BROADWING CORP
Form 10-Q
November 07, 2005
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FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended September 30, 2005

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

For the transition period from______ to ______

Commission file number 0-30989

Broadwing Corporation

(Exact name of registrant as specified in its charter)

Delaware	**52-2041343**

(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

7015 Albert Einstein Drive, Columbia, Maryland 21046-9400

(Address of principal executive offices) (Zip Code)

(443) 259-4000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

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

Number of shares of Common Stock, $0.01 par value, outstanding at October 31, 2005: 73,730,441

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BROADWING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2004	September 30, 2005
		(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 124,540	$ 37,731
Short-term investments	100,139	100,187
Trade accounts receivable, net	94,731	88,592
Other current assets, net	24,027	22,707
Total current assets	343,437	249,217
Restricted cash, non-current	13,911	15,050
Long-term investments	49,676	
Property and equipment, net	286,038	260,699
Goodwill	48,696	58,354
Intangible assets, net	30,152	26,225
Other non-current assets	9,080	12,105
Total assets	$ 780,990	$ 621,650
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable, net of discounts, and capital lease obligations, current portion	$ 117,324	$ 62,908
Accounts payable	12,452	24,496
Accrued communication service costs	41,089	30,991
Accrued expenses and other liabilities	53,939	54,200
Deferred revenue, current portion	11,752	11,529
Accrued restructuring and other charges	8,620	4,543
Total current liabilities	245,176	188,667
Notes payable, net of discounts, and capital lease obligations, net of current portion	52,218	20,764
Deferred revenue, net of current portion	13,608	13,953

Other long-term liabilities	14,949	14,248
Total liabilities	325,951	237,632
Commitments and contingencies		
Stockholders equity:		
Common stock $0.01 par value; 1,900,000,000 shares authorized; 68,424,060 shares issued and 67,195,880 shares outstanding as of December 31, 2004; 74,946,204 shares issued and 73,718,024 shares outstanding as of September 30, 2005	679	744
Treasury stock (1,228,180 shares at December 31, 2004 and September 30, 2005, at cost)	(9,512)	(9,512)
Additional paid-in capital	3,137,928	3,178,900
Accumulated other comprehensive loss:		
Unrealized investment losses	(717)	(427)
Accumulated deficit	(2,673,339)	(2,785,687)
Total stockholders equity	455,039	384,018
Total liabilities and stockholders equity	$ 780,990	$ 621,650

See accompanying notes to unaudited condensed consolidated financial statements.

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BROADWING CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Revenue	$ 163,446	$ 218,659	$ 452,363	$ 659,137
Operating expenses:				
Cost of revenue (excluding depreciation and amortization)	111,493	143,470	307,782	438,428
Research and development, excluding equity-based expense	3,115	679	12,554	6,172
Sales, general and administrative, excluding equity-based expense	64,330	77,386	182,564	227,080
Litigation settlement				2,000
Depreciation	10,009	23,403	25,069	78,115
Amortization	1,158	1,404	3,238	4,227
Equity-based expense:				
Research and development	474		3,393	497
Sales, general and administrative	142	934	4,281	2,359
Restructuring and other charges	2,638	630	3,027	1,344
Total operating expenses	193,359	247,906	541,908	760,222
Operating loss	(29,913)	(29,247)	(89,545)	(101,085)
Other income (expense), net	1,756	1,862	7,475	5,861
Interest expense, net of capitalized amounts	(8,645)	(3,150)	(26,726)	(17,124)
Net loss	$ (36,802)	$ (30,535)	$ (108,796)	$ (112,348)
Other comprehensive loss:				
Unrealized investment gains (losses)	(27)	130	(311)	290
Comprehensive loss	$ (36,829)	$ (30,405)	$ (109,107)	$ (112,058)
Basic and diluted net loss per common share	$ (0.69)	$ (0.41)	$ (2.17)	$ (1.55)
Basic and diluted weighted average common shares	53,302	73,711	50,116	72,570

See accompanying notes to unaudited condensed consolidated financial statements.

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BROADWING CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	September 30, 2004	September 30, 2005
Cash flows from operating activities:		
Net loss	$ (108,796)	$ (112,348)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	28,307	82,342
Equity-based expense	7,674	2,856
Provision for bad debt	4,397	7,562
Deferred financing, original issue discount amortization, and accretion of interest	17,748	11,162
Amortization of deferred revenue		122
Non-cash restructuring, inventory write-downs and other net charges	(949)	(889)
Changes in operating assets and liabilities:		
Accounts receivable	(4,337)	1,602
Inventory	(2,895)	868
Other current assets	860	160
Accounts payable and other accrued expenses	(24,239)	(12,585)
Net cash used in operating activities	(82,230)	(19,148)
Cash flows from investing activities:		
Purchase of property and equipment	(46,095)	(41,623)
Proceeds from the sale of property and equipment	1,434	753
Ciena equipment deposit		(11,000)
Purchases and sale of investments, net	(73,809)	49,918
Focal acquisition cash acquired, net of acquisition costs	11,381	
Net cash used in investing activities	(107,089)	(1,952)
Cash flows from financing activities:		
Proceeds from notes payable and associated warrants	217,750	
Repayments of notes payable and capital lease obligations	(79,236)	(65,865)
Increase in deposits and other non-current assets	(4,371)	(1,139)
Proceeds from stock options and warrants exercised	6,531	1,295
Net cash provided by (used in) financing activities	140,674	(65,709)
Net increase (decrease) in cash and cash equivalents	(48,645)	(86,809)
Cash and cash equivalents beginning	256,490	124,540

Cash and cash equivalents ending	$	207,845	$	37,731
Supplemental disclosure of cash flow information:				
Interest paid	$	3,762	$	2,821
Supplemental disclosure of non-cash activities:				
Assets acquired through capital leases	$		$	1,067
Inventory installed as fixed assets	$	1,292		
Deposit with Ciena converted to equipment	$		$	5,450
Repayment of notes payable and interest with common shares	$	33,113	$	34,168
Equity issued in conjunction with Focal acquisition	$	94,182		

See accompanying notes to unaudited condensed consolidated financial statements.

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BROADWING CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business and Basis of Presentation

Broadwing Corporation and subsidiaries (Broadwing or the Company) is an Austin, Texas based provider of data and Internet, broadband transport, and voice communications services throughout the United States over a nationwide facilities-based network connecting 137 cities.

Until the third quarter of 2005, Broadwing also operated a communications equipment division, which developed and marketed among other products, the Optical Convergence Switch (OCS) which is an optical-electrical-optical cross-connect switch enabling carriers to deliver SONET/SDH services. Starting April 2005, the Company began implementing a plan for the curtailment of OCS production and the restructuring of the equipment division. These restructuring initiatives are complete and equipment division assets and personnel still in place are now focused primarily on the expansion and support of our Broadwing internal network infrastructure.

The unaudited condensed consolidated financial statements included herein for Broadwing Corporation and subsidiaries have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the condensed consolidated financial statements included in this report reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the results of operations for the interim periods. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

These financial statements should be read in conjunction with the Company s December 31, 2004 audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed on March 16, 2005 with the Securities and Exchange Commission.

(b) Revenue and Cost of Revenue

Service revenue and related reserves are recognized when the services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship. Expected customer relationship periods are estimated using historical data of actual customer retention patterns.

The Company records specific reserves to reduce revenue and related trade accounts receivable when significant uncertainties exist related to the collectibility of service billings. The Company also records reserves associated with routine service credits granted to customers.

Indefeasible right-of-use (IRU) agreements represent the lease of network capacity or dark fiber and are recorded as deferred 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 ratably over the life of the agreement as the services are provided, beginning on the date of customer acceptance. In the event the buyer of an IRU terminates a contract prior to the contract expiration and releases the Company from the obligation to provide future services, the remaining unamortized deferred revenue is recognized in the period in which the contract is terminated. At the date of the Broadwing Communication Services, Inc. acquisition, the Company recorded the deferred revenue associated with IRUs at its fair value, which was substantially less than its historical book value. As a result, revenue from IRUs is significantly less than that previously reported by Broadwing Communications Services, Inc. IRU revenue for the three and nine months ended September 30, 2005 and 2004 comprised less than 1.5% and 3% respectively of total revenue.

