-service local and national provider of data and voice communications services, and a regional provider of wireless communications services. The Company seeks to provide world-class service on a national level by combining two sets of strengths: its national optical network and Internet backbone and its state-of-the-art local network with a well-regarded brand name and reputation for service. The Company operates in four business segments: Broadband, Local, Wireless and Other. A further discussion of these segments and their operating results is discussed in Item 1, "Business", and in the individual segment discussions which begin on page 24 of this Report on Form 10-K.

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.

Critical Accounting Policies

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. The Company continually evaluates its estimates, including those related to revenue recognition, bad debts, investments, intangible assets, income taxes, fixed assets, access line costs, restructuring, reciprocal compensation, pensions, other postretirement benefits, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies impact its more significant judgments and estimates used in the preparation of its consolidated financial statements. For a more detailed discussion of the application of these and other accounting policies, please see Note 1 of the Notes to Consolidated Financial Statements:

Revenue Recognition—The Company generally recognizes revenue as services are provided. Local service revenue is billed monthly, in advance, with revenue being recognized when earned. Revenue from product sales is generally recognized upon performance of contractual obligations, such as shipment, delivery, installation or customer acceptance. Indefeasible right-of-use agreements, or IRUs, represent the lease of network capacity or dark fiber 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. The buyer of IRU services typically pays cash upon execution of the contract, and the associated IRU revenue is then recognized over the life of the agreement as services are provided, beginning on the date of customer acceptance. Directory publishing revenue and related directory costs are deferred and recognized over the life of the associated directory.

For certain long-term construction contracts, the Company recognizes revenue and the associated cost of that revenue using the percentage of completion method of accounting. This method of accounting relies on estimates of total expected contract revenue and costs. The method is used as the Company can make reasonably dependable estimates of revenue and costs applicable to various stages

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of a contract. As the financial reporting of these contracts depends on estimates that are continually assessed throughout the terms of the contracts, revenue recognized is subject to revision as the contract nears completion. Revisions in estimates are reflected in the period in which the facts that give rise to the revision become known. Revisions have the potential to impact both revenue and cost of services and products. Construction projects are considered substantially complete upon customer acceptance.

Pricing of local services is subject to oversight by both state and federal regulatory commissions. Such regulation also covers services, competition and other public policy issues. Different interpretations by regulatory bodies may result in adjustments to revenue in future periods. The Company monitors these proceedings closely and adjusts revenue accordingly.

Since its merger with IXC in November 1999, the Company has not entered into any significant fair value fiber exchange agreements. For certain preacquisition fiber exchange agreements with other carriers, the Company recognizes the fair value of revenue earned and the related expense in offsetting amounts over the life of the agreement. In no instances has the Company recognized revenue upon execution of any such fiber exchange agreements or capitalized any expenses associated therewith.

Deferred Tax Asset—As of December 31, 2001, the Company had operating loss tax carryforwards with a related tax benefit of $303 million. For certain state and local jurisdictions that the Company has determined it is more likely than not that the loss carryforwards will not be realized, the Company has provided a valuation allowance, which amounted to $85 million as of December 31, 2001. In evaluating the amount of valuation allowance, the Company considers prior operating results, future taxable income projections, expiration of tax loss carryforwards and ongoing prudent and feasible tax planning strategies. Based on this evaluation and on the assumptions used as of December 31, 2001, the Company believes the realization of this deferred tax asset for federal and unitary state purposes is reasonably assured. If these estimates change, the revision to the valuation allowance would impact income tax expense and net income in the period recorded. The tax loss carryforwards will generally expire between 2010 and 2021.

Asset Impairments—As of December 31, 2001, the Company had fixed assets with a net carrying value of $3.1 billion, intangible assets of $0.4 billion and goodwill of $2.0 billion. The value of these assets is evaluated 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. The Company performed an evaluation of both its tangible and intangible assets as of December 31, 2001 and determined that the assets were not impaired under the accounting guidance then in effect.

As disclosed in Note 1 of the Notes to Consolidated Financial Statements, the Company is required to implement Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), on January 1, 2002. The Company expects the implementation will require a write-down of its goodwill in excess of $1.0 billion. The carrying value of goodwill was $2.0 billion as of December 31, 2001. The Company will record the goodwill impairment as a change in accounting principle as permitted under SFAS 142. After June 30, 2002, revisions to the estimated cash flows and profitability used to assess the carrying value of fixed assets, goodwill and intangible assets would impact operating expense in the period recorded.

Pension and Postretirement Benefits—Annually, the Company calculates net periodic pension and postretirement expenses and liabilities on an actuarial basis under the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87") and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). The key assumptions used in determining these calculations are disclosed in Note 11 of the Notes to Consolidated Financial Statements. The most significant of these numerous assumptions, which are reviewed annually, include the discount rate,

expected long-term rate of return on plan assets and health care cost trend rates. The discount rate is selected based on current market interest rates on high-quality, fixed-rate debt securities. The expected long-term rate of return on plan assets is based on the participants benefit horizon, the mix of investments held directly by the plans and the current view of expected future returns, which is influenced by historical averages. The health care cost trend rate is based on actual claims experience and future projections of medical cost trends. A revision to these estimates would impact costs of services and products and selling, general and administrative expenses.

Results of Operations

On November 9, 1999, the Company completed its merger (the "Merger") with IXC Communications, Inc. ("IXC"; now "Broadwing Communications"), with the operations of Broadwing Communications constituting the Broadband segment. The Merger constituted a major strategic initiative for the Company, which substantially increased the scope of the Company's businesses. As a result of the Merger, the Company's as-reported operating results for 1999 are not directly comparable to subsequent periods.

In February 2002, the Company announced an agreement to sell 97.5% of its Cincinnati Bell Directory ("CBD") subsidiary to a group of investors for $345 million in cash. The Company will maintain a 2.5% minority interest in the new company and will account for its investment in that company as a cost-based investment under the provisions of SFAS 115. The Company closed the sale of CBD on March 8, 2002.

In order to provide comparable information on trends where appropriate, management's discussion and analysis of results of operations has been presented both on an actual, historical basis and on a pro forma basis for 1999, with the Company's historical results for these periods having been adjusted to give pro forma effect to the Merger as if it had occurred on January 1, 1999. The pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable. The pro forma results of operations do not purport to represent what the Company's results of operations would actually have been if the Merger and related transactions had in fact occurred on January 1, 1999. The pro forma results have been prepared on a basis comparable to the pro forma financial statements contained in the Company's Report on Form 8-K dated December 29, 1999.

Consolidated Overview

A tabular presentation of the as-reported financial results for 2001, 2000 and 1999 that are referred to in this discussion can be found in the Consolidated Statements of Operations and Comprehensive Income (Loss) on page 45 of this Report on Form 10-K .

2001 Compared to 2000

Revenue

Consolidated revenue totaled $2,351 million in 2001, which was $300 million, or 15%, greater than 2000. Data, wireless and internet services generated the majority of revenue growth, with the Broadband and Wireless segments producing 63% and 23%, respectively, of the revenue growth for the year.

Broadband segment revenue of $1,190 million during 2001 was $191 million, or 19%, greater than 2000. Nearly 40% of the revenue growth in the Broadband segment came from IT consulting while an additional 38% was generated by the broadband transport line of business. These increases more than offset a decline in switched voice services. Despite 19% revenue growth over 2000, results during the

last two quarters of 2001 indicated a slowing of momentum, as revenue declined sequentially in both the third and fourth quarters.

The Local segment produced revenue totaling $833 million, a 5%, or $39 million, increase over 2000. High-speed data and Internet services, value-added services such as custom calling features, equipment sales and related installation and maintenance and the resale of broadband products contributed nearly all of the revenue growth. The Wireless segment produced revenue of $248 million, representing growth of $68 million, or 38%. These increases resulted primarily from a larger subscriber base. Other segment revenue grew $24 million during 2001, which was primarily the result of continued success of Cincinnati Bell Any Distance's ("CBAD") "Any Distance" offering.

Costs and Expenses

Cost of services and products of $1,159 million in 2001 represented an increase of $191 million, or 20%, over 2000. The Broadband segment incurred $157 million of the increase, resulting from higher access charges and transmission leases as the customer base grew, information technology hardware and consulting expenses and network construction. The Local segment also incurred $18 million in cost increases over 2000, primarily due to cost of materials for equipment sales, resale of national broadband products and customer care expenses related to high-speed internet access service, all of which were driven by the increase in revenue in the segment. The remainder of the increase over 2000 was incurred by the Wireless and Other segments, each of which experienced higher costs associated with increased subscribership at the Company's Cincinnati Bell Wireless ("CBW") and CBAD subsidiaries.

Selling, general and administrative ("SG&A") expenses of $566 million decreased $18 million, or 3%, in comparison to 2000. The decrease was primarily due to a decline in amounts spent by the Broadband, Local and Other segments for advertising in 2000 not repeated in 2001.

Depreciation expense increased by 28%, or $95 million, during 2001. The increase was primarily driven by the Broadband segment and reflects the build out of its national optical network. The remainder of the increase was incurred by the Local and Wireless segments as they continued to maintain and enhance their networks. Amortization expense of $114 million in 2001 relates to purchased goodwill and other intangible assets and was virtually unchanged in comparison to 2000. Upon adoption of SFAS 142 as required on January 1, 2002, the Company will stop amortizing goodwill and reevaluate the lives of its intangible assets. Once adopted, the Company expects amortization expense to decrease to approximately $45 million annually.

In November 2001, the Company's management approved restructuring plans which included initiatives to consolidate data centers, reduce the expense structure, exit the network construction business, eliminate other nonstrategic operations and merge internet and DSL operations into other operations. Total restructuring and other costs of $232 million were recorded in 2001 related to these initiatives. The $232 million consisted of restructuring liabilities in the amount of $84 million and related noncash asset impairments in the amount of $148 million. The restructuring-related liabilities of $84 million were comprised of $21 million related to involuntary employee separation benefits (including severance, medical insurance and other benefits) for 902 employees and $63 million related to lease and other contractual terminations. In total, the Company expects this restructuring plan to result in cash outlays of $79 million and noncash items of $153 million. Through December 31, 2001, the Company has utilized $10 million of the $84 million reserve, of which approximately $7 million was cash expended. The Company expects to realize approximately $88 million in annual capital expenditure and expense savings from this restructuring plan relative to expenses incurred in 2001. The Company expects to complete the plan by December 31, 2002. Please see Note 3 of the Notes to Consolidated Financial Statements for a detailed discussion of restructuring and other charges.

In February 2001, the Company initiated a reorganization of the activities of several of its Cincinnati-based subsidiaries, including Cincinnati Bell Telephone ("CBT"), CBAD, CBW, Cincinnati Bell Public Communications ("Public") and CBD in order to create one centralized "Cincinnati Bell" presence for its customers. Total restructuring costs of $9 million were recorded in the first quarter pertaining to the February 2001 restructuring plan and consisted of $2 million related to lease terminations and $7 million related to involuntary employee separation benefits (including severance, medical insurance and other benefits) for 114 employees. The severance payments are expected to be substantially complete by March 31, 2002. This includes a net of $0.1 million for severance benefits recorded in the second and fourth quarters of 2001 that were in excess of the initial estimate. In total the Company expects this restructuring plan to result in cash outlays of $8 million and noncash items of $1 million. Through December 31, 2001, approximately $7 million of the expenses had been incurred, of which approximately $6 million was cash expended. The lease terminations are expected to be complete by December 31, 2004. The Company expects to realize approximately $7 million in annual savings from this restructuring plan relative to expenses incurred in 2000.

Primarily as a result of the November 2001 restructuring charge and higher depreciation in the Broadband segment, operating income declined by $210 million during the year. The decrease was partially offset by improvements in the Local and Wireless segments and in the Company's CBAD subsidiary.

Minority interest expense includes dividends and accretion on the 12 $^1/_2$% preferred stock of Broadwing Communications and the 19.9% minority interest of AT&T Wireless Services Inc. ("AWS") in the net income of the Company's Cincinnati Bell Wireless LLC venture. As a result of the improved profitability of the wireless venture, minority interest expense grew to $51 million in 2001 from $44 million in 2000, representing an increase of 16%. See Note 7 of the Notes to Consolidated Financial Statements for a detailed discussion of minority interest.

The Company recorded a $4 million equity-share loss on its Applied Theory investment during 2001 versus $16 million in 2000. The decline in the losses is due to the Company's discontinued use of equity method accounting during the second quarter of 2001 because its ownership percentage in Applied Theory had dropped below 20% and it no longer held a seat on Applied Theory's board of directors. As a result, the Company no longer had significant influence over the operations of Applied Theory. As of December 31, 2001, the Company no longer held an investment in Applied Theory.

Interest expense of $168 million increased $5 million, or 3%, compared to 2000. The increase was the net effect of a $22 million increase due to higher debt levels and a $17 million decrease due to lower interest rates. See Note 5 of the Notes to Consolidated Financial Statements for a detailed discussion of interest expense and indebtedness.

The Company realized a $12 million net gain on investments during the year, reflecting a $368 million improvement from a loss of $356 million in 2000. The net gain in 2001 was comprised of a $17 million gain from the sale of the Company's investment in PSINet, a $24 million gain from the Corvis investment, and a $3 million mark-to-market adjustment of Anthem shares. These gains were offset by $26 million in impairment write-downs of the Company's cost-based investments and $6 million of mark-to-market adjustments and losses on the sale of Applied Theory shares. In 2000 the Company incurred a $356 million loss on investments as the result of $405 million in realized losses on the PSINet, Applied Theory and ZeroPlus.com investments, offset by $49 million in realized gains on the sale of the Company's investment in PurchasePro.com. See Note 4 of the Notes to Consolidated Financial Statements for a detailed discussion of investments.

Other income of $17 million in 2001 increased $19 million from the $2 million loss recognized in 2000, primarily due to the receipt of $20 million of common shares as the result of the demutualization of Anthem Inc.

The income tax benefit of $80 million represented a decrease in benefit of $86 million as compared to the 2000 benefit of $166 million. This resulted primarily from a decrease in pretax losses of $176 million and from the establishment of a valuation allowance against certain state and local tax benefits due to uncertainty as to the ultimate realization of the benefits.

The Company reported a net loss of $286 million in 2001 compared to a loss of $377 million in 2000. The loss per share of $1.36 was $0.46 less than the $1.82 loss in 2000. However, 2001 included one-time charges from the February and November restructuring initiatives, net gains on investments, and a one-time gain from the receipt of common shares related to the demutualization of Anthem. Similarly, 2000 included one-time net losses on the disposition of minority investments. Excluding these nonrecurring items, the Company reported a loss of $0.71 per share in 2001 versus a loss of $0.82 per share in 2000.

2000 Compared to 1999

Revenue

Consolidated revenue of $2,050 million in 2000 was $948 million higher than the $1,102 million reported in 1999, representing growth of 86%. In addition to the reasons noted in the segment discussions, this significant increase was primarily the result of the Merger. The year 2000 included a full year of the operating results of Broadwing Communications, whereas 1999 included its operating results prospectively from the November 9, 1999 date of the Merger. This affects nearly all aspects of the following discussion, with the exception of the Local, Wireless and Other segments (see detailed discussion of the operating results of these segments within the individual segment discussions that begin on page 24 of this Report on Form 10-K). The pro forma results reflect an overall increase of 23% or $380 million over 1999 as growth of the Broadband and Wireless segments accounted for approximately 90% of the incremental revenue.

Costs and Expenses

Costs of services and products were $968 million in 2000, a $478 million, or 97% increase in comparison to 1999. Nearly all of this increase was attributable to the operations of the Broadband segment, which resulted primarily from the Merger. The Wireless and Other segments incurred higher costs primarily for customer care, material costs associated with wireless handsets and promotional expenses required to launch new products and services. The Local segment incurred lower costs as a decrease in salaries and wages, postretirement and computer programming expenses were partially offset by an increase in customer care and materials and supplies relating to equipment sales. On a pro forma basis, the increase in costs of services and products sold was 13% or $111 million as the higher costs in the Wireless and Other segments were offset slightly by reduced access and transmission fees resulting from less traffic being routed to competitors' interexchange networks as the Company expanded its own national optical network.

SG&A expenses of $584 million increased $303 million, or 108%, over 1999. The Broadband segment incurred the majority of the increase, or $258 million. Primarily as a result of the Merger, the Broadband segment incurred $17 million of advertising expense in order to introduce the new "Broadwing" brand and added more than 600 employees to support the expanded network and sales function. The Wireless segment reported a $23 million increase in SG&A expense primarily for handset subsidies and selling expenses in response to significant growth in subscribership. An increase of $28 million was incurred by the Other segment and resulted from initial costs associated with the introduction of the Any Distance offering and expansion of web hosting services. These increases were offset by a $7 million decrease in the SG&A expenses of the Local segment due to a reduction in advertising and headcount.

Depreciation expense of $346 million in 2000 increased $186 million, or 117%, over 1999. This increase was incurred primarily by the Broadband segment as a result of the Merger and reflects the continued build out of its national optical network. The Local and Wireless segments also incurred higher depreciation expenses as both continued construction of their regional network infrastructures. Amortization expense of $114 million pertains to purchased goodwill and other intangible assets and represented a $92 million increase over 1999, due almost exclusively to the Merger.

The Company recorded approximately $1 million in net restructuring credits relating to the restructuring initiative that was undertaken in the fourth quarter of 1999. These credits consisted of $1 million in additional severance expense, offset by a $2 million reduction related to lease terminations.

Operating income of $39 million declined $100 million versus the $139 million reported in 1999. The operating income of the Broadband segment decreased significantly as a result of the Merger, while the Other segment also experienced a drop in operating income due to the introduction of new products and services. These decreases were partially offset by the improvement of the Local and Wireless segments. On a pro forma basis, operating income increased from a loss of $145 million to income of $39 million as the Company fully integrated the operations of the former IXC, increased revenue and controlled expenses.

Minority interest expense of $44 million in 2000 consists of $49 million in dividends and accretion on the 12 1/2% preferred stock of Broadwing Communications offset by approximately $5 million that is attributable to AWS's 19.9% minority interest in the operating loss of the Company's wireless business. Minority interest expense increased $47 million from minority interest income of $3 million in 1999. The increase is due to a full year of dividends and accretion on the 12 1/2% preferred stock in 2000 versus only two months of dividends and accretion in 1999, as the Merger took place on November 9, 1999.

The Company recorded nearly $16 million in losses in 2000 on the Applied Theory investment accounted for under the equity method, or approximately 1% more than the $15 million recorded in 1999. Losses in 1999 were related to Applied Theory and a 13% share of operating losses of IXC due to the Company's ownership of IXC common stock from August 16, 1999 to the November 9, 1999 closing date of the Merger. These amounts are reported in the Consolidated Statements of Operations and Comprehensive Income (Loss) under the caption "Equity loss in unconsolidated entities."

Interest expense increased to $164 million in 2000, a 165% or $102 million increase over 1999. This was attributable to higher average debt levels necessary to fund expansion of the optical, wireless and local networks and higher interest rates. In addition, the 2000 amounts reflect an entire year of interest expense related to the debt used to fund the Merger, versus only two months of interest expense related to such debt in 1999.

The Company incurred a $356 million loss on investments in 2000. This was the result of $405 million in realized losses on the PSINet, Applied Theory and ZeroPlus.com investments, net of $49 million in realized gains on the sale of the Company's investment in PurchasePro.com. No such losses were incurred in 1999.

The income tax benefit of $166 million increased $197 million versus the $31 million tax provision recorded in 1999. This resulted primarily from recognized losses on investments, somewhat offset by the effect of certain nondeductible expenses such as goodwill amortization and preferred stock dividends treated as minority interest expense. The income tax provision for the 1999 period reflects an expense as operating losses generated by Merger were included in results for only two months.

Income from discontinued operations, comprising the operations of the Company's former Cincinnati Bell Supply ("CBS") subsidiary, contributed an additional $0.2 million in income (net of tax) in 2000, or approximately $3 million less than in 1999, as the business was sold in May 2000. The

Company also recognized $1 million in expense from a cumulative effect adjustment that resulted from the adoption of Staff Accounting

Bulletin No. 101, "Revenue Recognition in Financial Statements" as required by the Securities and Exchange Commission on January 1, 2000 and all periods prior to adoption (see Note 1 of the Notes to Consolidated Financial Statements).

The Company reported a net loss of $377 million as a result of the above, versus the $31 million net income reported in 1999. Dividends and accretion on preferred stock were $8 million in 2000, resulting in a net loss applicable to common shareholders of $385 million. The loss per share of $1.82 was $2.02 higher than in 1999, but included a $1.00 per common share loss pertaining to investments. Excluding investment losses, the adjusted loss per share of $0.82 decreased $1.02 in comparison to the income per share of $0.20 in 1999. The decrease in both the net income and income per share is related to inclusion of a full year of results from Broadwing Communications versus only two months of results after the Merger in 1999. On a pro forma basis, the net loss increased by 6% or $21 million as operating losses generated by the Broadband segment in 1999 decreased in 2000, but investment losses net of taxes incurred in 2000 grew by more than the operating loss declined.

Discussion of Operating Segment Results

The following discussion of the operating results of the Broadband segment is presented on an as-reported basis except for information related to 1999, which is presented on a pro forma basis because it represents the best basis for comparison of trends and operating results. The Local, Wireless and Other segments are discussed on an as-reported basis since there is no distinction between pro forma and as-reported results with respect to these segments.

Broadband

The Broadband segment provides nationwide data and voice communications services through the Company's Broadwing Communications subsidiary. These services are provided over approximately 18,500 route miles of fiber-optic transmission facilities. Broadband segment revenue is generated by broadband transport, switched voice services, data and Internet services, information technology consulting ("IT consulting") and network construction and other services.

Broadband transport services consist of long-haul transmission of data, voice and Internet traffic over dedicated circuits. The majority of this revenue is generated by private line, monthly recurring revenues; however, approximately one-fourth of the revenue is provided by IRU agreements, which cover a fixed period of time and represent the lease of capacity or network fibers. The buyer of IRU services typically pays cash upon execution of the contract. The Company's policy and practice is to amortize these amounts into revenue over the life of the contract. Switched voice services consist of billed minutes of use, primarily for the transmission of voice long-distance services on behalf of both wholesale and retail customers. Data and Internet services consist of the sale of high-speed data transport services utilizing technology based on Internet protocol ("IP"), ATM/frame relay, data collocation and web hosting. IT consulting consists of information technology consulting services and related hardware sales. Network construction and other services consists of large, joint-use network construction projects, the receipt of warrants in 2000 related to a field trial of optical equipment and residual revenue in 1999 from a prior sale of dark fiber.

The Broadband segment reflects the results of Broadwing Communications, which became a subsidiary of the Company on November 9, 1999 as a result of the Merger. The operations of Broadwing Communications are included in the Company's financial results prospectively from November 9, 1999. For purposes of comparability, the following discussion assumes the Broadband segment existed in its current form effective January 1, 1999 and refers to "pro forma" results for 1999. As a result, the numbers referred to in this discussion for 1999 will be different from Broadband segment amounts included in the Consolidated Statements of Operations and Comprehensive Income (Loss). The pro forma numbers also include the revenue and expenses associated with Broadwing IT Consulting (now operating as Broadwing Technology Solutions) and an agreement with the former Cincinnati Bell Long Distance to service its customers outside of the Cincinnati, Ohio area.

($ in millions)	2001	2000	$ Change 2001 vs. 2000	% Change 2001 vs. 2000	Pro Forma 1999	$ Change 2000 vs. Pro Forma 1999	% Change 2000 vs. Pro Forma 1999
Revenue							
Broadband transport	$ 466.5	$ 393.2	$ 73.3	19%	$ 304.3	$ 88.9	29%
Switched voice services	380.5	408.6	(28.1)	(7)%	373.5	35.1	9%
Data and Internet	114.6	64.8	49.8	77%	23.6	41.2	175%
IT consulting	141.3	65.8	75.5	115%	14.2	51.6	363%
Network construction and other services	87.4	67.3	20.1	30%	27.3	40.0	147%
Total revenue	1,190.3	999.7	190.6	19%	742.9	256.8	35%
Costs and Expenses:							
Cost of services and products	754.0	596.8	157.2	26%	475.3	121.5	26%
Selling, general and administrative	326.3	321.5	4.8	1%	274.5	47.0	17%
Total costs and expenses	1,080.3	918.3	162.0	18%	749.8	168.5	22%

EBITDA	$	110.0	$	81.4	$	28.6	35%	$	(6.9)	$	88.3	n/a
EBITDA margin		9.2%		8.1%			+1 pt		(0.9)%			+9 pts

2001 Compared to 2000

Revenue

Total revenue grew 19% during 2001 versus 2000, representing an increase of $191 million. Nearly 40% of the revenue growth came from IT consulting while an additional 38% came from the broadband transport line of business. These increases more than offset a decline in switched voice services. Despite 19% annual revenue growth in comparison to 2000, results during the last two quarters of 2001 indicated a slowing of momentum, as revenue declined sequentially in both the third and fourth quarters.

In comparison to 2000 amounts, broadband transport revenue increased $73 million in 2001, growing 19% to $467 million. Approximately two-thirds of the increase was driven by the renegotiation of IRU contracts with one of the Company's customers. In order for these contracts to survive the customer's bankruptcy, the contracts were adjusted to reduce the services provided, update the operations and maintenance fees to a current market rate and shorten the lives of the agreements. Revenue also increased due to sales to new and existing customers, but the increases were partially offset by circuit disconnects during the second half of the year.

Switched voice services revenue decreased 7% for 2001, from $409 million to $381 million. This was the result of a continued focus on data services and accompanying deemphasis on sales of voice services to the lower end of the switched voice services customer base. At the same time, the Company made an effort to minimize sales to less creditworthy customers in the wake of increasing bankruptcies in the wholesale segment of this market. The Company expects switched voice services revenue to continue to decline in 2002.

Data and Internet revenue increased $50 million, or 77%, as revenue continued to increase on the strength of demand for dedicated IP and ATM/frame relay services. These increases were further supplemented by additional collocation revenue. Despite the growth in collocation revenue, the Company's recently announced November 2001 restructuring plan included the closure of eight of the Company's eleven data centers due to growth failing to meet expectations. As a result, the Company expects a year-over-year decrease of approximately $10 million with regard to collocation revenue in 2002.

IT consulting revenue grew $76 million, or 115%, during 2001. Of this growth, approximately $60 million was attributable to increased sales of hardware, while the remaining growth was the result of increased sales of services.

Network construction and other services revenue increased $20 million, or 30%, during 2001 as a result of a large, joint-use construction project that is expected to be complete in 2002. The increase was partially offset by the nonrecurring receipt of warrants associated with a field trial of optical equipment in 2000. As further discussed in Note 3 of the Notes to Consolidated Financial Statements, the Company's November 2001 restructuring plan included plans to exit the network construction business upon completion of that large project. Accordingly, the Company will treat the network construction business as a discontinued operation once its obligations are substantially complete, thereby reducing network construction and other services revenue in future reporting periods.

Costs and Expenses

Cost of services and products primarily reflects access charges paid to local exchange carriers and other providers, transmission lease payments to other carriers, costs incurred for network construction projects and personnel and hardware costs for IT consulting. In 2001, cost of services and products amounted to $754 million, a 26% increase over the $597 million incurred during 2000. These increases were driven primarily by incremental costs needed to support the revenue growth, as described above, in broadband transport, data and internet, information technology consulting services and network construction.

SG&A expenses increased 1% to $326 million in 2001. Increased employee expenses attributable to higher headcount during the first half of the year were almost entirely offset by lower advertising expenses and efforts to decrease consulting and contracted labor services.

EBITDA increased in 2001 by nearly $29 million, or 35%, to $110 million. EBITDA margin showed a modest increase of one point to 9%.

2000 Compared to Pro Forma 1999

Revenue

Revenue increased 35% to reach $1 billion in 2000, with all revenue categories contributing to the $257 million in growth. More than half of this increase, or $130 million, came from the broadband transport and data and Internet categories. The switched voice services category provided an additional $35 million as a result of higher volumes, with an additional $92 million in revenue growth resulting from IT consulting and an increase in the number of network construction projects.

In 2000, the broadband transport category contributed an additional $89 million in revenue, increasing 29% to $393 million. Broadwing Communications continued to experience increased demand for higher-bandwidth services from its enterprise customers and benefited from higher IRU revenue during 2000.

Switched voice services revenue increased by $35 million, or 9%, during 2000, with $13 million and $22 million, respectively, in additional revenue being generated by the retail and wholesale components of this business.

Switched wholesale voice revenue increased 14%, as higher volumes resulting from the service agreement with CBAD customers were further supplemented by an increase in international minutes carried. Switched retail voice revenue increased 6%, as higher minutes of use were somewhat offset by a lower rate per minute. The retail and wholesale components also benefited from improved credit management procedures, resulting in lower uncollectible revenue.

Data and Internet revenue increased 175% or $41 million in comparison to 1999. This revenue continued to grow on the strength of demand for Internet-based, ATM/frame relay, data collocation and web hosting services.

IT consulting revenue increased from $14 million in 1999 to nearly $66 million in 2000. The increase was attributable to additional consulting revenue and related equipment sales.

Network construction and other services revenue of $67 million in 2000 was the result of two construction projects undertaken during the year and the receipt of warrants associated with a field trial of optical equipment. The increase in revenue of $40 million in this category was partially offset by nonrecurring, residual revenue from a prior sale of dark fiber in 1999.

Costs and Expenses

Costs of services and products amounted to $597 million in 2000, a 26% increase over 1999. These increases were driven primarily by revenue growth, but were held to a minimum due to a decreased reliance on transmission and access charges from other carriers as the Company continued to expand and groom its own nationwide optical network. These costs decreased as a percentage of revenue in 2000, dropping four points to approximately 60% of revenue.

SG&A expenses were higher in 2000, increasing 17%, or $47 million, to $322 million. This was primarily due to the addition of more than 600 employees in support of new products and services and the IT consulting business. Broadwing Communications also incurred significant advertising expenditures in early-2000 in order to introduce the new "Broadwing" brand. Of the $22 million increase in advertising expense in 2000, $17 million was attributable to the initial nationwide advertising campaign that ran in the first quarter of 2000. Additional advertising expenditures were incurred in support of new and existing products and services. In the aggregate, SG&A expenses as a percentage of revenue decreased by two percentage points to slightly less than 33%.

Despite the higher SG&A expenses noted above, the Broadband segment produced a significant improvement in EBITDA. EBITDA increased by more than $88 million from negative EBITDA of $7 million in 1999 to $81 million in positive EBITDA in 2000. EBITDA margin grew to slightly more than 8% in 2000, an improvement of nine margin points versus the -1% EBITDA margin reported in 1999.

Local

The Local segment provides local telephone service, network access, data transport services, high-speed Internet access and switched long-distance as well as other ancillary products and services to customers in southwestern Ohio, northern Kentucky and southeastern Indiana. This market consists of approximately 2,400 square miles located within a 25-mile radius of Cincinnati, Ohio. Services are provided by the Company's CBT subsidiary.

($ in millions)	2001	2000	$ Change 2001 vs. 2000	% Change 2001 vs. 2000	1999	$ Change 2000 vs. 1999	% Change 2000 vs. 1999
Revenue							
Local service	$ 465.3	$ 452.8	$ 12.5	3%	$ 427.0	$ 25.8	6%
Network access	205.4	199.9	5.5	3%	184.8	15.1	8%
Other services	162.5	141.2	21.3	15%	128.1	13.1	10%
Total revenue	833.2	793.9	39.3	5%	739.9	54.0	7%
Costs and Expenses:							
Cost of services and products	280.9	262.9	18.0	7%	274.9	(12.0)	(4)%
Selling, general and administrative	129.5	138.5	(9.0)	(6)%	140.8	(2.3)	(2)%
Y2K and regulator mandated	—	—	—	—	4.6	(4.6)	(100)%
Total costs and expenses	410.4	401.4	9.0	2%	420.3	(18.9)	(4)%
EBITDA	$ 422.8	$ 392.5	$ 30.3	8%	$ 319.6	$ 72.9	23%
EBITDA margin	50.7%	49.4%		+1 pt	43.2%		+6 pts

2001 Compared to 2000

Revenue

During 2001, revenue increased $39 million versus 2000, or 5%, to $833 million. High-speed data and Internet services, value-added services such as custom calling features, equipment sales and related installation and maintenance, and the resale of broadband products contributed nearly all of the revenue growth. CBT continued to produce revenue growth by leveraging the investment in its network and through creative product bundling solutions such as its Complete Connections® offering, which allows the customer to consolidate high-speed data transport, local service, custom-calling features, Internet access, wireless, and long-distance on one customer bill.

Local service revenue grew 3% during the year to $465 million and contributed 32% of the total revenue growth of the segment in 2001. The Company's Complete Connections® calling service bundle added over 55,000 subscribers during the year, bringing total residential subscribership to 236,000, or 35% of all residential households in CBT's operating area. Of the Complete Connections subscribers, nearly 24,000 have chosen the most comprehensive bundle, Complete Connections Universal® . CBT continued to expand the Company's asynchronous digital subscriber line ("ADSL") high-speed data transport service with subscribership growing to 61,000, a 54% increase over 2000. CBT is able to provision service across the vast majority of its local network infrastructure, as 84% of its access lines are loop-enabled for ADSL transport.

Network access revenue of $205 million increased $6 million, or 3%, compared to 2000 as a result of a 19% increase in digital and optical services, measured in voice-grade equivalents ("VGEs"), offset slightly by a decrease in rates.

In comparison to 2000, other services revenue grew 15%, or $21 million, to $163 million. The increase in this category was attributable to Internet access services, equipment sales and related installation and maintenance, and the resale of national broadband products. The Company's internet access service (FUSE®) added 26,000 new subscribers during the year, bringing total subscribership at the end of 2001 to approximately 100,000.

Costs and Expenses

Cost of services and products of $281 million during 2001 totaled 7% more than 2000, an $18 million increase. CBT incurred increases totaling $37 million during 2001 in the cost of materials for equipment sales, resale of national broadband products and customer care expenses related to high-speed data transport service as related revenue increased. These increases were offset by reductions of $19 million in labor costs due to lower headcount and in reciprocal compensation expense as a result of recent settlements and regulatory rulings.

SG&A expenses decreased 6%, or $9 million, primarily due to an $8 million reduction in advertising expenses associated with a bundled product offering promotional campaign in 2000 not repeated in 2001. Reduced headcount also contributed to the decrease.

As a result of the above, EBITDA reached $423 million in 2001, a $30 million, or 8%, increase over 2000. Similar improvement was achieved with regard to EBITDA margin, which increased over one margin point.

CBT maintained its margins, EBITDA and profitability by leveraging the investment in its telecommunications network to offer new value-added products and services without significant incremental costs. In addition, CBT offers a wide variety of telecommunications services at attractive prices with the added convenience of one customer bill. As a result, CBT has lost only 2% of access lines to competitors since 1998.

2000 Compared to 1999

Revenue

Revenue increased $54 million to $794 million in 2000 as all revenue categories contributed to the 7% growth over 1999. Of this increase, 74% came from high-speed data and Internet services. CBT also continued to leverage the investment in its network assets through the sale of value-added services such as custom calling features. The sale of these and other value-added services were the primary drivers of the remaining revenue growth.

The local service category provided consistent revenue growth and accounted for nearly half of the increase for the segment, growing 6% or $26 million in 2000. Nearly 84,000 new subscribers were added for the Company's Complete Connections® calling service bundle during 2000, bringing total residential subscribership and penetration rates to 180,000 and 25%, respectively. Of the 84,000 new Complete Connections subscribers, nearly 10,000 chose CBT's latest product bundling offer, Complete Connections Universal® (introduced May 1, 2000), which allows the customer to combine high-speed data transport, local service, custom-calling features, Internet access, wireless and long-distance services on one customer bill. Similar success has been achieved with regard to the Company's high-speed data transport service with subscribership now nearing 40,000, resulting in $8 million in additional revenue in 2000. By the end of 2000, CBT was able to provision asynchronous digital subscriber line ("ADSL") service across the vast majority of its local network infrastructure, with 80% of its access lines being loop-enabled for ADSL transport.

Network access revenue of $200 million in 2000 represented an 8%, or $15 million, increase over 1999. VGEs from digital and optical services increased 37% and 59%, respectively, providing an additional $17 million of revenue growth for the segment. The Company also realized approximately $5 million in additional revenue due to the recovery of mandated telecommunications costs such as universal service fees. In spite of a 6% increase in access minutes of use, 2000 switched access revenue was approximately $7 million lower due to decreased per-minute rates as part of the optional incentive rate regulation instituted at the federal level in July 1999.

Other services revenue grew 10% in 2000, increasing $13 million to $141 million. The Company's Internet access service (FUSE®) produced 26,000 new subscribers and $5 million in new revenue for 2000, ending the year with 74,000 subscribers. Further increases in the other services category are attributable to equipment sales and related installation and maintenance.

Costs and Expenses

Costs of services and products of $263 million in 2000 was $12 million less than 1999, representing a 4% decrease. In 2000, CBT benefited from a $4 million reduction in salaries and wages, a $5 million reduction in postretirement benefits and a $7 million reduction in computer programming expense ($3 million of which was attributable to the completion of Year 2000 programming initiatives in 1999). This was partially offset by a $1 million increase in customer care expenses for the high-speed Internet access service and a $2 million increase in materials and supplies related to equipment sales. As a result of higher revenue and the aforementioned expense reductions, gross profit margin improved by four margin points to approximately 67% in 2000.

SG&A expenses were $7 million lower than in 1999 due to a $5 million reduction in Year 2000 programming expenses and a reduction in outsourced telemarketing expense. These reductions were somewhat offset by higher advertising expenses associated with new calling service bundles and the Company's ADSL service.

As a result of the above, EBITDA grew to nearly $393 million in 2000, a $73 million, or 23%, increase over 1999. Similar improvement was achieved with regard to EBITDA margin, which expanded by six margin points to more than 49%.

Wireless

The Wireless segment comprises the operations of CBW, a venture in which the Company owns 80.1% and AWS owns the remaining 19.9%. This segment provides advanced wireless 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 CBW's regional and AWS's national wireless networks.

($ in millions)	2001	2000	$ Change 2001 vs. 2000	% Change 2001 vs. 2000	1999	$ Change 2000 vs. 1999	% Change 2000 vs. 1999
Revenue							
Service	$ 232.6	$ 167.1	$ 65.5	39%	$ 78.7	$ 88.4	112%
Equipment	15.4	12.9	2.5	19%	12.7	0.2	2%
Total revenue	248.0	180.0	68.0	38%	91.4	88.6	97%
Costs and Expenses:							
Cost of services and products	102.5	80.2	22.3	28%	58.6	21.6	37%
Selling, general and administrative	79.5	81.3	(1.8)	(2)%	58.4	22.9	39%
Total costs and expenses	182.0	161.5	20.5	13%	117.0	44.5	38%
EBITDA	$ 66.0	$ 18.5	$ 47.5	257%	$ (25.6)	$ 44.1	(172)%
EBITDA margin	26.6%	10.3%		+16 pts	(28.0)%		+38 pts

2001 Compared to 2000

Revenue

Wireless segment revenue grew 38%, or $68 million, to $248 million in 2001, with revenue growth of approximately $66 million attributable to higher service revenue for both postpaid and prepaid subscribership. Postpaid revenue accounted for approximately 68% of the revenue growth during the year while prepaid provided 29% of the growth. The remaining growth for the segment was provided by additional equipment sales due to increased subscribership as the result of successful marketing campaigns.

Approximately 123,000 net subscribers were added in 2001, with nearly 56% of the growth, or 69,000 subscribers, coming from the postpaid category and the remainder from prepaid services. At year-end total subscribership stood at approximately 462,000, a 36% increase versus the end of 2000. Subscribership of 462,000 represented nearly 14% of the total population within the Greater Cincinnati and Dayton, Ohio metropolitan areas. Subscribership to CBW's i-wireless SM prepaid product grew from approximately 97,000 subscribers at the end of 2000 to approximately 151,000 at the end of 2001. This is significant because i-wireless SM represents an efficient use of CBW's wireless network. These subscribers generally make use of the network during off-peak periods. The cost per gross addition ("CPGA") for i-wireless[SM] subscribers was less than half that of postpaid subscribers.

Average revenue per unit ("ARPU") from postpaid subscribers of $61 in 2001 decreased approximately $5 in comparison to 2000 due to pricing pressure from increasing competition and higher penetration rates among lower usage subscribers. Average monthly customer churn remained low in the face of aggressive competition and was among the best in the industry at 1.56% for postpaid subscribers.

Costs and Expenses

Cost of services and products consists largely of incollect expense (whereby CBW incurs costs associated with its subscribers using their handsets while in the territories of other wireless service

providers), network operations costs, interconnection expenses and cost of equipment sold. These costs were 41% of revenue during 2001, an improvement from the 45% incurred during 2000. In total, costs of services and products increased 28% in 2001 to $103 million due primarily to increased subscribership and associated interconnection charges, incollect expense, customer care and operating taxes. Gross profit and gross profit margin also improved, increasing to $146 million and 59%, respectively. Gross profit margin of 59% in 2001 represents four points in gross margin improvement versus 55% in 2000.

SG&A expenses include the cost of customer acquisition, which consists primarily of the subsidy of customer handsets, advertising, distribution and promotional expenses. These costs decreased by nearly $2 million in 2001, or 2%, as net subscribers added in 2001 were below 2000 additions. In 2001, the CPGA for postpaid customers was $352, or 3% more than the $342 incurred in the prior year. SG&A expenses continued to decrease as a percentage of total revenue, decreasing from 45% of revenue in 2000 to 32% in 2001 as CBW continued to leverage the Company's established brand name in the local market.

