Zayo Group Holdings, Inc.
Form 10-Q
November 09, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission File Number: 001-36690

Zayo Group Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	26-1398293
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1805 29th Street, Suite 2050,

Boulder, CO 80301

(Address of Principal Executive Offices)

(303) 381-4683

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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

The number of outstanding shares of common stock of Zayo Group Holdings, Inc. as of November 4, 2016, was 243,119,508 shares.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

INDEX

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1.FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share amounts)

	September 30, 2016	June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 193.0	$ 170.7
Trade receivables, net of allowance of $8.0 and $7.5 as of September 30, 2016 and June 30, 2016, respectively	148.4	148.4
Prepaid expenses	62.7	68.8
Other assets	7.3	9.2
Total current assets	411.4	397.1
Property and equipment, net	4,169.1	4,079.5
Intangible assets, net	921.3	934.9
Goodwill	1,210.6	1,214.5
Deferred income taxes, net	7.0	7.0
Other assets	114.6	94.5
Total assets	$ 6,834.0	$ 6,727.5
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	56.1	97.0
Accrued liabilities	255.4	225.7
Accrued interest	64.6	28.6
Capital lease obligations, current	5.9	5.8
Deferred revenue, current	126.8	129.4
Total current liabilities	508.8	486.5
Long-term debt, non-current	4,088.1	4,085.3
Capital lease obligation, non-current	46.0	44.9
Deferred revenue, non-current	823.1	793.3
Deferred income taxes, net	44.9	41.3
Other long-term liabilities	67.2	57.0
Total liabilities	5,578.1	5,508.3
Commitments and contingencies (Note 10)		
Stockholders' equity		
	—	—

Preferred stock, $0.001 par value - 50,000,000 shares authorized; no shares issued and outstanding as of September 30, 2016 and June 30, 2016, respectively		
Common stock, $0.001 par value - 850,000,000 shares authorized; 243,119,508 and 242,649,498 shares issued and outstanding as of September 30, 2016 and June 30, 2016, respectively	0.2	0.2
Additional paid-in capital	1,803.6	1,777.6
Accumulated other comprehensive income	1.2	4.5
Accumulated deficit	(549.1)	(563.1)
Total stockholders' equity	1,255.9	1,219.2
Total liabilities and stockholders' equity	$ 6,834.0	$ 6,727.5

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

1

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except per share data)

	Three Months Ended September 30,	
	2016	2015
Revenue	$ 504.9	$ 366.8
Operating costs and expenses		
Operating costs (excluding depreciation and amortization and including stock-based compensation—Note 8)	173.8	113.0
Selling, general and administrative expenses (including stock-based compensation—Note 8)	105.6	84.6
Depreciation and amortization	138.5	117.1
Total operating costs and expenses	417.9	314.7
Operating income	87.0	52.1
Other expenses		
Interest expense	(53.3)	(53.8)
Foreign currency loss on intercompany loans	(11.2)	(10.7)
Other expense, net	(0.2)	(0.1)
Total other expenses, net	(64.7)	(64.6)
Income/(loss) from operations before income taxes	22.3	(12.5)
Provision for income taxes	6.6	2.7
Net income/(loss)	$ 15.7	$ (15.2)
Weighted-average shares used to compute net income/(loss) per share:		
Basic	242.6	243.0
Diluted	244.0	243.0
Net income/(loss) per share:		
Basic	$ 0.06	$ (0.06)
Diluted	$ 0.06	$ (0.06)

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

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) (UNAUDITED)

(in millions)

	Three Months Ended September 30,	
	2016	2015
Net income/(loss)	$ 15.7	$ (15.2)
Foreign currency translation adjustments	(2.1)	(4.0)
Defined benefit pension plan adjustments	(1.2)	—
Comprehensive income/(loss)	$ 12.4	$ (19.2)

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

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED SEPTEMBER 30, 2016

(in millions, except share data)

	Common Shares	Common Stock	Additional paid-in Capital	Accumulated Other Comprehensive (Loss)/Income	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2016	242,649,498	$ 0.2	$ 1,777.6	$ 4.5	$ (563.1)	$ 1,219.2
Stock-based compensation	470,010	—	24.3	—	—	24.3
Cumulative effect adjustment resulting from adoption of ASU 2016-09 (Note 1)	—	—	1.7	—	(1.7)	—
Foreign currency translation adjustment	—	—	—	(2.1)	—	(2.1)
Defined benefit pension plan adjustments	—	—	—	(1.2)	—	(1.2)
Net income	—	—	—	—	15.7	15.7
Balance at September 30, 2016	243,119,508	$ 0.2	$ 1,803.6	$ 1.2	$ (549.1)	$ 1,255.9