Cost of revenue primarily reflects access charges paid to local exchange carriers and other providers as well as transmission lease payments to other carriers. Cost of revenue excludes depreciation and amortization expense. Additionally, as a result of the Focal acquisition (See Footnote 2, Focal Acquisition), cost of revenue now includes Inter-carrier compensation paid to carriers to terminate or originate traffic on their networks. Inter-carrier compensation rates are subject to regulatory oversight. There are two primary forms of Inter-carrier compensation: access charges and reciprocal

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compensation. The Company is subject to access charges, which are related to the origination and termination of long distance calls, and reciprocal compensation, which is related to the termination of local calls. Inter-carrier compensation charges are based on minutes of use and vary based on customer calling patterns.

The Company performs bill verification procedures to detect possible errors in access vendors billed invoices. The bill verification procedures include the examination of bills, the comparison of rates between billed rates with rates used by the Company expense estimation systems, the comparison of circuits billed to a database of active circuits, and evaluating the trend of invoiced amounts by vendors, including the types of charges being assessed. If the Company concludes that it has been billed inaccurately, it will dispute the charge with the vendor and begin resolution procedures. The Company records a charge to cost of revenue and a corresponding increase to the accrued communication service costs for the disputed amounts, unless past experience or other corroborating evidence indicates that it is not probable that it will ultimately be required to pay. If an agreement is reached with a vendor in which the Company settles a disputed amount for less than the corresponding accrual, a gain is recognized in the period in which the settlement is reached. Previously unaccrued disputes are reviewed periodically to assess whether a loss has become probable and estimable, in which case an accrual is established.

(c) Stock split and stock dividend

On October 8, 2004, the Company completed a 1-for-20 reverse stock split, resulting in every twenty shares of common stock to be combined into one share of common stock. Immediately following the stock split, the Company enacted a one time, 1-for-1 stock dividend for all shareholders of record as of October 8, 2004, effectively resulting in a 1-for-10 reverse stock split. The stock split and stock dividend affects all of the Company s stock, stock options and warrants outstanding on the record date. The consolidated financial statements have been retroactively adjusted to reflect the stock split and stock dividend for all periods presented.

(d) Stock Options and Warrants

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000, to account for its stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net loss if the fair-value based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share data).

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	Three Months Ended September 30, 2004	Three Months Ended September 30, 2005
Net loss	$ (36,802)	$ (30,535)
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards	(4,886)	(2,550)
Add stock-based employee compensation expense included in reported net loss	637	934
Pro forma net loss	$ (41,051)	$ (32,151)
Pro forma basic and diluted net loss per common share	$ (0.77)	$ (0.44)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2005
Net loss	$ (108,796)	$ (112,348)
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards	(30,406)	(8,241)
Add stock-based employee compensation expense included in reported net loss	7,345	2,856
Pro forma net loss	$ (131,857)	$ (117,733)
Pro forma basic and diluted net loss per common share	$ (2.63)	$ (1.62)

(e) Uses of Estimates

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

(f) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification of investments in auction rate securities in the amount of $25.4 million to short-term investments as of December 31, 2004. Auction rate securities, because of the short duration of their reset periods, were previously included in cash and cash equivalents for all periods presented. As a result of this reclassification, the Company s cash flow from investing activities now includes the investments and sales of auction rate securities for all periods presented. This reclassification had no impact on previously reported total current assets, total assets, equity or net loss and does not affect previously reported cash flows from operating activities.

(2) Focal Acquisition

On September 1, 2004, the Company invested approximately $98.6 million net of purchase price adjustments and acquisition costs and assumed $98.1 million in debt to acquire 100% of the voting equity interest of Focal Communications Corporation (Focal).

The purchase price has been allocated to the assets and liabilities acquired, based on the estimated fair value that was finalized in the third quarter of 2005. The fair value of accounts receivable, accrued cost of service and other estimates have been contested and are subject to dispute.

For the nine months ended September 30, 2005, goodwill increased by approximately $9.7 million for the reasons set forth below.

The following table provides a purchase price allocation rollforward from the Company s estimate recorded at December 31, 2004 to September 30, 2005 and weighted-average useful lives of long-lived assets (in thousands):

	Fair Value			
	December 31, 2004	Adjustments	As Adjusted	Useful lives
Current assets	$ 52,152	$ 3,074(a)	$ 55,226	
Property and equipment	155,865		155,865	
Customer relationships	9,900	300	10,200	7 years
Goodwill	48,696	9,658(b)	58,354	
Total assets acquired	266,613	13,032	279,645	
Current liabilities	57,064	13,032(c)	70,096	
Long-term liabilities	110,952		110,952	
Total liabilities assumed	168,016	13,032	181,048	
Purchase Price	$ 98,597	$	$ 98,597	

(a) The increase in current assets is primarily attributable to a decrease in accounts receivable provisions for preacquisition regulatory disputes.

(b) The increase in goodwill equals the net decrease in the estimated fair value of net assets acquired excluding goodwill of $9.7 million.

(c) The increase in current liabilities is primarily due to an increase in accrued service costs associated with preacquisition vendor disputes.

(3) Basic and Diluted Net Loss Per Common Share

Options and warrants outstanding as of September 30, 2004 to purchase 10,885,400 shares of common stock and 2,500 unvested shares acquired through the exercise of options were not included in the computation of diluted net loss per common share for the three and nine month periods ended September 30, 2004, as their inclusion would have been anti-dilutive.

Options, restricted stock and warrants outstanding as of September 30, 2005 to purchase 9,153,221 shares of common stock were not included in the computation of diluted net loss per common share for the three and nine month periods ended September 30, 2005, as their inclusion would have been anti-dilutive.

(4) Commitments and Contingencies

Revolving Line of Credit

On October 18, 2005, Broadwing announced that it had entered into a revolving credit facility that enables it to borrow up to $75 million commencing 45 days after October 14, 2005 with a final maturity date of October 14, 2008. The facility is secured by a pledge of accounts receivable of Broadwing Corporation and its subsidiaries. Borrowings will bear an interest rate, at Broadwing s option, at either LIBOR plus 3.75% or an alternate base rate, defined as the higher of the prime or federal funds rate, plus 2.5%. If cash, investments, and undrawn availability under the facility fall below $100.0 million while borrowings are outstanding, Broadwing must deposit $25.0 million into a designated restricted account. Availability under the facility is limited by an amount of eligible accounts receivable available as collateral. The facility is subject to an unused line fee of one-half of one percent (0.05%), an annual fee of $375,000 and closing costs of $1,489,835 which will be amortized over the life of the facility. Broadwing intends to use borrowings under the facility for general corporate purposes.

Ciena

On March 31, 2005, Broadwing and Ciena Corporation (Ciena) entered into a settlement agreement regarding certain patent infringement lawsuits. Under the terms of the settlement agreement, Ciena and Broadwing have agreed to dismiss all claims. In addition, Broadwing will pay to Ciena a total of $35.0 million in three equal annual installments, of which $33.0 million of the total payment may be used as credits toward the purchase of Ciena equipment and services at market prices over the next three and one-half years. The Company recorded a charge of $2.0 million associated with the settlement in the first quarter of 2005. During the second quarter of 2005, the Company made the first annual payment of $11.0 million to Ciena. As of September 30, 2005, approximately $3.4 million related to advance payments made for future equipment purchases is included in other non-current assets on the consolidated balance sheet.

Class Action Suit

Between May 7, 2001 and June 15, 2001, nine class action lawsuits were filed in the United States District Court for the Southern District of New York relating to the Company s initial public offering on behalf of all persons who purchased the Company s stock between July 28, 2000 and the filing of the complaints. Each of the complaints named as defendants: the Company, the Company s directors and officers who signed the registration statement in connection with the Company s initial public offering, and certain of the underwriters that participated in the Company s initial public offering. The Company s directors and officers have since been dismissed from the case, without prejudice. The complaints allege that the registration statement and prospectus relating to the Company s initial public offering contained material misrepresentations and/or emissions and that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of the Company s common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for the Company s common stock in the aftermarket following the initial public offering. The complaints ask the Court to award to members of the class the right to rescind their purchases of our common stock (or to be awarded rescissory damages if the class member has sold our stock) and prejudgment and post-judgment interest, reasonable attorneys and experts witness fees and other costs.