The Wireless segment continued significant EBITDA improvements as CBW leveraged its network investment and benefited from an embedded customer base, low customer churn and ongoing promotional efforts. In 2001, EBITDA of nearly $66 million represented a $48 million improvement over the prior year. Additionally, EBITDA margin increased 16 margin points to nearly 27% in the current year.

2000 Compared to 1999

Revenue

Wireless segment revenue nearly doubled in 2000, growing 97% to $180 million. Revenue growth of $89 million was the result of higher service revenue as equipment sales were virtually unchanged in comparison to 1999. Service revenue continued to grow on the basis of both postpaid and prepaid subscribership, increasing from $79 million in 1999 to $167 million in 2000 as a result of relatively high ARPU and low customer churn. Approximately 177,000 net subscribers were added during 2000, with growth coming almost equally from the postpaid and prepaid categories. At the end of 2000, total subscribership stood at approximately 340,000, a 110% increase versus the end of 1999. Subscribership of 340,000 represented approximately 10% of the licensed population of potential subscribers within the Greater Cincinnati and Dayton, Ohio metropolitan areas.

ARPU from postpaid subscribers of $66 in 2000 remained relatively constant in comparison to 1999 due to pricing pressure from increasing competition. Average monthly customer churn remained low and was among the best in the industry at 1.42% for postpaid subscribers. Additionally, subscribership to CBW's i-wireless[SM] prepaid product grew from approximately 11,000 subscribers at the end of 1999 to more than 97,000 at the end of 2000. This is significant for the reasons noted in the previous section.

Costs and Expenses

Cost of services and products were 45% of revenue during 2000, significantly less than the 64% incurred during 1999. In total, costs of services and products increased 37% in 2000 to $80 million due primarily to increased subscribership and associated interconnection charges, incollect expense, customer care and operating taxes. Gross profit and gross profit margin also continued their rapid improvement, increasing to almost $100 million and 55%, respectively. Gross profit margin of 55% in 2000 represents nearly 20 points in gross margin improvement versus 36% in 1999.

SG&A expenses increased by nearly $23 million in 2000, or 39%, in support of significant growth in subscribership. In 2000, the CPGA for postpaid customers was $342, or 9% less than the $376

incurred in 1999. SG&A expenses also dropped significantly as a percentage of total revenue, decreasing from 64% of revenue in 1999 to 45% in 2000.

In 2000, EBITDA of nearly $19 million represented a $44 million improvement over 1999. Also increasing was EBITDA margin, expanding to 10% in 2000, an improvement of more than 38 margin points versus the -28% EBITDA margin reported in 1999.

Other

The Other segment comprises the operations of the Company's CBAD (formerly Cincinnati Bell Long Distance), CBD, ZoomTown and Public subsidiaries. The results of operations of Cincinnati Bell Supply are no longer reflected in this segment pursuant to the sale of this business in the second quarter of 2000. Effective on January 1, 2002, as further described in Note 3 of the Notes to Consolidated Financial Statements, ZoomTown's managed web hosting activities were merged into Broadwing Communications and will be reported in the Broadband segment subsequent to December 31, 2001. ZoomTown's DSL and internet operations will be assumed by CBT subsequent to December 31, 2001. In addition, in February 2002, the Company announced an agreement to divest 97.5% of CBD. The Company closed the sale of CBD on March 8, 2002.

($ in millions)	2001	2000	$ Change 2001 vs. 2000	% Change 2001 vs. 2000	1999	$ Change 2000 vs. 1999	% Change 2000 vs. 1999
Revenue	$ 166.3	$ 142.2	$ 24.1	17%	$ 109.3	$ 32.9	30%
Costs and Expenses:							
Cost of services and products	95.6	84.3	11.3	13%	58.3	26.0	45%
Selling, general and administrative	44.1	54.3	(10.2)	(19)%	26.6	27.7	104%
Total costs and expenses	139.7	138.6	1.1	1%	84.9	53.7	63%
EBITDA	$ 26.6	$ 3.6	$ 23.0	n/m	$ 24.4	$ (20.8)	(85)%
EBITDA margin	16.0%	2.5%		+14 pts	22.3%		(20) pts

2001 Compared to 2000

Revenue

Other segment revenue in 2001 increased $24 million over 2000 to $166 million. Consistent with 2000, CBAD produced over two-thirds of the revenue growth, or $17 million, based on the continued success of its "Any Distance" long-distance service offering. This offer has been successful in capturing 534,000 subscribers in Cincinnati and Dayton, Ohio, with subscribership in the Cincinnati area representing residential and business market shares of approximately 67% and 38% of access lines, respectively.

CBD continued to provide nearly half of the revenue in this segment as the directory business grew by $2 million, or 3%, during 2001. ZoomTown's web hosting and content business produced approximately $3 million in additional revenue compared to 2000. Revenue from Public contributed the remaining revenue growth, increasing by approximately $2 million, or 10%, as the unit won contracts to place more public payphone units.

Costs and Expenses

Cost of services and products totaled $96 million in 2001, a 13%, or $11 million increase versus 2000. CBAD costs increased nearly $8 million due to increased access charges as volume continued to grow. ZoomTown costs increased nearly $4 million as additional costs were incurred for network

operations associated with the growth of the web hosting business. CBD's costs decreased approximately $1 million due to lower commodity prices and cost controls.

In 2001, gross profit margin for the segment increased two margin points to approximately 43%. The gross profit margin at ZoomTown fell four margin points, but was more than offset by improvements at CBAD, CBD and Public. Gross profit margin improved for the segment as CBAD began to leverage its initial expenditures for the Any Distance offering, while improvements at CBD and Public resulted from increased revenue and tightly controlled costs.

SG&A expenses decreased $10 million, or 19%, in 2001. Nearly all of the decrease is due to the relatively high customer acquisition costs at CBAD incurred in 2000 as part of the introduction of the Any Distance offering not repeated in 2001. The remaining decreases in SG&A during 2001 related to cost savings at CBD due to a decrease in marketing expenses.

EBITDA improved to $27 million, a $23 million increase from 2000. EBITDA margin experienced a similar improvement, increasing from 3% in 2000 to 16% in 2001. As described above, these improvements were primarily the result of increased subscribership and decreased start-up costs and marketing expenses at CBAD.

2000 Compared to 1999

Revenue

Revenue of $142 million in 2000 represented a 30%, or $33 million increase versus 1999. Producing the vast majority of the revenue growth was CBAD, increasing $27 million in comparison to 1999 on the success of its new "Any Distance" service offering. This offer was successful in capturing 365,000 subscribers in Cincinnati during 2000, representing residential and business market share of approximately 60% and 29%, respectively.

Accounting for more than half of the total revenue for this segment and 12% of its growth was CBD, producing $4 million in additional revenue versus 1999 on the strength of a successful sales campaign. ZoomTown's web hosting and content business provided approximately $5 million in additional revenue in its first full year of operation. Revenue from Public was approximately $2 million less than in 1999, as a result of erosion caused by the steady growth in the use of wireless communications.

Costs and Expenses

Costs of services and products were $84 million in 2000, a 45%, or $26 million increase versus 1999. CBAD and ZoomTown incurred $18 million and $5 million increases, respectively, primarily for employee and customer care costs associated with the new Any Distance offering and the launch of ZoomTown's web hosting business. CBD also experienced a $2 million increase in direct costs resulting from higher sales commissions and printing costs for its directories. The remaining $1 million increase was incurred by Public and was primarily attributable to increased line charges.

In 2000, gross profit margin for the segment decreased six margin points to approximately 41% as a result of the above. However, gross profit margin for the segment began to improve near the end of 2000 as CBAD and Zoomtown began to leverage their initial expenditures for the Any Distance offering and the new web hosting operations.

SG&A expenses more than doubled in 2000, increasing 104% to $54 million. Of the $28 million increase, $23 million was attributable to the relatively high customer acquisition costs incurred by CBAD as part of the introduction of the Any Distance offering. The remaining $5 million was incurred by ZoomTown as a result of the launch of its web hosting business.

EBITDA decreased to $4 million in 2000 as a result of the above, an 85% reduction in comparison to the $24 million reported in 1999. EBITDA margin experienced a similar decline, decreasing from 22% in 1999 to less than 3% in 2000. These decreases were due to the many start-up costs and advertising expenses associated with new product introductions in 2000.

Financial Condition, Liquidity, and Capital Resources

Capital Investment, Resources and Liquidity

The Company's continued transformation from a local wireline voice communications provider to a national provider of data, voice and Internet services and a regional provider of wireless services has resulted in significant financing requirements. Although the Company expects to continue to generate positive cash flow from operations in 2002, capital expenditures and other investing needs will continue to drive the Company's need for additional borrowings for a substantial portion of the year.

In order to provide for these cash requirements and other general corporate purposes, the Company maintains a $2.3 billion credit facility with a group of lending institutions. The credit facility consists of $900 million in revolving credit which matures in 2004, $750 million in term loans from banking institutions and $650 million in term loans from nonbanking institutions. At December 31, 2001, the Company had drawn approximately $1.95 billion from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger and to provide for the Company's capital investment needs. At December 31, 2001, the Company had approximately $350 million in additional borrowing availability from the revolving credit facility. Total availability under this credit facility will decrease throughout 2002 to approximately $1.8 billion due to approximately $335 million related to prepayment of the outstanding term debt facilities from the proceeds of the sale of CBD, $5 million due to scheduled amortization of the term debt facilities and $135 million due to scheduled amortization of the revolving credit facility. The Company believes that its borrowing availability will be sufficient to provide for its financing requirements in excess of amounts generated by operations during 2002.

The short-term debt on the balance sheet consisted of approximately $139 million of principal payments, $119 million of which was related to the credit facility and $20 million of which was related to CBT Bond payments due during the next twelve months. The remaining balance of short-term debt of $11 million was related to the short-term portion of capital leases.

The interest rates charged on borrowings from the credit facility can range from 100 to 275 basis points above the London Interbank Offering Rate ("LIBOR"), and are currently between 225 and 275 basis points above LIBOR as a result of the Company's credit rating. The Company incurs banking fees in association with this credit facility that range from 37.5 basis points to 75 basis points, applied to the unused amount of borrowings of the facility. During 2001, these fees amounted to approximately $2 million.

The Company is also subject to financial covenants in association with the $2.3 billion credit facility. These financial covenants require that the Company maintain certain debt to EBITDA, debt to capitalization, senior secured debt to EBITDA and interest coverage ratios. This facility also contains certain covenants which, among other things, may restrict the Company's ability to incur additional debt or liens; pay dividends; repurchase Company common stock; sell, transfer, lease, or dispose of assets, make investments or merge with another company. The Company obtained an amendment to its credit facility to exclude the charges associated with the November 2001 Restructuring Plan from the covenant calculations. The Company is in compliance with all covenants set forth in its credit facility and other indentures. Please refer to Note 5 of the Notes to Consolidated Financial Statements contained in this report for a complete discussion of debt and the related covenants.

In March 2002, the Company obtained an amendment for certain financial calculations and consent to its $2.3 billion credit facility to allow for the sale of 97.5% of CBD, exclude charges related to SFAS 142, increase its ability to incur additional indebtedness and amend certain defined terms.

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

Entity	Description	Standard and Poor's	Fitch Rating Service	Moody's Investor Service
BRW	Corporate Credit Rating	BB	BB	Ba3
CBT	Corporate Credit Rating	BB	BB+	Ba1

In February 2002, the Company's corporate credit rating was downgraded by Moody's Investors Service to Ba3 from its previous level of Ba1. In March 2002, the Company's corporate credit rating was downgraded by Standard and Poor's and Fitch Rating Service to BB from its previous level of BB+. These downgrades will result in additional cash interest expense of 50 basis points on up to $1.65 billion of the Company's $2.3 billion credit facility, thereby increasing interest expense by $6 million to $8 million annually. In the past, the credit facility was secured only by a pledge of the stock certificates of certain subsidiaries of the Company. Upon the downgrades, the Company became obligated to provide certain subsidiary guarantees and liens on the assets of the Company and certain subsidiaries in addition to the stock certificates of the subsidiaries. In order for the Company to fully comply with these requirements, it may be necessary for the Company and its subsidiaries to obtain various regulatory and other approvals. If the Company were unable to do so, it would likely seek to obtain waivers from its lenders. If for these or any other reasons, the Company were unable to comply with these obligations, it could be in default under its current facility, which would enable the lenders to terminate their commitments and accelerate their loans.

The Company does not have any downgrade triggers that would accelerate the maturity dates of its debt. However, further downgrades in the Company's credit rating could adversely impact the cost of current and future debt facilities. Based on the balances of the Company's outstanding long-term debt as of December 31, 2001, a 1% increase in the Company's average borrowing rates would result in approximately $19 million in incremental interest expense. In addition, if the Company's credit rating is below Baa3 or BBB- as rated by Moody's or Standard & Poor's, respectively, in 2002, the Company is obligated by its credit facility covenants to use 50% of any annual excess cash flows, as defined in its credit facility agreement, to reduce its outstanding borrowings. If the Company is unable to meet the covenants of its various debt agreements, the payment of the underlying debt could be accelerated. Additionally, the Company is currently obligated by its credit facility to use the net cash proceeds received from certain asset sales or issuances of debt by the Company or any of its subsidiaries to reduce its outstanding borrowings.

The Company had ownership positions in equity securities that were valued at approximately $39 million as of December 31, 2001 following the liquidation of the Company's investments in Corvis, Applied Theory and PSINet and its receipt of shares from the demutualization of Anthem, Inc. The Anthem securities, valued at approximately $23 million at December 31, 2001, had been deemed a trading security and were classified as a short-term investment (see Note 4 of the Notes to Consolidated Financial Statements for a further discussion of these various investments). In January 2002, the Company sold its entire investment in Anthem for total net proceeds of approximately $23 million.

Capital expenditures to maintain and strategically expand the national optical network, enhance the wireless network and maintain the local Cincinnati wireline network are expected to be approximately $300 million in 2002 versus $649 million in 2001. The reduction in capital expenditures is the result of the completion of the optical overbuild of the national network and the footprint of the regional wireless network.

The following table summarizes the Company's contractual obligations as of December 31, 2001:

Contractual Obligations ($ in millions)	Payments Due by Period: Total	< 1 Year	1-3 Years	4-5 Years	Thereafter
Debt	$ 2,803.3	$ 138.8	$ 1,217.7	$ 555.0	$ 891.8
Capital Leases, excluding interest	48.7	11.2	13.8	5.4	18.3
Noncancelable Operating Lease Obligations	244.4	42.1	71.6	45.7	85.0
Unconditional Purchase Obligations	200.2	111.6	88.6	—	—
Total	$ 3,296.6	$ 303.7	$ 1,391.7	$ 606.1	$ 995.1

As part of the November 2001 Restructuring Plan, the Company announced its intention to exit several data centers, reduce network costs and consolidate office space. To the extent the Company can sublease or negotiate terminations, contractual obligations could decrease. Through February 2002, the Company negotiated contract terminations which reduced future commitments by approximately $73 million.

Balance Sheet

The following comparisons are relative to December 31, 2000.

The change in cash and cash equivalents, short-term investments, investments in other entities and long-term debt is further explained in the preceding discussion of capital investment, resources and liquidity or in the cash flow discussion below. The decrease in accounts receivable was primarily the result of improved collections as days sales outstanding decreased by 4%. The increase in materials and supplies of $5.6 million was driven by the Wireless segment ($2.2 million) and ZoomTown ($2.6 million) as increasing wireless and ADSL sales required additional inventory of equipment to meet customer demand. Deferred income tax benefits increased by $120 million or 110% as operating loss carryforwards continue to grow.

Accounts payable decreased 26% primarily as capital spending associated with construction of the optical network decreased substantially during the fourth quarter of 2001. The increase in current unearned revenue of $97 million and the decrease in noncurrent unearned revenue of $195 million were due primarily to the renegotiation of outstanding IRU agreements. A significant portion of the difference was recognized into revenue during the year. The buyer of IRU services typically pays cash upon execution of the contract. The Company's policy and practice is to amortize these amounts into revenue over the life of the contract.

Accumulated other comprehensive income decreased by $93 million as the Company's investments in PSINet and Applied Theory lost value and were subsequently sold on the open market, causing the remaining unrealized gain to be realized into income during 2001. Adding to the loss in other comprehensive income was approximately $7 million related to interest rate swaps that carry fixed interest rates above current market rates as interest rates declined throughout 2001.

Cash Flow

In 2001, cash provided by operating activities totaled $259 million, $73 million lower than the $332 million generated during 2000, as a lower net loss was more than offset by increased working capital.

The Company's significant investing activities included outflows for capital expenditures and inflows from the sale of equity investments. Capital expenditures in 2001 totaled $649 million, $195 million lower than the $844 million spent in 2000. The decrease is due to completion of both the national network and its optical overbuild in addition to the completion of the wireless network footprint and installation of ADSL-enabling equipment at CBT. The Company received proceeds of $115 million from the sale of its entire equity stake in PSINet, Applied Theory and Corvis.

Consistent with 2000, no dividends were paid on common stock in 2001. However, approximately $11 million in preferred stock dividends were paid to holders of the $6\frac{3}{4}$% preferred stock during 2001 (cash payments in 2000 included the $7\frac{1}{4}$% preferred stock which was converted into common shares of the Company in April 2000). Additionally, the Company switched to cash payments of dividends on its $12\frac{1}{2}$% preferred stock on November 16, 1999, and approximately $49 million in dividends were paid on this preferred stock in 2000 and 2001. This amount is included in the "Minority interest expense (income)" caption in the Consolidated Statements of Operations and Comprehensive Income (Loss). Please refer to Notes 7 and 8 of the Notes to Consolidated Financial Statements for a detailed discussion of minority interest and preferred stock.

During 2001, the Company increased its net borrowings under its credit facility by $308 million. The Company incurred additional debt of $30 million from payment-in-kind interest on the $6\frac{3}{4}$% Notes. Please see Note 5 of the Notes to Consolidated Financial Statements for a detailed discussion of indebtedness.

Approximately $23 million in cash was generated through the issuance of common shares of the Company as a result of stock option exercises during 2001. This compares to approximately $64 million generated in 2000 from the exercise of stock options.

EBITDA

EBITDA represents net income (loss) from continuing operations before interest, income tax expense (benefit), depreciation, amortization, restructuring and other charges (credits), minority interest expense (income), equity loss in unconsolidated entities, loss (gain) on investments, other expense (income), extraordinary items and the effect of changes in accounting principles. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net income (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. The Company has presented certain information regarding EBITDA because the Company believes that EBITDA is generally accepted as providing useful information regarding a company's ability to service and incur debt. In addition, the Company uses EBITDA as a key measurement of operating segment performance.

EBITDA of $626 million in 2001 increased 26%, or $128 million, versus 2000, with all segments contributing to the increase. The Broadband segment contributed 22% of the increase or $29 million as the segment continued to leverage its network investment. The Wireless segment constituted 37% or $48 million of the increase as it recognized economies from a nearly completed network and brand name equity built over previous periods. The Local segment contributed 24% of the increase or $30 million as aggressive cost management helped leverage incremental revenue of $39 million. The Other segment added 18% of the EBITDA growth for 2001, or $23 million, substantially due to market share gains by CBAD. These increases were offset by corporate eliminations.

EBITDA of $498 million in 2000 represented a $168 million, or 51% improvement over the $330 million reported in 1999. The Broadband segment contributed $80 million in additional EBITDA as a result of the Merger and operating improvements realized during 2000. The Local and Wireless segments provided increases of $73 million and $44 million, respectively, as these segments began to more fully leverage previous network investment and promotional efforts. This was somewhat offset by the declining EBITDA of the Other segment which was primarily attributable to advertising and other start-up costs associated with the Any Distance service. EBITDA margin decreased by six margin points to 24%, as a significant decrease in the EBITDA margin of the Other segment was partially offset by the improvements of the remaining segments.

Regulatory Matters and Competitive Trends

Federal—The Telecommunications Act of 1996 (the "1996 Act"), including the rules subsequently adopted by the Federal Communications Commission ("FCC") to implement the 1996 Act, can be expected to impact CBT's in-territory local exchange operations in the form of greater competition.

State—At the state level, CBT conducts local exchange operations in portions of Ohio, Kentucky and Indiana and, consequently, is subject to regulation by the Public Utilities Commissions ("PUC") in those states. In Ohio, the PUC is concluding a proceeding that will establish permanent rates that CBT can charge to competitive local exchange carriers for unbundled network elements. The Kentucky commission recently initiated a similar case to establish rates for unbundled network elements in Kentucky. The establishment of these rates is intended to facilitate market entry by competitive local exchange carriers.

The Ohio PUC has required SBC Communications Inc. ("SBC") and Verizon Communications Inc. ("Verizon") to offer competitive local exchange services in several Ohio markets, including the Cincinnati market, as a condition to the approval of their respective mergers involving Ameritech Corp. and GTE Corp. Both SBC and Verizon have entered into interconnection agreements with CBT and are expected to begin competing during 2002.

CBT is currently subject to an Alternative Regulation Plan ("Alt Reg Plan") in Ohio. The current Alt Reg Plan gives CBT pricing flexibility in several competitive service categories in exchange for CBT's commitment to freeze certain basic residential service rates during the term of the Alt Reg Plan. The term of the current Alt Reg Plan will expire on June 30, 2002. However, CBT has the right to request that the Alt Reg Plan be extended through June 30, 2003. CBT requested this extension on March 1, 2002. A decision from the Ohio PUC is currently pending. In the event CBT's request is denied, CBT would be required to initiate a proceeding to establish a new Alt Reg Plan or, if then available, adopt the generic Alt Reg Plan currently being developed by the Ohio PUC. Failure to obtain an extension of the current Alt Reg Plan, or to obtain approval of a new Alt Reg Plan with similar pricing flexibility, could have an adverse impact on CBT's operations.

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 that are not predictable with assurance. However, the Company believes that the resolution of such matters for amounts in excess of those accounted for in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

A total of 26 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. After completing its internal investigation of the charges and cooperating fully with the EEOC, the Company and the complainants participated in a voluntary mediation proceeding conducted by the EEOC. Through the mediation process in 2000 and 2001, the Company was able to reach settlement with all 26 complainants for immaterial amounts. The Company also entered into a Conciliation Agreement with the EEOC. As this matter has now concluded with no further material exposure seen for the Company, this item will no longer appear in future Company reports unless circumstances change.

Commitments

The Company leases certain facilities and equipment used in its operations. Total rental expenses were approximately $42 million, $32 million and $23 million in 2001, 2000 and 1999, respectively.

The Company's Broadwing Communications subsidiary entered into a purchase commitment with Corvis Corporation, a Columbia, Maryland-based manufacturer of optical network equipment. The

agreement specifies that the Company will purchase $200 million in optical network equipment from Corvis Corporation over a two-year period beginning in July 2000. As of December 31, 2001, the Company had satisfied $180 million of this purchase commitment. In 2000, the Company also entered into a separate agreement giving it the right to purchase at fair value $30 million of Series H preferred stock at

$80.53 per share and $5 million of the common stock of Corvis at the initial public offering price. The Company subsequently exercised these rights during the second and third quarters of 2000. The established prices for these Corvis equity purchases reflect the contemporaneous fair value of the equity, as evidenced by independent third party investor purchases of this equity in the same timeframe.

In 2001, the Company's Broadwing Communications subsidiary entered into two separate agreements with Teleglobe Inc. ("Teleglobe"), a Reston, Virginia-based telecommunications company. One agreement states that the Company will sell Teleglobe $180 million of IRU services over three years. The second agreement states that over four years the Company would purchase $90 million of services and equipment from Teleglobe. Purchases under this commitment will primarily consist of international voice and data services and will be expensed as incurred. The remaining commitment will be satisfied through the purchase of equipment and collocation services. As of December 31, 2001, the Company had satisfied $25 million of its commitment to Teleglobe.

In 2001 and 2000, the Company's Broadwing Communications subsidiary entered into agreements with two vendors to provide bundled internet access to the Company's customers based on a monthly maintenance fee. As of December 31, 2001, Broadwing Communications has committed to purchase approximately $76 million bundled internet access over three years from these vendors. These services were previously purchased from other vendors on a usage basis. In March 2002, the Company negotiated a contract termination whith one of these vendors, which reduced the total of these future comittments to $17 million.

The Company's Broadwing Communications subsidiary has committed to expenditures of approximately $32 million in order to satisfy the contractual commitments with respect to its network construction projects.

Recently Issued Accounting Standards

On June 29, 2001 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 29, 2001. SFAS 141 also established specific criteria for the recognition of intangible assets separately from goodwill.

On June 29, 2001 the FASB also issued SFAS 142, which requires cessation of the amortization of goodwill and annual impairment testing of those assets. The Company will adopt SFAS 141 and 142 on January 1, 2002, as required. The Company expects amortization expense in 2002 of $45 million based on implementation of the provisions of SFAS 142, which is substantially less than the $114 million recorded in 2001. In addition, the Company is required to test its goodwill for impairment as of January 1, 2002. The book value of the Company's goodwill as of December 31, 2001 totaled approximately $2.0 billion. The Company expects the implementation of SFAS 142 will require a significant write-down of goodwill, in excess of $1.0 billion, in order to state the goodwill at its fair value. The Company expects to record this write-down in the first quarter of 2002 as a change in accounting principle.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). This statement deals with the costs of closing facilities and removing assets. SFAS 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the impact, if any, that SFAS 143 will have on its future consolidated financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 supersedes Statement of Financial Accounting Standard No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business". SFAS 144 develops one accounting model for long-lived assets that are disposed of by sale, based on the model previously developed in SFAS 121. This standard also makes changes to the manner in which amounts from discontinued operations are measured and expands the scope of the components of an entity that qualify for discontinued operations treatment. This statement is effective for fiscal years beginning after December 15, 2001. The Company will implement this standard as required on January 1, 2002, and does not expect this standard to have any material impact on the Company's consolidated financial statements.

Recently Adopted Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standard SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). 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 was subsequently amended through the release of SFAS 137, which provided for a deferral of the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. As a result, the Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 and related amendments did not have a material effect on the Company's results of operations, cash flows or financial position.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". As required, the Company adopted SAB 101 in the fourth quarter of 2000 and modified its revenue recognition policies retroactive to January 1, 2000, to recognize service activation revenue and associated direct incremental costs over their respective average customer lives. As a result, the previously reported quarterly results for the first three quarters of 2000 have been restated. The adoption of SAB 101 did not have a material effect on the Company's financial position or results of operations.

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 fluctuations. To manage its exposure to interest rate fluctuations, the Company uses a combination of variable rate short-term and fixed rate long-term financial instruments. The Company employs derivative 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. For a more detailed discussion of the Company's use of financial instruments, see Note 6 of the Notes to Consolidated Financial Statements.

The Company is, however, required by terms negotiated with its lenders to engage in interest rate swaps once certain thresholds are exceeded with regard to floating rate debt as a percentage of the Company's total debt. The Company exceeded this threshold during 2000 and, accordingly, entered into a series of interest rate swap agreements on notional amounts totaling $130 million. The Company continued to exceed the above noted threshold in 2001, and therefore as of December 31, 2001, the Company held interest rate swaps with notional amounts totaling $490 million. The purpose of these

agreements is to hedge against changes in market interest rates to be charged on the Company's borrowings under its credit facility. The increase in the notional amount from 2000 to 2001 is a result of the Company's additional borrowings under its credit facility during 2001.

These swap agreements involve the exchange of fixed and variable rate interest payments and do not represent an actual exchange of the notional amounts between the parties. Because these amounts are not exchanged, the notional amounts of these agreements are not indicative of the Company's exposure resulting from these derivatives. The amounts to be exchanged between the parties are primarily the result of the swap's notional amount and the fixed and floating rate percentages to be charged on the swap. In accordance with SFAS 133, interest rate differentials associated with the Company's interest rate swaps are recorded as an adjustment to interest payable or receivable with the offset to interest expense over the life of the swap. The swap agreements were a liability with a fair value of $12 million recorded on the balance sheet as of December 31, 2001, and a $7 million tax-effected amount recorded in other comprehensive income. As of December 31, 2000, the fair values of interest rate swaps were immaterial. The increase in the liability related to interest rate swaps from 2000 to 2001 is due to the significant decline in interest rates throughout 2001. The Company had fixed the interest rate on portions of its variable debt throughout 2001 as required by the terms of the credit facility. As interest rates continued to fall, the fair value of the agreements entered into earlier in 2001 declined.

Potential nonperformance by counterparties to the swap agreements exposes the Company to a certain amount of credit risk due to the possibility of counterparty default. Because the Company's only counterparties in these transactions are financial institutions which are at least investment grade, it believes the risk of counterparty default is minimal.

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 sets forth the face amounts, maturity dates and average interest rates for the fixed-and floating-rate debt held by the Company at December 31, 2001 (excluding capital leases and interest rate swaps):

	Maturity Dates							
($ in millions)	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Fixed-rate debt:	$ 20.0	$ 20.0	—	$ 20.0	—	$ 796.3	$ 856.3	$ 640.5
Average interest rate on fixed-rate debt	4.4%	6.3%	—	6.3%	—	6.9%	6.8%	—
Floating-rate debt:	$ 118.8	$ 201.2	$ 996.5	$ 6.5	$ 528.5	$ 95.5	$ 1,947.0	$ 1,947.0
Average interest rate on floating-rate debt	3.7%	3.7%	3.6%	4.3%	4.2%	4.6%	3.9%	—

Item 8. Financial Statements and Supplementary Schedules

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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 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 of America. 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.

/s/ RICHARD G. ELLENBERGER
Richard G. Ellenberger
President, Chief Executive Officer and Chairman-Elect

/s/ MARY E. McCANN
Mary E. McCann
Senior Vice President, Corporate Finance

Report of Independent Accountants

To the Board of Directors and the
Shareowners of Broadwing Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Broadwing Inc. ("the Company") and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted SEC Staff Accounting Bulletin No. 101 in 2000 and changed its method of accounting for certain revenue and related costs.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio
March 11, 2002

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Millions of Dollars, Except Per Share Amounts)

	Year Ended December 31		
	2001	2000	1999
Revenue	$ 2,350.5	$ 2,050.1	$ 1,102.0
Costs and Expenses			
Cost of services and products (excluding depreciation of $353.4, $258.7, and $124.8 included below)	1,159.4	968.1	490.3
Selling, general and administrative	565.6	584.0	281.2
Depreciation	441.3	346.2	159.7
Amortization	113.6	113.5	21.2
Restructuring and other charges (credits)	241.9	(0.8)	10.9
Total costs and expenses	2,521.8	2,011.0	963.3
Operating Income (Loss)	(171.3)	39.1	138.7
Minority interest expense (income)	51.3	44.1	(2.7)
Equity loss in unconsolidated entities	4.0	15.5	15.3
Interest expense	168.1	163.6	61.6
Loss (gain) on investments	(11.8)	356.3	—
Other expense (income), net	(16.5)	1.7	(1.4)
Income (loss) from continuing operations before income taxes, extraordinary item and cumulative effect of change in accounting principle	(366.4)	(542.1)	65.9
Income tax expense (benefit)	(80.2)	(165.6)	31.3
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	(286.2)	(376.5)	34.6
Income from discontinued operations, net of taxes	—	0.2	3.4
Extraordinary item, net of taxes	—	—	(6.6)
Cumulative effect of change in accounting principle, net of taxes	—	(0.8)	—
Net Income (Loss)	(286.2)	(377.1)	31.4
Dividends and accretion applicable to preferred stock	10.4	8.1	2.1
Net Income (Loss) Applicable to Common Shareowners	$ (296.6)	$ (385.2)	$ 29.3
Net Income (Loss)	$ (286.2)	$ (377.1)	$ 31.4
Other comprehensive income (loss), net of tax:			
Unrealized loss on interest rate swaps	(7.4)	—	—
Unrealized gain (loss) on investments	(85.9)	85.9	170.0
Unrealized gain on cash flow hedges	17.0	—	—
Reclassification adjustment—investments and gain on cash flow hedges	(17.0)	(170.0)	—

Additional minimum pension liability adjustment	(0.1)	(0.1)	3.6
Total other comprehensive income (loss)	(93.4)	(84.2)	173.6
Comprehensive Income (Loss)	$ (379.6)	$ (461.3)	$ 205.0
Basic Income (Loss) Per Common Share			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle applicable to common shareowners	$ (1.36)	$ (1.82)	$ 0.23
Income from discontinued operations, net of taxes	—	—	0.02
Extraordinary items and cumulative effect of change in accounting principle, net of taxes	—	—	(0.05)
Net Income (Loss)	$ (1.36)	$ (1.82)	$ 0.20
Diluted Income (Loss) Per Common Share			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle applicable to common shareowners	$ (1.36)	$ (1.82)	$ 0.22
Income from discontinued operations, net of taxes	—	—	0.02
Extraordinary items and cumulative effect of change in accounting principle, net of taxes	—	—	(0.04)
Net Income (Loss)	$ (1.36)	$ (1.82)	$ 0.20
Weighted Average Common Shares Outstanding (millions)			
Basic	217.4	211.7	144.3
Diluted	217.4	211.7	150.7

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

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

	As of December 31	
	2001	**2000**
Assets		
Current assets		
Cash and cash equivalents	$ 30.0	$ 37.9
Short-term investments	22.7	—
Receivables, less allowances of $38.1 and $49.0, respectively	320.7	330.6
Materials and supplies	39.7	34.1
Deferred income tax benefits	17.0	16.6
Prepaid expenses and other current assets	39.8	43.5
Total current assets	469.9	462.7
Property, plant and equipment, net	3,059.5	2,979.0
Goodwill, net of accumulated amortization of $164.1 and $90.4, respectively	2,048.6	2,121.5
Other intangibles, net	396.3	437.9
Investments in other entities	16.3	254.9
Deferred income tax benefits	229.1	109.1
Other noncurrent assets	92.3	112.1
Net assets from discontinued operations	—	0.4
Total assets	$ 6,312.0	$ 6,477.6
Liabilities and Shareowners' Equity		
Current liabilities		
Short-term debt	$ 150.0	$ 14.0
Accounts payable	189.9	256.5
Current portion of unearned revenue and customer deposits	185.0	88.0
Accrued taxes	113.0	90.4
Other current liabilities	282.5	278.4

	2001	2000
Total current liabilities	920.4	727.3
Long-term debt, less current portion	2,702.0	2,507.0
Unearned revenue, less current portion	415.9	611.0
Other noncurrent liabilities	159.6	177.0
Total liabilities	4,197.9	4,022.3
Minority interest	435.7	433.8
Commitments and contingencies	—	—
Shareowners' Equity		
$6^3/_4$% Cumulative Convertible Preferred Stock, $.01 par value, 5,000,000 shares authorized, 3,105,000 depository shares issued and outstanding at December 31, 2001 and 2000	129.4	129.4
Common shares, $.01 par value; 480,000,000 shares authorized; 225,873,352 and 223,335,343 shares issued; 218,067,552 and 215,529,543 outstanding at December 31, 2001 and 2000	2.3	2.2
Additional paid-in capital	2,365.8	2,329.4
Accumulated deficit	(663.3)	(377.1)
Accumulated other comprehensive income (loss)	(10.7)	82.7
Common shares in treasury, at cost:		
7,805,800 shares at December 31, 2001 and 2000	(145.1)	(145.1)
Total shareowners' equity	1,678.4	2,021.5
Total liabilities and shareowners' equity	$ 6,312.0	$ 6,477.6

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)

	Year Ended December 31		
	2001	**2000**	**1999**
Cash Flows from Operating Activities			
Net income (loss)	$ (286.2)	$ (377.1)	$ 31.4
Less: income from discontinued operations, net of taxes	—	(0.2)	(3.4)
Net income (loss) from continuing operations	(286.2)	(377.3)	28.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	441.3	346.2	159.7
Amortization	113.6	113.5	21.2
Asset impairments	148.1	—	10.6
Provision for loss on receivables	93.6	73.6	28.2
Extraordinary items, net of taxes	—	—	6.6
Noncash interest expense	37.0	38.7	15.8
Minority interest expense (income)	51.3	44.1	(2.7)
Equity loss in unconsolidated entities	4.0	15.5	15.3
Loss (gain) on investments, net	(11.8)	356.3	—
Deferred income tax benefit	(82.8)	(166.4)	(24.6)
Tax benefits from employee stock option plans	19.5	40.2	13.9
Income from insurance demutualization	(19.7)	—	—
Other, net	5.1	(9.1)	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
(Increase) decrease in receivables	(98.9)	(179.7)	0.3
(Increase) decrease in prepaid expenses and other current assets	(21.6)	6.1	(15.7)
(Decrease) increase in accounts payable	(66.6)	75.1	(16.6)
Increase in accrued and other current liabilities	38.8	54.9	16.4
(Decrease) increase in unearned revenue	(82.8)	(19.9)	75.0
Increase in other assets and liabilities, net	(22.8)	(79.6)	(16.9)
Net cash provided by operating activities of continuing operations	259.1	332.2	314.5
Cash Flows from Investing Activities			
Capital expenditures	(648.5)	(843.9)	(381.2)
Proceeds from sale of investments	115.4	58.5	—

Payments for acquisitions, net of cash acquired	—	—	(247.0)
Purchase of equity securities	(1.5)	(80.5)	(12.8)
Other, net	—	2.5	—
Net cash used in investing activities of continuing operations	(534.6)	(863.4)	(641.0)
Cash Flows from Financing Activities			
Issuance of long-term debt	508.0	884.0	1,175.0
Repayment of long-term debt	(203.3)	(404.0)	(221.2)
Short-term borrowings (repayments), net	2.4	(1.9)	(371.4)
Debt issuance costs	(2.6)	—	(31.5)
Issuance of common shares—exercise of stock options	22.5	64.2	37.0
Purchase of treasury shares	—	—	(145.1)
Common dividends paid	—	—	(45.6)
Minority interest and preferred stock dividends paid	(59.8)	(61.7)	—
Net cash provided by financing activities of continuing operations	267.2	480.6	397.2
Net cash provided by discontinued operations	0.4	7.7	—
Net (decrease) increase in cash and cash equivalents	(7.9)	(42.9)	70.7
Cash and cash equivalents at beginning of period	37.9	80.8	10.1
Cash and cash equivalents at end of period	$ 30.0	$ 37.9	$ 80.8

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
(Millions of Dollars)

	6 3/4% Cumulative Convertible Preferred Shares		Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
	($ and shares in millions)									
Balance at January 1, 1999	—	$ —	136.4	$ 1.4	—	$ —	$ 147.4	$ —	$ (6.7)	$ 142.1
Shares issued under 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
Shares issued under employee plans	—	—	5.0	—	—	—	130.0	—	—	130.0
Net loss	—	—	—	—	—	—	—	(377.1)	—	(377.1)
Depository share conversion	2.9	—	—	—	—	—	—	—	—	—
Additional minimum pension liability adjustment	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Unrealized loss on investments, net of reclassification adjustments	—	—	—	—	—	—	—	—	(84.1)	(84.1)
Restricted stock amortization	—	—	0.1	—	—	—	3.6	—	—	3.6
Dividends on preferred shares	—	—	—	—	—	—	(12.3)	—	—	(12.3)
Redemption of 7 1/4% convertible preferred stock	—	—	9.5	0.1	—	—	228.6	—	—	228.7
Balance at December 31, 2000	3.1	129.4	223.3	2.2	(7.8)	(145.1)	2,329.4	(377.1)	82.7	2,021.5
Shares issued under employee plans	—	—	2.3	0.1	—	—	40.7	—	—	40.8
Net loss	—	—	—	—	—	—	—	(286.2)	—	(286.2)
Additional minimum pension liability adjustment	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Unrealized loss on investments, net of										

reclassification adjustments	—	—	—	—	—	—	—	—	(85.9)	(85.9)
Unrealized loss on interest rate swaps	—	—	—	—	—	—	—	—	(7.4)	(7.4)
Restricted stock amortization	—	—	0.3	—	—	—	6.1	—	—	6.1
Dividends on preferred shares	—	—	—	—	—	—	(10.4)	—	—	(10.4)
Balance at December 31, 2001	3.1	$ 129.4	225.9	$ 2.3	(7.8)	$ (145.1)	$ 2,365.8	$ (663.3)	$ (10.7)	$ 1,678.4

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

Notes to Consolidated Financial Statements

1. Description of Business and Accounting Policies

Description of Business — Broadwing Inc. provides diversified communications services through businesses in four segments: Broadband, Local, Wireless, and Other. On November 9, 1999, the Company merged with IXC Communications, Inc. ("IXC") in a transaction accounted for as a purchase (the "Merger"). Accordingly, IXC's operations (since renamed Broadwing Communications) have been included in the consolidated financial statements for all periods subsequent to November 9, 1999 (See Note 2 of the Notes to Consolidated Financial Statements).

Basis of Consolidation — The consolidated financial statements include the consolidated accounts of Broadwing Inc. and its majority owned subsidiaries in which it exercises control ("the Company"). Investments in which the Company has the ability to exercise significant influence, but which it does not control, 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. 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.

Unbilled Receivables — Unbilled receivables arise from network construction revenue that is recognized under the percentage-of-completion method and from local, broadband and wireless services rendered but not yet billed. Network construction receivables are billable upon achievement of contractual milestones or upon completion of contracts. As of December 31, 2001 and 2000, unbilled receivables totaled $95 million and $67 million, respectively.

Materials and Supplies — The Company's inventory of wireless handsets and other materials and supplies are carried at the lower of average cost or market.