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

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

	Three Months Ended September 30, 2016	2015
Cash flows from operating activities		
Net income/(loss)	$ 15.7	$ (15.2)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	138.5	117.1
Non-cash interest expense	2.6	3.5
Stock-based compensation	32.0	46.1
Amortization of deferred revenue	(27.5)	(20.4)
Additions to deferred revenue	40.9	49.7
Foreign currency loss on intercompany loans	11.2	10.7
Excess tax benefit from stock-based compensation	—	(7.9)
Deferred income taxes	4.8	2.0
Provision for bad debts	0.9	0.6
Non-cash loss on investments	0.3	0.2
Changes in operating assets and liabilities, net of acquisitions		
Trade receivables	(1.9)	(5.6)
Accounts payable and accrued liabilities	5.6	24.5
Other assets and liabilities	9.7	(10.1)
Net cash provided by operating activities	232.8	195.2
Cash flows from investing activities		
Purchases of property and equipment	(208.3)	(159.2)
Other	1.5	(0.3)
Net cash used in investing activities	(206.8)	(159.5)
Cash flows from financing activities		
Principal payments on long-term debt	—	(4.1)
Principal payments on capital lease obligations	(1.0)	(1.2)
Payment of debt issue costs	(0.7)	—
Excess tax benefit from stock-based compensation	—	7.9
Net cash (used in)/provided by financing activities	(1.7)	2.6
Net cash flows	24.3	38.3
Effect of changes in foreign exchange rates on cash	(2.0)	(1.2)
Net increase in cash and cash equivalents	22.3	37.1
Cash and cash equivalents, beginning of year	170.7	308.6
Cash and cash equivalents, end of period	$ 193.0	$ 345.7
Supplemental disclosure of non-cash investing and financing activities:		
Cash paid for interest, net of capitalized interest	$ 13.2	$ 29.3
Cash paid for income taxes	1.9	4.7
Non-cash purchases of equipment through capital leasing	3.3	5.3
Increase in accounts payable and accrued expenses for purchases of property and equipment	11.4	11.0

Refer to Note 2 — Acquisitions for details regarding the Company's recent acquisitions.

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

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BUSINESS AND BASIS OF PRESENTATION

Business

Zayo Group Holdings, Inc., a Delaware corporation, was formed on November 13, 2007, and is the parent company of a number of subsidiaries engaged in bandwidth infrastructure services. Zayo Group Holdings, Inc. and its subsidiaries are collectively referred to as "Zayo Group Holdings" or the "Company." The Company's primary operating subsidiary is Zayo Group, LLC ("ZGL"). Headquartered in Boulder, Colorado, the Company operates bandwidth infrastructure assets, including fiber networks and data centers, in the United States, Canada and Europe to offer:

- Dark Fiber Solutions, including dark fiber and mobile infrastructure services.
- Colocation and Cloud Infrastructure, including cloud and colocation services.
- Network Connectivity, wavelengths, Ethernet, IP and SONET services.
- Other services, including Zayo Professional Services ("ZPS"), voice and unified communications.

The Company's shares are listed on the New York Stock Exchange (NYSE) under the ticker symbol "ZAYO".

Basis of Presentation

The accompanying condensed consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements and related notes are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q, and do not include all of the note disclosures required by GAAP for complete financial statements. These consolidated financial statements should, therefore, be read in conjunction with the consolidated financial statements and notes thereto for the year ended June 30, 2016 included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows of the Company have been included herein. Certain amounts in the prior period financial statements have been condensed to conform to the current period presentation and had no impact on reported net income or losses. The results of operations for the three months ended September 30, 2016 are not necessarily indicative of the operating results for any future interim period or the full year.

The Company's fiscal year ends June 30 each year, and we refer to the fiscal year ended June 30, 2016 as "Fiscal 2016" and the fiscal year ending June 30, 2017 as "Fiscal 2017."

Earnings or Loss per Share

Basic earnings or loss per share attributable to the Company's common shareholders is computed by dividing net earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding for the period.   Diluted earnings or loss per share attributable to common shareholders presents the dilutive effect, if any, on a per share basis of potential common shares (such as restricted stock units) as if they had been vested or converted during the periods presented. No such items were included in the computation of diluted loss per share for the three months ended September 30, 2015 as the Company incurred a loss from operations in that period and the effect of inclusion would have been anti-dilutive.