On February 15, 2005, the Judge granted preliminary approval of a proposed settlement agreement between the plaintiffs and defendants, including Broadwing. The proposed settlement is a $1 billion dollar guaranteed settlement. The insurance companies for the defendants agreed to pay up to $1 billion dollars in total to the extent that judgment is rendered for the plaintiffs. If plaintiffs succeed in recovering more than $1 billion from the underwriters, the companies that went public, such as the Broadwing, will not have to pay any additional amounts. The defendants insurance companies will be paying the settlement that is subject to the final approval of the district court. Should the Judge not grant final approval of the settlement agreement, the Company believes that it has meritorious defenses to plaintiffs allegations and will vigorously defend itself.

On August 31, 2005, the Judge issued an order clarifying certain provisions of the proposed settlement and set deadlines for the final approval of the proposed settlement. The Judge scheduled the fairness hearing on the proposed settlement for April 24, 2006.

Qwest Investigations

The Denver, Colorado regional office of the SEC is conducting two investigations titled In the Matter of Qwest Communications International, Inc. and In the Matter of Issuers Related to Qwest. The Company believes the first of these investigations does not involve any allegation of wrongful conduct on its part. In October 2004, the SEC announced that it was charging Qwest with securities fraud and other violations of the federal securities laws and entering into a settlement with Qwest relating to those charges. In connection with the second investigation, the SEC is examining various transactions and business relationships involving Qwest and eleven companies having a vendor relationship with Qwest, including Broadwing. This investigation, insofar as it relates to Broadwing, appears to focus generally on whether the Company s transactions and relationships with Qwest and its employees were appropriately disclosed in the Company s public filings and other public statements.

The United States Attorney in Denver is conducting an investigation involving Qwest, including Qwest s relationships with certain of its vendors, including Broadwing. In connection with that investigation, the U.S. Attorney has sought documents and information from the Company and has sought interviews from persons associated or formerly associated with Broadwing, including certain of its officers. The U.S. Attorney has indicated that, while aspects of its investigation are in an early stage, neither Broadwing nor any of our current or former officers or employees is a target or a subject of the investigation.

The Company is cooperating fully with these investigations. Broadwing is not able, at this time, to say when the SEC and/or U.S. Attorney investigations will be completed and resolved, or what the ultimate outcome with respect to it will be. These investigations could result in substantial legal costs and a diversion of management s attention that may have a material adverse effect on its business, financial condition and results operations.

Great Northern Insurance Company

On October 5, 2004, the Company filed an action in the U.S. District Court for the District of Maryland against its property insurance carrier, Great Northern Insurance Company, for breach of contract under a building and personal property insurance policy sold to it by Great Northern. The claim is for a loss sustained due to a fire in a warehouse that occurred in March 2003. The amount of loss alleged by the Company exceeds $46.0 million, of which Great Northern has paid $4.5 million. The Company has requested a jury trial for this dispute. The parties are conducting discovery in the matter, which is expected to be completed February 2006. No trial date has been set.

Other

The Company and its subsidiaries from time to time are also subject to pending and threatened legal action and proceedings arising in the ordinary course of business. Management believes that the outcome of such actions and proceedings will not have a material adverse effect on its business, financial condition or results of operations.

(5) Concentrations

Substantially all of the Company s cash and cash equivalents are held at five major U.S. financial institutions. Deposits held with banks exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, in the opinion of management, bear minimal risk.

The Company may be subject to credit risk due to concentrations of receivables from companies that are communications providers, Internet service providers and cable television companies. The Company performs ongoing credit evaluations of customers financial condition and typically does not require significant collateral. Most of the Company s arrangements with large customers do not provide guarantees that customer usage will be maintained at current levels. 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 s revenue and financial condition could be materially adversely affected. Revenue from the Company s ten largest customers accounted for approximately 17% of total revenue for both the three and nine months ended September 30, 2005, as compared to 17% and 19% respectively for the three and nine months ended September 30, 2004. Revenue from communications carriers accounted for 41% and 42% of total revenue for the three and nine months ended September 30, 2005 as compared to 36% for the three and nine months ended September 30, 2004.

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(6) Property and Equipment, net

Property and equipment is recorded at cost or fair value if acquired in a business combination. Depreciation is provided for using the straight-line method over the estimated useful life. Repairs and maintenance are charged to expense as incurred.

Starting in 2003 and continuing through 2005, the Company implemented a series of capital projects related to its network infrastructure in order to lower its overall communications service costs, integrate the Focal network, and provide new products and services to its customers. Costs associated directly with improvements to the network, including employee related costs, have been capitalized, and interest costs incurred during construction were capitalized based on the weighted average accumulated construction expenditures and interest rates related to the Company s current borrowings. During the nine months ended September 30, 2005, $5.4 million of interest expense was capitalized into construction in process.

Property and equipment, net (in thousands):

	December 31, 2004	September 30, 2005
Land	$ 7,950	$ 7,945
Buildings and leasehold improvements	68,748	64,460
Transmission facilities	225,059	265,189
Furniture, fixtures, vehicles and other	24,694	24,772
Fiber usage rights	14,513	16,342
Testing and manufacturing	74,226	71,898
Construction in process	32,290	43,513
Total property and equipment	447,480	494,119
Less: accumulated depreciation	(161,442)	(233,420)
Property and equipment, net	$ 286,038	$ 260,699

Included in construction in process is approximately $17.6 million and $13.2 million of network spares inventory at September 30, 2005 and December 31, 2004, respectively. Interest is not capitalized on network spares inventory.

(7) Notes Payable and Capital Leases

A summary of notes payable and capital leases outstanding as of the balance sheet dates is as follows (in thousands):

	December 31,	September 30,

	2004	2005
Leasehold improvements loan due May 2009, 10% interest rate	$ 691	$ 594
Senior unsecured convertible notes, 5% interest rate due February 2006, less unamortized debt discount of $12,837 and $2,787 at December 31, 2004 and September 30, 2005, respectively	147,877	61,499
Capital leases	20,267	21,076
Other	707	503
	169,542	83,672
Less: current portion	(117,324)	(62,908)
Notes payable and capital leases, net of discounts and current portion	$ 52,218	$ 20,764

On February 19, 2004, the Company borrowed $225.0 million under unsecured convertible notes in a private placement to institutional investors. The maturity date of the loans is February 20, 2006. Borrowings under the loans accrue interest at a stated rate of 5% payable quarterly, while principal is scheduled for repayment in seven equal quarterly installments which commenced on August 19, 2004. Provided certain conditions are met and at the election of the Company, principal and interest are payable in either cash or common stock at a conversion price of 95% of the average stock price for the 20 days preceding conversion. Provided certain conditions are met, the notes can be prepaid in cash at any time at a premium of 103% if the Company s common stock is trading at or above $13.50. Under certain conditions, the Company s election to convert may require the issuance of additional warrants. The holders may convert at any time.

In conjunction with the issuance of the notes, the Company issued warrants to purchase 2,732,838 shares of common stock. The warrants are immediately exercisable, have a strike price of $23.70 per share, and have a three-year life. The warrants were valued at $33.2 million and were recorded as original issue discount. Amortization of original issuance discount and debt issuance costs results in an effective annual interest rate of 22%.

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Under certain conditions, the holders can participate in subsequent rights offerings. Unpaid principal is redeemable by the holders at 115% upon a change of control. Under the terms of the notes, the Company may incur indebtedness of up to $100.0 million, subject to certain limitations.

The Company has the option, beginning on November 19, 2004 and ending December 19, 2005, to cause the investors to subscribe to the placement of up to an additional $75.0 million in senior unsecured convertible notes having a final maturity date of two years after their issuance and otherwise having similar terms as the initial senior unsecured convertible notes. The holders may demand the additional placement of up to an additional $75.0 million in senior unsecured convertible notes if the average stock price exceeds $47.40 for ten trading days.