Property, Plant and Equipment — Property, plant and equipment is generally stated at cost. However, a significant portion of the property, plant and equipment of the Broadband segment was recorded at fair market value on the November 9, 1999 date of the Merger. The Company's provision for depreciation of telephone plant is determined on a straight-line basis using the whole life and remaining life methods. Provision for depreciation of other property is based on the straight-line method over the estimated useful life. Repairs and maintenance expense items are 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. The Company reviews the carrying value of its plant, property and equipment 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.

Intangible 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 and activation of customers are amortized on a straight-line basis over the average customer life. Goodwill resulting from the purchase of businesses and other intangible assets are recorded at cost and amortized on a straight-

line basis from 2 to 40 years, with the vast majority of recorded goodwill being amortized over 30 years. The Company 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.

Investments — Investments in publicly traded companies over which the Company does not exercise significant influence are reported at fair value in accordance with Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity

Securities" ("SFAS 115"). The Company reviews its investments for impairment whenever the fair value of the individual investment is less than its cost basis. An impairment loss is recognized if the decline in fair value is deemed to be "other than temporary." The Company uses the average cost basis to determine the gain or loss on an investment transaction.

Revenue Recognition — As further discussed later in this footnote, the Company modified its revenue recognition policies on January 1, 2000, to be in conformity with the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Accordingly, service activation revenue is deferred and recognized over the appropriate service life for the associated service. Local service revenue is billed monthly, in advance, with revenue being recognized when earned. Revenue from product sales is generally recognized upon performance of contractual obligations, such as shipment, delivery, installation or customer acceptance. Indefeasible right-of-use agreements, or "IRUs", represent the lease of network capacity or dark fiber 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. The buyer of IRU services typically pays cash upon execution of the contract, and the 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 broadband transport category of the Broadband segment. Directory publishing revenue and related directory costs are deferred and recognized over the life of the associated directory.

Construction revenue and estimated profits are recognized according to the percentage of completion method on a cost incurred to total costs estimated at completion basis. The method is used as the Company can make reasonably dependable estimates of revenue and costs applicable to various stages of a contract. As the financial reporting of these contracts depends on estimates that are continually assessed throughout the terms of the contracts, revenue recognized is subject to revision as the contract nears completion. Revisions in estimates are reflected in the period in which the facts that give rise to the revision become known. Construction projects are considered substantially complete upon customer acceptance.

Advertising — Costs related to advertising are expensed as incurred and amounted to $39 million, $64 million, and $22 million in 2001, 2000 and 1999, respectively.

Fiber Exchange Agreements — In connection with the development of the optical network, the Company entered into various agreements to exchange fiber usage rights. The Company accounts for agreements with other carriers to either exchange fiber asset service contracts for capacity or services by recognizing the fair value of the revenue earned and expense incurred. Exchange agreements accounted for noncash revenue and expense, in equal amounts, of approximately $12 million, $19 million and $3 million in 2001, 2000 and 1999, respectively. Revenue and expense recorded in 1999 includes only two months of activity as a result of the Merger.

Income Taxes — The income tax provision (or benefit) consists of an amount for taxes currently payable and a provision (or benefit) for tax consequences deferred to future periods. To the extent the Company has recorded future tax benefits, in evaluating the amount of valuation allowance, the Company considers prior operating results, future taxable income projections, expiration of tax loss carryforwards and ongoing prudent and feasible tax planning strategies.

Stock-Based Compensation — Compensation cost is measured under the intrinsic value method. In Note 12 of the Notes to Consolidated Financial Statements, pro forma disclosures of net income and earnings per share are presented as if the fair value method had been applied.

Derivative Financial Instruments — In the normal course of business, the Company employs derivative financial instruments to manage its exposure to fluctuations in interest rates and share prices on minority equity investments. The Company does not hold or issue derivative financial instruments for trading purposes. Interest rate differentials associated with the Company's interest rate swaps are recorded as an adjustment to interest payable or receivable with an offset to interest expense over the life of the swap. The forward sale of equity investments is accounted for by recording a current asset and current liability at the time of execution of the forward sale contract. Once the forward contract is settled, the gain or loss on the hedged investment is reclassified from other comprehensive income to a realized gain or loss and the current asset and current liability are removed from the Company's books. A more comprehensive discussion of these instruments is included in Note 6 of the Notes to Consolidated Financial Statements.

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 June 29, 2001 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 29, 2001. SFAS 141 also established specific criteria for the recognition of intangible assets separately from goodwill.

On June 29, 2001 the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires cessation of the amortization of goodwill and annual impairment testing of those assets. The Company will adopt SFAS 141 and 142 on January 1, 2002, as required. The Company expects amortization expense in 2002 of $45 million based on implementation of the provisions of SFAS 142, which is substantially less than the $114 million recorded in 2001. In addition, the Company is required to test its goodwill for impairment as of January 1, 2002. The book value of the Company's goodwill as of December 31, 2001 totaled approximately $2.0 billion. The Company expects the implementation of SFAS 142 will require a significant write-down of goodwill, in excess of $1.0 billion, in order to state the goodwill at its fair value. The Company expects to record this write-down in the first quarter of 2002 as a change in accounting principle.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). This statement deals with the costs of closing facilities and removing assets. SFAS 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the impact, if any, that SFAS 143 will have on its future consolidated financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 supersedes Statement of Financial Accounting Standard No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business". SFAS 144 develops one accounting model for long-lived assets that are disposed of by sale, based on the model previously developed in SFAS 121. This standard also makes changes to the manner in which amounts from discontinued operations are measured and expands the scope of the components of an entity that qualify for discontinued operations treatment. This statement is effective for fiscal years beginning after December 15, 2001. The Company will implement this standard as required on January 1, 2002, and does not expect this standard to have any material impact on the Company's consolidated financial statements.

Recently Adopted Accounting Standards — In June 1998, the FASB issued Statement of Financial Accounting Standard SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). 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 was subsequently amended through the release of SFAS 137, which provided for a deferral of the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. As a result, the Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 and related amendments did not have a material effect on the Company's results of operations, cash flows or financial position.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". As required, the Company adopted SAB 101 in the fourth quarter of 2000 and modified its revenue recognition policies retroactive to January 1, 2000, to recognize service activation revenue and associated direct incremental costs over their respective average customer lives, resulting in an after tax charge of $0.8 million related to all periods prior to January 1, 2000.

2. Acquisitions

IXC Communications Inc.

The Company completed its merger with the former IXC Communications, Inc. ("IXC") on November 9, 1999 ("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 approximately $3.2 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 69 million shares of the Company's common stock valued at $1.6 billion and 155,000 shares of $6^{3}/_{4}$% convertible preferred stock valued at $0.1 billion; the assumption of $1.0 billion of IXC's indebtedness; 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 (since renamed 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 allocated to the assets acquired and liabilities assumed according to their estimated fair values at the Merger date. During 2000, the Company adjusted the fair values of

certain assets acquired and liabilities assumed based on the receipt of additional information which was outstanding at the date of the acquisition. These adjustments did not have a material impact on the preliminary purchase price allocation.

The following table reflects the $3.5 billion fair value adjustments to historical book values, composed of the $2.2 billion consideration paid, the assumption of $1.0 billion in indebtedness and the $0.3 billion historical net deficit acquired:

	($ in millions)
Property, plant & equipment	$ 124.0
Other intangibles	423.0
Debt	(174.0)
Deferred tax liabilities	(33.0)

Other	42.3
Subtotal	382.3
Goodwill	2,155.2
Assumption of debt	963.7
Total	3,501.2

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 on January 1, 1999:

	Year ended December 31 1999
	($ in millions, except per share amounts)
Revenue	$ 1,670.3
Loss from continuing operations	(352.9)
Net loss	$ (356.1)
Loss from continuing operations per common share	$ (1.75)
Loss per common share	$ (1.79)
EBITDA	$ 321.6

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 occurred on January 1, 1999.

3. Restructuring and Other Charges (Credits)

November 2001 Restructuring Plan

In November 2001, the Company's management approved restructuring plans which included initiatives to consolidate data centers, reduce the Company's expense structure, exit the network construction business, eliminate other nonstrategic operations and merge internet and DSL operations

into the Company's other operations. Total restructuring and other costs of $232.3 million were recorded in 2001 related to these initiatives. The $232.3 million consisted of restructuring liabilities in the amount of $84.2 million and related noncash asset impairments in the amount of $148.1 million. The restructuring charge was comprised of $21.4 million related to involuntary employee separation benefits, $62.5 million related to lease and other contractual terminations and $0.3 million relating to other restructuring charges. In total, the Company expects this restructuring plan to result in cash outlays of $79.2 million and noncash items of $153.1 million. The restructuring costs include the cost of involuntary employee separation benefits, including severance, medical and other benefits, related to 902 employees across all areas of the Company. As of December 31, 2001, 712 employee separations had been completed for total expenditures of $7.8 million, $4.1 million of which was cash. The Company expects to incur additional expenditures of $13.6 million related to both the 712 employees previously terminated and to the remaining 190 employees to be terminated in 2002. The Company expects to complete the plan by December 31, 2002.

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. The Company recorded a $148.1 million charge as an expense of operations according to SFAS 121, resulting from the write-off of certain assets related to the closing of data centers, consolidation of office space and curtailment of other Company operations.

The following table illustrates the activity in this reserve since November of 2001:

Type of costs ($ in millions):	Initial Charge	Utilizations	Balance December 31, 2001
Employee separations	$ 21.4	$ (7.8)	$ 13.6
Terminate contractual obligations	62.5	(2.4)	60.1
Other exit costs	0.3	—	0.3

Total	$ 84.2	$ (10.2)	$ 74.0

February 2001 Restructuring Plan

In February 2001, the Company initiated a reorganization of the activities of several of its Cincinnati-based subsidiaries, including Cincinnati Bell Telephone ("CBT"), Cincinnati Bell Any Distance ("CBAD"), Cincinnati Bell Wireless ("CBW"), Cincinnati Bell Public Communications ("Public") and Cincinnati Bell Directory ("CBD") in order to create one centralized "Cincinnati Bell" presence for its customers. Total restructuring costs of $9.4 million were recorded in the first quarter and consisted of $2.5 million related to lease terminations and $6.9 million related to involuntary employee separation benefits (including severance, medical insurance and other benefits) for 114 employees. The severance payments are expected to be substantially complete by March 31, 2002 and consist of $6.3 million in cumulative severance payments as of December 31, 2001. This includes a net of $0.1 million for severance benefits recorded in the second and fourth quarters of 2001 that were in excess of the initial estimate. The lease terminations are expected to be complete by December 31, 2004. In total, the Company expects this restructuring plan to result in cash outlays of $8.5 million and non-cash items of $0.9 million.

The following table illustrates the activity in this reserve since February of 2001:

Type of costs ($ in millions):	Initial Charge	Utilizations	Adjustments	Balance December 31, 2001
Employee separations	$ 6.9	$ (6.3)	$ 0.1	$ 0.7
Terminate contractual obligations	2.5	(0.3)	—	2.2
Total	$ 9.4	$ (6.6)	$ 0.1	$ 2.9

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 1999 related to these initiatives. The $18.6 million consisted of $7.7 million relating to Broadwing Communications (recorded as a component of the 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:

Type of costs ($ in millions):	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 restructuring costs accrued in 1999 included the costs of involuntary employee separation benefits related to 347 employees (263 Broadwing Communications employees and 84 employees from other subsidiaries of the Company). As of March 31, 2001, all employee separations had been completed for a total cash expenditure of $9.1 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 1999 restructuring plan, the Company performed a review of its long-lived assets to identify any potential impairments in accordance with SFAS 121. The Company recorded a $1.4 million charge as an expense of operations according to SFAS 121, resulting from the abandonment of certain assets including duplicate network equipment.

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

Type of costs ($ in millions):	Balance December 31, 1999	Utilizations	Adjustments	Balance December 31, 2000	Utilizations	Adjustments	Balance December 31, 2001
Employee separations	$ 7.8	$ (8.9)	$ 1.2	$ 0.1	$ (0.2)	$ 0.1	$ —
Facility closure costs	4.4	(0.7)	(1.5)	2.2	(0.9)	—	1.3
Relocation	0.2	—	(0.2)	—	—	—	—
Other exit costs	4.4	(3.2)	0.3	1.5	(1.5)	—	—
Total	$ 16.8	$ (12.8)	$ (0.2)	$ 3.8	$ (2.6)	$ 0.1	$ 1.3

The Company incurred $0.4 million in employee separation expenditures in 1999, which decreased the initial reserve of $8.2 million to $7.8 million.

Net restructuring credits of $0.8 million recorded in operations during 2000 consisted of $0.7 million in additional employee severance offset by a $1.5 million adjustment related to lease terminations. An offsetting reduction of $0.6 million in adjustments was recorded at Broadwing Communications and was applied to goodwill as part of the purchase allocation associated with the Merger. This consisted of $0.4 million in additional employee separations and $0.2 million in additional exist costs. The adjustment of $0.1 million in 2001 is related to additional severance in excess of the initial estimate.

Management believes that the remaining balance of $1.3 million at December 31, 2001 is adequate to complete the 1999 restructuring plan and that substantially all of the related actions will be completed by June 30, 2002.

4. Investments in Other Entities

Investments in Equity Method Securities

As of December 31, 2000, the market value of the Company's investment in Applied Theory Communications Inc. (a New York-based internet service provider) was approximately $11.7 million, following the recording of an impairment charge on this security at the end of 2000. This impairment charge was recorded because the Company believed that the decrease in value of Applied Theory shares was "other than temporary."

The Company recorded a $4.0 million decrease in the value of the Applied Theory investment in 2001 as a result of the Company's use of the equity method of accounting. During 2001, the Company began actively selling shares of this investment and discontinued equity method accounting in May 2001 due to a decrease in its ownership percentage to less than 20%, the resignation of the Company's seat on Applied Theory's board of directors and the Company's belief that it no longer exerted significant influence over the opeations of Applied Theory.

In accordance with SFAS 115, the Company reclassified this investment to a trading security. As such, fluctuations in the market value of Applied Theory were reflected in the Consolidated Statements of Operations and Comprehensive Income (Loss) under the caption "Loss (gain) on investments." Accordingly, the Company recognized pretax losses of $5.9 million, representing the difference between the market value and the Company's recorded basis of the investment. This investment was completely liquidated during 2001, generating sales proceeds of $1.8 million.

Investments in Marketable Securities

On November 2, 2001, Anthem Inc. ("Anthem"), a mutual insurance company in which the Company held various medical and vision insurance policies for coverage of its employees, converted to a public company in a transaction known as a demutualization. As a mutual company, the owners of Anthem were the policyholders. Upon demutualization, the Company was entitled to receive a certain number of shares, which represented the Company's ownership interest in the newly created stock enterprise. In 2001, the Company received 459,223 shares of Anthem common stock and recorded a gain of $19.7 million based on the fair market value of the stock in the Consolidated Statements of Operations and Comprehensive Income (Loss) under the heading "Other expense (income), net."

At December 31, 2001, the Company's investment in Anthem was classified as a "trading" security under the provisions of SFAS 115 and classified as a short-term investment on the balance sheet because it was the Company's intent to sell all shares of Anthem on the open market during January of 2002. In accordance with SFAS 115, an increase of $3.0 million in Anthem's market value through December 31, 2001 was included in the Consolidated Statements of Operations and Comprehensive Income (Loss) under the caption "Loss (gain) on investments." In January 2002, the Company sold its entire investment in Anthem generating cash proceeds of $23.4 million and an additional gain of $0.6 million.

The Company's investment in Corvis Corporation, which was acquired in 2000, totaled zero and $190 million at December 31, 2001 and 2000, respectively. The unrealized holding gain on Corvis included in "Other Comprehensive Income" as of December 31, 2000 totaled $132 million ($86 million, net of tax). The market value of the investment declined during 2001 by $69 million, net of taxes, before the

Company completely hedged its exposure to this investment as described in Note 6 of the Notes to Consolidated Financial Statements. Therefore, upon delivery of the shares, the Company reclassified the remaining $17 million after tax ($26 million pretax) gain from "Other Comprehensive Income" to "Loss (gain) on investments." Proceeds received from the complete liquidation of the holdings totaled $82 million in 2001.

The Company's investment in ZeroPlus.com, which was acquired in 1999, totaled $0.6 million as of December 31, 2000 and zero at the end of 2001. In 1999, the Company recorded a pretax unrealized holding gain of $13 million ($9 million net of tax). The market value of this investment declined throughout 2000. The change in the net unrealized holding gain, reflected in "Other Comprehensive Income" over this period, was a pretax loss of $23 million ($15 million net of tax). There were no unrealized holding gains or losses as of December 31, 2000 as the Company recognized an "other than temporary" impairment of $10 million during the year. The Company liquidated its entire position in this security during 2001 for a realized loss of $0.6 million, receiving minimal proceeds.

The Company's investment in PSINet totaled $15 million as of December 31, 2000 and zero as of December 31, 2001 as the Company liquidated its entire investment through settlement of a forward sale further described in Note 6 of the Notes to Consolidated Financial Statements and sale of shares in the open market. The Company received proceeds of $28 million and recorded a realized pretax gain of $17 million in 2001 related to these transactions. The cost basis was calculated based on the related cost. There was no unrealized gain or loss related to the investment included in "Other Comprehensive Income" as of December 31, 2000 or 2001. During 1999, the Company recorded a pretax unrealized holding gain of $85 million, which was completely reversed during 2000 as the value of the investment declined. During 2000, the Company determined that its investment had been impaired and that the impairment was "other than temporary." Accordingly, the Company recorded a realized pretax loss totaling $342 million.

The Company's investment in PurchasePro, acquired in 1999, generated a pretax unrealized holding gain of $115 million ($76 million net of tax) in 1999. The entire position was liquidated in 2000 generating a realized pretax gain of $49 million, based on the related cost. Proceeds from the sale totaled $50 million during 2000.

Investments in Other Securities

The Company periodically enters into certain equity investments for the promotion of business and strategic objectives. A portion of these investments is in securities, which do not have readily determinable fair market values. These investments are recorded at cost based on specific identification. The carrying value of cost method investments was approximately $16 million and $38 million as of December 31, 2001 and 2000, respectively. The difference of $22 million is related to realized losses as the Company determined that the value of these investments had declined and that the decline was other than temporary. The Company reviews these investments on a regular basis using external valuations and cash flow forecasts as factors in determining the existence of an "other than temporary" impairment.

5. Debt

The Company's debt consists of the following:

	December 31	
	2001	2000
	($ in millions)	
Short-term debt:		
Capital lease obligations	$ 11.2	$ 5.7
Bank notes, current portion	118.8	—
Current maturities of long-term debt	20.0	8.3
Total short-term debt	$ 150.0	$ 14.0
Long-term debt:		
Bank notes, less current portion	$ 1,828.2	$ 1,639.0
9.0% Senior subordinated notes	46.0	46.0
6 3/4% Convertible subordinated debentures	470.5	440.2
Various Cincinnati Bell Telephone notes	269.5	289.5
7 1/4% Senior secured notes	49.5	49.5
PSINet forward sale	—	3.0
Capital lease obligations, less current portion	37.5	39.0
Other	0.8	0.8
Total long-term debt	$ 2,702.0	$ 2,507.0

Average balances of short-term debt and related interest rates for the last three years are as follows:

	2001	2000	1999
		($ in millions)	
Average amounts of short-term debt outstanding during the year*	$ 83.9	$ 12.4	$ 190.0
Maximum amounts of short-term debt at any month-end during the year	$ 150.0	$ 17.8	$ 230.0
Weighted average interest rate during the year**	5.2%	8.4%	4.9%

* Amounts represent the average month-end face amount of notes.

** Weighted average interest rates are computed by multiplying the average monthly interest rate by the month-end face amount of the notes.

Bank Notes

In November 1999, the Company obtained a $1.8 billion credit facility from a group of lending institutions. This credit facility was increased to $2.1 billion in January 2000 and subsequently increased to $2.3 billion in June 2001. The credit facility consists of $900 million in revolving credit and $1.4 billion in term loans. At December 31, 2001, the Company had drawn approximately $1.947 billion from the credit facility in order to refinance its existing debt and debt assumed as part of the Merger and fund its capital investment program. The amount refinanced included approximately $404 million borrowed 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. At December 31, 2001, the Company had $353 million in additional borrowing capacity under this facility.

The facility's financial covenants require that the Company maintain certain debt to EBITDA, senior secured debt to EBITDA, debt to capitalization, and interest coverage ratios. The facility also contains covenants which, among other things, restrict the Company's ability to incur additional debt or liens; pay dividends; repurchase Company common stock; sell, lease, transfer or dispose of assets; make investments; and merge with another company. The Company obtained an amendment to its credit facility to exclude the charges associated with the November 2001 Restructuring Plan (described in Note 3) from the covenant calculations. As of December 31, 2001, the Company was in compliance with all of the covenants of the credit facility.

The interest rates charged on borrowings from this credit facility can range from 100 to 275 basis points above the London Interbank Offering Rate ("LIBOR") and were at 175 to 275 basis points above LIBOR as of December 31, 2001, based on the Company's credit rating. The Company will incur commitment 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. In 2001, these commitment fees amounted to approximately $2 million.

9% Senior Subordinated Notes

In 1998, the former IXC (now Broadwing Communications) issued $450 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 of the Company's subsidiaries. The 9% notes indenture includes a limitation on the amount of indebtedness that Broadwing Communications can incur based upon the maintenance of either debt to operating cash flow or debt to capital ratios. The 9% indenture also provides that if Broadwing Communications

incurs any additional indebtedness secured by liens on its property or assets that are subordinate to or equal in right of payment with the 9% notes, then Broadwing Communications must secure the outstanding 9% notes equally and ratably with such indebtedness. As of December 31, 2001, Broadwing Communications had the ability to incur additional debt.

In January 2000, $404 million of these 9% notes were redeemed through a tender offer as a result of the change of control provision of the related indenture. Accordingly, $46 million of the 9% notes remain outstanding at December 31, 2001.

6 3/4% 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 3/4% per annum, with the associated interest expense being added to the debt principal amount through June 2004. Interest payments for the remaining five years will then be paid in cash. Through December 31, 2001 and since inception, the Company has recorded $71 million in cumulative, noncash interest expense and has adjusted the carrying amount of the debt accordingly. During the years ended December 31, 2001, 2000 and 1999, the Company recorded noncash interest expense of approximately $31 million, $28 million and $12 million, respectively, related to these debentures.

Cincinnati Bell Telephone Notes

CBT has $290 million in corporate bonds outstanding that are guaranteed by its parent company, Broadwing Inc. Of this amount, $269.5 million ($270 million face amount, net of unamortized discount of $0.5 million) is considered long-term. These bonds, which are not guaranteed by other subsidiaries of Broadwing Inc., generally have maturity terms ranging from 30 to 40 years and were issued at various dates from 1962 to 1998. Interest rates on this indebtedness range from 4.375% to 7.27%. These bonds also contain a covenant that provides that if CBT incurs certain liens on its property or assets, CBT must secure the outstanding bonds equally and ratably with the indebtedness or obligations secured by such liens.

7 1/4% Senior Secured Notes

In 1993, the Company issued $50 million of 7 1/4% senior secured notes due 2023 (the "7 1/4% notes"). The indenture related to these 7 1/4% notes does not subject the Company to restrictive financial covenants. However, the 7 1/4% notes do contain a covenant that provides that if the Company incurs certain liens on its property or assets, the Company must secure the outstanding bonds equally and ratably with the indebtedness or obligations secured by such liens. As of December 31, 2001, $49.5 million ($50 million face amount, net of unamortized discount of $0.5 million) remains outstanding.

PSINet Forward Sale

The PSINet forward sale was settled during the first quarter of 2001. For a detailed discussion of the PSINet forward sale, see Note 6 of the Notes to Consolidated Financial Statements.

Capital Lease Obligations

The Company leases facilities and equipment used in its operations, some of which are required to be capitalized in accordance with Statement of Financial Accounting Standard No. 13, "Accounting for

Leases" ("SFAS 13"). SFAS 13 requires the capitalization of leases meeting certain criteria, with the related asset being recorded in property, plant and equipment and an offsetting amount recorded as a liability. The Company had $48.7 million in total indebtedness relating to capitalized leases as of December 31, 2001, $37.5 million of which is considered long-term.

Other

As of December 31, 2001, Broadwing Communications had outstanding $0.8 million of 12 1/2% senior notes with an original indebtedness of $285.0 million. These notes were largely eliminated through a tender offer in 1998. The 12 1/2% senior notes indenture includes a limitation on the amount of indebtedness that Broadwing Communications can incur based upon the maintenance of either debt to operating cash flow or debt to capital ratios. As of December 31, 2001, Broadwing Communications had the ability to incur additional debt.

Annual maturities of debt and minimum payments under capital leases for the five years subsequent to December 31, 2001 are as follows:

	Debentures/Notes at December 31		
	Long-Term Debt	Capital Leases	Total Debt
		($ in millions)	
Year of Maturity			
2002	$ 138.8	$ 11.2	$ 150.0
2003	221.2	8.4	229.6
2004	996.5	5.4	1,001.9
2005	26.5	3.1	29.6
2006	528.5	2.3	530.8
Thereafter	891.8	18.3	910.1
	2,803.3	48.7	2,852.0
Less current portion	138.8	11.2	150.0
Total long-term debt	$ 2,664.5	$ 37.5	$ 2,702.0

Interest expense recognized on the Company's debt is as follows:

	Year ended December 31		
	2001	2000	1999
	($ in millions)		
Interest expense:			
Long-term debt	$ 159.6	$ 157.1	$ 55.8
Short-term debt	2.5	1.1	5.4
Other	6.0	5.4	0.4
Total	$ 168.1	$ 163.6	$ 61.6

The increase in interest expense on long-term debt is a function of higher average debt levels resulting primarily from the funding of construction of the optical network and the issuance of $400 million in 6 3/4% Convertible Notes in 1999. Interest on long-term debt is net of the capitalization of $24 million, $25 million and $4 million in interest expense in 2001, 2000 and 1999, respectively. Interest on short-term debt increased in 2001 as the result of both $118.8 million of the credit facility and $20 million of CBT bonds, previously classified as long-term, becoming current at different intervals

throughout the second half of the year. Interest on short-term debt decreased in 2000 due to the retirement of the Company's commercial paper program in August 1999. Other interest expense pertains primarily to capitalized leases, which increased in 2000 as a result of the Merger.

In 1999, costs related to the early extinguishment of Broadwing Communications' debt as a result of the Merger resulted in an extraordinary charge of $6.6 million, net of taxes.

6. Financial Instruments

The Company adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value. Fair values are determined based on quoted market prices of comparable instruments, if available, or on pricing models using current assumptions. On the date the financial instrument is entered into, the Company designates it as either a fair value or cash flow hedge.

Upon adoption of SFAS 133 on January 1, 2001, offsetting transition adjustments related to the PSINet forward sale and the underlying six million shares of PSINet (further described below) were reclassified from other comprehensive income to net income. Accordingly, there was no net cumulative effect adjustment to either net income or other comprehensive income related to these items.

As of December 31, 2001, the Company's derivative contracts have been determined to be highly effective cash flow hedges. In accordance with SFAS 133, unrealized gains and losses of highly effective cash flow hedges are recorded in other comprehensive income until the underlying transaction is executed.

Interest Rate Contracts

From time to time the Company enters into interest rate swap agreements with the intent of managing its exposure to interest rate risk. Interest rate swap agreements are contractual agreements between two parties for the exchange of interest payment streams on a notional principal amount and an agreed upon fixed or floating rate, for a defined time period. These agreements are hedges against debt obligations related to the Company's $2.3 billion credit facility. Realized gains and losses from the interest rate swaps are recognized as an adjustment to interest expense each period. The interest rate swap agreements currently in place expire during 2002 and 2003. At December 31, 2001, the interest rate swaps on notional amounts of $490 million were a liability with a fair value of $11.5 million, resulting in year-to-date, after-tax net losses in accumulated other comprehensive (loss) income of $7.4 million.

Marketable Equity Forward Contracts

From time to time the Company enters into forward contracts on the sale of marketable equity securities held in the Company's investment portfolio. It is the Company's intent to manage its exposure to fluctuations in U.S. equity markets related to these minority investments. Forward contracts are contractual agreements between two parties for the sale of borrowed shares to be settled by delivery of the equivalent number of shares owned by the Company at an agreed upon future date.

Corvis Corporation — During the first half of 2001, the Company entered into a forward sale contract with a financial institution to hedge its investment in eight million shares of Corvis Corporation in order to minimize its exposure to share price fluctuations on shares for which sales in the open market were restricted. In the first quarter, the Company received a $42.7 million prepayment in connection with the forward sale contract, which was accounted for as a note payable and collateralized by 2.6 million of the forward sold shares.

During the third quarter, the Company delivered the eight million shares in settlement of the forward sale, receiving additional proceeds of $39.2 million, for a total of $81.9 million. The $42.7 million note payable was repaid and the Company recognized a gain of approximately $26 million ($17 million net of tax) upon settlement of the entire transaction.

PSINet — 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 PSINet common stock. This amount was accounted for as notes payable and was collateralized by six million shares of PSINet common stock owned by the Company. Given the significant decline in the value of PSINet common stock during 2000, the Company adjusted the carrying value of this liability to approximately $3 million during the fourth quarter of 2000. This adjustment resulted in an unrealized gain on the liability that substantially offset the unrealized loss recorded in "Other comprehensive income" on the underlying six million shares of PSINet being hedged.

In 2001, the Company designated this arrangement as a fair value hedge with both the underlying shares reclassified to trading securities under SFAS 115 and related forward sale liability subject to mark-to-market adjustments through the income statement each period. During the first quarter of 2001, the Company settled the forward sale liability for approximately 5.8 million shares of PSINet common stock. The difference between the six million shares collateralized and the 5.8 million shares required to settle the liability were sold in the open market, generating a pretax gain of $0.5 million.

7. Minority Interest

	December 31	
	2001	2000
	($ in millions)	
12 1/2% Exchangeable Preferred Stock	$ 417.8	$ 421.0
Minority Interest in Cincinnati Bell Wireless held by AWS	15.5	10.2
Other	2.4	2.6
Total	$ 435.7	$ 433.8

Broadwing Communications has approximately 395,000 shares of 12 1/2% Junior Exchangeable Preferred Stock ("12 1/2% Preferreds") outstanding. The 12 1/2% Preferreds are mandatorily redeemable on August 15, 2009 at a price equal to their liquidation preference of $1,000 a share, plus accrued and unpaid dividends. Through November 15, 1999, dividends on the 12 1/2% Preferreds were being effected through additional shares of the 12 1/2% Preferreds. On November 16, 1999, the Company converted to a cash pay option for these dividends. Dividends on the 12 1/2% Preferreds are classified as "Minority interest expense (income)" in the Consolidated Statements of Operations and Comprehensive Income (Loss) and consisted of $49 million in both 2001 and 2000. At the Merger date, and as part of purchase accounting, the 12 1/2% Preferreds were adjusted to a fair market value exceeding 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 over the remaining life of the preferred stock.

AT&T Wireless Services Inc. ("AWS") maintains a 19.9% ownership in the Company's Cincinnati Bell Wireless LLC ("CBW") subsidiary. The balance is adjusted as a function of AWS's 19.9% share of the operating income (or loss) of CBW, with an offsetting amount being reflected in the Consolidated

Statements of Operations and Comprehensive Income (Loss) under the caption "Minority interest expense (income)."

8. Common and Preferred Shares

Common Shares

The par value of the Company's common shares is $.01 per share. At December 31, 2001 and 2000, common shares outstanding were 218.1 million and 215.5 million, respectively. In July 1999, the Company's Board of Directors approved a share repurchase program authorizing the repurchase of up to $200 million of common shares of the Company. The 218.1 million shares of Company common shares outstanding at December 31, 2001, are net of approximately 7.8 million shares that were repurchased by the Company during 1999 at a cost of $145.1 million.

Preferred 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 at a par value of $1,000. These shares were subsequently converted into 3,105,000 depository shares bearing a par value of $50 per share. Shares of this preferred stock can be converted at any time at the option of the holder into common stock of the Company at a conversion rate of 1.44 shares of Company common stock per depository 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. The liquidation preference on the 6 3/4% preferred shares is the par value or $50 per share.

Also in connection with the Merger, the Company issued approximately 1,074,000 shares of 7 1/4% junior convertible preferred stock due 2007 valued at $234.5 million. As of December 31, 1999 approximately 1,058,000 shares remained outstanding and had a carrying value of $228.6 million. Pursuant to the Company's March 21, 2000 redemption offer, the outstanding preferred shares were converted into common shares of the Company at a rate of 8.945 common shares for each preferred share, creating approximately 9.5 million additional common shares in April of 2000. Approximately 100 preferred shares were redeemed for an immaterial amount of cash in order to complete the Company's obligations related to this preferred stock.

9. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if common stock equivalents were exercised, but only to the extent that they are considered dilutive to the Company's earnings. The following table is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for earnings (loss) from continuing operations before the extraordinary item and cumulative effect of a change in accounting principle for the following periods:

	Year Ended December 31		
	2001	2000	1999
	Millions of dollars and shares (except per share amounts)		
Numerator:			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	$ (286.2)	$ (376.5)	$ 34.6
Preferred stock dividends and accretion	10.4	8.1	2.1
Numerator for EPS and EPS assuming dilution — income (loss) applicable to common shareowners	$ (296.6)	$ (384.6)	$ 32.5
Denominator:			
Denominator for basic EPS — weighted average common shares outstanding	217.4	211.7	144.3
Potential dilution:			
Stock options	—	—	5.6
Stock-based compensation arrangements	—	—	0.8
Denominator for diluted EPS per common share	217.4	211.7	150.7
Basic EPS from continuing operations before extraordinary item and cumulative effect of change in accounting principle	$ (1.36)	$ (1.82)	$ 0.23
Diluted EPS from continuing operations before extraordinary item and cumulative effect of change in accounting principle	$ (1.36)	$ (1.82)	$ 0.22

Weighted average common shares outstanding at December 31, 2001 and 2000 includes two full years of the approximately 69 million shares issued in conjunction with the Merger and the conversion of approximately 1.1 million shares of 7 1/4% convertible preferred stock into approximately 9.5 million shares of the Company's common stock in April of 2000. These 9.5 million shares were added to the denominator of the EPS calculation during the second quarter of 2000.

Because the effect of their inclusion in the EPS calculation would be anti-dilutive, approximately 3.7 million additional shares related to "in-the-money" stock options and restricted stock are not included in the denominator of the EPS calculation. The total number of potential additional shares outstanding related to stock options, restricted stock and the assumed conversion of the Company's 6 3/4% convertible preferred stock and 6 3/4% convertible subordinated debentures is approximately 51 million and 47 million at December 31, 2001 and 2000, respectively, if all stock options currently outstanding were exercised and all convertible securities were to convert.

10. Income Tax Provision (Benefit)

Income tax provision (benefit) consists of the following:

	Year ended December 31		
	2001	2000	1999
	($ in millions)		
Current:			
Federal	$ 2.1	$ 0.3	$ 50.5
State and local	0.9	0.9	6.6
Total current	3.0	1.2	57.1
Investment tax credits	(0.4)	(0.4)	(1.2)
Deferred:			
Federal	(80.7)	(132.5)	(21.1)
State and local	(2.1)	(33.9)	(3.5)
Total deferred	(82.8)	(166.4)	(24.6)
Total	$ (80.2)	$ (165.6)	$ 31.3

Income tax benefits for 2001 decreased in comparison to the prior year as a function of the decrease in pretax losses from continuing operations, as well as valuation allowances established against certain state and local net operating losses due to uncertainty as to the realization of these benefits.

The following is a reconciliation of the statutory federal income tax rate with the effective tax rate for each year:

	2001	2000	1999
U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	7.0	7.6	3.4
Change in valuation allowance	(6.8)	(3.6)	—
Amortization of nondeductible intangible assets	(6.9)	(4.5)	4.9
Dividends on 12 1/2% exchangeable preferred stock	(4.4)	(3.1)	3.5
Other differences, net	(2.0)	(0.8)	0.7
Effective rate	21.9%	30.6%	47.5%

The income tax provision (benefit) relating to other comprehensive income (loss) components were ($50) million, ($55) million and $104 million in 2001, 2000 and 1999, respectively.

The Company realized an income tax benefit from the exercise of certain stock options in 2001, 2000 and 1999 of $20 million, $40 million and $14 million, respectively. This benefit resulted in a decrease in current income taxes payable and an increase in additional paid in capital.

The components of the Company's deferred tax assets and liabilities are as follows:

	At December 31	
	2001	2000
	($ in millions)	
Deferred tax assets:		
Net operating loss carryforwards	$ 303.2	$ 195.8
Unearned revenue	159.0	189.2
Investments	55.0	47.8
Restructuring related items	108.5	4.4
Other	71.2	96.7
Total deferred tax assets	696.9	533.9
Valuation allowance	(85.0)	(46.6)
Net deferred income tax assets	$ 611.9	$ 487.3
Deferred tax liabilities:		
Depreciation and amortization	$ 350.3	$ 310.4
Unrealized gain on investments	—	42.7
Other	15.5	8.5
Total deferred tax liabilities	$ 365.8	$ 361.6
Net deferred tax asset	$ 246.1	$ 125.7

Tax loss carryforwards will generally expire between 2010 and 2021. 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.

The Company recorded a valuation allowance of $85.0 million and $46.6 million for the years ended December 31, 2001 and 2000, respectively. The valuation allowance is related to certain state and local tax loss carryforwards due to uncertainty of the ultimate realization of such future benefits.

In evaluating the amount of valuation allowance needed, the Company considers prior operating results, future taxable income projections, expiration dates of net operating loss carryforwards and ongoing prudent and feasible tax planning strategies. Based upon these analyses, management believes it is more likely than not that future taxable income will be sufficient to fully recover the existing net deferred tax assets. In the event the Company were to determine that it would not be able to realize all or a portion of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be made, which would negatively impact net income in the period such determination was made.

11. Employee Benefit Plans

Pension and Postretirement Plans

The Company sponsors three noncontributory defined benefit pension plans: one for eligible management employees, one for nonmanagement employees and one supplementary, nonqualified, unfunded plan for certain senior executives.

The management pension plan is a cash balance plan. The pension benefit is determined by a combination of compensation-based credits and annual guaranteed interest credits. The nonmanagement pension plan 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 nonmanagement 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.

The Company also provides health care and group life insurance benefits for retirees with a service pension. The Company funds certain group life insurance benefits through Retirement Funding Accounts and funds health care benefits and other group life insurance benefits using Voluntary Employee Benefit Association ("VEBA") trusts. It is the Company's practice to fund amounts as deemed appropriate from time to time. Contributions are subject to IRS limitations developed using the aggregate cost method. The associated plan assets are primarily equity securities and fixed income investments. The Company recorded an accrued postretirement benefit liability of approximately $51 million and $47 million at December 31, 2001 and 2000, respectively.

The following information relates to all Company noncontributory defined-benefit pension plans, post-retirement health care, and life insurance benefit plans. Pension and post-retirement benefit costs are as follows:

	Year ended December 31					
	Pension Benefits			Postretirement and Other Benefits		
	2001	2000	1999	2001	2000	1999
	($ in millions)					
Service cost (benefits earned during the period)	$ 11.7	$ 5.5	$ 6.0	$ 1.3	$ 1.2	$ 1.8
Interest cost on projected benefit obligation	31.4	32.0	30.3	15.4	15.4	14.4
Expected return on plan assets	(46.4)	(43.3)	(37.8)	(10.1)	(11.0)	(10.3)
Settlement gains	—	—	—	—	—	—
Curtailment loss	3.9	0.1	—	—	—	—
Amortization of:						
Transition (asset)/obligation	(2.4)	(2.4)	(2.4)	4.8	4.8	4.9
Prior service cost	3.1	2.0	1.5	0.3	0.3	0.3
Net (gain)/loss	(8.0)	(3.7)	0.3	(0.3)	(1.0)	(0.3)
Actuarial (income) expense	$ (6.7)	$ (9.8)	$ (2.1)	$ 11.4	$ 9.7	$ 10.8

Reconciliation of the beginning and ending balance of the plans' funded status were:

	Year ended December 31			
	Pension Benefits		Postretirement and Other Benefits	
	2001	2000	2001	2000
	($ in millions)			
Change in benefit obligation:				
Benefit obligation at January 1	$ 439.6	$ 434.7	$ 210.0	$ 201.2
Service cost	11.7	5.5	1.3	1.2
Interest Cost	31.4	32.0	15.4	15.4
Amendments	14.6	1.0	(6.9)	—
Actuarial (gain) loss	16.3	14.5	8.5	8.1
Benefits paid	(56.9)	(48.1)	(18.9)	(15.9)
Curtailment	2.1	—	—	—
Benefit obligation at December 31	$ 458.8	$ 439.6	$ 209.4	$ 210.0
Change in plan assets:				
Fair value of plan assets at January 1	$ 611.1	$ 666.2	$ 129.2	$ 135.3
Actual return on plan assets	(40.6)	(11.4)	(3.2)	1.8
Employer contribution	3.6	4.4	7.3	7.9
Benefits paid	(56.9)	(48.1)	(18.9)	(15.9)
Fair value of plan assets at December 31	$ 517.2	$ 611.1	$ 114.4	$ 129.1
Reconciliation to Balance Sheet:				
Funded (unfunded) status	$ 58.3	$ 171.4	$ (95.0)	$ (80.9)
Unrecognized transition asset	(7.5)	(9.7)	46.3	58.1
Unrecognized prior service cost	33.2	25.5	2.1	2.4

Unrecognized net gain	(50.5)	(164.0)	(4.2)	(26.3)
Net amount recognized	$ 33.5	$ 23.2	$ (50.8)	$ (46.7)

The combined net prepaid benefit expense consists of:

	Year ended December 31	
	Pension Benefits	
	2001	2000
	($ in millions)	
Prepaid benefit cost	$ 59.6	$ 49.7
Accrued benefit liability	(31.8)	(32.6)
Intangible asset	0.7	1.1
Accumulated other comprehensive income	5.0	5.0
Net amount recognized	$ 33.5	$ 23.2

At December 31, 2001 and 2000, respectively, pension plan assets include $13 million and $32 million in Company common stock.