The effect of 1.4 million incremental shares attributable to the release of Part A and Part B units upon vesting (treasury method) were included in the computation of diluted income per share for the three months ended September 30, 2016.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Significant Accounting Policies

Upon early adoption of ASU 2016-09 (as described below), the Company elected to change its accounting policy to account for forfeitures as they occur versus estimating forfeitures. The Company recognizes all stock-based awards to employees and independent directors based on their grant-date fair values, with no estimated forfeiture consideration. The Company recognizes the fair value of outstanding awards as a charge to operations over the vesting period.

There have been no other changes to the Company's significant accounting policies described in its Annual Report on Form 10-K for the year ended June 30, 2016.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant estimates are used when establishing allowances for doubtful accounts and accruals for billing disputes, determining useful lives for depreciation and amortization and accruals for exit activities associated with real estate leases, assessing the need for impairment charges (including those related to intangible assets and goodwill), determining the fair values of assets acquired and liabilities assumed in business combinations, accounting for income taxes and related valuation allowances against deferred tax assets, determining the defined benefit costs and defined benefit obligations related to post-employment benefits and estimating the restricted stock unit grant fair values used to compute the stock-based compensation liability and expense. Management evaluates these estimates and judgments on an ongoing basis and makes estimates based on historical experience, current conditions, and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flows (Topic 230): Classifications of Certain Cash Receipts and Cash Payments." The new standard provides guidance for eight changes with respect to how cash receipts and cash payments are classified in the statement of cash flows, with the objective of reducing diversity in practice. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2017, with early adoption permitted. The Company does not plan to early adopt, nor does it expect the adoption of this new standard to have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The new guidance supersedes existing guidance on accounting for leases in Topic 840 and is intended to increase the transparency and comparability of accounting for lease transactions. ASU 2016-02 requires most leases to be recognized on the balance sheet. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs.

For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard (ASU 2014-09). The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is

Table of Contents

evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On March 30, 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes five aspects of the accounting for share-based payment award transactions that will affect public companies, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The Company early-adopted ASU 2016-09 effective July 1, 2016. Excess tax benefits for share-based payments are now recognized against income tax expense rather than additional paid-in capital and are included in operating cash flows rather than financing cash flows. The recognition of excess tax benefits have been applied prospectively and prior periods have not been adjusted. The Company did not have any excess tax benefits for the three months ended September 30, 2016. In addition, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment to accumulated deficit of $1.7 million as of July 1, 2016. Amendments related to minimum statutory tax withholding requirements and the classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes have been adopted prospectively and did not have a material impact on the condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB deferred the effective date to annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date or annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on the Company and its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(2) ACQUISITIONS

Since inception, the Company has consummated 38 transactions accounted for as business combinations. The acquisitions were executed as part of the Company's business strategy of expanding through acquisitions. The acquisitions of these businesses have allowed the Company to increase the scale at which it operates, which in turn affords the Company the ability to increase its operating leverage, extend its network reach, and broaden its customer base.

The accompanying condensed consolidated financial statements include the operations of the acquired entities from their respective acquisition dates. The Company has not completed any transactions accounted for as a business combination during the three months ended September 30, 2016.

Acquisitions Completed During Fiscal 2016

Clearview

On April 1, 2016, the Company acquired 100% of the equity interest in Clearview International, LLC ("Clearview"), a Texas based colocation and cloud infrastructure services provider for cash consideration of $18.3 million, subject to certain post-closing adjustments. $1.7 million of the purchase consideration is currently held in escrow pending the expiration of the indemnification adjustment period. The acquisition was funded with cash on hand and was considered an asset purchase for tax purposes.

The acquisition consisted of two Texas data centers. The data centers, located at 6606 LBJ Freeway in Dallas, Texas and 700 Austin Avenue in Waco, Texas, added approximately 30,000 square feet of colocation space, as well as a set of hybrid cloud infrastructure services that complement the Company's global cloud capabilities.

Allstream

On January 15, 2016, the Company acquired 100% of the equity interest in Allstream, Inc. and Allstream Fiber U.S. Inc. (together "Allstream") from Manitoba Telecom Services Inc. ("MTS") for cash consideration of CAD $422.9 million (or $297.6 million), net of cash acquired, subject to certain post-closing adjustments. The consideration paid is net of CAD $42.1 million (or $29.6 million) of working capital and other liabilities assumed by the Company in the acquisition. The acquisition was funded with Term Loan Proceeds (as defined in Note 5 – Long-Term Debt). CAD $4.2 million (or $3.2 million) is currently held in escrow pending the expiration of the indemnification adjustment period. The acquisition was considered a stock purchase for tax purposes.