During the quarter, the Company elected to pay principal and interest due on August 19, 2005 of $32.1 million and $1.2 million, respectively, in cash. Additionally, the Company has elected to pay principal and interest due on November 19, 2005 of $32.1 million and $0.8 million, respectively, in cash. On an ongoing basis, the Company will consider the method of payment of principal and interest associated with the convertible notes based on its capital resource needs and market conditions at the time.

Capital leases outstanding as of the balance sheet dates include fiber capital leases that were assumed in the Focal acquisition in September 2004 as well as vehicle leases previously owned or acquired by Broadwing.

(8) New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value starting the first annual period beginning 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. The Company is currently evaluating the impact that SFAS 123R will have on its consolidated results of operations and financial condition, which in part will be dependent on the transition and amortization methods used to adopt the new rules in 2006.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets (SFAS 153) An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions . SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company is required to adopt SFAS 153 effective January 1, 2006. The Company does not expect the adoption of SFAS 153 will have a material impact on its consolidated results of operations and financial condition.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The provision is effective for no later than the end of the first fiscal year ending after December 15, 2005. The Company is in the process of evaluating the impact of FIN 47 to the consolidated results of operations and financial condition.

(9) Restructuring and Related Charges

Starting in 2001 and continuing through 2005, the Company has experienced a decline in the sale of communications equipment, including its OCS product, which has represented materially all of the Company s communications equipment revenue in 2004 and 2005. In response to these declines, the Company has implemented restructuring efforts including workforce reductions and facility consolidations. In addition, the Company has implemented integration efforts associated with its acquisition of Focal which has resulted in workforce reduction costs. The Company is also continually evaluating the recoverability of its long-lived assets in light of these initiatives and the projected economic and operating environment.

The Company s restructuring activities are ongoing and additional charges will be recorded in future periods.

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The Company recorded the following charges for the periods then ended (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Cost of revenue charges inventory-write downs and other	$	$	$ 193	$
Restructuring and other charges:				
Facilities consolidation	993	21	1,188	296
Change in reserve estimate	270		464	94
Workforce reductions	1,375	596	1,375	657
Impairment loss - OCS		13		297
Total restructuring and other charges	2,638	630	3,027	1,344
Total restructuring and related charges	$ 2,638	$ 630	$ 3,220	$ 1,344

The following table displays the activity and balances of the restructuring reserve account for the three and nine months ended September 30, 2005 (in thousands):

	Cost of Revenue	Restructuring and Other Charges	
	Inventory Write-downs	Workforce, Facilities Consolidation and Impairment	Total
Balance as of December 31, 2004	$ 236	$ 8,384	$ 8,620
Restructuring and other charges		(316)	(316)
Cash payments	(50)	(2,867)	(2,917)
Accretion of interest		9	9
Non-cash charges		442	442
Foreign currency exchange impact		(60)	(60)
Balance at March 31, 2005	$ 186	$ 5,592	$ 5,778
Restructuring and other charges		1,448	1,448
Cash payments		(1,530)	(1,530)
Change in reserve estimate		(29)	(29)
Foreign currency exchange impact		(53)	(53)
Balance at June 30, 2005	$ 186	$ 5,428	$ 5,614

Restructuring and other charges		630	630
Cash payments		(1,701)	(1,701)
Balance at September 30, 2005	$ 186	$ 4,357	$ 4,543

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

You should read the following discussion and analysis along with our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2004 filed on March 16, 2005 with the Securities and Exchange Commission.

Overview

Broadwing Corporation and subsidiaries is an Austin, Texas based provider of data and Internet, broadband transport, and voice communications services throughout the United States over a nationwide facilities-based network connecting 137 cities. Our all-optical network, capable of transmitting up to 800 Gbs per fiber, gives customers the benefit of high quality, technologically advanced solutions allowing for rapid provisioning, and highly flexible customized networking. We believe that our network and growth-oriented strategy has enabled us to compete effectively in the markets in which we operate.

Until the third quarter of 2005, we also operated a communications equipment division, which developed and marketed among other products, the Optical Convergence Switch (OCS) which is an optical-electrical-optical cross-connect switch enabling carriers to deliver SONET/SDH services. Starting April 2005, we began implementing a plan for the curtailment of OCS production and the restructuring of the equipment division. These restructuring initiatives are complete and equipment division assets and personnel still in place are now focused primarily on the expansion and support of our Broadwing internal network infrastructure.

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On September 28, 2004, we announced a 1-for-20 reverse stock split, resulting in every twenty shares of common stock to be combined into one share of common stock. Immediately following the reverse stock split, we enacted a one time, 1-for-1 stock dividend for all shareholders of record as of October 8, 2004, effectively resulting in a 1-for-10 reverse split. The stock split and stock dividend affects all of our stock, stock options and warrants outstanding on the record date. This MD&A has been retroactively adjusted to reflect both the stock split and stock dividend.

On September 1, 2004, we acquired Focal Communications Corporation (Focal) for $98.6 million, net of purchase price adjustments and acquisition costs. Focal was a Chicago-based competitive local exchange carrier that provided voice and data solutions to large and medium enterprises, including government entities, universities and other communications service providers. Focal had a local fiber network in nine cities, offered services across the country in 23 Tier 1 markets from Boston to Miami and New York to Los Angeles, and served over 4,000 enterprise and wholesale/carrier customer base.

Critical Accounting Policies

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Some of these policies were adopted upon the Broadwing Communication Services, Inc. and Focal acquisitions. The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable valuation allowances, accrued communications service cost, restructuring and other charges, intangible assets, asset retirement obligations and litigation. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions and the variances could be material.

Revenue and Accounts Receivable Valuation Allowances

Revenue and related reserves from services are recognized when the services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, as well as the associated customer acquisition costs, are deferred and recognized over the expected customer relationship. Expected customer relationship periods are estimated using historical data of actual customer retention patterns.

We record specific reserves to reduce revenue and related trade accounts receivable when significant uncertainties exist related to the collectibility of service billings. We also record reserves associated with routine service credits granted to customers. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We determine the estimate of the allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, the customers financial condition and historical experience. If the financial condition of our customers were to deteriorate more than we anticipate or other circumstances occur that result in an impairment of our customers ability to make payments, additional allowances may be required.

At September 30, 2005, a significant portion of these reserves related to reciprocal compensation and carrier access billings (CABS), associated with contracts acquired in the Focal purchase. These amounts relate to service periods both before and after the acquisition date. Certain carriers have disputed certain charges as inappropriate or outside the scope of existing tariffs or contractual agreements. At September 30, 2005, trade accounts receivable from reciprocal compensation and CABS totaled $29.9 million, with associated credit allowances totaling $15.8 million. If the resolution of these disputes differs from our estimates, our reserves will be adjusted resulting in an increase or decrease in revenue and net income.

Accrued Communications Service Costs

We perform bill verification procedures to detect possible errors in our access vendors billed invoices. The bill verification procedures include the examination of bills, the comparison of rates between billed rates with rates used by our expense estimation systems, the comparison of circuits billed to our database of active circuits, and evaluating the trend of invoiced amounts by our vendors, including the types of charges being assessed. If we conclude that we have been billed inaccurately, we will dispute the charge with the vendor and begin resolution procedures. We record a charge to cost of revenue and a corresponding increase to the accrued communications service costs for the disputed amounts, unless past experience or other corroborating evidence indicates that it is not probable that we will ultimately be required to pay. If we ultimately reach an agreement with a vendor in which we settle a disputed amount for an amount other than the corresponding accrual, we recognize the resultant settlement gain or loss in the period in which the settlement is reached. Previously unaccrued disputes are tracked and reviewed periodically to assess whether a loss has become probable and estimable, in which case an accrual is established. If resolution of these disputes differ from our estimates, our reserve will be adjusted resulting in an increase or decrease in cost of revenue and net earnings.