The following are the weighted average assumptions as of December 31:

	At December 31					
	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
Discount rate — projected benefit obligation	7.25%	7.50%	7.75%	7.25%	7.50%	7.75%
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%	4.50%	4.50%	4.50%	4.50%	4.50%

The assumed health care cost trend rate used to measure the postretirement health benefit obligation at December 31, 2001, was 8.65% and is assumed to decrease gradually to 4.67% by the year 2006. 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:

	1% Increase	1% Decrease
	($ in millions)	
2001 service and interest costs	$ 0.5	$ (0.5)
Post-retirement benefit obligation at December 31, 2001	$ 7.6	$ (6.7)

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, on a percentage of employee earnings, or on net income for the year in 1999 and 2000. Company contributions are invested in various investment funds at the complete direction of the employee. Total Company contributions to the defined contribution plans were $10.3 million, $7.2 million and $4.5 million for 2001, 2000, and 1999, respectively.

12. Stock-Based Compensation Plans

During 2001 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"). In addition, during 2001, the Company converted a special equity bonus plan based on share price appreciation, to a stock appreciation rights plan under the Company LTIP. The plan, created for a limited number of individuals involved in the Merger, granted 574,000 stock appreciation rights with a strike price of $16.7813 and a cap of $25.4063. 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 and stock appreciation rights have ten-year terms and vesting terms of three to five years. The number of shares authorized and available for grant under this plan were approximately 50 million and 16 million, respectively, at December 31, 2001.

Upon completion of the Merger, the historic IXC options were exchanged for Company options at a rate of 2.0976 Company options for each historic IXC option. The newly issued Company options retained the same vesting provisions, option periods, and other terms and conditions as the original IXC options.

The Company follows the disclosure-only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), 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 Company 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:

	Year ended December 31		
	2001	2000	1999
	($ in millions except per share amounts)		
Net income (loss) applicable to common shareowners:			
As reported	$ (296.6)	$ (385.2)	$ 29.3
Pro forma compensation expense, net of tax benefits	(24.4)	(17.8)	(7.8)
Total pro forma	$ (321.0)	$ (403.0)	$ 21.5
Diluted earnings (loss) per share:			
As reported	$ (1.36)	$ (1.82)	$ 0.20
Pro forma	$ (1.48)	$ (1.90)	$ 0.14

The weighted average fair values at the date of grant for the Company options granted to employees were $7.40, $12.75 and $8.40 during 2001, 2000 and 1999, respectively. Such amounts were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected dividend yield	—	—	—
Expected volatility	68.7%	48.9%	48.0%
Risk-free interest rate	4.1%	5.1%	6.4%
Expected holding period — years	3	4	4

Presented below is a summary of the status of outstanding Company stock options issued to employees, options issued in the Merger and related transactions (shares in thousands):

	Shares	Weighted Average Exercise Price
Company options held by employees at January 1, 1999	7,284	$ 8.72
Options granted in Merger	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
Granted to employees	6,409	$ 30.84
Exercised	(4,745)	$ 14.17
Forfeited/expired	(3,607)	$ 22.74
Company options held by Employees at December 31, 2000	26,759	$ 18.54
Granted to employees	14,207	$ 15.96
Exercised	(2,266)	$ 9.52
Forfeited/expired	(4,931)	$ 23.09
Company options held by Employees at December 31, 2001	33,769	$ 17.40

The following table summarizes the status of Company stock options outstanding and exercisable at December 31, 2001:

		Options Outstanding					
					Options Exercisable		
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price		Shares	Exercise Price	
		Shares in thousands					
$1.44 to $9.645	9,115	8.60	$	8.84	1,753	$	5.47
$9.90 to $16.7813	11,143	6.89	$	15.43	6,062	$	14.58
$17.50 to $24.9375	8,610	8.25	$	21.56	2,626	$	20.28
$24.97 to $38.1875	4,901	8.15	$	30.51	1,145	$	31.38
Total	33,769	7.88	$	17.40	11,586	$	16.15

Restricted stock awards during 2001, 2000 and 1999 were 65,000 shares, 362,184 shares and 739,250 shares, respectively. The weighted average market value of the shares on the grant date were $24.41 in 2001, $25.54 in 2000, and $17.37 in 1999, respectively. Restricted stock awards generally vest within one to five years. Total compensation expense for restricted stock awards during 2001, 2000 and 1999 was $6.1 million, $3.8 million and $5.1 million, respectively.

In January 1999, the Company announced stock option grants to each of its then existing employees (approximately 3,500). According to the terms of this program, stock option grant recipients remaining with the Company until January 2002 can exercise their options to purchase up to 500 common shares each at an exercise price of $16.75. This plan also includes a provision for option grants to employees hired after the January 1999 grant date, in smaller amounts and at an exercise price based on the month of hire (e.g., employees hired during 2001 receive options to purchase up to 300 common shares of the Company). Grant recipients must exercise their options by January 2009. The Company does not expect a significant amount of dilution as a result of this grant.

In December 2001, the Company announced an additional stock option grant to a majority of its management employees. Each eligible employee was granted 300 options to purchase common shares at an exercise price of $9.645. The options vest over a period of three years and expire ten years from the date of grant. The Company does not expect a significant amount of dilution as a result of this grant.

13. Discontinued Operations

On May 23, 2000, the Company completed the sale of its Cincinnati Bell Supply ("CBS") subsidiary. Accordingly, the net income, net assets and net cash flows of CBS have been reported as "discontinued operations" in the 2000 and 1999 financial statements.

Summarized financial information for the discontinued operations is as follows:

	Year ended December 31,			
	2000		1999	
	($ in millions)			
Results of Operations				
Revenue	$	13.1	$	29.1
Income (loss) before income taxes		(0.9)		5.4
Income tax provision (benefit)		(0.4)		2.0
Income (loss) from operations		(0.5)		3.4
Gain on sale of discontinued operations, net of tax		0.7		—
Net income	$	0.2	$	3.4
Financial Position				
Current assets	$	0.5	$	10.4
Total assets		0.5		11.0
Current liabilities		0.1		3.0
Total liabilities		0.1		3.1
Net assets of discontinued operations	$	0.4	$	7.9

The Company incurred costs for product purchases from CBS of $0.9 million and $7.9 million in 2000 and 1999, respectively. The effective tax rates for discontinued operations in 2000 and 1999 were 44% and 37%, respectively.

14. Additional Financial Information

Balance Sheet

	Year ended December 31		
	2001	2000	Depreciable Lives (Years)
	($ in millions)		
Property, plant and equipment:			
Land and rights of way	$ 159.3	$ 157.6	20 - Indefinite
Buildings and leasehold improvements	393.0	403.7	2 - 40
Telephone plant	1,962.3	1,839.7	3 - 29
Transmission facilities	2,163.3	1,587.4	2 - 20
Furniture, fixtures, vehicles, and other	205.5	150.9	8 - 20
Construction in process	257.1	509.1	—
Subtotal	5,140.5	4,648.4	
Less: Accumulated depreciation	(2,081.0)	(1,669.4)	
Property, plant and equipment, net*	$ 3,059.5	$ 2,979.0	

	Year ended December 31		
	2001	2000	Amortization Lives (Years)
	($ in millions)		
Other intangibles:			
Assembled workforce	24.0	24.0	2 - 4
Installed customer base	399.0	399.0	2 - 20
Other intangibles	56.6	58.7	2 - 40
Subtotal	479.6	481.7	
Less: Accumulated amortization	(83.3)	(43.8)	
Other intangibles, net	$ 396.3	$ 437.9	
Other current liabilities:			
Accrued payroll and benefits	$ 31.6	$ 48.9	
Accrued interest	12.2	21.2	
Accrued restructuring costs	78.8	6.5	
Accrued cost of service	58.2	67.6	
Other current liabilities	101.7	134.2	
Total	$ 282.5	$ 278.4	
Accumulated other comprehensive income (loss):			
Unrealized gain on investments	$ —	$ 85.9	
Unrealized loss on interest rate swaps	(7.4)	—	
Additional minimum pension liability	(3.3)	(3.2)	
Total	$ (10.7)	$ 82.7	

Statement of Cash Flows

	Year ended December 31		
	2001	2000	1999
	($ in millions)		
Cash paid (received) for:			
Interest (net of amount capitalized)	$ 142.6	$ 124.9	$ 53.8
Income taxes (net of refunds)	$ (17.9)	$ (36.6)	$ 40.2
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 12 1/2% exchangeable preferred stock	$ 3.2	$ 4.1	$ 2.4

* Includes $37.4 and $40.3, respectively, of assets accounted for as capital leases, net of accumulated depreciation of $40.7 and $25.5, respectively, included in "Buildings and leasehold improvements," "Telephone plant," "Transmission facilities," and "Furniture, fixtures, vehicles and other."

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 four business segments described below.

The Broadband segment provides data and voice communication services nationwide. These services are provided over approximately 18,500 route miles of fiber-optic transmission facilities. Broadband segment revenue is generated by broadband transport through private line and indefeasible right of use ("IRU") agreements, Internet services utilizing technology based on Internet protocol ("IP"), and switched voice services provided to both wholesale and retail customers. The Broadband segment also offers data collocation, information technology consulting ("IT consulting"), network construction and other services. These services are offered nationally through the Company's Broadwing Communications Inc. subsidiary. As further discussed in Note 3 of the Notes to Consolidated Financial Statements, the Company announced its intention to exit the network construction business through the November 2001 restructuring.

The Local segment provides local telephone service, network access, high-speed Internet access, data transport services and switched long-distance, as well as other ancillary products and services to customers in southwestern Ohio, northern Kentucky and southeastern Indiana. This market consists of approximately 2,400 square miles located within a 25-mile radius of Cincinnati, Ohio. Services are provided through the Company's Cincinnati Bell Telephone ("CBT") subsidiary.

The Wireless segment includes the operations of the Cincinnati Bell Wireless LLC ("CBW") subsidiary, a venture in which the Company owns 80.1% and AT&T Wireless Services Inc. ("AWS") owns the remaining 19.9%. This segment provides advanced digital personal communications and sales of related communications equipment to customers in the Greater Cincinnati and Dayton, Ohio operating areas.

The Other segment combines the operations of Cincinnati Bell Any Distance ("CBAD"), Cincinnati Bell Directory ("CBD"), ZoomTown.com ("ZoomTown") and Cincinnati Bell Public Communications Inc. ("Public"). CBAD resells voice long-distance service, CBD publishes Yellow Pages directories, ZoomTown provides web hosting and Internet-based services and Public provides public payphone services. As further discussed in Note 3 of the Notes to Consolidated Financial

Statements, ZoomTown's managed web hosting activities will be merged into Broadwing Communications subsequent to January 1, 2002, and, going forward, will be reported in the Broadband segment. ZoomTown's DSL and internet operations will be assumed by CBT subsequent to December 31, 2001. In addition, in February 2002, the Company announced its decision to divest a substantial portion of CBD. The sale of CBD closed on March 8, 2002.

The Company evaluates performance of its segments based on EBITDA. EBITDA represents net income (loss) from continuing operations before interest, income tax expense (benefit), depreciation, amortization, restructuring and other charges (credits), minority interest expense (income), equity loss in unconsolidated entities, loss (gain) on investments, other expense (income), extraordinary items and the effect of changes in accounting principles. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net income (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. The Company has presented certain information regarding EBITDA because the Company believes that EBITDA is generally accepted as providing useful information regarding a company's ability to service and incur debt.

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 Description of Business and Accounting Policies (see Note 1 of the

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

	Year Ended December 31,		
	2001	2000	1999
		($ in millions)	
Revenue			
Broadband	$ 1,190.3	$ 999.7	$ 174.6
Local	833.2	793.9	739.9
Wireless	248.0	180.0	91.4
Other	166.3	142.2	109.3
Intersegment	(87.3)	(65.7)	(13.2)
Total Revenue	$ 2,350.5	$ 2,050.1	$ 1,102.0
Intersegment Revenue			
Broadband	$ 54.0	$ 34.1	$ —
Local	32.0	30.2	12.6
Wireless	0.9	1.0	—
Other	0.4	0.4	0.6
Total Intersegment Revenue	$ 87.3	$ 65.7	$ 13.2
EBITDA			
Broadband	$ 110.0	$ 81.4	$ 1.9
Local	422.8	392.5	319.6
Wireless	66.0	18.5	(25.6)
Other	26.6	3.6	24.4
Corporate and Eliminations	0.1	2.0	10.2
Total EBITDA	$ 625.5	$ 498.0	$ 330.5
Assets			
Broadband	$ 4,961.9	$ 5,000.3	$ 5,166.0
Local	787.8	825.0	777.2
Wireless	382.8	356.2	268.4
Other	110.4	85.0	58.6
Corporate and Eliminations	69.1	211.1	235.2
Total Assets	$ 6,312.0	$ 6,477.6	$ 6,505.4
Capital Additions			
Broadband	$ 460.7	$ 591.7	$ 166.1
Local	117.3	151.9	152.1
Wireless	52.0	84.2	55.9
Other	17.4	14.9	7.1
Corporate and Eliminations	1.1	1.2	—
Total Capital Additions	$ 648.5	$ 843.9	$ 381.2
Depreciation and Amortization			
Broadband	$ 379.5	$ 305.8	$ 52.6

Local	136.9	122.9	113.0
Wireless	28.2	21.2	14.3
Other	10.0	9.6	1.0
Corporate and Eliminations	0.3	0.2	—
Total Depreciation and Amortization	$ 554.9	$ 459.7	$ 180.9

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.

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, 2001 and 2000 were $2,665 million and $2,465 million, respectively. The estimated fair values at December 31, 2001 and 2000 were $2,449 million and $2,374 million, respectively. Long-term debt at December 31, 2000 also includes the forward sale of six million shares of PSINet common stock, as further described in Note 6 of the Notes to Consolidated Financial Statements, and settled during the first quarter of 2001. The Company adjusted the carrying amount of this liability based on its settlement value. The carrying amount of this obligation at December 31, 2000 was $3 million.

Convertible preferred stock — The fair value of the 12 1/2% Exchangeable Preferred Stock at December 31, 2001 and 2000, respectively, was $245 million and $379 million, based on the trading value of this item on those dates.

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, 2001, approximately 32% of debt was fixed-rate debt and approximately 68% were bank loans with variable interest rates. A further discussion of the Company's interest rate risk management policies can be found in Item 7A, "Qualitative and Quantitative Disclosures about Market Risk" on page 40 of this Report on Form 10-K.

17. Supplemental Guarantor Information

CBT, a wholly owned subsidiary of the Parent Company, has debt outstanding that is guaranteed by the Parent Company. Substantially all of the Parent Company's income and cash flow is generated by its subsidiaries. Generally, funds necessary to meet the Parent Company's debt service obligations are provided by distributions or advances from its subsidiaries.

The following information sets forth the condensed consolidating balance sheets of the Company as of December 31, 2001 and 2000 and the condensed consolidating statements of operations and cash flows for the three years then ended:

Condensed Consolidating Statements of Operations

	For the year ended December 31, 2001				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Revenue	$ —	$ 833.2	$ 1,604.6	$ (87.3)	$ 2,350.5
Operating costs and expenses	7.2	557.8	2,044.1	(87.3)	2,521.8
Operating income	(7.2)	275.4	(439.5)	—	(171.3)
Equity in earnings (loss) of subsidiaries	(187.7)	—	—	187.7	—
Interest expense	163.0	22.7	85.0	(102.6)	168.1
Other expense (income), net	(54.6)	(0.5)	(20.5)	102.6	27.0

	Parent	CBT	Other	Eliminations	Total
Income (loss) before income taxes, extraordinary items and cumulative effect of change in accounting principle	(303.3)	253.2	(504.0)	187.7	(366.4)
Income tax provision (benefit)	(17.1)	89.6	(152.7)	—	(80.2)
Income (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting principle	(286.2)	163.6	(351.3)	187.7	(286.2)
Income from discontinued operations, net	—	—	—	—	—
Extraordinary item, net of tax	—	—	—	—	—
Cumulative effect of a change in accounting principle, net of tax	—	—	—	—	—
Net income (loss)	$ (286.2)	$ 163.6	$ (351.3)	$ 187.7	$ (286.2)

	For the year ended December 31, 2000				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Revenue	$ —	$ 793.9	$ 1,321.9	$ (65.7)	$ 2,050.1
Operating costs and expenses	(1.4)	524.2	1,554.8	(66.6)	2,011.0
Operating income	1.4	269.7	(232.9)	0.9	39.1
Equity in earnings (loss) of subsidiaries	(296.4)	—	—	296.4	—
Interest expense	153.7	22.0	92.8	(104.9)	163.6
Other expense (income), net	(57.8)	0.4	369.0	106.0	417.6
Income (loss) before income taxes, extraordinary items and cumulative effect of change in accounting principle	(390.9)	247.3	(694.7)	296.2	(542.1)
Income tax provision (benefit)	(13.8)	86.6	(238.4)	—	(165.6)
Income (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting principle	(377.1)	160.7	(456.3)	296.2	(376.5)
Income from discontinued operations, net	—	—	—	0.2	0.2
Extraordinary item, net of tax	—	—	—	—	—
Cumulative effect of a change in accounting principle, net of tax	—	(0.8)	—	—	(0.8)
Net income (loss)	$ (377.1)	$ 159.9	$ (456.3)	$ 296.4	$ (377.1)

	For the year ended December 31, 1999				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Revenue	$ —	$ 739.9	$ 375.3	$ (13.2)	$ 1,102.0
Operating costs and expenses	(5.6)	534.3	447.7	(13.1)	963.3
Operating income	5.6	205.6	(72.4)	(0.1)	138.7
Equity in earnings (loss) of subsidiaries	55.1	—	—	(55.1)	—
Interest expense	35.8	22.8	22.0	(19.0)	61.6
Other expense (income), net	1.1	(1.0)	(8.2)	19.3	11.2
Income (loss) before income taxes, extraordinary items and cumulative effect of change in accounting principle	23.8	183.8	(86.2)	(55.5)	65.9
Income tax provision (benefit)	(7.6)	64.8	(25.9)	—	31.3
Income (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting principle	31.4	119.0	(60.3)	(55.5)	34.6

	Parent	CBT	Other	Eliminations	Total
Income from discontinued operations, net	—	—	—	3.4	3.4
Extraordinary item, net of tax	—	—	(6.6)	—	(6.6)
Cumulative effect of a change in accounting principle, net of tax	—	—	—	—	—
Net income (loss)	$ 31.4	$ 119.0	$ (66.9)	$ (52.1)	$ 31.4

Condensed Consolidating Balance Sheets

	December 31, 2001				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Cash and cash equivalents	$ 17.3	$ —	$ 12.7	$ —	$ 30.0
Receivables, net	—	100.2	220.5	—	320.7
Other current assets	6.3	42.2	68.2	2.5	119.2
Intercompany receivables — current	—	23.1	—	(23.1)	—
Total current assets	23.6	165.5	301.4	(20.6)	469.9
Property, plant and equipment, net	2.1	614.4	2,443.0	—	3,059.5
Goodwill and other intangibles, net	0.7	—	2,444.2	—	2,444.9
Investments in subsidiaries and other entities	2,158.2	—	15.3	(2,157.2)	16.3
Other noncurrent assets	117.6	7.9	251.2	(55.3)	321.4
Intercompany receivables — noncurrent	1,783.0	—	—	(1,783.0)	—
Net assets from discontinued operations	—	—	—	—	—
Total assets	$ 4,085.2	$ 787.8	$ 5,455.1	$ (4,016.1)	$ 6,312.0
Short-term debt	$ 118.8	$ 28.0	$ 3.2	$ —	$ 150.0
Accounts payable	1.9	49.2	138.8	—	189.9
Other current liabilities	36.6	89.3	445.4	9.2	580.5
Intercompany payables — current	—	—	—	—	—
Total current liabilities	157.3	166.5	587.4	9.2	920.4
Long-term debt, less current portion	2,306.3	304.2	91.5	—	2,702.0
Other noncurrent liabilities	89.4	60.7	487.3	(61.9)	575.5
Intercompany payables — noncurrent	—	—	1,806.2	(1,806.2)	—
Total liabilities	2,553.0	531.4	2,972.4	(1,858.9)	4,197.9
Minority interest	—	—	17.8	417.9	435.7
Mezzanine financing	—	—	417.9	(417.9)	—
Shareowners' equity	1,532.2	256.4	2,047.0	(2,157.2)	1,678.4
Total liabilities and shareowners' equity	$ 4,085.2	$ 787.8	$ 5,455.1	$ (4,016.1)	$ 6,312.0

	December 31, 2000				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Cash and cash equivalents	$ 5.8	$ —	$ 32.1	$ —	$ 37.9
Receivables, net	—	101.4	229.2	—	330.6
Other current assets	5.5	50.6	40.6	(2.5)	94.2
Intercompany receivables — current	—	—	—	—	—
Total current assets	11.3	152.0	301.9	(2.5)	462.7
Property, plant and equipment, net	1.3	632.2	2,345.5	—	2,979.0
Goodwill and other intangibles, net	1.1	—	2,558.3	—	2,559.4
Investments in subsidiaries and other entities	2,874.8	—	253.2	(2,873.1)	254.9
Other noncurrent assets	102.9	40.8	155.8	(78.3)	221.2
Intercompany receivables — noncurrent	1,429.6	—	—	(1,429.6)	0.0
Net assets from discontinued operations	—	—	—	0.4	0.4
Total assets	$ 4,421.0	$ 825.0	$ 5,614.7	$ (4,383.1)	$ 6,477.6
Short-term debt	$ —	$ 5.7	$ 8.3	$ —	$ 14.0
Accounts payable	9.0	45.9	201.6	—	256.5
Other current liabilities	42.0	91.3	311.4	12.1	456.8

	Parent	CBT	Other	Eliminations	Total
Intercompany payables — current	—	31.1	—	(31.1)	—
Total current liabilities	51.0	174.0	521.3	(19.0)	727.3
Long-term debt, less current portion	2,128.8	324.2	54.0	—	2,507.0
Other noncurrent liabilities	74.5	69.8	736.7	(93.0)	788.0
Intercompany payables — noncurrent	—	—	1,377.7	(1,377.7)	—
Total liabilities	2,254.3	568.0	2,689.7	(1,489.7)	4,022.3
Minority interest	423.6	—	10.2	—	433.8
Mezzanine financing	—	—	423.6	(423.6)	—
Shareowners' equity	1,743.1	257.0	2,491.2	(2,469.8)	2,021.5
Total liabilities and shareowners' equity	$ 4,421.0	$ 825.0	$ 5,614.7	$ (4,383.1)	$ 6,477.6

Condensed Consolidating Statements of Cash Flows

	For the year ended December 31, 2001				
	Parent	CBT	Other	Eliminations	Total
			($ in millions)		
Cash flows from operating activities	$ (8.0)	$ 333.6	$ (66.5)	$ —	$ 259.1
Capital expenditures	(1.1)	(117.3)	(530.1)	—	(648.5)
Other investing activities	—	—	113.9	—	113.9
Cash flows from investing activities	(1.1)	(117.3)	(416.2)	—	(534.6)
Issuance of long-term debt/(capital contributions)	210.9	(218.7)	515.8	—	508.0
Repayment of long-term debt	(200.1)	—	(3.2)	—	(203.3)
Short-term borrowings and capital leases, net	0.4	2.4	—	(0.4)	2.4
Issuance of common shares — exercise of stock options	22.5	—	—	—	22.5
Other financing activities	(13.1)	—	(49.3)	—	(62.4)
Cash flows from financing activities	20.6	(216.3)	463.3	(0.4)	267.2
Cash flows from discontinued operations	—	—	—	0.4	0.4
Increase (decrease) in cash and cash equivalents	11.5	—	(19.4)	—	(7.9)
Beginning cash and cash equivalents	5.8	—	32.1	—	37.9
Ending cash and cash equivalents	$ 17.3	$ —	$ 12.7	$ —	$ 30.0

	For the year ended December 31, 2000				
	Parent	CBT	Other	Eliminations	Total
			($ in millions)		
Cash flows from operating activities	$ (45.2)	$ 302.5	$ 8.0	$ 66.9	$ 332.2
Capital expenditures	(1.3)	(151.8)	(690.8)	—	(843.9)
Other investing activities	0.3	—	(19.8)	—	(19.5)
Cash flows from investing activities	(1.0)	(151.8)	(710.6)	—	(863.4)
Issuance of long-term debt/(capital contributions)	(33.9)	(150.7)	1,143.2	(74.6)	884.0
Repayment of long-term debt	—	—	(404.0)	—	(404.0)
Short-term borrowings and capital leases, net	9.6	—	(11.5)	—	(1.9)
Issuance of common shares — exercise of stock options					
Other financing activities	51.7	—	(49.2)	—	2.5
Cash flows from financing activities	27.4	(150.7)	678.5	(74.6)	480.6

Cash flows from discontinued operations	—	—	—	7.7	7.7
Increase (decrease) in cash and cash equivalents	(18.8)	—	(24.1)	—	(42.9)
Beginning cash and cash equivalents	24.6	—	56.2	—	80.8
Ending cash and cash equivalents	$ 5.8	$ —	$ 32.1	$ —	$ 37.9

	For the year ended December 31, 1999				
	Parent	CBT	Other	Eliminations	Total
	($ in millions)				
Cash flows from operating activities	$ (75.2)	$ 240.7	$ 64.3	$ 84.7	$ 314.5
Capital expenditures	—	(152.2)	(229.0)	—	(381.2)
Other investing activities	(314.9)	—	55.1	—	(259.8)
Cash flows from investing activities	(314.9)	(152.2)	(173.9)	—	(641.0)
Issuance of long-term debt/(capital contributions)	962.7	(88.5)	551.4	(250.6)	1,175.0
Repayment of long-term debt	—	—	(387.1)	165.9	(221.2)
Short-term borrowings and capital leases, net	(371.4)	—	—	—	(371.4)
Issuance of common shares — exercise of stock options					
Other financing activities	(185.2)	—	—	—	(185.2)
Cash flows from financing activities	406.1	(88.5)	164.3	(84.7)	397.2
Cash flows from discontinued operations	—	—	—	—	—
Increase (decrease) in cash and cash equivalents	16.0	—	54.7	—	70.7
Beginning cash and cash equivalents	8.6	—	1.5	—	10.1
Ending cash and cash equivalents	$ 24.6	$ —	$ 56.2	$ —	$ 80.8

18. Quarterly Financial Information (Unaudited)

	2001				
	First	Second	Third	Fourth	Total
	($ in millions except per common share amounts)				
Revenue	$ 578.3	$ 608.0	$ 597.9	$ 566.3	$ 2,350.5
Operating income	17.5	26.9	22.2	(237.9)	(171.3)
Loss from:					
Continuing operations before extraordinary item and cumulative effect of change in accounting principle	(34.0)	(28.7)	(27.9)	(195.6)	(286.2)
Net loss	$ (34.0)	$ (28.7)	$ (27.9)	$ (195.6)	$ (286.2)
Basic and diluted earnings per common share	$ (0.17)	$ (0.14)	$ (0.14)	$ (0.91)	$ (1.36)
EBITDA	$ 154.7	$ 162.0	$ 165.6	$ 143.2	$ 625.5

	2000				
	First	Second	Third	Fourth	Total
	($ in millions except per common share amounts)				
Revenue	$ 460.2	$ 497.8	$ 531.2	$ 560.9	$ 2,050.1
Operating income	(25.6)	20.7	20.1	24.0	39.1
Loss from:					
Continuing operations before extraordinary item and cumulative effect of change in accounting principle	(55.6)	(29.5)	(23.4)	(267.8)	(376.5)

Discontinued operations		0.1		0.2		0.1		(0.3)		0.2
Extraordinary item and cumulative effect of change in accounting principle		(0.8)		—		—		—		(0.8)
Net loss	$	(56.3)	$	(29.3)	$	(23.3)	$	(268.1)	$	(377.1)
Basic and diluted earnings per common share	$	(0.28)	$	(0.15)	$	(0.12)	$	(1.26)	$	(1.82)
EBITDA	$	85.0	$	129.7	$	137.3	$	146.0	$	498.0

In the first quarter of 2000, the Company incurred a charge of $0.8 million, net of tax, associated with the adoption of SAB 101 and presented as a cumulative effect of change in accounting principle (further described in Note 1 of the Notes to Consolidated Financial Statements). Revenue and

expenses appearing in the above table have been restated to reflect the adoption of SAB 101 on January 1, 2000.

In the fourth quarter of 2000, the Company incurred a pretax charge of $405 million in order to write down its portfolio of minority equity investments to market value at December 31, 2000. The Company also recognized approximately $17 million in pretax gains resulting from the liquidation of the Company's investment in PurchasePro.com. The net effect of these investment losses reduced earnings per share by $1.08 in the fourth quarter.

In the fourth quarter of 2001, the Company incurred a pretax charge included in operating income of $232 million related to restructuring activities and asset impairments. The net effect of these restructuring charges reduced earnings per share by $0.69 in the fourth quarter.

19. Commitments and Contingencies

Lease Commitments

The Company leases certain facilities and equipment used in its operations. Total rental expenses were approximately $42 million, $32 million and $23 million in 2001, 2000 and 1999, respectively.

At December 31, 2001, the total minimum annual rental commitments, excluding interest, under noncancelable leases are as follows:

		Operating Leases		Capital Leases
		($ in millions)		
2002	$	42.1	$	11.2
2003		37.8		8.4
2004		33.8		5.4
2005		26.5		3.1
2006		19.2		2.3
Thereafter		85.0		18.3
Total	$	244.4	$	48.7

Commitments

The Company's Broadwing Communications subsidiary entered into a purchase commitment with Corvis Corporation, a Columbia, Maryland-based manufacturer of optical network equipment. The agreement specifies that the Company will purchase $200 million in optical network equipment from Corvis Corporation over a two-year period beginning in July 2000. As of December 31, 2001, the Company had satisfied $180 million of this purchase commitment. In 2000, the Company also entered into a separate agreement giving it the right to purchase at fair value $30 million of Series H preferred stock at $80.53 per share and $5 million of the common stock of Corvis at the initial public offering price. The Company subsequently exercised these rights during the second and third quarters of 2000. The established prices for these Corvis equity purchases reflect the contemporaneous fair value of the equity, as evidenced by independent third party investor purchases of this equity in the same timeframe.

In 2001, the Company's Broadwing Communications subsidiary entered into two separate agreements with Teleglobe Inc. ("Teleglobe"), a Reston, Virginia-based telecommunications company. One agreement states that the Company will sell Teleglobe $180 million of IRU services over three years. The second agreement states that over four years the Company would purchase $90 million of services and equipment from Teleglobe. Purchases under this commitment will primarily consist of international voice and data services and will be expensed as incurred. The remaining commitment will be satisfied through the purchase of equipment and collocation services. As of December 31, 2001, the Company had satisfied $25 million of its commitment to Teleglobe.

In 2001 and 2000, the Company's Broadwing Communications subsidiary entered into agreements with two vendors to provide bundled internet access to the Company's customers based on a monthly maintenance fee. As of December 31, 2001, Broadwing Communications has committed to purchase approximately $76 million bundled internet access over three years from these vendors. These services were previously purchased from other vendors on a usage basis.

The Company's Broadwing Communications subsidiary has committed to expenditures of approximately $32 million in order to satisfy the contractual commitments with respect to its network construction projects.

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 that are not predictable with assurance. However, the Company believes that the resolution of such matters for amounts in excess of those accounted for in the consolidated financial statements would not likely have a materially adverse effect on the Company's financial condition.

A total of 26 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. After completing its internal investigation of the charges and cooperating fully with the EEOC, the Company and the complainants participated in a voluntary mediation proceeding conducted by the EEOC. Through the mediation process in 2000 and 2001, the Company was able to reach settlement with all 26 complainants for immaterial amounts. The Company also entered into a Conciliation Agreement with the EEOC. As this matter has now concluded with no further material exposure seen for the Company, this item will no longer appear in future Company reports unless circumstances change.

20. Subsequent Events

In February 2002, the Company announced an agreement to sell 97.5% of its Cincinnati Bell Directory ("CBD") subsidiary to a group of investors for $345 million in cash. The Company will maintain a 2.5% minority interest in the new company and will account for its investment in that company as a cost-based investment under the provisions of SFAS 115. The Company closed the sale of CBD on March 8, 2002.

In February 2002, the Company's corporate credit rating was downgraded by Moody's Investors Service to Ba3 from its previous level of Ba1. In March 2002, the Company's corporate credit rating was downgraded by Standard and Poor's and Fitch Rating Service to BB from its previous level of BB+. These downgrades will result in additional cash interest expense of 50 basis points on up to $1.65 billion of the Company's $2.3 billion credit facility, thereby increasing interest expense by $6 million to $8 million annually. In the past, the credit facility was secured only by a pledge of the stock certificates of certain subsidiaries of the Company. Upon the downgrades, the Company became obligated to provide certain subsidiary guarantees and liens on the assets of the Company and certain subsidiaries in addition to the stock certificates of the subsidiaries.

In March 2002, the Company obtained an amendment to its $2.3 billion credit facility to allow for the sale of CBD, exclude charges related to SFAS 142, increase its ability to incur additional indebtedness and amend certain defined terms.

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 Inc. can be found in the Proxy Statement for the Company's 2002 Annual Meeting of Shareholders, dated March 22, 2002, 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 2002 Annual Meeting of Shareholders dated March 22, 2002 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
(3)(a)	Amended Articles of Incorporation of Broadwing Inc. (Exhibit (3)(a) to Form 10-Q for the three months ended June 30, 2000, File No. 1-8519).
(3)(b)	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 Exhibit (3)(a) hereto and such Amended Regulations filed as Exhibit (3)(b) 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. 7 1/4% 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 4 3/8% 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, 1999, File No. (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.
(10)(i)(1)	Credit Agreement dated as of November 9, 1999, amended and restated as of January 12, 2000, and amended as of March 1, 2002 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. (original agreement filed as Exhibit 10.1 to Form 8-K, date of report November 12, 1999, File No. 1-8519).
(10)(i)(2)+	Asset Purchase Agreement by and among Broadwing Inc., Cincinnati Bell Directory Inc. and CBD Media, Inc. dated as of February 4, 2002.

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(10)(iii)(A)(1)*	Short Term Incentive Plan of Broadwing Inc., as amended and restated effective July 24, 2000. (Exhibit (10)(iii)(A)(1) to Form 10-Q for the three months ended June 30, 2000, File No. 1-8519).
(10)(iii)(A)(2)*	Broadwing Inc. Deferred Compensation Plan for Outside Directors, as amended and restated effective July 24, 2000. (Exhibit (10)(iii)(A)(3) to Form 10-Q for the three months ended June 30, 2000, File No. 1-8519).
(10)(iii)(A)(3)(i)*	Broadwing Inc. Pension Program, as amended and restated effective July 24, 2000. (Exhibit (10)(iii)(A)(4) to Form 10-Q for the three months ended June 30, 2000, 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)*	Broadwing Inc. Executive Deferred Compensation Plan, as amended and restated effective July 24, 2000. (Exhibit (10)(iii)(A)(5) to Form 10-Q for the three months ended June 30, 2000, File No. 1-8519).
(10)(iii)(A)(5)*	Broadwing Inc. 1997 Long Term Incentive Plan, as amended and restated effective July 24, 2000. (Exhibit (10)(iii)(A)(1) to Form 10-Q for the three months ended June 30, 2000, File No. 1-8519).
(10)(iii)(A)(6)*	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)(7)*	Cincinnati Bell Inc. 1989 Stock Option Plan. (Exhibit (10)(iii)(A)(14) to Form 10-K for 1989, File No. 1-8519).
(10)(iii)(A)(8)*	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)(9)*	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)(10)*+	Employment Agreement dated December 4, 2001 between the Company and Michael W. Callaghan.
(10)(iii)(A)(11)*	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).

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(10)(iii)(A)(12)*	Employment Agreement dated January 1, 1999 between the Company and John F. Cassidy. (Exhibit (10)(iii)(A)(8) to Form 10-K for 1999, File No. 1-8519).
(10)(iii)(A)(13)*	Employment Agreement effective January 1, 2000 between the Company and Jeffrey C. Smith. (Exhibit (10)(iii)(A)(12) to Form 10-Q for the quarter ended March 31, 2001, File No. 1-8519)
(12)+	Ratio of Earnings to Fixed Charges.
(21)+	Subsidiaries of the Registrant.
(23)+	Consent of Independent Accountants.
(24)+	Powers of Attorney.

+ Filed herewith.

* Management contract or compensatory plan required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

Upon request, the Company will furnish a copy of the Proxy Statement to its security holders without charge, portions of which are incorporated herein by reference. The Company will furnish any other exhibit at cost.

Reports on Form 8-K.

Form 8-K, date of report February 11, 2002, reporting that the Company had entered into an Asset Purchase Agreement pursuant to which it had agreed to sell a substantial portion of its Cincinnati Bell Directory subsidiary. As a result of the sale, the Company revised its 2002 projections for revenue and earnings before interest, taxes, depreciation and amortization.

Form 8-K, date of report December 14, 2001, reporting that the Company's lenders had approved an amendment to its Credit Agreement allowing the Company to exclude the effects of its November 2001 restructuring charge from the covenant calculations.

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Schedule II

BROADWING INC.
VALUATION AND QUALIFYING ACCOUNTS
($ in millions)

	Balance at Beginning	Additions: Charged to	Additions: Charged to Other		Balance At End

	of Period	Expenses	Accounts	Deductions	of Period
Allowance for Doubtful Accounts					
Year 2001	$ 49.0	$ 93.6	$ —	$ 104.5	$ 38.1
Year 2000	$ 53.6	$ 67.3	$ 1.1(a)	$ 73.0(b)	$ 49.0
Year 1999	$ 12.0	$ 21.1	$ 51.6(a)	$ 31.1(b)	$ 53.6
Deferred Tax Valuation Allowance					
Year 2001	$ 46.6	$ 38.4	$ —	$ —	$ 85.0
Year 2000	$ 17.1	$ 30.1	$ —	$ 0.6(d)	$ 46.6
Year 1999	$ 0.6	$ —	$ 16.5(c)	$ —	$ 17.1

(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 November 9, 1999 as part of the Merger.

(b) Primarily includes amounts written off as uncollectible.

(c) Includes amounts assumed as part of the Merger.

(d) Includes amount reversed when benefit was realized.

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 INC.

March 11, 2002

By: /s/ MARY E. MCCANN

Mary E. McCann
Senior Vice President, Corporate Finance

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* Richard G. Ellenberger	Principal Executive Officer; President, Chief Executive Officer and Chairman-Elect	
LAWRENCE J. BOUMAN* Lawrence J. Bouman	Director	
PHILLIP R. COX* Phillip R. Cox	Director	
J. TAYLOR CRANDALL* J. Taylor Crandall	Director	
WILLIAM A. FRIEDLANDER* William A. Friedlander	Director	
KAREN M. HOGUET* Karen M. Hoguet	Director	

JAMES D. KIGGEN*	Chairman of the Board and Director
James D. Kiggen	
DANIEL J. MEYER*	
Daniel J. Meyer	Director
MARY D. NELSON*	
Mary D. Nelson	Director

CARL REDFIELD*	
Carl Redfield	Director
DAVID B. SHARROCK*	
David B. Sharrock	Director
JOHN M. ZRNO*	
John M. Zrno	Director

*By: /s/ RICHARD G. ELLENBERGER

Richard G. Ellenberger
as attorney-in-fact and on his behalf as Principle Executive Officer; President, Chief Executive Officer and Chairman-Elect

March 11, 2002

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Schedule II BROADWING INC. VALUATION AND QUALIFYING ACCOUNTS ($ in millions)
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Exhibit (10)(i)(2)

EXECUTION COPY

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ASSET PURCHASE AGREEMENT

by and among

BROADWING INC.,

CINCINNATI BELL
DIRECTORY INC.

and

CBD MEDIA, INC.

Dated as of February 4, 2002

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ASSET PURCHASE AGREEMENT dated as of January 30, 2002, among BROADWING INC., an Ohio corporation ("SELLER"), CINCINNATI BELL DIRECTORY INC., an Ohio corporation and a wholly owned subsidiary of Seller ("SELLER SUB"), and CBD MEDIA, INC., a Delaware corporation ("PURCHASER").

WHEREAS Seller and Seller Sub desire to sell to Purchaser, and Purchaser desires to purchase from Seller and Seller Sub, substantially all of the assets related to Seller's and Seller Sub's (i) telephone directory businesses, including all primary, metro and suburban, business to business and underlay, whether in written or electronic form, or displayed on the internet or other dissemination device; (ii) all products and services relating to the products and services included in clause (i); (iii) all internet initiatives and websites relating primarily to any of the foregoing; and (iv) all web hosting, website design and similar activities currently engaged in by Seller or Seller Sub primarily related to the products and services described in clauses (i) and (ii) (it being understood that in each case this shall not include any business related to White Pages directories or operator-assisted "411" or similar telephone services) (collectively, the "BUSINESS"), upon the terms and subject to the conditions of this Agreement;

WHEREAS in order to induce Purchaser, Seller and Seller Sub to consummate the transactions contemplated by this Agreement, Purchaser, Seller and Seller Sub have entered into a trademark license agreement (the "LICENSE AGREEMENT") dated as of the date of this Agreement and certain other service agreements (the "SERVICE AGREEMENTS"), each dated as of the date of this Agreement attached hereto as Exhibits A-1 through A- 4; Purchaser and Seller have also entered into a Directory Business Agreement (the "DIRECTORY BUSINESS AGREEMENT") dated as of the date of this Agreement attached hereto as Exhibit C .