The acquisition added more than 18,000 route miles to the Company's fiber network, including 12,500 miles of long-haul fiber connecting all major Canadian markets and 5,500 route miles of metro fiber network connecting approximately 3,300 on-net buildings concentrated in Canada's top five metropolitan markets.

As part of the Allstream acquisition, MTS agreed to retain Allstream's former defined benefit pension obligations, and related pension plan assets, of retirees and other former employees of Allstream and also agreed to reimburse Allstream for certain solvency funding payments related to the pension obligations of active Allstream employees as of January 15, 2016. MTS will transfer assets from Allstream's former defined benefit pension plans related to pre-closing service obligations for active employees to a new Allstream defined benefit pension plans created by the Company, subject to regulatory approval. In addition, if the pre-closing benefit obligation for the January 15, 2016 active employees exceeds the fair value of assets transferred to the new Allstream pension plans, MTS agreed to fund the funding deficiency at the later of the asset transfer date or the date at which it is determined that no further solvency deficit exists. Any required funding of the pension benefit obligation subsequent to January 15, 2016, will be the responsibility of the Company. The amount of the funding deficiency was not material to the financial statements as of September 30, 2016.

Also as part of the Allstream acquisition, the Company assumed the liabilities related to Allstream's other non-pension unfunded post retirement benefits plans. The liability assumed on January 15, 2016 was approximately CAD $12.8 million (or $8.3 million). The balance of this liability as of September 30, 2016 was approximately CAD $13.0 million (or $9.9 million). This liability is currently included in "Other long-term liabilities" on the consolidated balance sheet.

Viatel

On December 31, 2015, the Company completed the acquisition of a 100% interest in Viatel Infrastructure Europe Ltd., Viatel (UK) Limited, Viatel France SAS, Viatel Deutschland GmbH and Viatel Nederland BV (collectively, “Viatel”) for cash consideration of €92.9 million (or $101.2 million), net of cash acquired. The acquisition was funded with cash on hand. The acquisition was considered a stock purchase for tax purposes. During the three months ended September 30, 2016, the Company received a refund of the purchase price from escrow of €1.3 million (or $1.5 million). The refund is reflected as a cash inflow from investing activities on the condensed consolidated statement of cash flows for the three months ended September 30, 2016 within the Other caption.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dallas Data Center Acquisition ("Dallas Data Center")

On December 31, 2015, the Company acquired a 36,000 square foot data center located in Dallas, Texas for cash consideration of $16.6 million. The acquisition was funded with cash on hand and was considered an asset purchase for tax purposes.

Acquisition Method Accounting Estimates

The Company initially recognizes the assets and liabilities acquired from the aforementioned acquisitions based on its preliminary estimates of their acquisition date fair values. As additional information becomes known concerning the acquired assets and assumed liabilities, management may make adjustments to the opening balance sheet of the acquired company up to the end of the measurement period, which is no longer than a one year period following the acquisition date. The determination of the fair values of the acquired assets and liabilities assumed (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. As of September 30, 2016, the Company has not completed its fair value analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair value of certain working capital and non-working capital acquired assets and assumed liabilities, including the allocations to goodwill and intangible assets, deferred revenue and resulting deferred taxes related to its acquisitions of Clearview, Allstream, Viatel and Dallas Data Center. All information presented with respect to certain working capital and non-working capital acquired assets and liabilities assumed as it relates to these acquisitions is preliminary and subject to revision pending the final fair value analysis.

The table below reflects the Company's estimates of the acquisition date fair values of the assets and liabilities assumed from its Fiscal 2016 acquisitions:

	Clearview	Allstream	Viatel	Dallas Data Center
Acquisition date	April 1, 2016	January 15, 2016	December 31, 2015	December 31, 2015
	(in millions)			
Cash	$ —	$ 2.9	$ 3.5	$ —
Other current assets	0.6	102.2	12.0	—
Property and equipment	15.4	262.3	162.3	14.8
Deferred tax assets, net	0.2	2.4	—	—
Intangibles	9.8	64.5	—	1.8
Goodwill	3.9	—	13.0	—
Other assets	0.2	4.5	2.1	—
Total assets acquired	30.1	438.8	192.9	16.6
Current liabilities	1.1	64.6	17.6	—