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Intangible Assets

We have recorded intangible assets resulting from our acquisitions. We account for goodwill and other intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 142 requires that goodwill and other intangible assets with an indefinite life be tested for impairment at least annually. The impairment test is a two-step process that requires intangibles to be allocated to reporting units. In the first step, the fair value of the reporting unit is compared with the carrying value of the reporting unit. If the fair value of the reporting unit is less than the carrying value of the reporting unit, an impairment may exist, and the second step of the test is performed. In the second step, the fair value of the intangible asset is compared with the carrying value, and an impairment loss will be recognized to the extent that the carrying value exceeds the fair value. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS No. 144).

We are required to review the recoverability of our goodwill and other intangible assets as indicated above. If actual market conditions are less favorable than those projected by management or if events occur or circumstances change that would reduce the estimated recoverability of these assets, impairment charges may be required.

In accordance with SFAS No. 142 and No. 144, we will perform an impairment analysis of the intangible assets acquired as part of the Broadwing Communication Services, Inc. and Focal Communications acquisitions during the fourth quarter of 2005, unless other events or circumstances indicate that our assets may be impaired, at which time an analysis will be performed.

Asset Retirement Obligations

We have network assets located in leased properties such as equipment rooms, central offices, and network interconnections sites. For certain of these leases, we are legally obligated to remove our communications equipment at the expiration of the lease. As required by SFAS No. 143, Accounting for Asset Retirement Obligations, we record a liability for the estimated current fair value of the costs associated with these asset retirement obligations. We estimate our removal liabilities using historical cost information, industry factors, and current engineering estimates. We then estimate the present value of these costs by discounting the future expected cash payout to current fair value based on an estimated incremental borrowing rate. To the extent there are material differences between our estimated and actual removal costs, and our estimated and actual discount rates, we could be required to adjust our recorded liabilities at that time.

Litigation

We and our subsidiaries are involved in several material legal proceedings as described in more detail in Part II, Item 1. Legal Proceedings of this report. We assess potential losses in relation to these and other pending or threatened legal matters. If a loss is considered probable and the amount can be estimated, we recognize an expense for the estimated loss. To the extent these estimates exceed or are less than the actual liability resulting from the resolution of such matters, our earnings will be decreased or increased accordingly, and if the differences are material, our consolidated financial statements could be materially impacted.

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements at fair value starting the first annual period beginning after June 15, 2005. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost, and the transition method to be used at date of adoption. We are currently evaluating the impact that SFAS 123R will have on our consolidated results of operations and financial condition, which in part will be dependent on the transition and amortization methods used to adopt the new rules in 2006.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets (SFAS 153)- An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions . SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29,

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Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. We are required to adopt SFAS 153 effective January 1, 2006. We do not expect the adoption of SFAS 153 will have a material impact on our consolidated results of operations and financial condition.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The provision is effective for no later than the end of the first fiscal year ending after December 15, 2005. The Company is in the process of evaluating the impact of FIN 47 to the consolidated results of operations and financial condition.

Results of Operations

Three months ended September 30, 2005 compared to three months ended September 30, 2004

Revenue. Revenue consists primarily of the sale of data and Internet, broadband transport and voice communications services. Data and Internet sales consist of high-speed data transport utilizing technology based on Internet protocol (IP) and ATM/frame relay. Broadband transport services consist of long-haul transmission of data, voice and Internet traffic over dedicated circuits. Voice services consist of long distance and local phone services.

Long-distance voice service includes dedicated and switched minutes of use, primarily for the transmission of long distance services on behalf of wholesale and retail customers. Local voice service consists of dedicated and switched inbound and outbound services. Inbound service allows for the completion of calls to our customers. Our basic outbound service allows local calls to be completed within a metropolitan region. Local voice services also include Inter-carrier compensation, which is associated with the transmission of traffic between telecommunications carriers and includes switched access and reciprocal compensation revenue. Reciprocal compensation is the compensation exchanged between carriers for terminating local phone calls on one another s networks.

Quarterly revenue by product is as follows (in thousands):

	Three Months Ended				
	September 30, 2004	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005
Data and Internet services	$ 38,150	$ 41,731	$ 41,844	$ 42,156	$ 42,684
Broadband transport	62,081	65,289	67,795	73,069	74,853
Long-distance voice services	45,427	56,213	55,485	50,867	47,359
Local voice services	17,407	48,994	51,862	55,139	53,171
Equipment sales	381	7,690	1,268	993	592
Total revenue	$ 163,446	$ 219,917	$ 218,254	$ 222,224	$ 218,659

Revenue increased to $218.7 million for the three months ended September 30, 2005 from $163.4 million for the three months ended September 30, 2004, primarily due to the acquisition of Focal, which contributed approximately $41.0 million to the increase for the third quarter of 2005. The remaining $14.3 million in revenue growth represents an 9% increase from the third quarter of 2004.

Excluding the increase in acquired Focal revenue of approximately $2.3 million, our data/Internet and broadband revenues increased by approximately $2.2 million and $12.8 million or 6% and 21%, respectively, as compared to the prior year quarter principally through new customer wins and expansion of existing customer contracts. We believe this sales growth is the result of our ability to establish customer circuits more rapidly than our competitors and recent capital expenditures, which have increased our access to customer sites and key interconnection points.

Excluding the increase in acquired Focal revenues of approximately $5.4 million, our long-distance voice services revenue decreased $3.5 million for the three month period ended September 30, 2005 as compared to the three month period ended September 30, 2004. Late in the second quarter of 2005, we implemented increases in certain wholesale long-distance voice pricing in reaction to increases in associated cost structures. This resulted in a decrease in wholesale long-distance traffic volumes; however, we believe these rate increases are necessary to maintain appropriate overall gross margins. These volume reductions have been offset in part by sales to new and existing customers. Our long-distance wholesale voice revenue can be subject to fluctuations dependent on the volume of traffic our carrier customers choose to place on our network and based on available pricing within the wholesale market.

Local voice services revenue increased to $53.2 million for the three months ended September 30, 2005 from $17.4 million for the three months ended September 30, 2004. The increase in revenue was due to the inclusion of a full quarter of revenue in 2005 as compared to one month in 2004, as the Focal acquisition closed on September 1, 2004. Excluding the effect of the collection of disputed receivables of approximately $2.6 million during the second quarter of 2005, local revenues for the three months ended September 30, 2005 remained consistent with three months ended June 30, 2005.

We continue to focus our efforts on selling to medium-to-larger size customers with complex communications needs, developing new products that differentiate us from our competition and reducing our communications service costs to allow us to better compete on the sale of price sensitive products. Additionally, we believe that as a result of the Focal acquisition, we will be able to offer a broader range of products than currently offered, such as bundled data, long-distance and local voice services.

Cost of Revenue. Cost of revenue primarily reflects access charges paid to local exchange carriers and other providers and transmission lease payments to other carriers. Cost of revenue totaled $143.5 million and $111.5 million for the three months ended September 30, 2005 and 2004, respectively. As a percentage of total communications services revenue, cost of service decreased to 66% for the three-month period ended September 30, 2005 as compared to 68% in the same period in the prior year quarter. Beginning in 2004 and continuing in 2005, we have achieved savings in communication services cost of revenue within our voice and data products. The decrease has been primarily due to new vendor agreements and network grooming and hubbing that have allowed us to reduce our circuit facilities costs. During the three month period ended September 30, 2005, we favorably settled several significant disputes, which resulted in a reduction in the cost of revenue. Comparing the three month period ending September 30, 2005 to the three month periods ending September 30, 2004 and June 30, 2005, net gains from dispute settlements increased by $3.0 million and decreased by $0.5 million, respectively. Settlement of vendor disputes is typical to our industry and may result in fluctuations in cost of revenue (see Critical Accounting Policies, *Accrued Communications Cost of Service*).

Research and Development, Excluding Equity-Based Expense. Research and development expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our equipment division hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred.

Research and development expense, excluding equity-based expense, decreased to $0.7 million for the three months ended September 30, 2005 from $3.1 million for the three months ended September 30, 2004. The decrease in expense is primarily attributable to the effect of the curtailment of our OCS production and development in the third quarter of 2005 and classification of certain expenses as general and administrative expenses since such costs are now principally related to network support costs.