WHEREAS the Boards of Directors of Seller and Seller Sub, by resolutions duly adopted, have determined the sale of the Business to Purchaser to be in the best interests of Seller and Seller Sub, and the Board of Directors of Purchaser, by resolutions duly adopted, have determined the purchase of the Business to be in the best interests of Purchaser, and in each case have approved this Agreement, the License Agreement, the Service Agreements and the transactions contemplated hereby and thereby upon the terms and subject to the conditions set forth herein and therein.

NOW, THEREFORE, the parties hereby agree as follows:

ARTICLE I

PURCHASE AND SALE OF ACQUIRED ASSETS

SECTION 1.01. PURCHASE AND SALE. On the terms and subject to the conditions of this Agreement, at the Closing, Seller and Seller Sub shall sell, assign, transfer, convey and deliver to Purchaser, and Purchaser shall purchase from Seller and Seller Sub, all the right, title and interest as of the Closing of Seller and Seller Sub in, to and under the Acquired Assets, for (a) an aggregate purchase price of $353,846,000 (the "PURCHASE PRICE"), payable as set forth in Section 2.02 and subject to adjustment as set forth in Section 1.05 and taking into account, if necessary, any credit against the Purchase Price pursuant to Section 2.02(a)(i), and (b) the assumption of the Assumed Liabilities. The purchase and sale of the Acquired Assets and the assumption of the Assumed Liabilities is referred to in this Agreement as the "ACQUISITION".

SECTION 1.02. ACQUIRED ASSETS AND EXCLUDED ASSETS. (a) The term "ACQUIRED ASSETS" means all the right, title and interest of Seller and Seller Sub in all the business, properties, assets, goodwill and rights of Seller and Seller Sub of whatever kind and nature, real or personal, tangible or intangible, that are owned, controlled, leased or licensed by Seller or Seller Sub on the Closing Date and used, held for use or intended to be used primarily in the operation or conduct of the Business, other than the Excluded Assets, including:

(i) all Leased Property and the improvements and fixtures thereon, furniture and other appurtenances thereto (the "LEASEHOLD IMPROVEMENTS");

(ii) all raw materials, work in process, supplies, packaging and other inventories of Seller or Seller Sub (including those located on the Leased Property, in transit, on consignment or in the possession of any third party) on the Closing Date that are used, held for use or intended to be used primarily in the operation or conduct of the Business (collectively, the "INVENTORY");

(iii) all other tangible personal property and interests therein, including all machinery, equipment, furniture, furnishings and vehicles, of Seller or Seller Sub that are used, held for use or intended to be used primarily in the operation or conduct of the Business (the "PERSONAL PROPERTY");

(iv) all accounts receivable of Seller or Seller Sub on the Closing Date to the extent arising out of the operation or conduct of the Business (the "RECEIVABLES");

(v) all Trademarks (except the Licensed Trademarks), Patents, Copyrights, Domain Names and Trade Secrets (collectively, "INTELLECTUAL PROPERTY") of Seller or Seller

Sub that are used, held for use or intended to be used primarily in the operation of the Business (the "ASSIGNED INTELLECTUAL PROPERTY");

(vi) subject to Section 1.04, all Permits of Seller or Seller Sub that are used, held for use or intended to be used primarily in the operation or conduct of the Business (the "ASSIGNED PERMITS");

(vii) subject to Section 1.04, all contracts, leases, subleases, licenses, indentures, agreements, commitments and all other legally binding arrangements, whether oral or written ("CONTRACTS"), to which Seller or Seller Sub is a party or by which Seller or Seller Sub is bound that are denoted on Schedule 3.06(a) or 3.08 as "Assigned Contracts," and all other Contracts (including purchase orders and sales orders) that are not required to be listed on Schedule 3.06(a) or 3.08 to which Seller or Seller Sub is a party or by which Seller or Seller Sub is bound that are used, held for use or intended to be used primarily in, or that arise primarily out of, the operation or conduct of the Business or to which the Acquired Assets are subject (the "ASSIGNED CONTRACTS"), including any rights thereunder arising after the Closing;

(viii) all rights in and to products sold or leased (including products returned after the Closing and rights of rescission, replevin and reclamation) in the operation or conduct of the Business;

(ix) all credits, prepaid expenses, deferred charges, advance payments, security deposits and prepaid items that are used, held for use or intended to be used primarily in, or that arise primarily out of, the operation or conduct of the Business;

(x) all rights, claims, causes of action, rights of set-off, rights to payment or to enforce payment and credits to the extent relating to any other Acquired Asset or any Assumed Liability, including any such items arising under insurance policies and all guarantees, warranties, indemnities and similar rights in favor of Seller or Seller Sub in respect of any other Acquired Asset, any product or service to the extent provided or purchased in connection with the Business or any Assumed Liability;

(xi) all information technology systems that are used, held for use or intended to be used primarily in the operation or conduct of the Business;

(xii) all hardware lines, software, communications lines and infrastructure items, telephone numbers, websites, domain names, internet addresses, art work and office and other supplies of Seller or Seller Sub that are used, held for use or intended to be used primarily in the operation or conduct of the Business;

(xiii) all books of account, ledgers, general, financial, accounting and personnel records, files, invoices, customers' and suppliers' lists, other distribution lists, billing records, sales and promotional literature, manuals, customer and supplier correspondence (in all cases, in any form or medium), of Seller or Seller Sub that are used, held for use or intended to be used primarily in, or that arise primarily out of, the operation or conduct of the Business (the "RECORDS");

(xiv) any assets to be transferred pursuant to Section 5.09;

(xv) all other assets reflected on the Balance Sheet; and

(xvi) all goodwill generated by or associated with the Business;

(b) The term "EXCLUDED ASSETS" means:

(i) all assets identified on Schedule 1.02(b)(i);

(ii) all cash and cash equivalents of Seller or Seller Sub;

(iii) all Contracts to which Seller or Seller Sub is a party or by which Seller or Seller Sub is bound that are listed on Schedule 3.06(a) or 3.08, but which are not "ASSIGNED CONTRACTS" and all other Contracts that are not required to be listed on Schedule 3.06(a) or 3.08 to which Seller or Seller Sub is a party or by which Seller or Seller Sub is bound that are not used, held for use or intended to be used primarily in, or that do not arise primarily out of, the operation or conduct of the Business or to which the Acquired Assets are not subject;

(iv) all rights, claims, causes of action, rights of set-off, rights to payment or to enforce payment and credits of Seller or Seller Sub to the extent relating to any other Excluded Asset or any Excluded Liability, including any such items arising under insurance policies and all guarantees, warranties, indemnities and similar rights in favor of Seller or Seller Sub in respect of any other Excluded Asset or any Excluded Liability;

(v) except as specifically provided in Section 5.09, all the assets of the Seller Benefit Plans;

(vi) all rights of Seller or Seller Sub under this Agreement, the Service Agreements, the License Agreement and the other agreements and instruments executed and delivered in connection with this Agreement (the "ANCILLARY AGREEMENTS");

(vii) all Trademarks identified on Schedule 1.02(b)(vii) (the "LICENSED TRADEMARKS");

(viii) all goodwill generated by or associated with the Licensed Trademarks;

(ix) all records prepared in connection with the sale of the Business to Purchaser; and

(x) all financial and tax records relating to the Business that form part of Seller's general ledger, except that Purchaser shall receive a copy of the portion of any such records that relate to the Business in any respect.

SECTION 1.03. ASSUMPTION OF CERTAIN LIABILITIES. (a) Upon the terms and subject to the conditions of this Agreement, Purchaser shall assume, effective as of the Closing, and from and after the Closing Purchaser shall pay, perform and discharge when due, all the following liabilities, obligations and commitments of Seller and Seller Sub (the "ASSUMED LIABILITIES"):

(i) any liability, obligation or commitment relating to or arising out of the Business or any Acquired Asset, whether express or implied, liquidated, absolute, accrued, contingent or otherwise, or known or unknown, and based upon, arising out of or resulting from any fact, circumstance, occurrence, condition, act or omission occurring after the Closing Date , but not based on, arising out of or resulting from any fact, circumstance, occurrence, condition, act or omission existing on or occurring on or prior to the Closing Date;

(ii) all liabilities, obligations and commitments of Seller or Seller Sub under the Assigned Contracts arising after the Closing Date, except obligations, liabilities or obligations arising out of any actual or alleged breach on or prior to the Closing Date by Seller or Seller Sub of, or nonperformance on or prior to the Closing Date by Seller or Seller Sub under, any Assigned Contract; and

(iii) all accounts payable and accrued expenses of Seller or Seller Sub arising out of the operation or conduct of the Business on or prior to the Closing Date, but only to the extent included in Closing Working Capital.

(b) Except as set forth in Section 1.03(a), and notwithstanding any other provision of this Agreement or any Ancillary Agreement, Purchaser shall not assume any liabilities, obligations and commitments of Seller and Seller Sub (the "EXCLUDED LIABILITIES"), all of which shall be retained and paid, performed and discharged when due by Seller and Seller Sub, including:

(i) any liability, obligation or commitment of Seller or Seller Sub not specifically listed in Section 1.03(a);

(ii) any liability, obligation or commitment of Seller or Seller Sub, except as specifically set forth in Section 1.03(a), relating to or arising out of the Business or any Acquired Asset, whether express or implied, liquidated, absolute, accrued, contingent or otherwise, or known or unknown, and based upon, arising out of or resulting from any fact, circumstance, occurrence, condition, act or omission existing on or occurring on or prior to the Closing Date;

(iii) any liability, obligation or commitment of Seller or Seller Sub, whether express or implied, liquidated, absolute, accrued, contingent or otherwise, or known or unknown, arising primarily out of the operation or conduct by Seller or any of its affiliates of any business other than the Business;

(iv) any liability, obligation or commitment of Seller or Seller Sub arising primarily out of any actual or alleged breach by Seller or Seller Sub of, or nonperformance by Seller or Seller Sub under, any Contract (including any Assigned Contract) on or prior to the Closing;

(v) any liability, obligation or commitment of Seller or Seller Sub arising primarily out of (A) any claim, suit, action or proceeding ("PROCEEDING") pending or, to the knowledge of Seller or Seller Sub, threatened as of the Closing Date or (B) any actual or alleged violation by Seller or any of its affiliates of any Applicable Law on or prior to the Closing;

(vi) any account payable or accrued expense of Seller or Seller Sub to the extent not included in Closing Working Capital and any indebtedness for borrowed money or guarantees thereof;

(vii) any liability, obligation or commitment of Seller or Seller Sub to the extent it relates to, or that arises out of, any Excluded Asset, or that arises out of the distribution to, or ownership by, Seller or Seller Sub of the Excluded Assets or associated with the realization of the benefits of any Excluded Asset;

(viii) any liability, obligation or commitment for Taxes, whether or not accrued, assessed or currently due and payable, (A) of Seller or Seller Sub (including any and all income Taxes of each of Seller and Seller Sub), or for which either of Seller and Seller Sub is liable, under Treasury Regulation section 1.1502-6, as a transferee, by contract, or otherwise, or (B) levied with respect to the Acquired Assets for the Pre-Closing Tax Period as provided in Section 5.18(b) and in any case which have not been explicitly assumed by Purchaser pursuant to this Agreement;

(ix) except as expressly provided in Section 5.09, any liability, obligation or commitment of Seller or Seller Sub arising under any Seller Benefit Plan;

(x) any liability, obligation or commitment arising under any Environmental Law in respect of the Acquired Assets or Business, to the extent arising out of conditions existing or events occurring on or prior to the Closing Date;

(xi) any liability, obligation or commitment of Seller or Seller Sub that relates to, or that arises out of, services performed or products manufactured, shipped or sold by or on behalf of Seller or Seller Sub on or prior to the Closing Date (including claims of negligence, personal injury, product damage, product liability, product warranties, promotional obligations, strict liability, product recall or any other claims (including workers' compensation, employer's liability or otherwise)), whether such liability, obligation or commitment relates to or arises out of accidents, injuries or losses occurring on or prior to the Closing Date;

(xii) any liability, obligation or commitment of Seller or Seller Sub that relates to, or that arises out of, the termination of the employment with Seller or Seller Sub of any Business Employee, former Business Employee or service provider of the Business (including as a result of the transactions contemplated by this Agreement) or the service of any employee or consultant with Seller or Seller Sub on or prior to the Closing Date, including any salary, severance, bonuses, vacation, stock options or other employee benefits, rights or obligations under any Seller Benefit Plan, except to the extent expressly provided otherwise in Section 5.09; and

(xiii) any liability, obligation or commitment of Seller or Seller Sub to any of their respective affiliates.

(c) Purchaser shall acquire the Acquired Assets free and clear of all liabilities, obligations and commitments of Seller or Seller Sub, other than the Assumed Liabilities, and free and clear of all Liens, other than Permitted Liens.

(d) Seller and Purchaser acknowledge that certain expenses of the Business are paid on a periodic basis. Accordingly, the items listed below, to the extent not included in Closing Working Capital, shall be apportioned between Seller and Seller Sub and Purchaser, with Seller and Seller Sub being responsible for all such expenses attributable to periods on or prior to the Closing Date, and Purchaser being responsible for all expenses attributable to periods after the Closing Date:

(i) prepaid rent, tenant utility payments and all other percentage or additional rent, common area maintenance and sundry charges (including any HVAC charges) and commissions paid by tenants;

(ii) utility company charges, including electricity, gas, fuel, water and sewer charges;

(iii) general and special assessments and other public or private charges affecting the Leased Property; and

(iv) other items typically apportioned in sale of assets transactions of the type contemplated by this Agreement.

SECTION 1.04. CONSENTS OF THIRD PARTIES. (a) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any asset or any claim or right or any benefit arising under or resulting from such asset if an attempted assignment thereof, without the consent of a third party, would constitute a breach or other contravention of the rights of such third party, would be ineffective with respect to any party to an agreement concerning such asset, or would in any way adversely affect the rights of Seller or Seller Sub or, upon transfer, Purchaser under such asset. If any transfer or assignment by Seller or Seller Sub to, or any assumption by Purchaser of, any interest in, or liability, obligation or commitment under, any asset requires the consent of a third party, then such assignment or assumption shall be made subject to such consent being obtained.

(b) If any such consent is not obtained prior to the Closing, Seller, Seller Sub and Purchaser shall cooperate (at their own expense) in any lawful and reasonable arrangement reasonably proposed by Purchaser under which Purchaser shall obtain the economic claims, rights and benefits under the asset, claim or right with respect to which the consent has not been obtained in accordance with this Agreement. Such reasonable arrangement may include (i) the subcontracting, sublicensing or subleasing to Purchaser of any and all rights of Seller and Seller Sub against the other party to such third-party agreement arising out of a breach or cancelation thereof by the other party and (ii) the enforcement by Seller or Seller Sub of such rights.

SECTION 1.05. PURCHASE PRICE ADJUSTMENT. (a) Within 60 days after the Closing Date, Purchaser shall prepare and deliver to Seller a statement (the "STATEMENT"), certified by Purchaser's independent auditors, setting forth Working Capital as of the close of business on the Closing Date ("CLOSING WORKING CAPITAL") and a certificate of Purchaser that the Statement has been prepared in compliance with the requirements of this Section 1.05. Seller's independent auditors may participate in the preparation of the Statement and review working papers of Purchaser's accountants; provided, however, that Seller acknowledges that Purchaser shall have the primary responsibility and authority for preparing the Statement and Purchaser's independent auditors shall have the primary responsibility and authority for certifying the Statement.

(b) During the 30-day period following Seller's receipt of the Statement, Seller and its independent auditors shall be permitted to review the working papers relating to the Statement and Purchaser shall cooperate with Seller and its independent auditors to provide them with any other information used in preparing the Statement reasonably requested by Seller and their independent auditors. The Statement shall become final and binding upon the parties on the 30th day following delivery thereof, unless Seller gives written notice of its disagreement with the Statement (a "NOTICE OF DISAGREEMENT") to Purchaser prior to such date. Any Notice of Disagreement shall (i) specify in reasonable detail the nature of any disagreement so asserted and (ii) only include disagreements based on errors of fact or mathematical errors in the Balance Sheet and/or the Statement or based on Closing Working Capital not being calculated in accordance with this Section 1.05. If a Notice of Disagreement is received by Purchaser in a timely manner, then the Statement (as revised in accordance with this sentence) shall become final and binding upon Seller and Purchaser on the earlier of (A) the date Seller and Purchaser resolve in writing any differences they have with respect to the matters specified in the Notice of Disagreement or (B) the date any disputed matters are finally resolved in writing by the Accounting Firm. During the 30-day period following the delivery of a Notice of Disagreement, Seller and Purchaser shall seek in good faith to resolve in writing any differences that they may have with respect to the matters specified in the Notice of Disagreement. During such period Purchaser and its auditors shall have access to the working papers of Seller's auditors prepared in connection with their certification of the Notice of Disagreement. At the end of such 30-day period, Seller and Purchaser shall submit to an independent accounting firm (the "ACCOUNTING FIRM") for arbitration any and all matters that remain in dispute and were properly included in the Notice of Disagreement, in the form of a written brief. The Accounting Firm shall be Deloitte & Touche LLP or, if such firm is unable or unwilling to act, such other nationally recognized independent public accounting firm as shall be agreed upon by the parties hereto in writing. Seller and Purchaser agree to use reasonable efforts to cause the Accounting Firm to render a decision resolving any matters submitted to the Accounting Firm within 30 days following submission. Judgment may be entered upon the determination of the Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced. The cost of any arbitration (including the fees and expenses of the Accounting Firm and reasonable attorney fees and expenses of the parties) pursuant to this Section

1.05 shall be borne by Purchaser and Seller in inverse proportion as they may prevail on matters resolved by the Accounting Firm, which proportionate allocations shall also be determined by the Accounting Firm at the time the determination of the Accounting Firm is rendered on the merits of the matters submitted. The fees and disbursements of Purchaser's independent auditors incurred in connection with their certification of the Statement and review of any Notice of Disagreement shall be borne by Purchaser, and the fees and disbursements of Seller's independent auditors incurred in connection with their review of the Statement and any Notice of Disagreement shall be borne by Seller.

(c) The Purchase Price shall be increased by the amount by which Closing Working Capital exceeds $16,657,500 (the "WC AMOUNT"), and the Purchase Price shall be decreased by the amount by which Closing Working Capital is less than the WC Amount (the Purchase Price as so increased or decreased shall hereinafter be referred to as the "ADJUSTED PURCHASE PRICE"). If the Purchase Price is less than the Adjusted Purchase Price, Purchaser shall, and if the Purchase Price is more than the Adjusted Purchase Price, Seller shall, within 5 business days after the Statement becomes final and binding on the parties, make payment by wire transfer in immediately available funds of the amount of such difference, together with interest thereon at a rate equal to the rate of interest from time to time announced publicly by Citibank, N.A., as its prime rate, calculated on the basis of the actual number of days elapsed divided by 365, from the Closing Date to the date of payment.

(d) The term "WORKING CAPITAL" means Current Assets minus Current Liabilities. The terms "CURRENT ASSETS" and "CURRENT LIABILITIES" mean the current assets and current liabilities, respectively, of the Business, calculated in the same way, using the same accounting methods, as the line items on the Balance Sheet (which in each case for purposes of this Section 1.05 shall exclude any Excluded Assets and Excluded Liabilities). Attached hereto as Schedule 1.05 is a form of the Working Capital Statement that identifies the specific line items and adjustments that will be included in Working Capital. Without limiting the generality of the foregoing, Closing Working Capital is to be calculated in the same way, using the same accounting methods, as the line items comprising Working Capital on the Balance Sheet, whether or not doing so is in accordance with United States generally accepted accounting principles ("GAAP"). The foregoing principles are referred to in this Agreement as the "BALANCE SHEET PRINCIPLES". The adjustment contemplated by this Section 1.05 is intended to show the change in Working Capital from the date of the Balance Sheet to the Closing Date, and such change can only be measured if the calculation is done in the same way using the same accounting methods, for both dates. The scope of the disputes to be resolved by the Accounting Firm shall be limited to disputes concerning whether such calculation was done in accordance with the Balance Sheet Principles, and whether there were errors of fact or mathematical errors in the Statement or the Balance Sheet, and the Accounting Firm is not to make any other determination, including any determination as to whether GAAP was followed for the Balance Sheet or the Statement or as to whether the WC Amount is correct. Any items on or omissions from the Balance Sheet that are not in accordance with

GAAP, but which are in accordance with the Balance Sheet Principles, shall be retained for purposes of calculating Closing Working Capital.

(e) To the extent such actions could affect the Statement, from the Closing through the full and complete resolution of any adjustment to the Purchase Price contemplated by this Section 1.05, Purchaser shall not take any actions with respect to the accounting books and records of the Business on which the Statement is to be based that are not consistent with the past practice of the Business. Without limiting the generality of the foregoing, during such period, no changes shall be made in any reserve or other account existing as of the date of the Balance Sheet except as a result of events occurring after the date of the Balance Sheet and, in such event, only in a manner consistent with the Balance Sheet Principles. Seller shall assist Purchaser in the preparation of the Statement, including providing customary certifications to Purchaser's auditors. During the period of time from and after the Closing Date through the full and complete resolution of any adjustment to the Purchase Price contemplated by this Section 1.05, Seller shall afford to Purchaser and any accountants, counsel or financial advisors retained by Purchaser in connection with any adjustment to the Purchase Price contemplated by this Section 1.05 reasonable access during normal business hours to all the properties, books, contracts, personnel and records of the Business retained or controlled by Seller relevant to the adjustment contemplated by this Section 1.05. During the period of time from and after the Closing Date through the full and complete resolution of any adjustment to the Purchase Price contemplated by this Section 1.05, Purchaser shall afford to Seller and any accountants, counsel or financial advisors retained by Seller in connection with any adjustment to the Purchase Price contemplated by this Section 1.05 reasonable access during normal business hours to all the properties, books, contracts, personnel and records of the Business retained or controlled by Purchaser relevant to the adjustment contemplated by this Section 1.05.

(f) Notwithstanding the foregoing provisions of this Section 1.05, no adjustment to the Purchase Price pursuant to this Section 1.05 shall be made unless such adjustment would exceed $100,000, and if the adjustment would exceed $100,000, then the full amount of the adjustment shall be made.

ARTICLE II

THE CLOSING

SECTION 2.01. CLOSING DATE. The closing of the Acquisition (the "CLOSING") shall take place at the offices of Latham & Watkins, 885 Third Avenue, New York, New York 10022, at 10:00 a.m. on the second business day following the satisfaction (or, to the extent permitted, the waiver) of the conditions set forth in Section 6.01, or, if on such day any condition set forth in Section 6.02 or 6.03 has not been satisfied (or, to the extent permitted, waived by the party entitled to the

benefit thereof), as soon as practicable after all the conditions set forth in Article VI have been satisfied (or, to the extent permitted, waived by the parties entitled to the benefits thereof), or at such other place, time and date as shall be agreed between Seller and Purchaser. The date on which the Closing occurs is referred to in this Agreement as the "CLOSING DATE".

SECTION 2.02. TRANSACTIONS TO BE EFFECTED AT THE CLOSING. At the Closing:

(a) Seller and Seller Sub shall deliver to Purchaser (i) payment, by wire transfer to a bank account designated in writing by Purchaser (such designation to be made at least two business days prior to the Closing Date), immediately available funds, or otherwise credit Purchaser such amount against the Purchase Price, in an amount equal to $8,846,000, (ii) such appropriately executed deeds (in recordable form), bills of sale, assignments and other instruments of transfer relating to the Acquired Assets in form and substance reasonably satisfactory to Purchaser and its counsel and (iii) such other documents as Purchaser or its counsel may reasonably request to demonstrate satisfaction of the conditions and compliance with the covenants set forth in this Agreement; PROVIDED, HOWEVER that the terms of such deeds, bills of sale, assignments and other instruments and documents shall not result in an increase in the obligations of Seller or Seller Sub beyond those contemplated by this Agreement.

(b) Purchaser shall deliver to Seller and Seller Sub (i) payment, by wire transfer to a bank account designated in writing by Seller (such designation to be made at least two business days prior to the Closing Date), immediately available funds in an amount equal to the Purchase Price, subject to any credit pursuant to Section 2.02(a)(i), (ii) duly authorized and issued certificates representing an amount of common stock of CBD Media Holdings, Inc., a Delaware corporation and the sole shareholder of Purchaser ("HOLDCO"), equal to 2.5% of the outstanding shares of common stock of Holdco (the "HOLDCO

SHARES") (after giving effect to such issuance), (iii) such appropriately executed assumption agreements and other instruments of assumption providing for the assumption of the Assumed Liabilities in form and substance reasonably satisfactory to Seller and its counsel and (iv) such other documents as Seller or its counsel may reasonably request to demonstrate satisfaction of the conditions and compliance with the covenants set forth in this Agreement; PROVIDED, HOWEVER that the terms of such assumption agreements and other instruments and documents shall not result in an increase in the obligations of Purchaser beyond those contemplated by this Agreement.

SECTION 2.03. RISK OF LOSS. Until the Closing, any loss of or damage to the Acquired Assets from fire, casualty or any other occurrence not covered by insurance payable to Purchaser shall be the sole responsibility of Seller or Seller Sub, as applicable.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER AND SELLER SUB

Subject to the second sentence of Section 9.04(a), Seller and Seller Sub hereby jointly and severally represent and warrant to Purchaser, as of the date of this Agreement and as of the Closing Date, as follows:

SECTION 3.01. ORGANIZATION, STANDING AND POWER. Each of Seller and Seller Sub is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has full corporate power and authority and possesses all governmental franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to conduct the Business and its other businesses as presently conducted, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect. A "BUSINESS MATERIAL ADVERSE EFFECT" shall mean any change or effect that is reasonably likely to (i) have a material adverse effect on the assets, liabilities, business, financial condition or results of operations of the Business or (ii) prevent or materially impede, interfere with, hinder or delay the consummation by Seller or Seller Sub of the Acquisition or the transactions contemplated by this Agreement and each Ancillary Agreement, in each case other than changes relating to United States or foreign economies or securities markets or the industries in which the Business operates and not specifically relating to the Business. Purchaser acknowledges that there may have been or may be disruption to the Business as a result of Seller's intention to sell the Business or as a result of the execution of this Agreement and the consummation of the transactions contemplated hereby or announcement thereof, and Purchaser acknowledges that such disruptions do not and shall not constitute a Business Material Adverse Effect. Each of Seller and Seller Sub is duly qualified to do business as a foreign corporation in (A) each jurisdiction where the character of the Acquired Assets held by it or the nature of the Business make such qualification necessary for it to conduct the Business as currently conducted by it or the failure to so qualify could reasonably be expected to have a Business Material Adverse Effect and (B), in the case of Seller Sub, Ohio and Kentucky. Seller has delivered to Purchaser true and complete copies of the respective certificates of incorporation and by-laws of Seller and Seller Sub, in each case as amended through the date of this Agreement.

SECTION 3.02. AUTHORITY; EXECUTION AND DELIVERY; ENFORCEABILITY. Each of Seller and Seller Sub has full power and authority to execute this Agreement and the Ancillary Agreements to which it is, or is specified to be, a party and to consummate the Acquisition and the other transactions contemplated hereby and thereby. The execution and delivery by each of Seller and Seller Sub of this Agreement and the Ancillary Agreements to which it is, or is specified to be, a party and the consummation by each of Seller and Seller Sub of the Acquisition and the other transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action. Seller, as the sole stockholder of Seller Sub, has authorized the Acquisition and the other transactions

contemplated hereby. No other corporate proceedings on the part of Seller or Seller Sub are necessary to authorize this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby. Each of Seller and Seller Sub has duly executed and delivered this Agreement and prior to the Closing will have duly executed and delivered each Ancillary Agreement to which it is, or is specified to be, a party, and this Agreement constitutes, and each Ancillary Agreement to which it is, or is specified to be, a party will after the Closing constitute, its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3.03. NO CONFLICTS; CONSENTS. Except as set forth on Schedule 3.03, the execution and delivery by Seller and Seller Sub of this Agreement do not, the execution and delivery by Seller and Seller Sub of each Ancillary Agreement to which it is, or is specified to be, a party will not, and the consummation of the Acquisition and the other transactions contemplated hereby and thereby and compliance by Seller and Seller Sub with the terms hereof and thereof will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancelation or acceleration of any obligation or loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Seller or any of its subsidiaries, under any provision of (a) the certificate of incorporation or by-laws of Seller or any of its subsidiaries, (b) any Contract to which Seller or Seller Sub is a party or by which any of their respective properties or assets is bound or (c) any judgment, order or decree ("JUDGMENT") or statute, law, ordinance, rule or regulation ("APPLICABLE LAW") applicable to Seller or any of its subsidiaries or their respective properties or assets, other than, in the case of clauses (b) and (c) above, any such items that, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect. No material consent, approval, license, permit, order or authorization ("CONSENT") of, or material registration, declaration or filing with, any Federal, state, local or foreign government or any court of competent jurisdiction, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign (a "GOVERNMENTAL ENTITY"), is required to be obtained or made by or with respect to Seller or any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any Ancillary Agreement or the consummation of the Acquisition or the other transactions contemplated hereby and thereby, other than (i) compliance with and filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR ACT"), or (ii) other filings or approvals that individually or in the aggregate could not reasonably be expected to prevent the consummation of the transactions contemplated hereby.

SECTION 3.04. FINANCIAL STATEMENTS. (a) Schedule 3.04(a) sets forth for the Business (i) audited balance sheets as of December 31, 2000 and 2001 (such December 31, 2001 balance sheet being referred to herein as the "BALANCE SHEET") and (ii) audited statements of income and cash flows for each of the years ended December 31, 1999, 2000 and 2001 (the "FINANCIAL STATEMENTS"). The Financial Statements have been examined by PricewaterhouseCoopers LLP, independent certified public accountants, whose report thereon is included with such Financial

Statements. The Financial Statements have been prepared in accordance with GAAP (except as specifically described in Schedule 3.04) consistently applied and fairly and accurately present in all material respects the financial condition and results of operations of the Business as of the respective dates thereof and for the respective periods indicated.

(b) The Business does not have any liabilities or obligations of any nature (whether accrued, absolute, contingent, unasserted or otherwise) of a nature required by GAAP to be reflected on a consolidated balance sheet of the Business that could reasonably be expected to have a Business Material Adverse Effect, except (i) as disclosed, reflected or reserved against in the Balance Sheet and the notes thereto, (ii) for liabilities and obligations incurred in the ordinary course of the Business consistent with past practice since the date of the Balance Sheet and not in violation of this Agreement, (iii) for Taxes and (iv) as set forth on Schedule 3.04(b). This representation shall not be deemed breached as a result of a change in law after the Closing Date.

SECTION 3.05. ASSETS OTHER THAN REAL PROPERTY INTERESTS. (a) Seller or Seller Sub has and will transfer to Purchaser good and marketable title to all the Acquired Assets, in each case free and clear of all mortgages, liens, security interests, charges, easements, leases, subleases, covenants, rights of way, options, claims, restrictions or encumbrances of any kind (collectively, "LIENS"), except (i) such Liens as are set forth in Schedule 3.05, (ii) (A) mechanics', carriers', workmen's, repairmen's or other like Liens arising or incurred in the ordinary course of business and not material in amount, (B) Liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business and (C) Liens for current Taxes that are not yet due and payable and (iii) other imperfections of title or encumbrances, if any, that individually or in the aggregate, do not impair in any material respect the continued use and operation of the assets to which they relate in the conduct of the Business as presently conducted (the Liens described above, together with the Liens referred to in clauses (b) through (e) of Section 3.06, are referred to collectively as "PERMITTED LIENS").

(b) This Section 3.05 does not relate to Leased Property, which is addressed in Section 3.06, or to Intellectual Property, which is addressed in Section 3.07.

SECTION 3.06. LEASED PROPERTY. Schedule 3.06(a) sets forth a complete list of all real property and interests in real property leased by Seller or Seller Sub and used, held for use or intended to be used primarily in the operation or conduct of the Business (individually, a "LEASED PROPERTY"). Each lease on Schedule 3.06(a) that is an "Assigned Contract" is clearly denoted as such. Seller or Seller Sub has good and valid title to the leasehold estates in all Leased Property free and clear of all Liens, except (a) Liens described in clause (ii) or (iii) of Section 3.05(a), (b) such Liens as are set forth in Schedule 3.06(b), (c) subleases and similar agreements set forth in Schedule 3.08, (d) easements, covenants, rights-of-way and other similar restrictions of record, and (e) (i) zoning, building

and other similar restrictions, and (ii) Liens that have been placed by any developer, landlord or other third party on property over which Seller or Seller Sub has easement rights or on any Leased Property and subordination or similar agreements relating thereto. None of the items set forth in clause (e) above, individually or in the aggregate, impairs in any material respect the continued use and operation of the Leased Property to which they relate in the conduct of the Business as presently conducted.

SECTION 3.07 INTELLECTUAL PROPERTY.

(a) GENERALLY. Schedule 3.07(a) sets forth, with respect to the (i) trademarks and service marks (whether registered or unregistered), trade names, designs and general intangibles of like nature, together with all goodwill related to the foregoing (collectively, "TRADEMARKS"); (ii) patents and patent applications (including any continuations, continuations-in-part, divisionals, reissues, renewals and applications for any of the foregoing) (collectively "PATENTS"); (iii) copyrights and mask works (including any registrations and applications therefore and whether registered or unregistered) (collectively "COPYRIGHTS"); and (iv) domain names, including the top-level Internet domain names and all lower-level Internet domain names for which such top-level domains are a root or parent, whether in the form of an address for use in electronic mail transfer, a Universal Resource Locator, a File Transfer Protocol location, or other form suitable for specifying the location of an electronic data file over a distributed computer network (collectively, "DOMAIN NAMES"), in each case owned by or licensed to Seller or Seller Sub and used primarily in the Business, including jointly with others (such schedule specifying if such Intellectual Property is owned jointly), a complete and accurate list of all United States and foreign (a) Patents, Patent applications and Patent applications currently in process, (b) Trademark registrations and applications currently in progress, and (c) Copyright registrations and applications, indicating for each, the applicable jurisdiction, registration number (or application number) and date issued (or date filed). Notwithstanding the foregoing, it is understood and agreed that neither Seller nor Seller Sub represent that Schedule 3.07(a) constitutes a comprehensive list of all unregistered Trademarks in which Seller or Seller Sub might claim common law trademark or service mark rights that nevertheless constitute Acquired Assets.

(b) TRADEMARKS. (i) All Trademarks of Seller or Seller Sub used primarily in the Business for which an application for trademark registration has been filed are currently in compliance with all legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications) other than any requirement that, if not satisfied, would not result in a cancelation of any such registration or otherwise affect the use, priority or enforceability of the Trademark in question. Except as set forth in Schedule 3.07(b)(i), no registered Trademark of Seller or Seller Sub used primarily in the Business is involved in any opposition or cancelation proceeding in the United States Patent and Trademark Office. To Seller's knowledge, no such action has been threatened in writing, which threatened action remains unresolved or outstanding. Except as set forth in Schedule 3.07(b)(i), there has been, to the knowledge of Seller or Seller Sub, no prior use

of any Trademark of Seller or Seller Sub by any third party that confers upon said third party superior rights in any such Trademark.

(ii) Except as set forth in Schedule 3.07(b)(ii), Seller or Seller Sub is the owner of all right, title and interest in and to all of the Trademarks used primarily in the Business, in each case free and clear of any and all encumbrances, covenants, conditions and restrictions or other adverse claims or interests of any kind or nature, and neither Seller nor Seller Sub has received any written notice or claim or to its knowledge, any oral notice or claim, which claim remains unresolved or outstanding, challenging its complete and exclusive ownership of the Trademarks or suggesting that any other person has any claim of legal or beneficial ownership with respect thereto. There is no agreement, decree, arbitral award or other provision or contingency which obligates Seller or Seller Sub to grant licenses in future Trademarks used primarily in the Business.

(c) PATENTS. No Patents owned by Seller or Seller Sub have been or are currently used in the Business and, to the knowledge of Seller and Seller Sub, no such Patents are required to conduct the Business after the Closing.

(d) COPYRIGHTS. Except as set forth in Schedule 3.07(d):

(i) Seller or Seller Sub is the owner of all right, title and interest in and to each of the Copyrights used primarily in the Business other than those as to which the rights being exercised by Seller or Seller Sub have been licensed from another person (collectively, "SELLER OWNED COPYRIGHTS"), free and clear of any and all encumbrances, covenants, conditions and restrictions or other adverse claims or interests of any kind or nature, and neither Seller nor Seller Sub has received any written or, to its knowledge, oral notice or claim, which claim remains unresolved or outstanding, challenging its complete and exclusive ownership of the Copyrights or suggesting that any other person has any claim of legal or beneficial ownership with respect thereto.

(ii) Neither Seller nor Seller Sub has received any written or, to its knowledge, oral notice or claim, which claim remains unresolved or outstanding, challenging or questioning the validity or enforceability of any of the Seller Owned Copyrights or indicating an intention on the part of any person to bring a claim that any Seller Owned Copyright is invalid, is unenforceable or has been misused.

(iii) Neither Seller nor Seller Sub has taken any action or used or enforced (or failed to enforce) any of the Seller Owned Copyrights, in each case in a manner that would result in the unenforceability of any of the Seller Owned Copyrights. Seller and Seller Sub have taken all steps reasonably necessary to protect their rights in and to the Seller Owned Copyrights, in each case in accordance with standard industry practice. To the knowledge of Seller and

Seller Sub, no other person has infringed or is infringing in any material respect any of the Seller Owned Copyrights.

(iv) Neither Seller nor Seller Sub has granted to any person any right, license or permission to exercise any rights under any of the Seller Owned Copyrights other than non-exclusive licenses granted in the ordinary course of business to customers.

(e) TRADE SECRETS. Seller Sub has a written policy regarding trade secrets in accordance with normal industry practice and has taken commercially reasonable steps to enforce such policy and to protect its rights in confidential information and proprietary information, including any formula, pattern, compilation, program, device, method, technique, or process, that: (1) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy (collectively, "TRADE SECRETS").

(f) LICENSE AGREEMENTS. (i) Schedule 3.07(f)(i) sets forth a complete and accurate list of all license agreements granting to Seller or Seller Sub any right to use or practice any rights under any Intellectual Property used primarily in the Business (other than software commercially available on reasonable terms to any person for a license fee of no more than $10,000, but including all such agreements that are otherwise material to Seller or Seller Sub) (collectively, the "SELLER INBOUND LICENSE AGREEMENTS"), indicating for each the title and the parties thereto.

(ii) Schedule 3.07(f)(ii) sets forth a complete and accurate list of all license agreements under which Seller or Seller Sub grants any rights in or to use or practice any rights under any Intellectual Property used primarily in the Business (collectively, the "SELLER OUTBOUND LICENSE AGREEMENTS"), indicating for each the title and the parties thereto.

(iii) There is no outstanding or, to Seller's and Seller Sub's knowledge, threatened dispute or disagreement with respect to any Seller Inbound License Agreement or any Seller Outbound License Agreement. Correct and complete executed copies of all Seller Inbound License Agreements and Seller Outbound License Agreements have been delivered to Purchaser.

(g) OWNERSHIP; SUFFICIENCY OF INTELLECTUAL PROPERTY ASSETS. Except as set forth in Schedule 3.07(g), Seller and Seller Sub each owns or possesses adequate licenses or other rights to use, free and clear of encumbrances (except in the case of licenses, the interests of the licensing party), orders, arbitration awards and contingent licenses arising from termination provisions (or other causes) in agreements between them and any other person, all of the Intellectual Property assets necessary to conduct the Business as currently conducted. Except as set forth in Schedule 3.07(g), the Intellectual

Property identified in Section 1.02(a)(v) and in Schedule 3.07(a), together with Trade Secrets, Licensed Trademarks, Seller Owned Copyrights and Seller's and Seller Sub's unregistered Copyrights and Seller's and Seller Sub's rights granted to them under the Seller Inbound License Agreements, constitute all the Intellectual Property rights and Seller Inbound License Agreements used primarily in the operation of the Business as currently conducted and are all such Intellectual Property rights and Seller Inbound License Agreements necessary to operate such business after the Closing in substantially the same manner as such businesses have been operated by Seller and Seller Sub during the 12 months prior to the Closing.

(h) NO INFRINGEMENT BY SELLER. No litigation is pending and neither Seller nor Seller Sub has received any written or, to its knowledge, oral notice or claim (A) alleging that Seller or Seller Sub has engaged in any activity or conduct related primarily to the Business that infringes upon, violates or constitutes the unauthorized use of the Intellectual Property rights of any third party, or (B) challenging the ownership, use, validity or enforceability of any Intellectual Property used primarily in the Business which are owned or exclusively licensed by or to Seller or Seller Sub. No Intellectual Property that is owned or licensed by Seller or Seller Sub for use primarily in the Business is subject to any outstanding order, judgment, decree, stipulation or agreement restricting the use thereof by Seller or Seller Sub.

(i) NO INFRINGEMENT BY THIRD PARTIES. To the knowledge of Seller and Seller Sub, no third party is misappropriating, infringing, diluting or violating any Intellectual Property owned or exclusively licensed by Seller or Seller Sub for use primarily in the Business, and no claims for any of the foregoing have been brought against any third party by Seller or Seller Sub.