Sales, General and Administrative, Excluding Equity-Based Expense. Sales, general and administrative expense, excluding equity-based expense, consists primarily of costs associated with personnel, travel, information systems support and facilities related to our sales, network operations, network engineering and administrative support functions.

Sales, general and administrative expense, excluding equity-based expense, increased to $77.4 million for the three months ended September 30, 2005 from $64.3 million for the three months ended September 30, 2004. The increase in expense is primarily attributable to the inclusion of a full quarter of acquired sales, general and administrative expense associated with Focal during the third quarter of 2005 which contributed $15.0 million to the increase. Sales, general and administrative expense, as a percentage of total revenue for the three months ended September 30, 2005 and 2004 was 35% and 39%, respectively. The decrease is primarily attributable to operational efficiencies resulting from the Focal acquisition.

Depreciation expense. Depreciation expense increased to $23.4 million for the three months ended September 30, 2005 from $10.0 million for the three months ended September 30, 2004. The increase in depreciation is primarily associated with the inclusion of a full quarter of depreciation of Focal assets acquired in September 2004, which contributed $17.4 million of depreciation in the third quarter of 2005. The overall increase in depreciation has been offset in part by a decrease in depreciation due to certain assets reaching the end of their depreciable lives during the third quarter of 2005. We expect depreciation expense to increase in future periods as we continue to capitalize and place into service assets related to our network strategic initiatives.

Amortization of Intangible Assets. Amortization of intangible assets increased to $1.4 million for the three months ended September 30, 2005 from $1.2 million for the three months ended September 30, 2004. The increase in amortization expense is due to customer relationships and in-place contracts acquired as part of the Focal acquisition in the third quarter of 2004.

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Equity-based Expense. Equity-based expense consists primarily of charges associated with employee options granted at below fair market value and restricted stock. Equity-based expense related to research and development, sales and marketing and general and administrative functions for the three months ended September 30, 2005 increased to $1.0 million from $0.6 million for the three months ended September 30, 2004. The increase in equity-based compensation is primarily attributable to restricted stock grants to employees in late 2004 and early 2005.

Restructuring and other charges.

We recorded the following charges for the three months ended September 30, 2004 and 2005 (in thousands):

	Three Months Ended September 30,	
	2004	**2005**
Restructuring and other charges:		
Facilities consolidation and other	$ 993	$ 34
Change in reserve estimate	270	
Workforce reductions	1,375	596
Total restructuring and other charges	$ 2,638	$ 630

Facilities consolidation and other. We reduced our operating costs through the early terminations of real estate and equipment lease agreements and other impairment loss, resulting in charges of approximately $0.03 million in the three-month period ended September 30, 2005. For the three months ended September 30, 2004, we recorded approximately $1.0 million related to lease terminations.

Change in reserve estimate. We periodically review the adequacy of our reserve related to restructuring initiatives and adjust our reserve balance accordingly. For the three months ended September 30, 2004, we charged to expense approximately $0.3 million related to a change in estimate.

Workforce reductions. During the third quarter of 2005, we recorded $0.6 million in charges associated with workforce reductions as a result of the Focal acquisition and other severance. For the three months ended September 30, 2004, we incurred approximately $1.4 million related to work force reductions, of which $0.8 million related to the Focal operations.

Interest Expense, net of capitalized amounts. Interest expense, net of capitalized amounts, decreased to $3.2 million for the three months ended September 30, 2005 from $8.6 million for the three months ended September 30, 2004. The decrease in interest expense was primarily attributable to a reduction in the amount of outstanding principal related to our convertible notes during 2005 as compared to the same period in the prior year as well as an increase in the amount of interest capitalized into fixed assets.

Other income and expense, net. Other income and expense increased slightly to $1.9 million for the three months ended September 30, 2005 compared to $1.8 million for the three months ended September 30, 2004.

Nine months ended September 30, 2005 compared to nine months ended September 30, 2004

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2005
Data and Internet services	$ 108,414	$ 126,684
Broadband transport	179,373	215,717
Long-distance voice services	140,955	153,711
Local voice services	17,407	160,173
Equipment sales	6,214	2,852
Total revenue	$ 452,363	$ 659,137

Revenue. Revenue increased to $659.1 million for the nine months ended September 30, 2005 from $452.4 million for the nine months ended September 30, 2004, primarily due to the acquisition of Focal, which contributed approximately $164.0 million to the current year increase. The remaining $42.7 million in revenue growth represent a 9% increase for the nine months ended September 30, 2005 as compared to the same period in the prior year.

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Excluding the increase from acquired Focal revenue of approximately $9.3 million, our data and Internet and broadband revenues increased by approximately $9.0 million and $36.3 million or 8% and 20% during the nine months ended September 30, 2005, respectively, as compared to the prior year, principally through new customer wins and expansion of existing customer contracts. We believe this sales growth is the result of a competitive advantage gained from our relative speed to provision customers circuits as well as recent capital expenditures which have increased our access to customer sites and key interconnection points.

Excluding the increase from acquired Focal revenues of approximately $21.6 million, our long-distance voice services revenue decreased $8.8 million during the nine months ended September 30, 2005 as compared to the nine month period ended September 30, 2004, primarily due to a decrease in retail voice volumes and rates as well as a decrease of approximately $11.8 million associated with lower contracted rates with Cincinnati Bell Telecommunications Services, Inc., partially offset by increases in wholesale voice from new contract wins. Our long-distance wholesale voice revenue can be subject to fluctuations dependent on the volume of traffic our carrier customers choose to place on our network and based on available pricing within the wholesale market.

We continue to focus our efforts on selling to medium-to-larger size customers with complex communications needs, developing new products that differentiate us from our competition and reducing our communications service costs to allow us to better compete on the sale of price sensitive products. Additionally, we believe that as a result of the Focal acquisition, we have been able to offer a broader range of products and are continuously expanding our product offerings.

Cost of Revenue. Cost of revenue primarily reflects access charges paid to local exchange carriers and other providers and transmission lease payments to other carriers. Cost of revenue totaled $438.4 million and $307.8 million for the nine months ended September 30, 2005 and 2004, respectively. As a percentage of total communications services revenue, cost of service decreased to 67% for the nine month period ended September 30, 2005 as compared to 68% in the same period in the prior year. Beginning in 2004 and continuing in 2005, we have achieved savings in communication services cost of revenue within our voice and data products. The decrease has been primarily due to new vendor agreements and network grooming and hubbing that have allowed us to reduce our circuit facilities costs. During the nine month period ended September 30, 2005, we favorably settled several significant disputes, which resulted in a reduction in cost of revenue. Comparing the nine month period ending September 30, 2005 to the nine month period ending September 30, 2004, the net gain from dispute settlements increased by approximately $5.4 million. Settlement of vendor disputes is typical to our industry and may result in fluctuations in cost of revenue (see Critical Accounting Policies, *Accrued Communications Cost of Service*).

Research and Development, Excluding Equity-Based Expense. Research and development expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred.

Research and development expense, excluding equity-based expense, decreased to $6.2 million for the nine months ended September 30, 2005 from $12.6 million for the nine months ended September 30, 2004. The decrease in expense was primarily attributable to the effect of the curtailment of our OCS production and development in the third quarter of 2005 and classification of certain expenses as general and administrative expenses since such costs are now principally related to network support cost.

Sales, General and Administrative, Excluding Equity-Based Expense. Sales, general and administrative expense, excluding equity-based expense, consists primarily of costs associated with personnel, travel, information systems support and facilities related to our sales, network operations, network engineering and administrative support functions.

Sales, general and administrative expense, excluding equity-based expense, increased to $227.1 million for the nine months ended September 30, 2005 from $182.6 million for the nine months ended September 30, 2004. The increase in expenses was primarily attributable to the inclusion of $60.0 million of acquired sales, general and administrative expense associated with Focal during the current year. Sales, general and administrative expense as a percentage of total revenue for the nine months ended September 30, 2005 and 2004 was 34% and 40%, respectively. The decrease is primarily attributable to operational efficiencies resulting from the Focal acquisition.

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Litigation Settlement. On March 31, 2005, Broadwing and Ciena Corporation (Ciena) entered into a settlement agreement regarding certain patent infringement lawsuits. Under the terms of the settlement agreement, Ciena and Broadwing have agreed to dismiss all claims. In addition, we will pay to Ciena a total of $35.0 million in three equal annual installments, of which $33.0 million of the total payment may be used as credits toward the purchase of Ciena equipment and services at market prices over the next three and one-half years. We recorded a charge of $2.0 million associated with the settlement in the first quarter of 2005. During the second quarter of 2005, we made the first annual payment of $11.0 million to Ciena. As of September 30, 2005, approximately $3.4 million related to prepaid equipment purchases is included in other non-current assets on the consolidated balance sheet.

Depreciation expense. Depreciation expense increased to $78.1 million for the nine months ended September 30, 2005 from $25.1 million for the nine months ended September 30, 2004. The increase in depreciation is primarily associated with the Focal assets acquired in September 2004, which contributed $61.3 million of depreciation during the first nine months of 2005. The overall increase in depreciation has been offset in part by a decrease in depreciation due to certain assets reaching the end of their depreciable lives during the current year. We expect depreciation expense to increase in future periods as we continue to capitalize and place into service assets related to our network strategic initiatives.

Amortization of Intangible Assets. Amortization of intangible assets increased to $4.2 million for the nine months ended September 30, 2005 from $3.2 million for the nine months ended September 30, 2004. The increase in amortization expense is due to customer relationships and in-place contracts acquired as part of the Focal acquisition in the third quarter of 2004.

Equity-based Expense. Equity-based expense consists primarily of charges associated with employee options granted at below fair market value and restricted stock. Equity-based expense related to research and development, sales and marketing and general and administrative functions for the nine months ended September 30, 2005 decreased to $2.9 million from $7.7 million for the nine months ended September 30, 2004. The decrease in equity-based compensation is primarily attributable to fully vested in the money option grants issued prior to our July 2000 initial public offering.

Restructuring and other charges.

We recorded the following charges for the nine months ended September 30, 2004 and 2005 (in thousands):

	Nine Months Ended September 30,	
	2004	**2005**
Cost of revenue charges inventory write downs and other	$ 193	$
Restructuring and other charges:		
Facilities consolidation	1,188	296
Change in reserve estimate	464	94
Workforce reductions	1,375	657
Impairment loss OCS		297
Total restructuring and other charges	3,027	1,344

Total restructuring and related charges	$ 3,220	$ 1,344

Cost of revenue inventory-write-downs and other. We write-down our inventory for estimated obsolete, excess and overvalued inventory based on estimated sales projections and market values. Charges recorded in the nine months ended September 30, 2004 are the result of inventory impairment charges for adjustments made to 2003 estimates. No such charges were recorded in 2005.

Facilities Consolidation. We reduced our operating costs through the early terminations of real estate and equipment lease agreements, resulting in charges of approximately $0.3 million and $1.2 million in the nine month period ended September 30, 2005 and 2004, respectively.

Change in reserve estimate. We periodically review the adequacy of our reserve related to restructuring initiatives and adjust our reserve balance accordingly. For the nine months ended September 30, 2005, and September 30, 2004, we made changes to our reserve estimate of charges related to our French operations and our communications equipment division totaling $0.1 million and $0.5 million, respectively.

Workforce reductions. During the third quarter of 2005, we recorded $0.7 million in charges associated with workforce reductions as a result of the Focal acquisition and other severance. For the nine months ended September 30, 2004, we incurred approximately $1.4 million related to work force reductions, of which $0.8 million related to the integration of Focal operations.

Impairment loss OCS. In April 2005, we began the exploration of strategic alternatives associated with our OCS product in an effort to more closely focus our resources on our communications services operations. During the second quarter of 2005, we committed to a plan to curtail our OCS production and development. These restructuring activities resulted in a charge of approximately $0.3 million related to the write-down of assets to estimated fair value. No such charges were recorded for the nine months ended September 30, 2004.

Interest Expense, net of capitalized amounts. Interest expense decreased to $17.1 million for the nine months ended September 30, 2005 from $26.7 million for the nine months ended September 30, 2004. The decrease in interest expense was primarily attributable to a reduction in the amount of outstanding principal related to our convertible notes during the current year as compared to the same period in the prior year, an increase in the amount of interest capitalized into fixed assets and $3.2 million in interest incurred in the prior year associated with our delayed registration of shares issued in August 2003.

Other income and expense, net. Other income and expense, net decreased to $5.9 million for the nine months ended September 30, 2005 from $7.5 million for the nine months ended September 30, 2004. The decrease in other income and expense, net is attributable to a decrease in income related to the sale of inventory in the current year and a decrease in one time revenue associated with an equipment contract included in the prior year, partially offset by an increase in interest income due to higher investment yields during 2005 and penalties incurred in the prior year associated with our delayed registration of shares issued in August 2003 that ceased in the prior year.

Liquidity and Capital Resources

Since inception through September 30, 2005, we have financed our operations, capital expenditures and working capital primarily through public and private sales of our debt and capital stock and borrowings under credit and lease facilities. At September 30, 2005, our cash and cash equivalents and investments totaled $137.9 million.

Operating Activity

Net cash used in operating activities was $19.1 million and $82.2 million for the nine months ended September 30, 2005 and September 30, 2004, respectively. Excluding the effects of changes in working capital accounts, which primarily relates to differences in the timing of the receipt and payment of cash, our cash used in operations decreased to $9.2 million from $51.6 million for the nine months ended September 30, 2005 as compared to the same period in the prior year. This decrease in operating cash outflows is primarily attributable to an increase in communications services revenue this year as compared to the same period in the prior year, partially offset by an increase in sales, general and administrative expense. The increase in revenue and sales, general and administrative expense is primarily due to the acquisition of Focal and the general expansion of our business. Net cash flows were also affected by payments of approximately $7.7 million in settlement of certain vendor billing disputes primarily acquired during the acquisition of Focal.

Investing Activity

Net cash used in investing activities was $2.0 million and $107.1 million for the nine months ended September 30, 2005 and 2004, respectively. Net cash used in investing activities for the nine months ended September 30, 2005 primarily relates to capital expenditures of $41.6 million and the first annual payment to Ciena of $11.0 million to be used for future equipment and service purchases, partially offset by the cash from the net sale of investments of $49.9 million. For the nine months ended September 30, 2005, capital expenditures were associated primarily with continued Focal integration efforts, capacity management, and our new converged, VOIP and media products. Net cash used in investing activities for the nine month period ended September 30, 2004 is attributable to capital expenditures associated with the Broadwing network expansion of $46.1 million, as well as net purchases of short and long-term investment securities of $73.8 million offset by the $11.4 million in net cash obtained in the Focal acquisition.

Capital expenditures continue to be a primary use of capital resources. We believe that these investments will facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our network in future periods. Our capital investments will continue through 2005 as we continue to integrate our network and respond to our customers needs. We believe, however, that our capital expenditures will be at lower levels for the remainder of 2005 as compared to 2004 levels.

Financing Activity

Net cash used by financing activities for the nine months ended September 30, 2005 was $65.7 million, primarily attributable to the repayment of convertible notes issued February 2004.

Net cash provided by financing activities for the nine months ended September 30, 2004 was $140.7 million, primarily attributable to the February 2004 private placement of $225 million of senior unsecured convertible notes and associated warrants, offset by $79.2 million in repayment of notes payable and capital lease obligations. The maturity date of the unsecured convertible notes is February 20, 2006. Borrowings under the unsecured convertible notes accrue interest at a stated rate of 5% payable quarterly, while principal is scheduled for repayment in seven equal quarterly installments commencing on August 19, 2004. Provided certain conditions are met and at the election of the Company, principal and interest are payable in either cash or common stock at a conversion price of 95% of the average stock price for the 20 days preceding conversion. The notes are convertible at the investors option at any time into our common stock at a fixed conversion price of $57.50 per share, subject to anti-dilution adjustments. We have used and intend to continue using the net proceeds for general corporate purposes in support of our service development and new market initiatives.