(j) ASSIGNMENT; CHANGE OF CONTROL. Except as set forth in Schedule 3.07(j), the execution, delivery and performance by Seller and Seller Sub of this Agreement and each of the other documents contemplated hereby to which either is a party, and the consummation of the transactions contemplated hereby and thereby, will not result in the loss or impairment of, or give rise to any right of any third party to terminate, any of Seller's or Seller Sub's rights to own any of its Intellectual Property used primarily in the Business or rights under any Seller Inbound License Agreement or Seller Outbound License Agreement, nor require the consent of any Governmental Entity or third party in respect of any such Intellectual Property.

(k) WEBSITES. Seller Sub is the sole owner of the Domain Names, and all such Domain Names are currently registered by Seller Sub, as sole owner, with an ICANN accredited registrar, and the registration fees are paid through the dates listed on Schedule 5.24. Except as set forth on Schedule 3.07 (k), Seller Sub is the owner or authorized licensee of all Content and no consent, license, approval or authorization of, registration or declaration with, or notice to, any governmental authority, agency, bureau or commission is required to be obtained or made by Seller Sub in

connection with the execution, delivery, performance, validity, or enforceability of this Agreement or the sale or transfer of the ownership of the Domain Names and continued use of the Content by Purchaser. Neither Seller nor Seller Sub is aware of any facts or circumstances that could reasonably form the basis of a challenge relating to Purchaser's unencumbered use of the Websites, Content, or any part thereof.

SECTION 3.08. CONTRACTS. (a) Except for Contracts relating primarily to Excluded Assets and except as set forth on Schedule 3.08, neither Seller nor Seller Sub is a party to or bound by any Contract, including any supplement, amendment or revision thereto, that is used, held for use or intended for use primarily in, or that arises primarily out of, the operation or conduct of the Business and that is:

(i) a written employment agreement or employment contract that has an aggregate future liability in excess of $85,000 and is not terminable by Seller or Seller Sub by notice of not more than 60 days for a cost of less than $25,000;

(ii) a collective bargaining agreement or other Contract with any labor organization, union or association;

(iii) a Contract pursuant to which following the Closing would (A) materially limit the ability of Purchaser to compete with any person or to engage in any activity or business, or pursuant to which any benefit is required to be given or lost as a result of so competing or engaging; or (B) limit the ability of Purchaser to solicit or hire any employee, consultant or other entity for the purpose of providing services to Purchaser in connection with the Business;

(iv) a Contract with (A) any shareholder or affiliate of Seller or (B) any officer, director or employee of Seller or any of its affiliates (other than employment agreements covered by clause (i) above);

(v) a sublease or similar Contract with any person under which Seller or Seller Sub is a sublessor of, or makes available for use to any person, any Leased Property;

(vi) a lease, sublease or similar Contract with any person under which Seller or Seller Sub is a lessee of, or holds or uses, any machinery, equipment, vehicle or other tangible personal property owned by any person and which has an aggregate future liability in excess of $100,000 and is not terminable by Seller or Seller Sub by notice of not more than 60 days for a cost of less than $25,000;

(vii) (A) a continuing Contract for the future purchase of materials, supplies or equipment (other than purchase orders for inventory in the ordinary course of business consistent with past practice) or (B) a management, service, market research, consulting or other similar Contract, in any such case that has an aggregate future liability to any person in excess of $100,000 and is not terminable by Seller or Seller Sub by notice of not more than 60 days for a cost of less than $25,000;

(viii) a Contract under which Seller or Seller Sub receives printing, plating or presswork services involving the payment over the life of such Contract in excess of $100,000 by Seller or Seller Sub and is not terminable by Seller or Seller Sub by notice of not more than 60 days for a cost of less than $25,000;

(ix) a Contract providing for the services of any dealer, distributor or sales representative involving the payment or receipt over the life of such Contract in excess of $100,000 by Seller or Seller Sub;

(x) a material license, sublicense, royalty, option or other Contract relating in whole or in part to the Assigned Intellectual Property (including any license or other Contract under which Seller or Seller Sub is licensee or licensor of any Assigned Intellectual Property);

(xi) (A) a Contract under which Seller or Seller Sub has borrowed any money from, or issued any note, bond, debenture or other evidence of indebtedness to, any person or (B) any other note, bond, debenture or other evidence of indebtedness issued to any person, in any such case that, individually, is in excess of $100,000;

(xii) a Contract (including any so-called take-or-pay or keepwell agreement) under which (A) any person has directly or indirectly guaranteed indebtedness, liabilities or obligations of Seller or Seller Sub or (B) Seller or Seller Sub has directly or indirectly guaranteed indebtedness, liabilities or obligations of any other person (in each case other than endorsements for the purpose of collection in the ordinary course of business), in any such case that, individually, is in excess of $100,000;

(xiii) a Contract under which Seller or Seller Sub has, directly or indirectly, made any advance, loan, extension of credit or capital contribution to, or other investment in, any person (other than Seller or Seller Sub), in any such case that, individually, is in excess of $100,000;

(xiv) a Contract for the sale of any Acquired Asset (other than inventory sales in the ordinary course of business) or the grant of any preferential rights to purchase any Acquired Asset or requiring the consent of any party to the transfer thereof;

(xv) a material Contract providing for confidential treatment by Seller or Seller Sub of third party information other than non-disclosure agreements entered into by Seller or Seller Sub in the ordinary course of business consistent with past practice; and

(xvi) a Contract for any joint venture, partnership, limited liability company or similar arrangement and any shareholders, partnership or operating agreement with respect to any Investment.

(b) Schedule 3.08 also sets forth a list of all Contracts relating to the Business between Seller or Seller Sub and the top ten customers (in terms of revenue) of the Business, as of the date of this Agreement (the "TOP CUSTOMERS"). As of the date of this Agreement and except as set forth on Schedule 3.08, neither Seller nor Seller Sub has received any notice of the decision of any of the Top Customers not to continue such Top Customer's relationship with the Business following the expiration of such Contract or to materially reduce its purchases from the Business. The form agreement used by the Business relating to the sale of advertising to customers is attached to Schedule 3.08.

(c) Each Contract listed on Schedule 3.08 that is an "Assigned Contract" is clearly denoted as such. All Contracts listed in the Schedules are valid, binding and in full force and effect and are enforceable by Seller or Seller Sub, as applicable, in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws affecting creditors' rights generally from time to time in effect and to general principles of equity, including concepts of materiality, reasonableness, good faith and fair dealing regardless of whether considered in a proceeding in equity or at law. Seller and Seller Sub have performed all obligations required to be performed by them to date under the Assigned Contracts, and they are not (with or without the lapse of time or the giving of notice, or both) in breach or default in any material respect thereunder, neither Seller nor Seller Sub has liability for any material delinquent fees under the Assigned Contracts and, to the knowledge of Seller, no other party to any Assigned Contract is (with or without the lapse of time or the giving of notice, or both) in breach or default in any material respect thereunder. As of the date of this Agreement, neither Seller nor Seller Sub has, except as disclosed in the applicable Schedule, received any notice of the intention of any party to terminate any Assigned Contract listed in any Schedule. Seller Sub has delivered to Purchaser true and correct copies of (i) the letter dated January 29, 2002 from Seller Sub to L.M. Berry & Co. ("BERRY") and countersigned by Berry, pursuant to which Berry has consented to the assignment to Purchaser of a certain contract between Seller Sub and Berry and (ii) each Consent to Assignment in favor of the Bank signed by Berry or Seller.

(d) Schedule 3.08 sets forth each Assigned Contract listed on Schedule 3.08 with respect to which the Consent of the other party or parties thereto must be obtained by virtue of the execution and delivery of this Agreement or the consummation of the Acquisition to avoid the invalidity of the transfer of such Contract, the termination thereof, a breach, violation or default thereunder or any other change or modification to the terms thereof. In addition, Schedule 3.08 sets forth each Assigned Contract not listed on Schedule 3.08 with respect to which the Consent of the other party or parties thereto must be obtained by virtue of the execution and delivery of this Agreement or the consummation of the Acquisition to avoid the invalidity of the transfer of such Contract, the termination thereof, a breach, violation or default thereunder or any other change or modification to the terms thereof, other than such Assigned Contracts the termination of which by any party thereto, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect.

SECTION 3.09. PERMITS. (a) Schedule 3.09 sets forth all material certificates, licenses, permits, authorizations and approvals ("PERMITS") issued or granted to Seller or Seller Sub by Governmental Entities that are necessary or desirable for the operation or conduct of the Business. All such Permits are validly held by Seller or Seller Sub, and Seller or Seller Sub has complied in all material respects with all terms and conditions thereof. During the past 12 months, neither Seller nor Seller Sub has received notice of any Proceedings relating to the revocation, default or modification of any such Permits. None of such Permits will be subject to suspension, modification, revocation or nonrenewal as a result of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby and no Consent or approvals must by obtained by virtue of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby to avoid the invalidity of the transfer of such Permit. This Section 3.09 does not relate to environmental matters, which are the subject of Section 3.17.

(b) Seller or Seller Sub possesses all Permits to own or hold under lease and operate the Acquired Assets and to conduct the Business as currently conducted, other than such Permits the absence of which, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect.

SECTION 3.10. INSURANCE. The material insurance policies maintained by Seller and Seller Sub with respect to the Business are listed in Schedule 3.10. All such policies are in full force and effect in all material respects, all premiums due and payable thereon have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending on or prior to the Closing Date), and no notice of cancelation or termination has been received with respect to any such policy which has not been replaced on substantially similar terms prior to the date of such cancelation.

SECTION 3.11. SUFFICIENCY OF ACQUIRED ASSETS. The Acquired Assets, together with the Excluded Assets, comprise all the assets employed by Seller or Seller Sub in connection with the Business. The Acquired Assets, together with the services to be provided pursuant to the Ancillary Agreements, are sufficient for the conduct of Business immediately following the Closing in substantially the same manner as currently conducted and there are no assets that are material to the conduct of the Business as currently conducted other than the Acquired Assets, the Assigned Contracts and the services to be provided pursuant to the Ancillary Agreements.

SECTION 3.12. TAXES. (a) For purposes of this Agreement:

"CODE" means the Internal Revenue Code of 1986, as amended.

"POST-CLOSING TAX PERIOD" means any taxable period beginning after the Closing Date and that portion of a Straddle Period beginning after the Closing Date.

"PRE-CLOSING TAX PERIOD" means any taxable period ending on or before the Closing Date and the portion of any Straddle Period ending on the Closing Date.

"STRADDLE PERIOD" means any taxable period beginning before and ending after the Closing Date.

"TAX" means any tax, governmental fee or other like assessment or charge of any kind whatsoever (including any tax imposed under Subtitle A of the Code and any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, license, withholding tax on amounts paid, payroll, employment, excise, severance, stamp, capital stock, occupation, property, environmental or windfall profit tax, premium, custom, duty or other tax), together with any interest, penalty, addition to tax or additional amount due, imposed by any Governmental Entity (domestic or foreign) responsible for the imposition of any such tax (a "TAXING AUTHORITY").

"TAX RETURN" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

(b) LIENS. There are no material Liens for Taxes (other than for current Taxes not yet due and payable) on any of the Acquired Assets.

(c) CLAIMS. No material deficiencies for Taxes have been claimed in writing by any Taxing Authority against Seller.

(d) INTERESTS IN ENTITIES. None of the Acquired Assets constitutes (i) an interest in any joint venture, partnership, or other arrangement or contract which is treated as a partnership for Tax purposes, (ii) an interest in a single member limited liability company which is treated as a disregarded entity for Tax purposes, or (iii) stock in an entity which is treated as a corporation (or any other entity taxable as a corporation) for Tax purposes.

(e) WITHHOLDING. Neither Seller nor Seller Sub is a "foreign person" within the meaning of Section 1445 of the Code.

(f) MISCELLANEOUS. No Acquired Asset is "tax-exempt bond financed property" or "tax-exempt use property" within the meaning of Section 168(g) or Section 168(h), respectively, of the Code or any equivalent provision of state or local Tax law. Seller or Seller Sub is the owner for Tax purposes of each Acquired Asset.

SECTION 3.13. PROCEEDINGS. Schedule 3.13 sets forth a list as of the date of this Agreement of each pending or, to the knowledge of Seller, threatened Proceeding arising out of the conduct of the Business or against any Acquired Asset and that could reasonably be expected to (a) result in aggregate future liability in excess of $500,000, or (b) prevent the consummation of the transactions contemplated by this Agreement. Neither Seller nor Seller Sub is a party or subject to or in default under any Judgment applicable to the conduct of the Business or any Acquired Asset or Assumed Liability, other than for such Judgments that, individually and in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect.

SECTION 3.14. BENEFIT PLANS. (a) Schedule 3.14 contains a list of all "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), maintained or contributed to by Seller or any of its affiliates for the benefit of any Business Employee ("SELLER PENSION PLANS") and all "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), bonus, stock option, stock purchase, deferred compensation plans or arrangements and other employee fringe benefit plans maintained, or contributed to, by Seller or any of its affiliates for the benefit of any Business Employee (all the foregoing, including Seller

Pension Plans, being herein called "SELLER BENEFIT PLANS"). Seller has made available to Purchaser true, complete and correct copies of (i) each Seller Benefit Plan, (ii) the most recent annual report on Form 5500 filed with the Internal Revenue Service with respect to each Seller Benefit Plan (if any such report was required), (iii) the most recent summary plan description for each Seller Benefit Plan for which such a summary plan description is required and (iv) each trust agreement, group annuity contract or other funding and financing arrangement relating to any Seller Benefit Plan.

(b) Each Seller Benefit Plan has been administered in accordance with its terms, other than as could not reasonably be expected to have, individually or in the aggregate, a Business Material

Adverse Effect. Seller and all the Seller Benefit Plans are in compliance with the applicable provisions of ERISA and the Code and all applicable collective bargaining agreements, other than as could not reasonably be expected to have, individually or in the aggregate, a Business Material Adverse Effect.

(c) No Business Employee is covered by a "multiemployer plan" (as defined in Section 3(37) of ERISA).

(d) Seller has not incurred any cost, fee, expense, liability, claim, suit, obligation or other damage under Title IV of ERISA that could give rise to the imposition of any liability, cost, fee, expense or obligation which would reasonably be expected to become a liability of Purchaser and, to Seller's and Seller Sub's knowledge, no facts or circumstances exist that could give rise to any such cost, fee, expense, liability, claim, suit, obligation or other damage, which would be reasonably expected to become a liability of Purchaser.

SECTION 3.15. ABSENCE OF CHANGES OR EVENTS. Since the date of the Balance Sheet, there has not been any change that individually or in the aggregate, could reasonably be expected to have a Business Material Adverse Effect. From the date of the Balance Sheet to the date of this Agreement, Seller and Seller Sub have caused the Business to be conducted in the ordinary course and in substantially the same manner as previously conducted, other than as could not reasonably be expected to have, individually or in the aggregate, a Business Material Adverse Effect. Since the date of the Balance Sheet to the date of this Agreement, neither Seller nor Seller Sub has, in each case insofar as the Business is concerned:

(i) sold, leased, licensed or otherwise disposed of any of the assets of the Business (or entered into any contract to do any of the foregoing), except Inventory and obsolete or worn out equipment sold in the ordinary course of business consistent with past practice which was not otherwise material (individually or in the aggregate) to the Business or canceled any material indebtedness or waived any material claims or rights of material value; or

(ii) changed the employee compensation and benefits structure of the Business in a manner that materially adversely affects the cost structure of the Business, taken as a whole.

SECTION 3.16. COMPLIANCE WITH APPLICABLE LAWS. Since January 1, 2000, Seller, Seller Sub and their affiliates have been, with respect to the Business, in compliance with all Applicable Laws, except for instances of noncompliance that, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect. None of Seller and Seller Sub has received any written communication from a Governmental Entity that alleges that the Business is not in compliance in any material respect with any

Applicable Law. This Section 3.16 does not relate to

matters with respect to Taxes, which are the subject of Section 3.12, or to environmental matters, which are the subject of Section 3.17.

SECTION 3.17. ENVIRONMENTAL MATTERS. Except for any matters that, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect, (i) Seller, Seller Sub and their affiliates have been, with respect to the Business, in compliance with all laws, rules and regulations relating to protection of the environment ("ENVIRONMENTAL LAWS"), (ii) Seller possesses and is in compliance with all permits, licenses and authorizations necessary under Environmental Laws for the operation of the Business and (iii) there are no pending, or to the knowledge of Seller or Seller Sub, threatened, claims, proceedings or investigations against Seller or Seller Sub alleging that the Business is not in compliance with any Environmental Laws.

SECTION 3.18. TRANSACTIONS WITH AFFILIATES. Except for the Ancillary Agreements, none of the Contracts between the Business, on the one hand, and Seller or any of its affiliates, on the other hand, will continue in effect subsequent to the Closing, and all such Contracts shall have been terminated with no liability to Purchaser on or prior to the Closing Date.

SECTION 3.19. INVESTMENTS. Other than shares of capital stock of Seller Sub, there are no partnership interests or any other equity interests in any corporation, company, limited liability company, partnership, joint venture, trust or other business association ("INVESTMENTS") owned by Seller or Seller Sub on the date of this Agreement that are used, held for use or intended to be used in, or arise out of, the operation or conduct of the Business.

SECTION 3.20. RECEIVABLES. As of the date of this Agreement, all the Receivables that are included in the Acquired Assets (a) represent actual indebtedness or other obligations incurred by the applicable account debtors and (b) have arisen from bona fide transactions in the ordinary course of the Business. As of the date of this Agreement, all the Receivables that are included in the Acquired Assets, to the knowledge of Seller and Seller Sub, are good and collectible at the aggregate recorded amounts thereof, net of any applicable reserves for doubtful accounts reflected on the face of the Balance Sheet or as will be set forth on the face of the Closing Statement.

SECTION 3.21. NO OTHER AGREEMENTS. Neither Seller nor Seller Sub has any legal obligation, absolute or contingent, to any other Person to sell, directly or indirectly, the Acquired Assets or to sell the Business or to effect any merger, share exchange, consolidation, business combination, recapitalization, liquidation or other reorganization of Seller Sub or to enter into any agreement with respect thereto.

SECTION 3.22. EMPLOYEES. Schedule 3.22 sets forth each employee of Seller or Seller Sub whose employment is primarily related to the operation of the Business on the date of this

Agreement (each a "BUSINESS EMPLOYEE"). There are no employee unions (nor any other similar labor or employee organizations) under local statutes, custom or practice with respect to any Continued Employee. Neither Seller nor Seller Sub has experienced any attempt by organized labor or its representatives to make

Seller or Seller Sub conform to demands of organized labor relating to a Continued Employee or to enter into a binding agreement with organized labor that would cover any such employee. With respect to the Business, there is no labor strike or labor disturbance pending or, to the best of Seller's or Seller Sub's knowledge, threatened against Seller or Seller Sub nor is any grievance currently being asserted, and neither Seller nor Seller Sub has experienced a work stoppage or other labor difficulty, and is not and has not engaged in any unfair labor practice.

SECTION 3.23. INVESTMENT REPRESENTATIONS. Seller acknowledges that the Holdco Shares issued pursuant to Section 2.02(b) have not been registered under the Securities Act of 1933, as amended (the "SECURITIES ACT"), and may not be resold absent registration under the Securities Act or an applicable exemption from the registration and prospectus delivery requirements of the Securities Act and that the certificates representing the Holdco Shares will bear a restrictive legend to the foregoing effect. Seller further acknowledges that neither Holdco nor Purchaser is under any obligation, nor assumes any obligation pursuant to the terms hereof, or the terms of any other certificate, instrument or other document executed and delivered by it in connection with the transactions contemplated hereby. Seller is acquiring the Holdco Shares for its own account, for investment purposes only and not with a view toward any resale or other distribution thereof (within the meaning of the Securities Act). Seller qualifies as an "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act. Seller has had an opportunity to discuss the business, management, operations and finances of Holdco and Purchaser with its officers, directors, employees, agents, representatives and affiliates. Seller has conducted its own independent investigation of Holdco and Purchaser and has been furnished by Holdco and Purchaser with all information, documents and other material relating to Holdco and Purchaser and their business, management, operations and finances, that Seller has requested.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller and Seller Sub, as of the date of this Agreement and as of the Closing Date, as follows:

SECTION 4.01. ORGANIZATION, STANDING AND POWER. Purchaser is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has full corporate power and authority and possesses all governmental franchises, licenses, permits,

authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to carry on its business as presently conducted, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, have not had and could not reasonably be expected to have a material adverse effect on the ability of Purchaser to perform its obligations under this Agreement and the Ancillary Agreements or prevent or materially impede, interfere with, hinder or delay the consummation by Purchaser of the Acquisition and the other transactions contemplated hereby (a "PURCHASER MATERIAL ADVERSE EFFECT"). Purchaser has delivered to Seller true and complete copies of the certificate of incorporation and by-laws of Purchaser, in each case as amended through the date of this Agreement.

SECTION 4.02. AUTHORITY; EXECUTION AND DELIVERY; AND ENFORCEABILITY. Purchaser has full power and authority to execute this Agreement and the Ancillary Agreements to which it is, or is specified to be, a party and to consummate the Acquisition and the other transactions contemplated hereby and thereby. The execution and delivery by Purchaser of this Agreement and the Ancillary Agreements to which it is, or is specified to be, a party and the consummation by Purchaser of the Acquisition and the other transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action. No other corporate proceedings on the part of Purchaser are necessary to authorize this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby. Purchaser has duly executed and delivered this Agreement and prior to the Closing will have duly executed and delivered each Ancillary Agreement to which it is, or is specified to be, a party, and this Agreement constitutes, and each Ancillary Agreement to which it is, or is specified to be, a party will after the Closing constitute, its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4.03. NO CONFLICTS; CONSENTS. The execution and delivery by Purchaser of this Agreement do not, the execution and delivery by Purchaser of each Ancillary Agreement to which it is, or is specified to be, a party will not, and the consummation of the Acquisition and the other transactions contemplated hereby and thereby and compliance by Purchaser with the terms hereof and thereof will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancelation or acceleration of any obligation or loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Purchaser or any of its subsidiaries under, any provision of (a) the certificate of incorporation or by-laws of the Purchaser or any of its subsidiaries, (b) any Contract to which Purchaser or any of its subsidiaries is a party or by which any of their respective properties or assets is bound or (c) any Judgment or Applicable Law applicable to Purchaser or any of its subsidiaries or their respective properties or assets, other than, in the case of clauses (b) and (c) above, any such items that, individually or in the aggregate, have not had and could not reasonably be expected to have a Purchaser Material Adverse Effect. No material Consent of or material registration, declaration or filing with any Governmental Entity is required to be obtained or made by or with respect to Purchaser or

any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any Ancillary Agreement or the consummation of the Acquisition or the other transactions contemplated hereby and thereby, other than (i) compliance with and filings under the HSR Act or (ii) other filings or approvals that, individually or in the aggregate, could not reasonably be expected to prevent the consummation of the transactions contemplated hereby.

SECTION 4.04. LITIGATION. There are not any (a) outstanding Judgments against Purchaser or any of its subsidiaries, (b) Proceedings pending or, to the knowledge of Purchaser, threatened against Purchaser or any of its subsidiaries or (c) investigations by any Governmental Entity that are pending or, to the knowledge of Purchaser, threatened against Purchaser or any of its subsidiaries that, in any case, individually or in the aggregate, have had or could reasonably be expected to have a Purchaser Material Adverse Effect.

SECTION 4.05. AVAILABILITY OF FUNDS. Exhibit B attached hereto sets forth complete and correct copies of a commitment letter from Toronto Dominion (Texas), Inc. and TD Securities (USA) (collectively, the "BANK") for the aggregate amount of $220 million in debt financing (the "FINANCING COMMITMENT"). As of the date of this Agreement, the Financing Commitment has not been withdrawn or terminated and Purchaser has no reason to believe that the Financing Commitment will not lead to the financing as contemplated by the Financing Commitment. The Financing Commitment, together with equity funds that Purchaser can obtain without the prior consent, approval or other discretionary action of any third party, constitute all of the financing required to be provided by Purchaser for the consummation of the transactions contemplated by this Agreement and the payments of all fees and expenses incurred by Purchaser in connection therewith.

SECTION 4.06. REPRESENTATIONS AND WARRANTIES OF HOLDCO. Holdco hereby makes the representations and warranties of Purchaser contained in the first three sentences of Section 4.02 and the first sentence of Section 4.03 as to itself (with each reference to Purchaser therein being deemed to be a reference to Holdco). Holdco, as the sole stockholder of Purchaser, has duly authorized the issuance of the shares of Holdco common stock for delivery by Purchaser to Seller pursuant to Section 2.06(b)(ii) and such shares, when issued, will be fully paid, nonassessable and free of all Liens.

ARTICLE V

COVENANTS

SECTION 5.01. COVENANTS OF SELLER AND SELLER SUB RELATING TO CONDUCT OF BUSINESS. (a) Except for matters set forth in Schedule 5.01, as otherwise expressly permitted or required by the terms of this Agreement or with the prior written consent of Purchaser, from the date of this Agreement to the Closing Seller and Seller Sub shall conduct the Business in the usual, regular and ordinary course in substantially the same manner as previously conducted and use reasonable efforts to keep intact the Business, keep available the services of the current employees of the Business, preserve the relationships of the Business with customers, suppliers, licensors, licensees, distributors and others with whom the Business deals to the end that the Business shall be unimpaired at the Closing, and to continue to provide Seller Sub and the Business with intercompany services in the ordinary course of business on terms consistent with past practice. Prior to the Closing, Seller and Seller Sub shall not take any action that could reasonably be expected to result in any of the conditions to the purchase and sale of the Acquired Assets set forth in Article VI not being satisfied. In addition (and without limiting the generality of the foregoing), except as set forth in Schedule 5.01 or otherwise expressly permitted or required by the terms of this Agreement, Seller and Seller Sub shall not do any of the following in connection with the Business or the Acquired Assets without the prior written consent of Purchaser:

(i) (A) adopt or amend in any material respect any Seller Benefit Plan (it being understood that nothing in this clause (A) shall prevent Seller or Seller Sub from making changes to any Seller Benefit Plan in the ordinary course of business to the extent such changes do not materially increase the liabilities assumed by Purchaser in respect of Continued Employees, (B) enter into or adopt any collective bargaining agreement or other Contract with any labor organization, union or association, or (C) enter into, amend, renew, extend (beyond the Closing Date) any employment agreement with any Business Employee;

(ii) grant to any Business Employee any increase in compensation or benefits, except for increases in salary in the ordinary course of business and consistent with past practice or as may be required under existing agreements and except for any increases for which Seller shall be solely obligated or grant any severance or termination pay (otherwise than pursuant to the policies of Seller and Seller Sub in effect on the date of this Agreement that are disclosed on the Disclosure Schedule) with respect to any Business Employee;

(iii) incur or assume any liabilities, obligations or indebtedness for borrowed money or guarantee any such liabilities, obligations or indebtedness, other than (x) in the ordinary course of business and consistent with past practice; PROVIDED, HOWEVER, that in no event shall the Business incur or assume, pursuant to this clause (x), any long-term indebtedness for

borrowed money or (y) with respect to liabilities, obligations or indebtedness for borrowed money, or guarantees of any such liabilities, obligations or indebtedness, of Seller or any subsidiary of Seller (none of which shall be Assumed Liabilities);

(iv) cancel any material indebtedness (individually or in the aggregate) or waive any claims or rights of substantial value;

(v) except for continuing to provide Seller Sub and the Business with intercompany services in the ordinary course of business on terms consistent with past practice, sell, transfer or lease any of its assets to, or enter into any agreement or arrangement with, any of its affiliates (other than Seller or any subsidiary of Seller);

(vi) make any change in any method of accounting or accounting practice or policy other than those required by GAAP;

(vii) acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets (other than inventory) that are material, individually or in the aggregate, to the Business;

(viii) make or incur any capital expenditure (i) that, in the aggregate, is in excess of $50,000 or (ii) that (A) commits the Business to make further capital expenditures more than six months after the date of such commitment and (B) is not terminable by notice of not more than 60 days for a cost of less than $25,000;

(ix) sell, lease, license or otherwise dispose of any of its assets that have a book or market value in excess of $25,000 individually, or $100,000 in the aggregate, or that are material, individually or in the aggregate, to the Business, except (A) inventory and obsolete or worn out equipment sold in the ordinary course of business and consistent with past practice which is not otherwise material to the Business, (B) any Excluded Asset described in Section 1.02(b) and (C) any such sale, lease, license or disposition of assets by Seller Sub to Seller or any subsidiary of Seller;

(x) take any action to change or amend the organizational documents of any entity in which there is an Investment that is included in the Acquired Assets;

(xi) not make any new Investment or make any loan, advance or capital contribution to any entity, other than any such Investment, loan, advance or capital contribution to Seller or any subsidiary of Seller;

(xii) enter into, extend, materially modify, terminate or renew any Contract or Lease that is, or would be required to be disclosed, pursuant to Section 3.06(a) or 3.08;

(xiii) fail to pay accounts payable related to the Business in the ordinary course of business or collect accounts receivable related to the Business in the ordinary course of business; or

(xiv) authorize any of, or commit or agree to take, whether in writing or otherwise, to do any of, the foregoing actions;

(b) ADVISE OF CHANGES. Seller shall promptly advise Purchaser in writing of the occurrence of any matter or event that could reasonably be expected to have a Business Material Adverse Effect or that would constitute a breach of any representation or warranty resulting in the failure of a condition contained in this Agreement.

SECTION 5.02. NO SOLICITATION. Seller and Seller Sub shall not, nor shall either of them authorize or permit any officer, director or employee of or any investment banker, attorney, accountant or other representative retained by either of them to, (a) solicit, initiate or encourage any "other bid", (b) enter into any agreement with respect to any other bid or (c) participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any other bid. Seller promptly shall advise Purchaser orally and in writing of any other bid or any inquiry with respect to or which could lead to any other bid and the identity of the person making, and the proposed terms of, any such other bid or inquiry. As used in this Section 5.02, "other bid" shall mean any proposal to acquire in any manner, or acquisition of, direct or indirect, any Acquired Asset, other than (A) the transactions contemplated by this Agreement, (B) the acquisition of Inventory in the ordinary course of Business and (C) any Excluded Asset described in Section 1.02(b).

SECTION 5.03. ACCESS TO INFORMATION. (a) Seller and Seller Sub shall afford to Purchaser and its employees, accountants, counsel and other representatives and advisors reasonable access, upon reasonable notice during normal business hours during the period prior to the Closing, to all the personnel, properties, books, contracts, commitments, data, files, Tax returns and Records of, and relating to, the Business (other than the Excluded Assets, other than books and records that are themselves Excluded Assets), and during such period shall furnish promptly to Purchaser any information concerning the Business, in the possession or control of Seller and/or Seller Sub as Purchaser may reasonably request; provided, however, that such access does not unreasonably disrupt the normal operations of Seller. Subject to Section 6.05, no investigation or receipt of information by

Purchaser shall operate as a waiver or otherwise affect any representation or warranty of Seller or Sub or any covenant (including indemnifications) under this Agreement.

(b) After the Closing, Seller and Seller Sub will give Purchaser and its employees, counsel, accountants and other representatives and advisors (collectively, "REPRESENTATIVES") reasonable access, during normal business hours and upon reasonable notice, to all books, documents, information, data, files and other records in the possession or control of Seller relating to (i) the operation of the Business prior to the Closing, (ii) the Acquired Assets or (iii) the Assumed Liabilities, and to furnish copies thereof, which Purchaser or its Representatives reasonably request, including in connection with claims, proceedings, actions, investigations, audits and other regulatory or legal proceedings involving (x) the operation of the Business after the Closing, (y) the Acquired Assets or (z) the Assumed Liabilities, and Seller and Seller Sub shall furnish reasonable assistance (at Seller's expense other than for out-of-pocket costs and expenses, which shall be reimbursed by Purchaser) (including access to personnel) to Purchaser and its Representatives in connection with such claims and other proceedings. Seller and Seller Sub shall not destroy any such records prior to the fifth anniversary of the Closing, and in any event will not destroy or permit the destruction of any such records without providing Purchaser with notice detailing the contents of such records, and providing Purchaser with the opportunity to obtain such records, at least 60 days prior to the destruction thereof.

SECTION 5.04. CONFIDENTIALITY. (a) Purchaser acknowledges that the information being provided to it in connection with the Acquisition and the consummation of the other transactions contemplated hereby is subject to the terms of a confidentiality agreement between Purchaser and Seller (the "CONFIDENTIALITY AGREEMENT"), the terms of which are incorporated herein by reference. Effective upon, and only upon, the Closing, the Confidentiality Agreement shall terminate with respect to information relating solely to the Business and the Acquired Assets; PROVIDED, HOWEVER, that Purchaser acknowledges that any and all other information provided to it by Seller or Seller's representatives concerning Seller shall remain subject to the terms and conditions of the Confidentiality Agreement after the Closing Date.

(b) Seller shall keep confidential, and cause its affiliates and instruct its and their officers, directors, employees and advisors to keep confidential, all information relating to the Business, except as required by law or administrative process and except for information that is available to the public on the Closing Date, or thereafter becomes available to the public other than as a result of a breach of this Section 5.04(b); PROVIDED, HOWEVER, that after the issuance of a press release regarding the Acquisition Seller may discuss with analysts and investors the actual or anticipated effect of the Acquisition on the performance of Seller's businesses. The covenant set forth in this Section 5.04(b) shall terminate simultaneously with the Directory Business Agreement.

(c) At the Closing, Seller and Seller Sub shall assign, or cause their financial advisor to assign, to Purchaser all rights with respect to the Business or the Acquired Assets under any confidentiality agreements executed by or on behalf of Seller or Seller Sub in connection with the potential sale of the Business.

SECTION 5.05. REASONABLE BEST EFFORTS. (a) On the terms and subject to the conditions of this Agreement, each party shall use its reasonable best efforts to cause the Closing to occur, including taking all actions reasonably necessary to comply promptly with all legal requirements that may be imposed on it or any of its affiliates with respect to the Closing.

(b) Each of Seller and Purchaser shall as promptly as practicable, but in no event later than ten business days following the execution and delivery of this Agreement, file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the notification and report form, if any, required for the transactions contemplated hereby and any supplemental information requested in connection therewith pursuant to the HSR Act. Any such notification and report form and supplemental information shall be in substantial compliance with the requirements of the HSR Act. Each of Purchaser and Seller shall furnish to the other such necessary information and reasonable assistance as the other may request in connection with its preparation of any filing or submission that is necessary under the HSR Act. Seller and Purchaser shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from, the FTC and the DOJ and shall comply promptly with any such inquiry or request. Each of Seller and Purchaser shall use its reasonable best efforts to obtain any clearance required under the HSR Act for the consummation of the transactions contemplated by this Agreement.

(c) Prior to the Closing, each party shall, and shall cause its affiliates to, use its reasonable best efforts to obtain, and to cooperate in obtaining, all consents, approvals and waivers from third parties necessary or appropriate to permit the transfer of the Acquired Assets to, and the assumption of the Assumed Liabilities by, Purchaser, and in connection with the debt financing contemplated by the Financing Commitment, including to provide the Bank a perfected security interest in certain Contracts; PROVIDED, HOWEVER, that the parties shall not be required to pay or commit to pay any amount to (or incur any obligation in favor of) any person from whom any such consent, approval or waiver may be required (other than nominal filing or application fees). Seller hereby consents to the assignment to Purchaser pursuant to this Agreement of any Assigned Contract to which Seller or any Subsidiary of Seller is the other party (as opposed to the party representing the Business), including those Assigned Contracts set forth on Schedule 3.08.

(d) Prior to the Closing, Seller and Seller Sub agree to provide, and will cause their respective officers and employees to provide, all reasonably necessary cooperation in connection with the arrangement of any financing to be consummated contemporaneous with or at or after the Closing,

including participation in meetings, due diligence sessions, the preparation of offering memoranda, private placement memoranda, prospectuses and similar documents or other requested certificates, documents or opinions customarily delivered by a seller in connection with comparable financings, in each case as may be reasonably requested by Purchaser.

(e) Prior to and at Closing, Purchaser shall take whatever actions are reasonably necessary to cause the debt financing contemplated by the Financing Commitments to be funded at the Closing and shall cause its affiliates to provide the guarantees contemplated by the Financing Commitment subject to all conditions to the consummation of the transactions contemplated by this Agreement being satisfied.

(f) Each of Seller and Seller Sub shall use its reasonable best efforts to obtain the consents required by Section 6.01(c) within 45 days of the date of this Agreement; PROVIDED, HOWEVER, that Seller and Seller Sub shall not be required to pay or commit to pay any amount to (or incur any obligation in favor of) any person from whom any such consent, approval or waiver may be required (other than nominal filing or application fees).

SECTION 5.06. EXPENSES; TRANSFER TAXES. (a) Whether or not the Closing takes place, and except as set forth in Section 5.10 and Article VIII, all costs and expenses incurred in connection with this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby shall be paid by the party incurring such expense, including all costs and expenses incurred pursuant to Sections 1.04 and 5.05.

(b) The responsibility for paying all transfer, documentary, sales, use, registration, value-added and other similar Taxes (including all applicable real estate transfer Taxes) and related fees (including any penalties, interest and additions to Taxes) incurred in connection with this Agreement and the transactions contemplated hereby will be borne by Seller. Each party shall use reasonable efforts to avail itself of any available exemptions from any such Taxes or fees, and to cooperate with the other parties in providing any information and documentation that may be necessary to obtain such exemptions.

SECTION 5.07. BROKERS OR FINDERS. Each of Purchaser and Seller represents, as to itself and its affiliates, that no agent, broker, investment banker or other firm or person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement, except, as to Seller and its affiliates, Merrill Lynch & Co., whose fees and expenses will be paid by Seller.

SECTION 5.08. COLLECTION OF RECEIVABLES. From and after the Closing, subject to the terms of any Ancillary Agreement, Purchaser shall have the right and authority to collect (including to

prosecute any claims or proceedings) for its own account all Receivables and other related items that are included in the Acquired Assets and to endorse with the name of Seller or Seller Sub, as applicable, any checks or drafts received with respect to any Receivables or such other related items. Subject to the terms of any Ancillary Agreement, Seller and Seller Sub shall promptly deliver to Purchaser any cash or other property received directly or indirectly by it with respect to the Receivables and such other related items, including any amounts payable as interest.

SECTION 5.09. EMPLOYEE MATTERS. (a) CONTINUATION OF EMPLOYMENT; CREDITED SERVICE. Effective as of the Closing, except with respect to those Business Employees listed in Schedule 5.09(a), each of whom shall remain in the employ of the Seller, Seller Sub or an affiliate of Seller or Seller Sub after the Closing (the "EXCLUDED EMPLOYEES"), Purchaser shall make offers of employment to each other Business Employee, in a substantially similar and suitable position with the same salary and hourly wage rate and incentive bonus opportunities as that provided to the Business Employees immediately prior to Closing (subject to the provisions of Section 5.09(b)). For purposes of this Section 5.09, "Business Employees" shall include those employees who are not actively at work as of the Closing due to disability or approved leave of absence (including, without limitation, vacation, jury duty, medical leave, maternity or paternity leave, and military leave) (in each case referred to as an "INACTIVE EMPLOYEE"); PROVIDED, that Purchaser's obligation to employ any Inactive Employee upon such Inactive Employee's return from disability or other approved leave of absence shall be subject to Applicable Law. Purchaser shall assume all liabilities relating to its failure to employ any such employees in the same positions upon such employees' ability to return to work in accordance with Applicable Law. Business Employees who accept Purchaser's offer of employment shall be referred to as "CONTINUED EMPLOYEES". Continued Employees shall receive credit for all service with Seller, Seller Sub and their affiliates (and their predecessors) for all purposes under Purchaser's employee benefit plans to the same extent recognized by Seller, Seller Sub and their affiliates immediately prior to the Closing Date; PROVIDED, HOWEVER, that such service shall not result in any duplication of benefits or be credited for benefit accrual purposes under any Purchaser defined benefit pension plan.

(b) CONTINUATION OF BENEFITS. Notwithstanding Section 5.09(a), nothing contained herein shall be construed or interpreted to impose on Purchaser any obligation for the continuation of employment of any Continued Employee for any period of time following the Closing or limitation on its ability to modify any compensation or benefits provided to any Continued Employee; PROVIDED, that for not less than one year following the Closing Date, Purchaser shall maintain, or shall cause to be maintained, salary and hourly wage rate and incentive bonus opportunities, and severance benefit plans and arrangements (other than any plans and arrangements based on equity securities or any equivalent thereof) and perquisites for Continued Employees that, in the aggregate, are no less favorable than those provided to Continued Employees by Seller prior to Closing.

(c) 401(K) PLAN; ROLLOVERS. Effective as of the Closing, Purchaser shall have in effect a profit-sharing plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code ("PURCHASER'S 401(K) PLAN") that will provide benefits to Continued Employees as of the Closing. Each Continued Employee participating in Seller's Retirement Savings Plan ("SELLER'S 401(K) PLAN") as of the Closing shall become a participant in Purchaser's 401(k) Plan as of the Closing. At such time as Seller is reasonably satisfied that Purchaser's 401(k) Plan meets the requirements for qualification under Section 401(a) of the Code, Seller shall permit, subject to its reasonable interpretation of the provisions of Section 401(k) of the Code, each Continued Employee to effect a "direct rollover" (within the meaning of Section 401(a)(31) of the Code and the regulations thereunder) to Purchaser's 401(k) Plan of his or her account balances (including all outstanding loans) in Seller's 401(k) Plan if such rollover is elected in accordance with Applicable Law by such Continued Employee. Without limiting the generality of the foregoing, each Continued Employee may elect to effect a "direct rollover" to Purchaser's 401(k) Plan of his or her account balances (including all outstanding loans) in Seller's 401(k) Plan, and Purchaser agrees to cause Purchaser's 401(k) Plan to accept such rollover provided that Seller provides evidence reasonably satisfactory to Purchaser under Applicable Law that Seller's 401(k) Plan meets the requirements for qualification under Section 401(a) of the Code. Purchaser also agrees to cause Purchaser's 401(k) Plan to accept any "direct rollover" of benefits distributed to a Continued Employee under Seller's Pension Plan, if elected in accordance with Applicable Law by such Continued Employee; PROVIDED, that Seller provides evidence reasonably satisfactory to Purchaser under Applicable Law that Seller's Pension Plan meets the requirements for qualification under Section 401(a) of the Code.