On October 18, 2005, we entered into a revolving credit facility that enables us to borrow up to $75 million commencing 45 days after October 14, 2005 with a final maturity date of October 14, 2008. The facility is secured by a pledge of accounts receivable of Broadwing Corporation and its subsidiaries. Borrowings will bear an interest rate, at Broadwing s option, at either LIBOR plus 3.75% or an alternate base rate, defined as the higher of the prime or federal funds rate, plus 2.5%. If cash, investments, and undrawn availability under the facility fall below $100.0 million, while borrowings are outstanding, we must deposit $25.0 million into a designated restricted account. Availability under the facility is limited by an amount of eligible accounts receivable available as collateral.

As of September 30, 2005, long-term restricted cash totaled $15.0 million associated with outstanding irrevocable letters of credit relating to lease obligations for various business arrangements. These letters of credit are collateralized by funds in our operating account. Various portions of the letters of credit expire at the end of each of the respective agreements.

We believe that our current cash, cash equivalents, and short-term investments will satisfy our expected working capital, capital expenditure, investment requirements and debt service through at least the next twelve months. Our future debt obligations will primarily include our $61.5 million convertible debt as well as $19.7 million in capital lease obligations which were acquired as part of the Focal acquisition. We elected to pay principal and interest due on our convertible notes on August 19, 2005 of $32.1 million and $1.2 million, respectively, in cash. Additionally, we have elected to pay principal and interest due on our convertible notes on November 19, 2005 of $32.1 million and $0.8 million, respectively, in cash. On an ongoing basis, we will consider the method of payment of principal and interest associated with the convertible notes based on our capital resource needs and market conditions at the time.

If cash on hand and cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing shareholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results. Increasingly, as a result of the financial demands of major network deployments, carriers are looking to their suppliers for financing assistance. From time to time, we may provide or commit to extend credit or credit support to our customers, as we consider appropriate in the course of our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in forward-looking statements.

Our exposure to market risk for changes in interest rates relates to our cash equivalents and investments. Our investments are available-for-sale. We do not use derivative financial instruments in our investment portfolio. We attempt to ensure the safety and preservation of our invested funds by limiting default and market risks. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations. We select investments that maximize interest income to the extent possible within these guidelines. We invest excess cash in securities with different maturities to match projected cash needs and limit concentration of credit risk by diversifying our investments among a variety of high credit-quality issuers. We mitigate default risk by investing in only investment-grade securities. The portfolio includes marketable securities with active secondary or resale markets to ensure portfolio liquidity. All investments are carried at market value, which approximates cost. We believe that a 1% increase or decline in interest rates would not be material to our investment income or cash flows from consolidated operations.

During 2004, we issued unsecured convertible notes in a private placement for proceeds of $225.0 million, excluding debt issuance costs of approximately $7.3 million. The notes accrue interest at a fixed, stated rate of 5%; therefore a fluctuation in market interest rates would not impact either the associated carrying value or interest expense in reported financial results. In October 2005, we announced that we had entered into a revolving line of credit accruing interest at a floating rate which fluctuates based on market interest rates and will have an impact of interest expenses to the extent we use the credit facility.

Item 4. Controls and Procedures

Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a 15 of the Securities Exchange Act of 1934 (Exchange Act) promulgated thereunder, our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report (the Evaluation Date). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the Evaluation Date. There have been no changes in our internal controls over financial reporting during the period covered by this report that were identified in connection with the evaluation referred to above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Ciena

On March 31, 2005, Broadwing and Ciena Corporation (Ciena) entered into a settlement agreement regarding certain patent infringement lawsuits. Under the terms of the settlement agreement, Ciena and Broadwing have agreed to dismiss all claims. In addition, we will pay to Ciena a total of $35.0 million in three equal annual installments, of which $33.0 million of the total payment may be used as credits toward the purchase of Ciena equipment and services at market prices over the next three and one-half years. We recorded a charge of $2.0 million associated with the settlement in the first quarter of 2005. During the second quarter of 2005, we made the first annual payment of $11.0 million to Ciena. As of September 30, 2005, approximately $3.4 million related to prepaid equipment purchases is included in other non-current assets on the consolidated balance sheet.

Class Action Suit

Between May 7, 2001 and June 15, 2001, nine class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints named as defendants: us, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. Our directors and officers have since been dismissed from the case, without prejudice. The complaints allege that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or emissions and that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask the Court to award to members of the class the right to rescind their purchases of our common stock (or to be awarded rescissory damages if the class member has sold our stock) and prejudgment and post-judgment interest, reasonable attorneys and experts witness fees and other costs.

On February 15, 2005, the Judge granted preliminary approval of a proposed settlement agreement between the plaintiffs and defendants, including Broadwing. The proposed settlement is a $1 billion dollar guaranteed settlement. The insurance companies for the defendants agreed to pay up to $1 billion dollars in total to the extent that judgment is rendered for the plaintiffs. If plaintiffs succeed in recovering more than $1 billion from the underwriters, the companies that went public, such as the Broadwing, will not have to pay any additional amounts. The defendants insurance companies will be paying the settlement that is subject to the final approval of the district court. Should the Judge not grant final approval of the settlement agreement, we believe that we have meritorious defenses to plaintiffs allegations and will vigorously defend ourselves.

On August 31, 2005, the Judge issued an order clarifying certain provisions of the proposed settlement and set deadlines for the final approval of the proposed settlement. The Judge scheduled the fairness hearing on the proposed settlement for April 24, 2006.

Qwest Investigations

The Denver, Colorado regional office of the SEC is conducting two investigations titled In the Matter of Qwest Communications International, Inc. and In the Matter of Issuers Related to Qwest. We believe the first of these investigations does not involve any allegation of wrongful conduct on our part. In October 2004, the SEC announced that it was charging Qwest with securities fraud and other violations of the federal securities laws and entering into a settlement with Qwest relating to those charges. In connection with the second investigation, the SEC is examining various transactions and business relationships involving Qwest and eleven companies having a vendor relationship with Qwest, including Broadwing. This investigation, insofar as it relates to Broadwing, appears to focus generally on whether our transactions and relationships with Qwest and its employees were appropriately disclosed in our public filings and other public statements.

The United States Attorney in Denver is conducting an investigation involving Qwest, including Qwest s relationships with certain of its vendors, including Broadwing. In connection with that investigation, the U.S. Attorney has sought documents and information from us and has sought interviews from persons associated or formerly associated with Broadwing, including certain of our officers. The U.S. Attorney has indicated that, while aspects of its investigation are in an early stage, neither Broadwing nor any of our current or former officers or employees is a target or a subject of the investigation.

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We are cooperating fully with these investigations. We are not able, at this time, to say when the SEC and/or U.S. Attorney investigations will be completed and resolved, or what the ultimate outcome with respect to us will be. These investigations could result in substantial legal costs and a diversion of management s attention that may have a material adverse effect on our business, financial condition and results operations.

Great Northern Insurance Company

On October 5, 2004, we filed an action in the U.S. District Court for the District of Maryland against its property insurance carrier, Great Northern Insurance Company, for breach of contract under a building and personal property insurance policy sold to us by Great Northern. The claim is for a loss sustained due to a fire in a warehouse that occurred in March 2003. The amount of loss alleged by us exceeds $46.0 million, of which Great Northern has paid $4.5 million. We have requested a jury trial for this dispute. The parties are conducting discovery in the matter, which is expected to be completed February 2006. No trial date has been set.

Other

We and our subsidiaries from time to time are also subject to pending and threatened legal action and proceedings arising in the ordinary course of business. Management believes that the outcome of such actions and proceedings will not have a material adverse effect on our business, financial condition or results of operations.

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3. Defaults upon Senior Securities

None.

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

None

Item 5. Other Information

(a) None.

(b) None.

Item 6. Exhibits

A list of exhibits filed herewith is contained on the Exhibit Index immediately preceding such exhibits and is incorporated herein by reference.

SIGNATURES

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

Date: November 7, 2005	Broadwing Corporation
	/s/ Lynn D. Anderson
	Lynn D. Anderson
	Senior Vice President and Chief Financial Officer
Date: November 7, 2005	/s/ Timothy C. Dec
	Timothy C. Dec
	Senior Vice President, Chief Accounting
	Officer and Treasurer

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certificate of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002