(d) STOCK-BASED COMPENSATION. Seller shall retain liability for all grants of rights to purchase Seller's common stock as well as grants of restricted stock, restricted units and any other equity or equity-based awards under the equity-based plans and programs of Seller, Seller Sub and their affiliates that were granted prior to the Closing to employees of the Business in accordance with the terms of the plans and programs under which such grants were made.

(e) WELFARE BENEFIT PLANS. (i) At or prior to the Closing Date, Purchaser shall establish or designate welfare benefit plans and arrangements (including, without limitation, plans and arrangements providing medical, dental, life, and disability insurance coverages) to provide benefits to Continued Employees and their dependents ("PURCHASER WELFARE PLANS"). As of the Closing Date, Continued Employees and their dependents shall commence participation (without any waiting time) in Purchaser Welfare Plans and shall cease participating in any corresponding welfare benefit plan maintained by Seller or its affiliates. Seller shall retain sole liability for all claims incurred under the Seller Benefit Plans that are welfare benefit plans within the meaning of Section 3(1) of ERISA ("SELLER WELFARE PLANS") incurred at or prior to the Closing. Reimbursement of expenses associated with such claims shall be determined in accordance with the terms of Seller Welfare Plans as in effect immediately prior to the Closing. Claims under any medical, dental, vision, or prescription drug plan generally will

be deemed to be incurred on the date that the service giving rise to such claim is performed and not when such claim is made; PROVIDED, HOWEVER, that with respect to claims relating to a hospital stay that commences prior to the Closing and ends following the Closing, the cost thereof shall be apportioned between Seller and Purchaser, with Seller responsible for that portion of the cost incurred prior to the Closing and Purchaser responsible for the balance of such cost. Claims for disability under any long or short term disability plan will be deemed to be incurred on the date the illness or injury is certified to have occurred.

(ii) Seller shall provide any continuation coverage required under Section 4980B of the Code, Part 6 of Title 1 of ERISA or applicable state law ("COBRA") to each "qualified beneficiary" as that term is defined in COBRA whose first "qualifying event" (as defined in COBRA) occurs on or prior to the Closing Date.

(iii) For purposes of determining the number of vacation days to which each Continued Employee shall be entitled, Purchaser shall assume and honor all vacation days accrued but not yet taken by Continued Employees as of the Closing. To the extent that a Continued Employee is entitled to be paid for any vacation days, Purchaser shall discharge the liability for such vacation days.

(iv) Seller and Purchaser intend that the transactions contemplated by this Agreement shall not constitute a severance of employment of any Continued Employee prior to or upon the consummation of the transactions contemplated hereby, and that such employees will have continuous and uninterrupted employment immediately before and immediately after the Closing. Purchaser shall indemnify and hold harmless Seller and its affiliates, and each of their respective officers, directors and employees, from all costs, expenses or other damages that may result in respect of claims made by any Continued Employee for severance or other separation benefits arising out of or in connection with Purchaser's employment of, Purchaser's failure to offer employment to, or Purchaser's termination of employment of, any Continued Employee not in accordance with the terms of this Agreement.

(v) Seller and/or one or more of its affiliates currently sponsor a program that provides workers compensation benefits for eligible Continued Employees. Seller shall be responsible for any claims made with respect to Business Employees or former Business Employee for workers' compensation or similar claims whether or not insured or self-insured or mandated by applicable Law ("COMPENSATION CLAIMS") filed with an appropriate agency by a Business Employee, former Business Employee or a spouse or dependent of a Business Employee or former Business Employee ("CLAIMING EMPLOYEE") if the injury or alleged injury occurred, or was alleged to have occurred, in its entirety prior to the Closing Date, irrespective of when such injury is manifested. Purchaser shall be responsible for any Compensation Claim filed on or

after the Closing Date if the injury or alleged injury occurred, or was alleged to have occurred in its entirety after the Closing Date. In the event a Compensation Claim is filed after the Closing Date by or on behalf of a Claiming Employee and the injury occurred or is alleged to have occurred prior to and subsequent to the Closing Date, the liability for such Compensation Claim, if any, as between Seller and Purchaser shall be equitably apportioned between them based upon the length of exposure of the Claiming Employee to the product, material, practice, condition or other circumstances claimed to have caused the alleged injury, preceding and following the Closing.

(f) CAFETERIA PLAN. Purchaser shall have in effect as of the

Closing flexible spending reimbursement accounts under a cafeteria plan qualifying under Section 125 of the Code which provide benefits to Continued Employees and former employees of the Business (other than Excluded Employees) substantially comparable in all material respects to those provided by the flexible spending reimbursement accounts under the cafeteria plan portion of the Seller's Flexible Benefit Plan, Flex Medical Plan and Flex Dental Plan (collectively, the "SELLER'S CAFETERIA PLANS") and Purchaser agrees to cause such plan to accept a spin-off of the accounts from Seller's Cafeteria Plans and to honor and continue through the end of the calendar year in which the Closing occurs the elections made by Continued Employees under such plan which are in effect immediately prior to the Closing. Purchaser shall assume sole liability for reimbursements under such flexible spending accounts in respect of all claims incurred during the year in which the Closing occurs by Continued Employees and former employees of the Business (other than Excluded Employees), whether incurred prior to, on or after the Closing Date, that have not been paid in full as of the Closing Date. Promptly following the Closing Date, Seller shall transfer to Purchaser the excess, as of the Closing Date, of the accumulated payroll deductions for such calendar year allocated to such accounts by the Continued Employees and former employees of the Business (other than Excluded Employees) over the payouts made for such calendar year from such accounts to such employees.

(g) ADMINISTRATION. Following the date of this Agreement through the first anniversary of the Closing Date, Seller and Purchaser shall cooperate fully in all matters reasonably necessary to effect the transactions contemplated by this Section 5.09, including exchanging information and data relating to workers compensation, employee benefits and employee benefit plan coverages, and in obtaining any governmental approvals required hereunder.

SECTION 5.10. POST-CLOSING COOPERATION. (a) Purchaser and Seller shall cooperate with each other, and shall cause their officers, employees, agents, auditors and representatives to cooperate with each other, for a period of 120 days (or such longer period as required by Section 5.09) after the Closing to ensure the orderly transition of the Business from Seller to Purchaser and to minimize any disruption to the Business and the other respective businesses of Seller and Purchaser that might result from the transactions contemplated hereby. After the Closing, upon reasonable written

notice, Purchaser and Seller shall furnish or cause to be furnished to each other and their employees, counsel, auditors and representatives access, during normal business hours, to such information and assistance relating to the Business (to the extent within the control of such party) as is reasonably necessary for financial reporting and accounting matters. Seller and Seller Sub shall permit Purchaser to continue to use leased personal property primarily related to the Business that is currently leased by Seller pursuant to a lease agreement, which lease is not being assigned to Purchaser pursuant to this Agreement.

(b) Each party shall reimburse the other for reasonable out-of-pocket costs and expenses incurred in assisting the other pursuant to this Section 5.10 and Section 5.24 (which costs and expenses shall not include the salaries or benefits of employees). Neither party shall be required by this Section 5.10 or Section 5.24 to take any action that would unreasonably interfere with the conduct of its business or unreasonably disrupt its normal operations (or, in the case of Purchaser, the Business).

SECTION 5.11. PUBLICITY. From the date of this Agreement through the Closing Date, no public release or announcement concerning the transactions contemplated hereby shall be issued by any party without the prior consent of the other parties (which consent shall not be unreasonably withheld), except as such release or announcement may be required by law or the rules or regulations of any United States or foreign securities exchange, in which case the party required to make the release or announcement shall allow the other party reasonable time to comment on such release or announcement in advance of such issuance; PROVIDED, HOWEVER, that each of Seller, Seller Sub and Purchaser may make internal announcements to their respective employees that are consistent with the parties' prior public disclosures regarding the transactions contemplated hereby after reasonable prior notice to and consultation with the other. Seller and Purchaser shall have agreed prior to the date of this Agreement on a form of initial press announcement to be used in announcing the execution of this Agreement.

SECTION 5.12. NO SOLICITATION; EXCLUSIVE AGENCY. (a) Seller and Seller Sub, on the one hand, and Purchaser, on the other hand, agree that from the date hereof until the third anniversary of the Closing, neither of them nor any of their respective affiliates shall solicit the employment of, in the case of Seller and Seller Sub, any Continued Employee or, in the case of Purchaser, any employee of Seller or Seller Sub on the date of this Agreement (other than the Continued Employees). This Section 5.12 shall not be interpreted to prohibit solicitations of employment through general advertising not specifically directed at the employees of the other party.

(b) From and after the termination of the Directory Business Agreement through the 20th anniversary of the Closing Date, in the event that Seller or any of its subsidiaries or affiliates engages to any extent in activities which constitute all or a portion of the Business as conducted by Seller and Seller Sub immediately prior to Closing, such entity will do so only for the sole benefit of

Purchaser. All revenue received by such entity from the operation of such Business will be collected by such entity for the account of Purchaser and such entity will retain 15% of such revenue and Seller will (and will cause its parent, subsidiary and affiliates to) pay to Purchaser 85% of such revenue. Such payment shall be made within 10 days after receipt of such revenue. Purchaser shall be required, subject to Aplicable Law, to accept for publication any advertising sold by such entity in the operation of such Business. The obligations and commitments set forth in this Section 5.12(b) shall terminate upon the termination of the License Agreement pursuant to Section 4.3 thereof.

SECTION 5.13. MONTHLY FINANCIAL INFORMATION. Prior to the Closing, promptly after each month-end occurring after the date hereof, Seller shall deliver to Purchaser such financial reports or other summary information with respect to the Business for the month ended on such month-end as Seller has generated for its own internal financial and accounting purposes the ordinary course of its business consistent with past practice.

SECTION 5.14. RECORDS. Purchaser recognizes that certain Records may contain incidental information relating primarily to subsidiaries or divisions of Seller other than the Business and that Seller may retain copies of the relevant portions thereof.

SECTION 5.15. BULK TRANSFER LAWS. Purchaser hereby waives compliance by Seller and Seller Sub with the provisions of any so-called "bulk transfer law" of any jurisdiction in connection with the sale of the Acquired Assets to Purchaser.

SECTION 5.16. FURTHER ASSURANCES. From time to time, as and when requested by any party, each party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions, as such other party may reasonably deem necessary or desirable to consummate the transactions contemplated by this Agreement, including, in the case of Seller and Seller Sub, executing and delivering to Purchaser such assignments, deeds, bills of sale, consents and other instruments as Purchaser or its counsel may reasonably request as necessary or desirable for such purpose.

SECTION 5.17. PURCHASE PRICE ALLOCATION. Seller, Seller Sub and Purchaser mutually agree to allocate the Purchase Price (plus Assumed Liabilities to the extent properly taken into account under the Code and the Treasury Regulations promulgated thereunder) among the Acquired Assets according to the relative fair market values of such assets as of the Closing Date in accordance with the provisions of Section 1060 of the Code (and the Treasury Regulations promulgated thereunder). Purchaser shall provide Seller with a draft of such allocation on the Closing Date. Seller shall notify Purchaser of any objection Seller may have to such allocation within fifteen (15) days of its receipt of such allocation. Seller and Purchaser shall resolve any disagreement with respect to such allocation in good faith consistent herewith; provided, however, that if Seller and Purchaser are unable to agree on

such allocation within thirty (30) days after Purchaser notifies Seller of any objections to the draft allocation, Seller and Purchaser shall promptly elect an independent appraisal firm to determine such allocation. The conclusions of such appraisal firm shall be conclusive and binding. The fees and expenses of such appraisal firm shall be shared equally by Seller and Purchaser. Seller, Seller Sub and Purchaser agree to (i) be bound by the allocation of the Purchase Price (as agreed upon or, if applicable, as determined by appraisal), (ii) act in accordance with such allocation in the filing of all Tax Returns (including, without limitation, filing Form 8594 with their United States federal income Tax Return for the taxable year that includes the date of the Closing (and any amendments to such form)) and in the course of any Tax audit, Tax review or Tax litigation relating thereto and (iii) take no position and cause their affiliates to take no position inconsistent with such allocation for income Tax purposes, including United States federal and state income Tax, unless, in each case, otherwise required by a "DETERMINATION" as defined in Section 1313 of the Code or by similar applicable state Tax law. Seller, Seller Sub and Purchaser shall cooperate in the filing of their respective Forms 8594 (and any amendments thereto) relating to this transaction, and not later than 30 days prior to the filing of such Forms 8594 relating to this transaction (and any amendments thereto), each party shall deliver to the other party a copy of its Form 8594 (or amendment, as applicable).

SECTION 5.18. COOPERATION; ALLOCATION OF TAXES AMONG ACQUIRED ASSETS.

(a) Purchaser and each of Seller and Seller Sub agree to furnish or cause to be furnished to the other, upon request, as promptly as reasonably practicable, reasonable information and assistance relating to the Acquired Assets or the Business, including, without limitation, access to books and records, in connection with the filing of all Tax Returns by Purchaser or Seller or Seller Sub, the making of any election relating to Taxes, the preparation for any audit by any Taxing Authority, the obtaining of clearance certificates or similar documents from state Taxing Authorities relating to relief from Taxes that might otherwise be imposed in respect of the Acquisition, and the prosecution or defense of any claim, suit or proceeding relating to any Tax. Purchaser and each of Seller and Seller Sub shall reasonably cooperate with each other in the conduct of any audit, litigation or other proceeding relating to Taxes involving the Acquired Assets.

(b) Seller shall be responsible for and shall promptly pay when due all Taxes levied with respect to the Acquired Assets attributable to the Pre-Closing Tax Period. Purchaser shall be responsible for and shall promptly pay when due all Taxes levied with respect to the Acquired Assets attributable to the Post-Closing Tax Period. Such Taxes for any Straddle Period shall be apportioned between Purchaser and Seller based on the number of days of such taxable period included in the Pre-Closing Period and the number of days of such taxable period included in the Post-Closing Tax Period. Seller shall be liable for the proportionate amount of such Taxes that is attributable to the Pre-Closing Tax Period, and Purchaser shall be liable for the proportionate amount of such Taxes that is attributable to the Post-Closing Tax Period. Upon receipt of any bill for such Taxes, Purchaser or

Seller shall present a statement to the other setting forth the amount of reimbursement, if any, to which each is entitled under this Section 5.18(b) together with such supporting evidence as is reasonably necessary to calculate the proration amount. The proration amount shall be paid by the party owing it to the other within ten (10) days after delivery of such statement.

SECTION 5.19. REFUNDS. Seller shall be entitled to any refunds or credits of Taxes levied with respect to the Acquired Assets allocable to any Pre-Closing Tax Period. Purchaser shall be entitled to any refunds or credits of Taxes levied with respect to the Acquired Assets allocable to any Post-Closing Tax Period. Refunds or credits of any such Taxes for any Straddle Period shall be apportioned between the Pre-Closing Tax Period and Post-Closing Tax Period within such Straddle Period in the same manner as such Tax with respect to such Straddle Period was apportioned pursuant to Section 5.18(b). Upon Purchaser's or Seller's receipt of any refund or credit of such Taxes, if the other party is entitled to any part of such refund or credit hereunder, the party receiving such refund or credit shall present a statement to the other setting forth the amount of the refund or credit to which each is entitled under this Section 5.19 together with such supporting evidence as is reasonably necessary to calculate the proration amount. The proration amount shall be paid by the party owing it to the other within ten (10) days after delivery of such statement.

SECTION 5.20. SELLER AND SELLER SUB TRANSFERS. Seller and Seller Sub shall cause to be transferred to Seller or Seller Sub all right, title and interest in all assets, if any, held by an affiliate of Seller (other than Seller Sub) that would otherwise have been an Acquired Asset pursuant to Section 1.02 if owned by Seller for inclusion in the Acquired Assets prior to the Closing.

SECTION 5.21. WITHHOLDING EXEMPTION. Seller and Seller Sub shall deliver to Purchaser at the Closing all necessary forms and certificates complying with applicable law, duly executed and acknowledged, certifying that the transactions contemplated hereby are exempt from withholding under Section 1445 of the Code.

SECTION 5.22. NAME CHANGE. On the Closing Date, Seller and Seller Sub shall take all action necessary, including filing an amendment to the Articles of Incorporation of Seller Sub, to change the name of Seller Sub and, if applicable, any other subsidiary of Seller so as not to include any of the words "Cincinnati Bell Directories" or any other word(s) related to directories, yellow, white, pink, blue or any color pages, lists or any other name or mark that has such a near resemblance to Seller Sub's current name or that is descriptive of the Business as may be likely to cause confusion or mistake to the public with respect to the ownership and operation of the Business. Such amendment shall be in a form acceptable for filing with the Secretary of State of Ohio.

SECTION 5.23. ADVERTISING SERVICES. From the Closing Date through the fifth anniversary of the Closing Date, Seller shall (i) purchase from Purchaser telephone directory advertising services at then effective rates aggregating at least $350,000 for each full calendar year and (ii) refrain from purchasing telephone directory advertising from any competitor of the Business within the geographic scope set forth in the Directory Business Agreement. In connection with such purchase, Purchaser will provide to Seller advertising having a value of $1,050,000 at then effective rates at no additional cost for each full calendar year. The scope and type of advertising purchased shall be similar to that which Seller and its affiliates placed in the directories prior to the Closing.

SECTION 5.24. WEBSITE CONTENT. After the Closing, Seller and/or Seller Sub, on the one hand, and Purchaser, on the other hand, will provide the text, pictures, sound, graphics, video, links and other data (collectively "CONTENT") necessary for the maintenance of the internet web sites set forth on Schedule 5.24 (the "WEBSITES"); PROVIDED, HOWEVER, nothing contained in this Section 5.24 shall alter the prices paid by Purchaser in the Ancillary Agreements. None of Seller, Seller Sub, or Purchaser shall take any action which would result in the disruption of the Content on the Websites. Seller, Seller Sub and Purchaser will work with each other in good faith on any necessary updates, revisions or upgrades of the Websites.

SECTION 5.25. TRANSITION SERVICES. (a) In addition to the specific covenants set forth elsewhere in this Agreement, from the date of this Agreement through the Closing Date, Seller and Seller Sub agree to provide assistance to Purchaser with the goal of enabling Purchaser to operate independently of Seller and Seller Sub following the Closing, subject to the Service Agreements, including with respect to cash management, personnel and employee benefits, information systems and internet access. Seller and Seller Sub acknowledge that there may be additional services which have not been identified in this Agreement or in the Ancillary Agreements but which have been used by the Business prior to the Closing Date and which shall continue to be required or desired by Purchaser after the Closing in connection with the operation of the Business. If any such additional services are identified and requested by Purchaser, Seller and Seller Sub agree to negotiate in good faith with Purchaser to provide such services.

(b) Subject to such terms and conditions to be mutually agreed between the parties as soon as practicable following the date of this Agreement, Seller agrees to cause each Excluded Employee, while employed by Seller or Seller Sub, to be made available following the Closing Date, for a reasonable period of time, to perform for the benefit of Purchaser the usual and customary functions and services that were performed by such Excluded Employee with respect to the Business as of the Closing Date, and Purchaser shall pay a fee to Seller in consideration thereof to reimburse Seller and Seller Sub for any direct payroll costs and out-of-pocket expenses to the extent such costs and expenses are incurred during such period. For purposes of this Section 5.25, "direct payroll costs and out-of-pocket expenses" shall mean (i) the gross amount of all salaries and wages, benefit costs and other compensation with respect to any Excluded Employee, and all applicable fees, taxes, and other amounts owed to third parties as a result of the employment of such Excluded Employee, including

federal, state and local income tax withholding, contributions pursuant to the Federal Insurance Contributions Act and Federal Unemployment Tax Act, workers' compensation, unemployment insurance, other withholding or payments required by federal, state or local law or regulations, and all payments to applicable pension and welfare plans and employee fringe benefit outlays, and (ii) any actual and necessary out-of-pocket expenses that are incurred by an Excluded Employee or by Seller or Seller Sub, including but not limited to business or travel expenses, in the course of such Excluded Employee's performance of his or her duties for the Purchaser and paid or reimbursed by Seller or Seller Sub, as reasonably determined by Seller or Seller Sub in the ordinary course of business and using its usual methods of cost accounting.

ARTICLE VI

CONDITIONS PRECEDENT

SECTION 6.01. CONDITIONS TO EACH PARTY'S OBLIGATION. The obligation of Purchaser to purchase and pay for the Acquired Assets and the obligation of Seller and Seller Sub to sell the Acquired Assets to Purchaser is subject to the satisfaction or waiver on or prior to the Closing of the following conditions:

(a) GOVERNMENTAL APPROVALS. The waiting period under the HSR Act, if applicable to the consummation of the Acquisition, shall have expired or been terminated.

(b) NO INJUNCTIONS OR RESTRAINTS. No action shall have been taken, or any Applicable Law shall have been enacted or entered or deemed applicable to the transactions contemplated by this Agreement or the Ancillary Agreements, and no temporary restraining order or preliminary or permanent injunction or other order (each, an "INJUNCTION") shall have been issued by any Governmental Entity which (A) restrains or prohibits the acquisition by Purchaser of the Acquired Assets or the Business or any other material transaction contemplated by the Agreement or any Ancillary Agreement, (B) prohibits or limits the ownership or operation by Purchaser of any material portion of the Business, or compels Purchaser to dispose of or hold separate any material portion of the business or assets of the Business, in each case as a result of any of the transactions contemplated by this Agreement or the Ancillary Agreements, (C) imposes limitations on the ability of Purchaser to acquire or hold, or exercise full rights of ownership of, the Acquired Assets or (D) prohibits Purchaser from effectively controlling in any material respect the Business.

(c) CONSENTS OF CERTAIN THIRD PARTIES. Seller shall have obtained, subject to the terms of Section 5.05(c), all consents from third parties necessary or appropriate to permit the

transfer of the Acquired Assets to, and the assumption of the Assumed Liabilities by, Purchaser, to the extent such consents are required by the terms of the Contracts listed on Schedule 6.01(c).

SECTION 6.02. CONDITIONS TO OBLIGATION OF PURCHASER. The obligation of Purchaser to purchase and pay for the Acquired Assets is subject to the satisfaction (or waiver by Purchaser) on or prior to the Closing Date of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties of Seller and Seller Sub in this Agreement and the Ancillary Agreements (i) that are qualified as to Business Material Adverse Effect shall be true and correct and (ii) those not so qualified shall be true and correct in all material respects (except for breaches as to matters that, individually or in the aggregate, could not reasonably be expected to have a Business Material Adverse Effect), in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case on and as of such earlier date). Purchaser shall have received a certificate signed by an authorized officer of Seller to such effect.

(b) PERFORMANCE OF OBLIGATIONS OF SELLER AND SELLER SUB. Each of Seller and Seller Sub shall have performed or complied in all material respects with all material obligations and covenants required by this Agreement to be performed or complied with by Seller by the time of the Closing, and Purchaser shall have received a certificate signed by an authorized officer of Seller to such effect.

(c) FINANCING. Purchaser shall have received the proceeds of financing pursuant to the Financing Commitment in the amount, on the terms and subject to the conditions set forth therein.

(d) RETENTION OF KEY EMPLOYEE. The Continued Employee listed on Schedule 6.02(d) shall have confirmed his intention to continue his employment with the Business as of the Closing on the terms set forth on Schedule 6.02(d).

SECTION 6.03. CONDITIONS TO OBLIGATION OF SELLER AND SELLER SUB. The obligation of Seller and Seller Sub to sell, assign, convey, and deliver the Acquired Assets is subject to the satisfaction (or waiver by Seller) on or prior to the Closing Date of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties of Purchaser made in this Agreement and the Ancillary Agreement (i) that are qualified as to Purchaser Material Adverse Effect shall be true and correct and (ii) those not so qualified shall be true and

correct in all material respects (except for breaches as to matters that, individually or in the aggregate, could not reasonably be expected to have a Purchaser Material Adverse Effect), in each case as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case, on and as of such earlier date). Seller shall have received a certificate signed by an authorized officer of Purchaser to such effect.

(b) PERFORMANCE OF OBLIGATIONS OF PURCHASER. Purchaser shall have performed or complied in all material respects with all material obligations and covenants required by this Agreement to be performed or complied with by Purchaser by the time of the Closing, and Seller shall have received a certificate signed by an authorized officer of Purchaser to such effect.

SECTION 6.04. FRUSTRATION OF CLOSING CONDITIONS. Neither Purchaser nor Seller may rely on the failure of any condition set forth in this Article VI to be satisfied if such failure was caused by such party's failure to act in good faith or to use its reasonable best efforts to cause the Closing to occur, as required by Section 5.05.

SECTION 6.05. EFFECT OF CERTAIN WAIVERS OF CLOSING CONDITIONS. If prior to the Closing any party (the "WAIVING PARTY") has knowledge of any breach by any other party of any representation, warranty or covenant contained in this Agreement or any Ancillary Agreement, and such other party acknowledges in writing that the effect of such breach is a failure of any condition to the waiving party's obligations set forth in this Article VI and the waiving party proceeds with the Closing, the waiving party shall be deemed to have waived such breach and the waiving party and its successors, assigns and affiliates shall not be entitled to be indemnified pursuant to Article VIII, to sue for damages or to assert any other right or remedy for any losses arising from any matters relating to such condition or breach, notwithstanding anything to the contrary contained herein or in any certificate delivered pursuant hereto.

ARTICLE VII

TERMINATION, AMENDMENT AND WAIVER

SECTION 7.01. TERMINATION. (a) Notwithstanding anything to the contrary in this Agreement, this Agreement may be terminated and the Acquisition and the other transactions contemplated by this Agreement abandoned at any time prior to the Closing:

(i) by mutual written consent of Seller and Purchaser;

(ii) by Seller if any of the conditions set forth in Section 6.01 or 6.03 shall have become incapable of fulfillment, and shall not have been waived by Seller;

(iii) by Purchaser if any of the conditions set forth in Section 6.01 or 6.02 shall have become incapable of fulfillment, and shall not have been waived by Purchaser; or

(iv) by Seller or Purchaser, if the Closing does not occur on or prior to May 6, 2002.

PROVIDED, HOWEVER, that the party seeking termination pursuant to clause (ii), (iii) or (iv) is not then in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement, including Section 5.05.

(b) In the event of termination by Seller or Purchaser pursuant to this Section 7.01, written notice thereof shall forthwith be given to the other and the transactions contemplated by this Agreement shall be terminated, without further action by any party. If the transactions contemplated by this Agreement are terminated as provided herein:

(i) Purchaser shall return all documents and other material received from Seller or Seller Sub relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to Seller or destroy such documents or other material; and

(ii) all confidential information received by Purchaser with respect to the businesses of Seller or Seller Sub shall be treated in accordance with the Confidentiality Agreement, which shall remain in full force and effect notwithstanding the termination of this Agreement.

SECTION 7.02. EFFECT OF TERMINATION. If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in Section 7.01, this Agreement shall become null and void and of no further force and effect, except for the provisions of (a) Section 5.04 relating to the obligation of Purchaser to keep confidential certain information and data obtained by it from Seller or Seller Sub, (b) Section 5.06 relating to certain expenses, (c) Section 5.07 relating to finder's fees and broker's fees, (d) Section 7.01 and this Section 7.02 and (e) Section 5.11 relating to publicity. Nothing in this Section 7.02 shall be deemed to release any party from any liability for any willful material breach by such party of the terms and provisions of this Agreement or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

SECTION 7.03. AMENDMENTS AND WAIVERS. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. By an instrument in writing Purchaser, on the one hand, or Seller and Seller Sub, on the other hand, may waive compliance

by the other party with any term or provision of this Agreement that such other party was or is obligated to comply with or perform.

ARTICLE VIII

INDEMNIFICATION

SECTION 8.01. INDEMNIFICATION BY SELLER. (a) From and after the Closing, Seller and Seller Sub, jointly and severally, shall indemnify Purchaser and its affiliates and each of their respective officers, directors, employees, stockholders, agents and representatives against, and hold them harmless from, any loss, liability (whether asserted or unasserted, absolute or contingent), claim, damage or expense (including reasonable legal fees and expenses) ("LOSSES"), as incurred (payable promptly upon written request), resulting from or arising out of:

(i) any breach of any representation or warranty of Seller or Seller Sub that survives the Closing and is contained in this Agreement or in any Ancillary Agreement or the certificate delivered at Closing by Seller or Seller Sub in connection therewith;

(ii) any breach of any covenant of Seller or Seller Sub contained in this Agreement or in any Ancillary Agreement;

(iii) any Excluded Liability;

(iv) the failure to comply with statutory provisions relating to bulk sales and transfers, if applicable; and

(v) any fees, expenses or other payments incurred or owed by Seller or Seller Sub to any brokers, financial advisors or comparable other persons retained or employed by it in connection with the transactions contemplated by this Agreement.

(b) Seller and Seller Sub shall not be required to indemnify any person, and shall not have any liability:

(i) under clause (i) of Section 8.01(a) unless the aggregate of all Losses for which Seller and Seller Sub would, but for this clause (i), be liable exceeds on a cumulative basis an amount equal to $1,500,000, and then only to the extent of any such excess;

(ii) under clause (i) of Section 8.01(a) for any individual items where the Loss relating thereto is less than

$25,000 and such items (other than a series of related items) shall not be aggregated for purposes of clause (i) of this Section 8.01(b);

(iii) under clause (i) of Section 8.01(a) in excess of 35% of the Purchase Price; and

(iv) under Section 8.01(a) to the extent the liability or obligation arises primarily as a result of any action taken or omitted to be taken by Purchaser or any of its affiliates (including any officers or employees of the Business that are intended to have an equity interest or rights or options to obtain an equity interest in Purchaser or its affiliates).

(c) Except as otherwise specifically provided in this Agreement or in any Ancillary Agreement, Purchaser acknowledges that its sole and exclusive remedy after the Closing with respect to any and all claims relating to this Agreement and the Ancillary Agreements, the Acquisition and the other transactions contemplated hereby and thereby, the Business and its assets and liabilities (other than claims of, or causes of action arising from, fraud) shall be pursuant to the indemnification provisions set forth in this Article VIII. In furtherance of the foregoing, Purchaser hereby waives, from and after the Closing, to the fullest extent permitted under applicable law, any and all rights, claims and causes of action (other than claims of, or causes of action arising from, fraud) it may have against Seller or Seller Sub arising under or based upon this Agreement, any Ancillary Agreement, any document or certificate delivered in connection herewith, any Applicable Law (including any relating to environmental matters), common law or otherwise (except pursuant to the indemnification provisions set forth in this Section 8.01).

SECTION 8.02. INDEMNIFICATION BY PURCHASER. (a) From and after the Closing, Purchaser shall indemnify Seller, Seller Sub, their affiliates and each of their respective officers, directors, employees, stockholders, agents and representatives against, and agrees to hold them harmless from, any Loss, as incurred (payable promptly upon written request), for or on account of or arising from or in connection with or otherwise with respect to (i) any breach of any representation or warranty of Purchaser contained in this Agreement or in any Ancillary Agreement or the certificate delivered at Closing by Purchaser in connection therewith, (ii) any breach of any covenant of Purchaser contained in this Agreement or in any Ancillary Agreement, (iii) any Assumed Liability, (iv) any fees, expenses or other payments incurred or owed by Purchaser to any brokers, financial advisors or other comparable persons retained or employed by it in connection with the transactions contemplated by this Agreement or by any Ancillary Agreement or (v) any claims made by any Continued Employee for severance or other separation benefits arising out of or in connection with Purchaser's employment of, Purchaser's failure to offer employment to, or Purchaser's termination of employment of, any Continued Employee not in accordance with this Agreement.

(b) Except as otherwise specifically provided in this Agreement or in any Ancillary Agreement, Seller and Seller Sub acknowledge that their sole and exclusive remedy after the Closing with respect to any and all claims relating to this Agreement and the Ancillary Agreements, the Acquisition and the other transactions contemplated hereby and thereby, the Business and its assets and liabilities (other than claims of, or causes of action arising from, fraud) shall be pursuant to the indemnification provisions set forth in this Article VIII. In furtherance of the foregoing, Seller and Seller Sub hereby waive, from and after the Closing, to the fullest extent permitted under applicable law, any and all rights, claims and causes of action (other than claims of, or causes of action arising from, fraud) it may have against

Purchaser arising under or based upon this Agreement, any Ancillary Agreement, any document or certificate delivered in connection herewith, any Applicable Law (including any relating to environmental matters), common law or otherwise (except pursuant to the indemnification provisions set forth in this Section 8.02).

SECTION 8.03. CALCULATION OF LOSSES. The amount of any Loss for which indemnification is provided under this Article VIII shall be net of any amounts actually recovered by the indemnified party under insurance policies with respect to such Loss and shall be (a) increased to take account of any net Tax cost incurred by the indemnified party arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (b) reduced to take account of any net Tax benefit realized by the indemnified party arising from the incurrence or payment of any such Loss. In computing the amount of any such Tax cost or Tax benefit, the indemnified party shall be deemed to recognize all other items of income, gain, loss deduction or credit before recognizing any item arising from the receipt of any indemnity payment hereunder or the incurrence or payment of any indemnified Loss. The amount of the Loss arising out of any item included as a liability in calculating Closing Working Capital shall be calculated net of the amount so included. The amount of the Loss arising out of any reduction in value of any Current Asset acquired at the Closing shall be calculated net of the reported value of such Current Asset used in calculating Closing Working Capital. Losses shall not be limited to matters asserted by third parties, but includes Losses incurred or sustained by an indemnified party (as defined below) in the absence of third party claims. Payments by an indemnified party of amounts for which such indemnified party is indemnified hereunder shall not be a condition precedent for recovery under this Article VIII; PROVIDED, HOWEVER, that if an indemnified party subsequently is paid any portion of such amounts by a third party, that any such portion (net of reasonable costs incurred by the indemnified party in connection with obtaining such amount) shall be paid to the indemnifying party.

SECTION 8.04. TERMINATION OF INDEMNIFICATION. The obligations to indemnify and hold harmless any party (a) pursuant to Section 8.01(a)(i) or 8.02(a), shall terminate when the applicable representation or warranty terminates pursuant to Section 8.06 and (b) pursuant to the other clauses of Sections 8.01 and 8.02 shall not terminate; PROVIDED, HOWEVER, that such obligations to indemnify and hold harmless shall not terminate with respect to any item as to which the person to be

indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a notice of such claim (stating in reasonable detail the basis of such claim) pursuant to Section 8.05 to the party to be providing the indemnification.

SECTION 8.05. PROCEDURES. (a) THIRD-PARTY CLAIM. In order for a person (the "indemnified party"), to be entitled to any indemnification provided for under this Agreement or the Ancillary Agreements in respect of, arising out of or involving a claim made by any person other than a party hereto against the indemnified party (a "THIRD-PARTY CLAIM"), such indemnified party must notify the party against which indemnity is being sought (the "indemnifying party") in writing (and in reasonable detail) of the Third-Party Claim within 20 business days after receipt by such indemnified party of notice of the Third-Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall have been actually and materially prejudiced as a result of such failure. Thereafter, the indemnified party shall deliver to the indemnifying party, within five business days after the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to the Third-Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall have been actually and materially prejudiced as a result of such failure.

(b) ASSUMPTION. If a Third-Party Claim is made against an indemnified party, the indemnifying party shall be entitled to participate in the defense thereof and, if it so chooses and acknowledges its obligation to fully indemnify, to assume the defense thereof with counsel selected by the indemnifying party; PROVIDED, HOWEVER, that such counsel is not reasonably objected to by the indemnified party. Should the indemnifying party so elect to assume the defense of a Third-Party Claim, the indemnifying party shall not be liable to the indemnified party for any legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party, it being understood that the indemnifying party shall control such defense. The indemnifying party shall be liable for the fees and expenses of counsel employed by the indemnified party for any period during which the indemnifying party has not assumed the defense thereof. If the named parties to a Third-Party Claim include both the indemnifying party and the indemnified party and the indemnified party have been advised by counsel that there is a conflict of interest requiring the indemnified party to have separate counsel, the indemnifying party shall be liable for all reasonable fees and expenses of one such separate counsel for all indemnified parties in connection with that Third-Party Claim. The indemnifying party shall be liable for the reasonable fees and expenses of one local counsel, if required. If the indemnifying party chooses to defend or prosecute a Third-Party Claim, all the indemnified parties shall cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the

indemnifying party of records and information that are reasonably relevant to such Third-Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Whether or not the indemnifying party assumes the defense of a Third-Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third-Party Claim without the indemnifying party's prior written consent (which consent shall not be unreasonably withheld or delayed). If the indemnifying party assumes the defense of a Third-Party Claim, the indemnified party shall agree to any settlement, compromise or discharge of a Third-Party Claim that the indemnifying party may recommend and that by its terms obligates the indemnifying party to pay the full amount of the liability in connection with such Third-Party Claim, which releases the indemnified party completely in connection with such Third-Party Claim. If any Third-Party Claim seeks injunctive relief against an indemnified party and such relief would reasonably be likely to have an adverse effect on such indemnified party's business operations, then notwithstanding the foregoing, the indemnified party shall be entitled to control the defense of such Third-Party Claim, including to retain counsel, at the indemnifying party's cost and expense, so long as the indemnifying party has the right to consult and participate in such defense.

(c) OTHER CLAIMS. In the event any indemnified party should have a claim against any indemnifying party under this Agreement or the Ancillary Agreements that does not involve a Third-Party Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim with reasonable promptness to the indemnifying party. Subject to Sections 8.04 and 8.06, the failure by any indemnified party so to notify the indemnifying party shall not relieve the indemnifying party from any liability that it may have to such indemnified party under this Agreement or the Ancillary Agreements, except to the extent that the indemnifying party demonstrates that it has been actually and materially prejudiced by such failure. If the indemnifying party does not notify the indemnified party within 30 calendar days following its receipt of such notice that the indemnifying party disputes its liability to the indemnified party under Section 8.01 or 8.02, such claim specified by the indemnified party in such notice shall be conclusively deemed a liability of the indemnifying party under Section 8.01 or 8.02 and the indemnifying party shall pay the amount of such liability to the indemnified party on demand or, in the case of any notice in which the amount of the claim (or any portion thereof) is estimated, on such later date when the amount of such claim (or such portion thereof) becomes finally determined.

(d) MITIGATION. Purchaser and Seller shall cooperate with each other with respect to resolving any claim or liability with respect to which one party is obligated to indemnify the other party hereunder, including by making reasonable efforts to mitigate or resolve any such claim or liability.

SECTION 8.06. SURVIVAL OF REPRESENTATIONS. The representations, warranties contained in this Agreement and in any document delivered in connection herewith (except for the representations and warranties set forth in Sections 3.02, 3.05(a), 3.12, 3.17 and 4.02) shall survive the Closing solely for purposes of Article VIII and shall terminate at the close of business two years following the Closing Date. The representations and warranties set forth in Sections 3.02, 3.05(a) and 4.02 shall remain in full force and effect without regard to time. The representations and warranties set forth in Section 3.12 shall remain in full force and effect until the expiration of the applicable statute of limitations plus ninety (90) days with respect to the matters addressed in such sections. The representations and warranties set forth in Section 3.17 shall remain in full-force and effect for five years following the Closing Date with respect to the matters addressed in such section. Each party hereto shall be entitled to rely upon the representations and warranties of the other party set forth in this Agreement or any Ancillary Agreement. The termination of the representations and warranties provided herein shall not affect the rights of a party in respect of a claim made by such party in a writing received by the other party prior to the expiration of the applicable survival period provided herein.

SECTION 8.07. NO ADDITIONAL REPRESENTATIONS. Purchaser acknowledges that it and its representatives have been permitted full and complete access to the books and records, facilities, equipment, tax returns, contracts, insurance policies (or summaries thereof) and other properties and assets of the Business that it and its representatives have desired or requested to

see or review, and that it and its representatives have had a full opportunity to meet with the officers and employees of Seller and Seller Sub to discuss the Business. Purchaser acknowledges that none of Seller, Seller Sub or any other person has made any representation or warranty, expressed or implied, as to the accuracy or completeness of any information regarding the Business or the Acquired Assets furnished or made available to Purchaser and its representatives, except as expressly set forth in this Agreement, the Ancillary Agreements or the Schedules or certificates, instruments or other documents delivered pursuant to this Agreement or the Ancillary Agreements, and, except from fraud or willful misconduct, none of Seller, Seller Sub or any other person shall have or be subject to any liability to Purchaser or any other person resulting from the distribution to Purchaser, or Purchaser's use of, any such information, including the Confidential Descriptive Memorandum prepared by Merrill Lynch & Co. dated August 2000, and any information, documents or material made available to Purchaser in any "data rooms", management presentations or in any other form in expectation of the transactions contemplated hereby.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.01. ASSIGNMENT. This Agreement and the rights and obligations hereunder shall not be assignable or transferable by Purchaser, Seller or Seller Sub (including by operation of law in connection with a merger or consolidation of Purchaser, Seller or Seller Sub) without the prior written consent of the other parties hereto; PROVIDED that Purchaser may, without such consent, assign all such rights and obligations to a wholly owned subsidiary of, or a partnership controlled by, Purchaser. Any attempted assignment in violation of this Section 9.01 shall be void.

SECTION 9.02. NO THIRD-PARTY BENEFICIARIES. Except as provided in Article VIII, this Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

SECTION 9.03. NOTICES. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when received if delivered by hand; when transmitted if sent by facsimile, telecopy, electronic or digital transmission method; upon receipt if sent postage prepaid, by registered, certified or express mail; or the day after it is sent, if sent by reputable overnight courier service. In each case notice shall be sent to:

(i) if to Purchaser,

CBD Media, Inc.
c/o Spectrum Equity Investors IV, L.P.
333 Middlefield Road, Suite 200
Menlo Park, California 94025

Attention of Brion Applegate
Facsimile: (415) 464-4601

with a copy to:

Latham & Watkins
505 Montgomery Street, Suite 1900
San Francisco, California 94111

Attention of Scott R. Haber, Esq.
Facsimile: (415) 395-8095

(ii) if to Seller or Seller Sub,

Broadwing Inc.
201 E. Fourth Street
P.O. Box 2301
Cincinnati, Ohio 45201
Attention of Jeff Smith, Esq.
Facsimile: (513) 397-7475

with a copy to:

Cravath, Swaine & Moore
825 Eighth Avenue

New York, NY 10019

Attention of Robert I. Townsend, III, Esq.
Facsimile: (212) 474-3700

SECTION 9.04. INTERPRETATION; EXHIBITS AND SCHEDULES; CERTAIN DEFINITIONS. (a) The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any matter set forth in any provision,

subprovision, section or subsection of any Schedule shall be deemed set forth for all purposes of the Schedules and all of the representations and warranties in Article III to the extent that it is reasonably apparent on the face of the Schedule that such matter is relevant to another Schedule or representation or warranty. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein, shall have the meaning as defined in this Agreement. When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns. References to a statute are also to the rules and regulations promulgated thereunder.

(b) For all purposes hereof:

"AFFILIATE" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person.

"ORDINARY COURSE OF BUSINESS" or similar phrase means the ordinary course of business consistent with past practice.

"PERSON" means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, Governmental Entity or other entity.

"SUBSIDIARY" of any person means any other person (i) more than 50% of whose outstanding shares or securities representing the right to vote for the election of directors or other managing authority of such other person are, now or hereafter, owned or controlled, directly or indirectly, by such first person, but such other person shall be deemed to be a subsidiary only so long as such ownership or control exists, or (ii) which does not have outstanding shares or securities with such right to vote, as may be the case in a partnership, joint venture or unincorporated association, but more than 50% of whose ownership interest representing the right to make the decisions for such other person is, now or hereafter, owned or controlled, directly or indirectly, by such first person, but such other person shall be deemed to be a subsidiary only so long as such ownership or control exists

SECTION 9.05. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party.

SECTION 9.06. ENTIRE AGREEMENT. This Agreement, the Ancillary Agreements and the Confidentiality Agreement, along with the Schedules and Exhibits thereto and certificates delivered pursuant thereto, contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter. Neither party shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the Ancillary Agreements, the Confidentiality Agreement or the Schedules or Exhibits hereto or thereto.

SECTION 9.07. SEVERABILITY. If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

SECTION 9.08. CONSENT TO JURISDICTION. Each party irrevocably submits to the exclusive jurisdiction of (a) the Supreme Court of the State of New York, New York County, and (b) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement, any Ancillary Agreement or any transaction contemplated hereby or thereby. Each of Purchaser and Seller agrees to commence any such action, suit or proceeding either in the United States District Court for the Southern District of New York or if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the Supreme Court of the State of New York, New York County. Each of Purchaser and Seller and Seller Sub further agrees that service of any process, summons, notice or document by U.S. registered mail to such party's respective address set forth above shall be effective service of process for any action, suit or proceeding in New York with respect to any matters to which it has submitted to jurisdiction in this Section 9.08. Each of Purchaser and Seller and Seller Sub irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement, any Ancillary Agreement or the transactions contemplated hereby and thereby in (i) the Supreme Court of the State of New York, New York County, or (ii) the United States District Court for the Southern District of New York, and hereby and thereby further irrevocably and unconditionally waives and

agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

SECTION 9.09. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State, without regard to the conflicts of law principles of such State.

SECTION 9.10. WAIVER OF JURY TRIAL. Each party hereby waives to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement, any Ancillary Agreement or any transaction contemplated hereby or thereby. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce that foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the Ancillary Agreements, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.10.

SECTION 9.11. SPECIFIC PERFORMANCE. Each of the Purchaser, Seller and Seller Sub acknowledges and agrees that the other parties hereto would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each party hereto agrees that the other parties hereto shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically (without posting bond) this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter (subject to Section 9.08), in addition to any other remedy to which they may be entitled, at law or in equity.

ARTICLE X

DEFINITIONS AND TERMS

As used in this Agreement, the following terms shall have the meanings provided below:

"ACCOUNTING FIRM" shall have the meaning set forth in Section 1.05(b).

"ACQUIRED ASSETS" shall have the meaning set forth in Section 1.02(a).

"ACQUISITION" shall have the meaning set forth in Section 1.01.

"ADJUSTED PURCHASE PRICE" shall have the meaning set forth in Section 1.05(c).

"AFFILIATE" shall have the meaning set forth in Section 9.04(b).

"ANCILLARY AGREEMENTS" shall have the meaning set forth in Section 1.02(b)(vi).

"APPLICABLE LAW" shall have the meaning set forth in Section 3.03.

"ASSIGNED CONTRACTS" shall have the meaning set forth in Section 1.02(a)(vii).

"ASSIGNED INTELLECTUAL PROPERTY" shall have the meaning set forth in Section 1.02(a)(v).

"AUDITED FINANCIAL STATEMENTS" shall have the meaning set forth in Section 5.13.

"ASSUMED LIABILITIES" shall have the meaning set forth in

Section 1.03(a).

"BALANCE SHEET" shall have the meaning set forth in Section 3.04.

"BALANCE SHEET PRINCIPLES" shall have the meaning set forth in Section 1.05(d).

"BANK" shall have the meaning set forth in Section 4.05.

"BERRY" shall have the meaning set forth in Section 3.08(c).

"BUSINESS" shall have the meaning set forth in the Recitals.

"BUSINESS EMPLOYEE" shall have the meaning set forth in Section 3.22.

"BUSINESS MATERIAL ADVERSE EFFECT" shall have the meaning set forth in Section 3.01.

"CLAIMING EMPLOYEE" shall have the meaning set forth in Section 5.09 (c) (v).

"CLOSING" shall have the meaning set forth in Section 2.01.

"CLOSING DATE" shall have the meaning set forth in Section 2.01.

"CLOSING WORKING CAPITAL" shall have the meaning set forth in Section 1.05(a).

"COBRA" shall have the meaning set forth in Section 5.09(e)(ii).

"CODE" shall have the meaning set forth in Section 3.12(a).

"COMPENSATION CLAIMS" shall have the meaning set forth in Section 5.12(a).

"CONFIDENTIALITY AGREEMENT" shall have the meaning set forth in Section 5.09 (e)(v).

"CONSENT" shall have the meaning set forth in Section 3.03.

"CONTENT" shall have the meaning set forth in Section 5.24.

"CONTINUED EMPLOYEES" shall have the meaning set forth in Section 5.09(a).

"CONTRACTS" shall have the meaning set forth in Section 1.02(a)(vii).

"COPYRIGHTS" shall have the meaning set forth in Section 3.07(a).

"CURRENT ASSETS" shall have the meaning set forth in Section 1.05(d).

"CURRENT LIABILITIES" shall have the meaning set forth in Section 1.05(d).

"DIRECTORY BUSINESS AGREEMENT" shall have the meaning set forth in the Recitals.

"DOMAIN NAMES" shall have the meaning set forth in Section 3.07(a).

"DOJ" shall have the meaning set forth in Section 5.05(b).

"ENVIRONMENTAL LAWS" shall have the meaning set forth in Section 3.17.

"ERISA" shall have the meaning set forth in Section 3.14(a).

"EXCLUDED ASSETS" shall have the meaning set forth in Section 1.02(b).

"EXCLUDED LIABILITIES" shall have the meaning set forth in Section 1.03(b).

"EXCLUDED EMPLOYEES" shall have the meaning set forth in Section 5.09(a).

"FTC" shall have the meaning set forth in Section 5.05(b).

"FINANCIAL STATEMENTS" shall have the meaning set forth in Section 3.04.

"FINANCING COMMITMENT" shall have the meaning set forth in Section 4.05.

"GAAP" shall have the meaning set forth in Section 1.05(d).

"GOVERNMENTAL ENTITY" shall have the meaning set forth in Section 3.03.

"HIPAA" shall have the meaning set forth in Section 5.09(e)(ii).

"HOLDCO" shall have the meaning set forth in Section 2.02(b).

"HSR ACT" shall have the meaning set forth in Section 3.03.

"INACTIVE EMPLOYEE" shall have the meaning set forth in Section 5.09(a).

"INCLUDING" shall have the meaning set forth in Section 9.04(b).

"INDEMNIFIED PARTY" shall have the meaning set forth in Section 8.05(a).

"INJUNCTION" shall have the meaning set forth in Section 6.01(b).

"INTELLECTUAL PROPERTY" shall have the meaning set forth in Section 1.02(a)(v).

"INVENTORY" shall have the meaning set forth in Section 1.02(a)(ii).

"INVESTMENTS" shall have the meaning set forth in Section 3.19.

"JUDGMENT" shall have the meaning set forth in Section 3.03.

"LEASED PROPERTY" shall have the meaning set forth in Section 3.06.

"LEASEHOLD IMPROVEMENTS" shall have the meaning set forth in Section 1.02(a)(i).

"LIENS" shall have the meaning set forth in Section 3.05.

"LICENSE AGREEMENT" in Recitals.

"LICENSED TRADEMARKS" shall have the meaning set forth in Section 1.02 (b)(vii).

"LOSSES" shall have the meaning set forth in Section 8.01.

"NOTICE OF DISAGREEMENT" shall have the meaning set forth in Section 1.05(b).

"ORDINARY COURSE OF BUSINESS" shall have the meaning set forth in Section 9.04(b)

"PATENTS" shall have the meaning set forth in Section 3.07(a).

"PERMITS" shall have the meaning set forth in Section 3.09.

"PERMITTED LIENS" shall have the meaning set forth in Section 3.05(a).

"PERSON" shall have the meaning set forth in Section 9.04(b).

"PERSONAL PROPERTY" shall have the meaning set forth in Section 1.02(a)(iii).

"POST-CLOSING TAX PERIOD" shall have the meaning set forth in Section 3.12(a).

"PRE-CLOSING TAX PERIOD" shall have the meaning set forth in Section 3.12(a).

"PROCEEDING" shall have the meaning set forth in Section 1.03(b)(v).

"PURCHASE PRICE" shall have the meaning set forth in Section 1.01.

"PURCHASER" shall have the meaning set forth in the Preamble.

"PURCHASER MATERIAL ADVERSE EFFECT" shall have the meaning set forth in Section 4.01.

"HOLDCO SHARES" shall have the meaning set forth in Section 2.02(b).

"PURCHASER WELFARE PLANS" shall have the meaning set forth in Section 5.09(e)(i).

"PURCHASER'S 401(K) PLAN" shall have the meaning set forth in Section 5.09(c).

"RECEIVABLES" shall have the meaning set forth in Section 1.02(a)(iv).

"RECORDS" shall have the meaning set forth in Section 1.02(a)(xiii).

"REPRESENTATIVES" shall have the meaning set forth in Section 5.03(b).

"SECURITIES ACT" shall have the meaning set forth in Section 3.23.

"SELLER" shall have the meaning set forth in the Preamble.

"SELLER BENEFIT PLANS" shall have the meaning set forth in Section 3.14(a).

"SELLER INBOUND LICENSE AGREEMENTS" shall have the meaning set forth in Section 3.07(f)(i).

"SELLER OUTBOUND LICENSE AGREEMENTS" shall have the meaning set forth in Section 3.07(f)(ii).

"SELLER OWNED COPYRIGHTS" shall have the meaning set forth in Section 3.07(d)(i).

"SELLER PENSION PLANS" shall have the meaning set forth in Section 3.14(a).

"SELLER SUB" shall have the meaning set forth in the Preamble.

"SELLER WELFARE PLANS" shall have the meaning set forth in Section 5.09(e)(i).

"SELLER'S 401(k) PLAN" shall have the meaning set forth in Section 5.09(c).

"SELLER'S CAFETERIA PLANS" shall have the meaning set forth in Section 5.09(f).

"STATEMENT" shall have the meaning set forth in Section 1.05(a).

"STRADDLE PERIOD" shall have the meaning set forth in Section 3.12(a).

"SERVICE AGREEMENTS" shall have the meaning set forth in the Recitals.

"SUBSIDIARY" shall have the meaning set forth in Section 9.04(b).

"TAX" shall have the meaning set forth in Section 3.12(a).

"TAX RETURN" shall have the meaning set forth in Section 3.12(a).

"TAXING AUTHORITY" shall have the meaning set forth in Section 3.12(a).

"THIRD PARTY CLAIM" shall have the meaning set forth in Section 8.05(a).

"TOP CUSTOMERS" shall have the meaning set forth in Section 3.08(b).

"TRADEMARKS" shall have the meaning set forth in Section 3.07(a).

"TRADE SECRETS" shall have the meaning set forth in Section 3.07(e).

"WAIVING PARTY" shall have the meaning set forth in Section 6.05.

"WC AMOUNT" shall have the meaning set forth in Section 1.05(c).

"WEBSITE" shall have the meaning set forth in Section 5.24.

"WORKING CAPITAL" shall have the meaning set forth in Section 1.05(d).

IN WITNESS WHEREOF, Seller, Seller Sub and Purchaser have duly executed this Agreement as of the date first written above.

BROADWING INC.,

by /s/ Richard G. Ellenberger

Name: Richard G. Ellenberger
Title: President and CEO

CINCINNATI BELL DIRECTORY INC.,

by /s/ Douglas A. Myers

Name: Douglas A. Myers
Title: President

CBD MEDIA, INC.,

by /s/ Brion B. Applegate

Name: Brion B. Applegate
Title: President

Accepted and agreed to as of the date first written above as to Sections 2.02 and 4.06:

CBD MEDIA HOLDINGS, INC.,

by /s/ Brion B. Applegate

Name: Brion B. Applegate
Title: President

Exhibit (10)(iii)(A)(10)

EMPLOYMENT AGREEMENT

This Agreement is made as of the Effective Date between Broadwing Inc. ("Employer"), and Michael W. Callaghan ("Employee"). For purposes of this Agreement, the "Effective Date" is December 4, 2001.

Employer and Employee agree as follows:

1. EMPLOYMENT. By this Agreement, Employer and Employee set forth the terms of Employer's employment of Employee on and after the Effective Date. Any prior agreements or understandings with respect to Employee's employment by Employer are canceled as of the Effective Date.

2. TERM OF AGREEMENT. The term of this Agreement initially shall be the two-year period commencing on the Effective Date. On the first anniversary of the Effective Date and on each subsequent anniversary of the Effective Date, the term of this Agreement automatically shall be extended for a period of one additional year. Notwithstanding the foregoing, the term of this Agreement is subject to termination as provided in Section 13.

3. DUTIES.

A. Employee will serve as Senior Vice President, Corporate Development for Employer or in such other equivalent capacity as may be designated by the Chief Executive Officer of Employer. Employee will report to the Chief Executive Officer of Employer or to such other officer as the Chief Executive Officer of Employer may direct.

B. Employee shall furnish such managerial, executive, financial, technical, and other skills, advice, and assistance in operating Employer and its Affiliates as Employer may reasonably request. For purposes of this Agreement, "Affiliate" means each corporation that is a member of a controlled group of corporations (within the meaning of section 1563(a) of the Internal Revenue Code of 1986, as amended (the "Code")) which includes Employer.

C. Employee shall also perform such other duties, consistent with the provisions of Section 3.A., as are reasonably assigned to Employee by the Chief Executive Officer of Employer.

D. Employee shall devote Employee's entire time, attention, and energies to the business of Employer and its Affiliates. The words "entire time, attention, and energies" are intended to mean that Employee shall devote Employee's full effort during reasonable working hours to the business of Employer and its Affiliates and shall devote at least 40 hours per week to the business of Employer and its Affiliates. Employee shall travel to such places as are necessary in the performance of Employee's duties.

4. COMPENSATION.

A. Employee shall receive a base salary (the "Base Salary") of at least $250,000.00 per year, payable not less frequently than monthly, for each year during the term of this Agreement, subject to proration for any partial year. Such Base Salary, and all other amounts payable under this Agreement, shall be subject to withholding as required by law.

B. In addition to the Base Salary, Employee shall be entitled to receive an annual bonus (the "Bonus") for each calendar year for which services are performed under this Agreement. Any Bonus for a calendar year shall be payable after the conclusion of the calendar year in accordance with Employer's regular bonus payment policies. Each year beginning in 2002, Employee shall be given a Bonus target of not less than $100,000.00.

C. On at least an annual basis, Employee shall receive a formal performance review and be considered for Base Salary and/or Bonus target increases.

5. EXPENSES. All reasonable and necessary expenses incurred by Employee in the course of the performance of Employee's duties to Employer shall be reimbursable in accordance with Employer's then current travel and expense policies.

6. BENEFITS.

A. While Employee remains in the employ of Employer, Employee shall be entitled to participate in all of the various employee benefit plans and programs, or equivalent plans and programs, which are made available to similarly situated officers of Employer.

B. Notwithstanding anything contained herein to the contrary, the Base Salary and Bonuses otherwise payable to Employee shall be reduced by any benefits paid to Employee by Employer under any disability plans made available to Employee by Employer.

C. As of the Effective Date, Employee shall be granted options to purchase 100,000 common shares of Employer under Employer's 1997 Long Term Incentive Plan. In each year of this Agreement after 2001, Employee will be granted stock options under Employer's 1997 Long Term Incentive Plan or any similar plan made available to employees of Employer at the same time options are granted to all other officers of Employer.

7. CONFIDENTIALITY. Employer and its Affiliates are engaged in the telecommunications industry within the U.S. Employee acknowledges that in the course of employment with the Employer, Employee will be entrusted with or obtain access to information proprietary to the Employer and its Affiliates with respect to the following (all of which information is referred to hereinafter collectively as the "Information"); the

organization and management of Employer and its Affiliates; the names, addresses, buying habits, and other special information regarding past, present and potential customers, employees and suppliers of Employer and its Affiliates; customer and supplier contracts and transactions or price lists of Employer, its Affiliates and their suppliers; products, services, programs and processes sold, licensed or developed by the Employer or its Affiliates; technical data, plans and specifications, present and/or future development projects of Employer and its Affiliates; financial and/or marketing data respecting the conduct of the present or future phases of business of Employer and its Affiliates; computer programs, systems and/or software; ideas, inventions, trademarks, business information, know-how, processes, improvements, designs, redesigns, discoveries and developments of Employer and its Affiliates; and other information considered confidential by any of the Employer, its Affiliates or customers or suppliers of Employer, its Affiliates. Employee agrees to retain the Information in absolute confidence and not to disclose the Information to any person or organization except as required in the performance of Employee's duties for Employer, without the express written consent of Employer; provided that Employee's obligation of confidentiality shall not extend to any Information which becomes generally available to the public other than as a result of disclosure by Employee.

8. NEW DEVELOPMENTS. All ideas, inventions, discoveries, concepts, trademarks, or other developments or improvements, whether patentable or not, conceived by the Employee, alone or with others, at any time during the term of Employee's employment, whether or not during working hours or on

Employer's premises, which are within the scope of or related to the business operations of Employer or its Affiliates ("New Developments"), shall be and remain the exclusive property of Employer. Employee shall do all things reasonably necessary to ensure ownership of such New Developments by Employer, including the execution of documents assigning and transferring to Employer, all of Employee's rights, title and interest in and to such New Developments, and the execution of all documents required to enable Employer to file and obtain patents, trademarks, and copyrights in the United States and foreign countries on any of such New Developments.

9. SURRENDER OF MATERIAL UPON TERMINATION. Employee hereby agrees that upon cessation of Employee's employment, for whatever reason and whether voluntary or involuntary, Employee will immediately surrender to Employer all of the property and other things of value in his possession or in the possession of any person or entity under Employee's control that are the property of Employer or any of its Affiliates, including without any limitation all personal notes, drawings, manuals, documents, photographs, or the like, including copies and derivatives thereof, relating directly or indirectly to any confidential information or materials or New Developments, or relating directly or indirectly to the business of Employer or any of its Affiliates.

10. REMEDIES.

A. Employer and Employee hereby acknowledge and agree that the services rendered by Employee to Employer, the information disclosed to Employee during and

by virtue of Employee's employment, and Employee's commitments and obligations to Employer and its Affiliates herein are of a special, unique and extraordinary character, and that the breach of any provision of this Agreement by Employee will cause Employer irreparable injury and damage, and consequently the Employer shall be entitled to, in addition to all other remedies available to it, injunctive and equitable relief to prevent a breach of Sections 7, 8, 9, 11 and 12 of this Agreement and to secure the enforcement of this Agreement.

B. Except as provided in Section 10.A., the parties agree to submit to final and binding arbitration any dispute, claim or controversy, whether for breach of this Agreement or for violation of any of Employee's statutorily created or protected rights, arising between the parties that either party would have been otherwise entitled to file or pursue in court or before any administrative agency (herein "claim"), and waives all right to sue the other party.

(i) This agreement to arbitrate and any resulting arbitration award are enforceable under and subject to the Federal Arbitration Act, 9 U.S.C. Section 1 et seq. ("FAA"). If the FAA is held not to apply for any reason then Ohio Revised Code Chapter 2711 regarding the enforceability of arbitration agreements and awards will govern this Agreement and the arbitration award.

(ii) (a) All of a party's claims must be presented at a single arbitration hearing. Any claim not raised at the arbitration hearing is waived and released. The arbitration hearing will take place in Cincinnati, Ohio.

(b) The arbitration process will be governed by the Employment Dispute Resolution Rules of the American Arbitration Association ("AAA") except to the extent they are modified by this Agreement.

(c) Employee has had an opportunity to review the AAA rules and the requirements that Employee must pay a filing fee for which the Employer has agreed to split on an equal basis.

(d) The arbitrator will be selected from a panel of arbitrators chosen by the AAA in White Plains, New York. After the filing of a Request for Arbitration, the AAA will send simultaneously to Employer and Employee an identical list of names of five persons chosen from the panel. Each party will have 10 days from the transmittal date in which to strike up to two names, number the remaining names in order of preference and return the list to the AAA.

(e) Any pre-hearing disputes will be presented to the arbitrator for expeditious, final and binding resolution.

(f) The award of the arbitrator will be in writing and will set forth each issue considered and the arbitrator's finding of fact and conclusions of law as to each such issue.

(g) The remedy and relief that may be granted by the arbitrator to Employee are limited to lost wages, benefits, cease and desist and affirmative relief, compensatory, liquidated and punitive damages and reasonable attorney's fees, and will not include reinstatement or promotion. If the arbitrator would have awarded reinstatement or promotion, but for the prohibition in this Agreement, the arbitrator may award front pay. The arbitrator may assess to either party, or split, the arbitrator's fee and expenses and the cost of the transcript, if any, in accordance with the arbitrator's determination of the merits of each party's position, but each party will bear any cost for its witnesses and proof.

(h) Employer and Employee recognize that a primary benefit each derives from arbitration is avoiding the delay and costs normally associated with litigation. Therefore, neither party will be entitled to conduct any discovery prior to the arbitration hearing except that: (i) Employer will furnish Employee with copies of all non-privileged documents in Employee's personnel file; (ii) if the claim is for discharge, Employee will furnish Employer with records of earnings and benefits relating to Employee's subsequent employment (including self-employment) and all documents relating to Employee's efforts to obtain subsequent employment; (iii) the parties will exchange copies of all documents they intend to introduce as evidence at the arbitration hearing at least 10 days prior to such hearing; (iv) Employee will be allowed (at Employee's expense) to take the depositions, for a period not to exceed four hours each, of two representatives of Employer, and Employer will be allowed (at its expense) to depose Employee for a period not to exceed four hours; and (v) Employer or Employee may ask the arbitrator to grant additional discovery to the extent permitted by AAA rules upon a showing that such discovery is necessary.

(i) Nothing herein will prevent either party from taking the deposition of any witness where the sole purpose for taking the deposition is to use the deposition in lieu of the witness testifying at the hearing and the witness is, in good faith, unavailable to testify in person at the hearing due to poor health, residency and employment more than 50 miles from the hearing site, conflicting travel plans or other comparable reason.

(j) Arbitration must be requested in writing no later than 6 months from the date of the party's knowledge of the matter disputed by the claim. A party's failure to initiate arbitration within the time limits herein will be considered a waiver and release by that party with respect to any claim subject to arbitration under this Agreement.

(k) Employer and Employee consent that judgment upon the arbitration award may be entered in any federal or state court that has jurisdiction.

(l) Except as provided in Section 10.A., neither party will commence or pursue any litigation on any claim that is or was subject to arbitration under this Agreement.

(m) All aspects of any arbitration procedure under this Agreement, including the hearing and the record of the proceedings, are confidential and will not be open to the public, except to the extent the parties agree otherwise in writing, or as may be appropriate in any subsequent proceedings between the parties, or as may otherwise be appropriate in response to a governmental agency or legal process.

11. COVENANT NOT TO COMPETE. For purposes of this Section 11 only, the term "Employer" shall mean, collectively, Employer and each of its Affiliates. During the two-year period following termination of Employee's employment with Employer for any reason (or if this period is unenforceable by law, then for such period as shall be enforceable) Employee will not engage in any business offering services related to the current business of Employer, whether as a principal, partner, joint venture, agent, employee, salesman, consultant, director or officer, where such position would involve Employee in any business activity in competition with Employer. This restriction will be limited to the geographical area where Employer is then engaged in such competing business activity or to such other geographical area as a court shall find reasonably necessary to protect the goodwill and business of the Employer.

During the two-year period following termination of Employee's employment with Employer for any reason (or if this period is unenforceable by law, then for such period as shall be enforceable) Employee will not interfere with or adversely affect, either directly or indirectly, Employer's relationships with any person, firm, association, corporation or other entity which is known by Employee to be, or is included on any listing to which Employee had access during the course of employment as a customer, client, supplier, consultant or employee of Employer and that Employee will not divert or change, or attempt to divert or change, any such relationship to the detriment of Employer or to the benefit of any other person, firm, association, corporation or other entity.

During the two-year period following termination of Employee's employment with Employer for any reason (or if this period is unenforceable by law, then for such period as shall be enforceable) Employee shall not, without the prior written consent of Employer, accept employment, as an employee, consultant, or otherwise, with any company or entity which is a customer or supplier of Employer at any time during the final year of Employee's employment with Employer.

Employee will not, during or at any time within three years after the termination of Employee's employment with Employer, induce or seek to induce, any other employee of Employer to terminate his or her employment relationship with Employer.

12. GOODWILL. Employee will not disparage Employer or any of its Affiliates in any way which could adversely affect the goodwill, reputation and business relationships of Employer or any of its Affiliates with the public generally, or with any of their customers, suppliers or employees. Employer will not disparage Employee.

13. TERMINATION.

A. (i) Employer or Employee may terminate this Agreement upon Employee's failure or inability to perform the services required hereunder because of any physical or mental infirmity for which Employee receives disability benefits under any disability benefit plans made available to Employee by Employer (the "Disability Plans"), over a period of one hundred twenty consecutive working days during any twelve consecutive month period (a "Terminating Disability").

(ii) If Employer or Employee elects to terminate this Agreement in the event of a Terminating Disability, such termination shall be effective immediately upon the giving of written notice by the terminating party to the other.

(iii) Upon termination of this Agreement on account of Terminating Disability, Employer shall pay Employee Employee's accrued compensation hereunder, whether Base Salary, Bonus or otherwise (subject to offset for any amounts received pursuant to the Disability Plans), to the date of termination. For as long as such Terminating Disability may exist, Employee shall continue to be an employee of Employer for all other purposes and Employer shall provide Employee with disability benefits and all other benefits according to the provisions of the Disability Plans and any other Employer plans in which Employee is then participating.

(iv) If the parties elect not to terminate this Agreement upon an event of a Terminating Disability and Employee returns to active employment with Employer prior to such a termination, or if such disability exists for less than one hundred twenty consecutive working days, the provisions of this Agreement shall remain in full force and effect.

B. This Agreement terminates immediately and automatically on the death of the Employee, provided, however, that the Employee's estate shall be paid Employee's accrued compensation hereunder, whether Base Salary, Bonus or otherwise, to the date of death.

C. Employer may terminate this Agreement immediately, upon written notice to Employee, for Cause. For purposes of this Agreement, Employer shall have "Cause" to terminate this Agreement only if Employer's Board of Directors determines that there has been fraud, misappropriation or embezzlement on the part of Employee.

D. Employer may terminate this Agreement immediately, upon written notice to Employee, for any reason other than those set forth in Sections 13.A., B. and C.; provided, however, that Employer shall have no right to terminate under this Section 13.D. within one year after a Change in Control. In the event of a termination by Employer under this Section 13.D., Employer shall, within five days after the termination, pay Employee an amount equal to two times the sum of the annual Base Salary rate in effect at the time of termination plus the Bonus target in effect at the time of termination. For the remainder of the Current Term, Employer shall continue to provide Employee with medical, dental, vision and life insurance coverage comparable to the medical, dental, vision and life insurance coverage in effect for Employee immediately prior to the termination; and, to the extent that Employee would have been eligible for any post-retirement medical, dental, vision or life insurance benefits from Employer if Employee had continued in employment through the end of the Current Term, Employer shall provide such post-retirement benefits to Employee after the end of the Current Term. For purposes of any stock option or restricted stock grant outstanding immediately prior to the termination, Employee's employment with Employer shall not be deemed to have terminated until the end of the Current Term. In addition, Employee shall be entitled to receive, as soon as practicable after termination, an amount equal to the sum of (i) any forfeitable benefits under any qualified or nonqualified pension, profit sharing, 401(k) or deferred compensation plan of Employer or any Affiliate which would have vested prior to the end of the Current Term if Employee's employment had not terminated plus (ii) if Employee is participating in a qualified or nonqualified defined benefit plan of Employer or any Affiliate at the time of termination, an amount equal to the present value of the additional vested benefits which would have accrued for Employee under such plan if Employee's employment had not terminated prior to the end of the Current Term and if Employee's annual Base Salary and Bonus target had neither increased nor decreased after the termination. For purposes of this Section 13.D., "Current Term" means the two year period beginning at the time of termination. For purposes of this Section 13.D. and Section 13.E., "Change in Control" means a change in control as defined in Employer's 1997 Long Term Incentive Plan, including all relevant modifications.

E. This Agreement shall terminate automatically in the event that there is a Change in Control and either (i) Employee elects to resign within 90 days after the change in Control or (ii) Employee's employment with Employer is actually or constructively terminated by Employer within one year after the Change in Control for any reason other than those set forth in Sections 13.A., B. and C. For purposes of the preceding sentence, a "constructive" termination of Employee's employment shall be deemed to have occurred if, without Employee's consent, there is a material reduction in Employee's authority or responsibilities or if there is a reduction in Employee's Base Salary or Bonus target from the amount in effect immediately prior to the Change in Control or if Employee is required by Employer to relocate from the city where Employee is residing immediately prior to the Change in Control. In the event of a termination under this Section 13.E., Employer shall pay Employee an amount equal to two times the sum of the annual Base Salary rate in effect at the time of termination plus the Bonus target in effect at the time of termination, all stock options shall become

immediately exercisable (and Employee shall be afforded the opportunity to exercise them). For the remainder of the Current Term, Employer shall continue to provide Employee with medical, dental, vision and life insurance coverage comparable to the medical, dental, vision and life insurance coverage in effect for Employee immediately prior to the termination; and, to the extent that Employee would have been eligible for any post-retirement medical, dental, vision or life insurance benefits from Employer if Employee had continued in employment through the end of the Current Term, Employer shall provide such post-retirement benefits to Employee after the end of the Current Term. Employee's accrued benefit under any nonqualified pension or deferred compensation plan maintained by Employer or any Affiliate shall become immediately vested and nonforfeitable and Employee also shall be entitled to receive a payment equal to the sum of (i) any forfeitable benefits under any qualified pension or profit sharing or 401(k) plan maintained by Employer or any Affiliate plus (ii) if Employee is participating in a qualified or nonqualified defined benefit plan of Employer or any Affiliate at the time of termination, an amount equal to the present value of the additional benefits which would have accrued for Employee under such plan if Employee's employment had not terminated prior to the end of the Current Term and if Employee's annual Base Salary and Bonus target had neither increased nor decreased after the termination. Finally, to the extent that Employee is deemed to have received an excess parachute payment by reason of the Change in Control, Employer shall pay Employee an additional sum sufficient to pay (i) any taxes imposed under section 4999 of the Code plus (ii) any federal, state and local taxes applicable to any taxes imposed under section 4999 of the Code. For purposes of this Section 13.E., "Current Term" means the two year period beginning at the time of termination.

F. Employee may resign upon 60 days' prior written notice to Employer. In the event of a resignation under this Section 13.F., this Agreement shall terminate and Employee shall be entitled to receive Employee's Base Salary through the date of termination, any Bonus earned but not paid at the time of termination and any other vested compensation or benefits called for under any compensation plan or program of Employer.

G. Upon termination of this Agreement as a result of an event of termination described in this Section 13 and except for Employer's payment of the required payments under this Section 13 (including any Base Salary accrued through the date of termination, any Bonus earned for the year preceding the year in which the termination occurs and any nonforfeitable amounts payable under any employee plan), all further compensation under this Agreement shall terminate.

H. The termination of this Agreement shall not amend, alter or modify the rights and obligations of the parties under Sections 7, 8, 9, 10, 11, and 12 hereof, the terms of which shall survive the termination of this Agreement.

14. ASSIGNMENT. As this is an agreement for personal services involving a relation of confidence and a trust between Employer and Employee, all rights and duties of Employee arising under this Agreement, and the Agreement itself, are non-assignable by Employee.

15. NOTICES. Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing, and if delivered personally or by certified mail to Employee at Employee's place of residence as then recorded on the books of Employer or to Employer at its principal office.

16. WAIVER. No waiver or modification of this Agreement or the terms contained herein shall be valid unless in writing and duly executed by the party to be charged therewith. The waiver by any party hereto of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by such party.

17. GOVERNING LAW. This agreement shall be governed by the laws of the State of Ohio.

18. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties with respect to Employee's employment by Employer. There are no other contracts, agreements or understandings, whether oral or written, existing between them except as contained or referred to in this Agreement.

19. SEVERABILITY. In case any one or more of the provisions of this Agreement is held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or other enforceability shall not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provisions have never been contained herein.

20. SUCCESSORS AND ASSIGNS. Subject to the requirements of Paragraph 14 above, this Agreement shall be binding upon Employee, Employer and Employer's successors and assigns.

21. CONFIDENTIALITY OF AGREEMENT TERMS. The terms of this Agreement shall be held in strict confidence by Employee and shall not be disclosed by Employee to anyone other than Employee's spouse, Employee's legal counsel, and Employee's other advisors, unless required by law. Further, except as provided in the preceding sentence, Employee shall not reveal the existence of this Agreement or discuss its terms with any person (including but not limited to any employee of Employer or its Affiliates) without the express authorization of the President of Employer. To the extent that the terms of this Agreement have been disclosed by Employer, in a public filing or otherwise, the confidentiality requirements of this Section 21 shall no longer apply to such terms.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Broadwing Inc.

By: /s/ Richard G. Ellenberger

Richard G. Ellenberger

EMPLOYEE

/s/ Michael W. Callaghan

Michael W. Callaghan

Exhibit 12 to
Form 10-K for 2001

Broadwing Inc.
Computation of Ratio of Earnings to Combined Fixed Charges
and Preferred Dividends
(millions of dollars)

	2001	2000	1999	1998	1997
Pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees	$(127.2)	$(306.1)	$146.1	$186.8	$201.7
Fixed Charges:					
Interest expense, etc.	191.7	188.3	65.5	24.2	30.1
Appropriate portion of rentals	13.9	10.7	7.7	3.9	3.9
Preferred stock dividends of majority subsidiaries	27.7	28.3	4.0	-	-
Total Fixed Charges	233.3	227.3	77.2	28.1	34.0
Pre-tax income (loss) from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges	$ 106.1	$ (78.8)	$223.3	$214.9	$235.7
Preferred dividend requirements	$ 10.4	$ 8.1	$ 2.1	$ -	$ -
Total Fixed Charges	233.3	227.3	77.2	28.1	34.0
Total Fixed Charges and preferred dividends	$ 243.7	$ 235.4	$ 79.3	$ 28.1	$ 34.0
Ratio of earnings to combined fixed charges and preferred dividends	(0.5)	(1.3)	1.8	6.6	5.9
Coverage Deficiency	$ 370.9	$ 541.5			

Exhibit 21 to
Form 10-K for 2001

Subsidiaries of the Registrant
(as of February 28, 2002)

Subsidiary Name	State of Incorporation
Broadwing Holdings Inc.	Delaware
Cincinnati Bell Telephone Company	Ohio
Cincinnati Bell Telecommunications Services Inc.	Ohio
ZoomTown.com Inc.	Ohio
Cincinnati Bell Wireless Company	Ohio
Cincinnati Bell Any Distance Inc.	Ohio
Cincinnati Bell Directory, Inc.	Ohio
Cincinnati Bell Public Communications Inc.	Ohio
Broadwing Communications Inc.	Delaware
Broadwing Communications Services Inc.	Delaware
Broadwing IT Consulting Inc.	Ohio
Broadwing Local Services Inc.	Delaware
Broadwing Communications Services of VA, Inc.	Virginia
Broadwing Telecommunications Inc.	Delaware
IXC Business Services LLC	Delaware
IXC Internet Services Inc.	Delaware
Mutual Signal Holding Corporation	Delaware
Mutual Signal Corporation	New York
Mutual Signal Corporation of Michigan	New York
MSM Assoc. Limited Partnership	Delaware

Exhibit 23 to
Form 10-K for 2001

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-60370), Form S-8 (File No. 333-60376), Form S-8 (File No. 333-60378), Form S-8 (File No. 60384), Form S-8 (File No. 33-29332), Form S-8 (File No. 33-1462), Form S-8 (File No. 33-36380), Form S-14 (File No. 2-82253), Form S-8 (File No. 333-38743), Form S-8 (File No. 33-1487), Form S-8 (File No. 33-36831), Form S-8 (File No. 333-38763), Form S-8 (File No. 333-86971), Form S-8 (File No. 33-29331), Form S-3 (File No. 333-65581), Form S-8 (File No. 333-28385), Form S-8 (File No. 333-28381), Form S-8 (File No. 33-60209), Form S-8 (File No. 333-77011), Form S-3 (File No. 333-90711) of Broadwing Inc. of our report dated March 11, 2002 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio
March 28, 2002

Exhibit 24

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ James D. Kiggen

James D. Kiggen
Chairman of the Board of Directors

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me James D. Kiggen, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ Phillip R. Cox

Phillip R. Cox
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Phillip R. Cox, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ Richard G. Ellenberger

Richard G. Ellenberger
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Richard G. Ellenberger, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ William A. Friedlander

William A. Friedlander
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me William A. Friedlander, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, her attorneys for her and in her name, place and stead, and in her office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand this 25th day of January, 2002.

/s/ Karen M. Hoguet

Karen M. Hoguet
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Karen M. Hoguet, to me known and known to me to be the person described in and who executed the foregoing instrument, and she duly acknowledged to me that she executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ Daniel J. Meyer

Daniel J. Meyer
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Daniel J. Meyer, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange

Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, her attorneys for her and in her name, place and stead, and in her office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand this 25th day of January, 2002.

/s/ Mary D. Nelson

Mary D. Nelson
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Mary D. Nelson, to me known and known to me to be the person described in and who executed the foregoing instrument, and she duly acknowledged to me that she executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ David B. Sharrock

David B. Sharrock
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me David B. Sharrock, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ J. Taylor Crandall

J. Taylor Crandall

Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me J. Taylor Crandall, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ John M. Zrno

John M. Zrno
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me John M. Zrno, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ Carl Redfield

Carl Redfield
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Carl Redfield, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003

POWER OF ATTORNEY

WHEREAS, Broadwing Inc., an Ohio corporation (hereinafter referred to as the "Company"), proposes shortly to file with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, an annual report on Form 10-K for the year ended December 31, 2001 and

WHEREAS, the undersigned is a director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints, Richard G. Ellenberger, Kevin W. Mooney and Jeffrey C. Smith, and each of them singly, his attorneys for him and in his name, place and stead, and in his office and capacity in the Company, to execute and file such annual report on Form 10-K, and thereafter to execute and file any amendments or supplements thereto, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 25th day of January, 2002.

/s/ Lawrence J. Bouman

Lawrence J. Bouman
Director

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

On the 25th day of January, 2002, personally appeared before me Lawrence J. Bouman, to me known and known to me to be the person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed and delivered the same for the purposes therein expressed.

Witness my hand and official seal this 25th day of January, 2002.

/s/ Susan D. McClarnon

Notary Public, State of Ohio
My commission expires March 16, 2003