Deferred revenue	0.4	46.2	57.8	—
Deferred tax liability, net	—	—	5.7	—
Other liabilities	10.3	27.5	7.1	—
Total liabilities assumed	11.8	138.3	88.2	—
Net assets acquired	18.3	300.5	104.7	16.6
Less cash acquired	—	(2.9)	(3.5)	—
Net consideration paid	$ 18.3	$ 297.6	$ 101.2	$ 16.6

The goodwill arising from the Company's acquisitions results from synergies, anticipated incremental sales to the acquired company customer base and economies-of-scale expected from the acquisitions. The Company has allocated the goodwill to the reporting units (in existence on the respective acquisition dates) that were expected to benefit from the acquired goodwill. The allocation was determined based on the excess of the estimated fair value of the reporting unit over the estimated fair value of the individual assets acquired and liabilities assumed that were assigned to the reporting units. Note 3 - Goodwill, displays the allocation of the Company's acquired goodwill to each of its reporting units.

In the Company's acquisitions, the Company acquired certain customer relationships. These relationships represent a valuable intangible asset, as the Company anticipates continued business from the acquired customer bases. The Company's estimate of the fair value of the acquired customer relationships is based on a multi-period excess earnings valuation technique that utilizes Level 3 inputs.

Transaction Costs

Transaction costs include expenses associated with professional services (i.e., legal, accounting, regulatory, etc.) rendered in connection with signed and/or closed acquisitions or disposals (including spin-offs), travel expense, severance expense incurred on the date of acquisition or disposal, and other direct expenses incurred that are associated with such acquisitions or disposals. The Company incurred transaction costs of $3.0 million and nil for the three months ended September 30, 2016 and 2015, respectively. Transaction costs have been included in selling, general and administrative expenses in the condensed consolidated statements of operations and in cash flows from operating activities in the condensed consolidated statements of cash flows during these periods.

(3) GOODWILL

The Company's goodwill balance was $1,210.6 million and $1,214.5 million as of September 30, 2016 and June 30, 2016, respectively.

The Company's reporting units are comprised of its strategic product groups ("SPGs"): Zayo Dark Fiber ("Dark Fiber"), Zayo Wavelength Services ("Waves"), Zayo SONET Services ("SONET"), Zayo Ethernet Services ("Ethernet"), Zayo IP Services ("IP"), Zayo Mobile Infrastructure Group ("MIG"), Zayo Colocation ("zColo"), Zayo Cloud Services ("Cloud"), Allstream business ("Zayo Canada") and Other (primarily ZPS).

The following reflects the changes in the carrying amount of goodwill during the three months ended September 30, 2016:

Product Group	As of June 30, 2016	Foreign Currency Translation and Other	As of September 30, 2016
	(in millions)		
Dark Fiber	$ 295.1	$ (2.6)	$ 292.5
Waves	258.3	(1.2)	257.1
Sonet	51.3	—	51.3
Ethernet	104.3	—	104.3

IP	87.5	—	87.5
MIG	73.6	—	73.6
zColo	268.8	—	268.8
Cloud	60.0	—	60.0
Other	15.6	(0.1)	15.5
Total	$ 1,214.5	$ (3.9)	$ 1,210.6

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(4) INTANGIBLE ASSETS

Identifiable intangible assets as of September 30, 2016 and June 30, 2016 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net
	(in millions)		
September 30, 2016			
Finite-Lived Intangible Assets			
Customer relationships	$ 1,149.0	$ (247.3)	$ 901.7
Trade names	0.2	(0.2)	—
Underlying rights	1.6	(0.3)	1.3
Total	1,150.8	(247.8)	903.0
Indefinite-Lived Intangible Assets			
Certifications	3.5	—	3.5
Underlying Rights	14.8	—	14.8
Total	$ 1,169.1	$ (247.8)	$ 921.3
June 30, 2016			
Finite-Lived Intangible Assets			
Customer relationships	$ 1,143.6	$ (228.8)	$ 914.8
Trade names	0.2	(0.2)	—
Underlying rights	1.6	(0.3)	1.3
Total	1,145.4	(229.3)	916.1
Indefinite-Lived Intangible Assets			
Certifications	3.5	—	3.5
Underlying Rights	15.3	—	15.3
Total	$ 1,164.2	$ (229.3)	$ 934.9

(5) LONG-TERM DEBT

As of September 30, 2016 and June 30, 2016, long-term debt was as follows:

	September 30, 2016	June 30, 2016
	(in millions)	
Term Loan Facility due 2021	$ 1,837.4	$ 1,837.4
6.00% Senior Unsecured Notes due 2023	1,430.0	1,430.0
6.375% Senior Unsecured Notes due 2025	900.0	900.0

Total debt obligations	4,167.4	4,167.4
Unamortized discount on Term Loan Facility	(18.0)	(19.0)
Unamortized premium on 6.00% Senior Unsecured Notes due 2023	6.1	6.3
Unamortized discount on 6.375% Senior Unsecured Notes due 2025	(15.3)	(15.6)
Unamortized debt issuance costs	(52.1)	(53.8)
Carrying value of debt	$ 4,088.1	$ 4,085.3

Term Loan Facility due 2021 and Revolving Credit Facility

On May 6, 2015, ZGL and Zayo Capital, Inc. (“Zayo Capital”) entered into an Amendment and Restatement Agreement whereby the Credit Agreement (the “Credit Agreement”) governing their senior secured term loan facility (the “Term Loan Facility”) and $450.0 million senior secured revolving credit facility (the “Revolver”) was amended and restated in its entirety. The amended and restated Credit Agreement extended the maturity date of the outstanding term loans under the Term Loan Facility to May 6, 2021. The interest rate margins applicable to the Term Loan Facility were decreased by 25 basis points to LIBOR plus 2.75% with a minimum LIBOR of 1.0%. In addition, the amended and

Table of Contents

restated Credit Agreement removed the fixed charge coverage ratio covenant and replaced such covenant with a springing senior secured leverage ratio maintenance requirement applicable only to the Revolver, increased certain lien and debt baskets, and removed certain covenants related to collateral. The terms of the Term Loan Facility require the Company to make quarterly principal payments of $5.1 million plus an annual payment of up to 50% of excess cash flow, as determined in accordance with the Credit Agreement (no such payment was required during the three months ended September 30, 2016 or 2015).

The Revolver matures at the earliest of (i) April 17, 2020 and (ii) six months prior to the maturity date of the Term Loan Facility, subject to amendment thereof. The Credit Agreement also allows for letter of credit commitments of up to $50.0 million. The Revolver is subject to a fee per annum of 0.25% to 0.375% (based on ZGL's current leverage ratio) of the weighted-average unused capacity, and the undrawn amount of outstanding letters of credit backed by the Revolver are subject to a 0.25% fee per annum. Outstanding letters of credit backed by the Revolver accrue interest at a rate ranging from LIBOR plus 2.0% to LIBOR plus 3.0% per annum based upon ZGL's leverage ratio.

On January 15, 2016, ZGL and Zayo Capital entered into an Incremental Amendment (the "Amendment") to the Credit Agreement. Under the terms of the Amendment, the Term Loan Facility was increased by $400.0 million (the "Incremental Term Loan"). The additional amounts borrowed bear interest at LIBOR plus 3.5% with a minimum LIBOR rate of 1.0%. The $400.0 million add-on was priced at 99.0% (the "Term Loan Proceeds"). The issue discount of $4.8 million on the Amendment is being accreted to interest expense over the term of the Term Loan Facility under the effective interest method. No other terms of the Credit Agreement were amended. The Term Loan Proceeds were used to fund the Allstream acquisition (see Note 2 – Acquisitions) and for general corporate purposes.

On July 22, 2016, ZGL and Zayo Capital entered into a Repricing Amendment (the "Repricing Amendment") to the Credit Agreement. Per the terms of the Amendment, the Incremental Term Loan was repriced to bear interest at a rate of LIBOR plus 2.75%, with a minimum LIBOR rate of 1.0%, which represented a downward adjustment of 75 basis points. No other terms of the Credit Agreement were amended.

The weighted average interest rates (including margins) on the Term Loan Facility were approximately 3.75% and 3.9% at September 30, 2016 and June 30, 2016, respectively. Interest rates on the Revolver as of September 30, 2016 and June 30, 2016 were approximately 3.6% and 3.4%, respectively.

As of September 30, 2016, no amounts were outstanding under the Revolver. Standby letters of credit were outstanding in the amount of $7.9 million as of September 30, 2016, leaving $442.1 million available under the Revolver.

6.00% Senior Unsecured Notes Due 2023 and 6.375% Senior Unsecured Notes due 2025

On April 14, 2016, ZGL and Zayo Capital completed a private offering of $550.0 million aggregate principal amount of additional 2025 Unsecured Notes (the "New 2025 Notes"). The New 2025 Notes were an additional issuance of the existing 6.375% senior unsecured notes due in 2025 (the "2025 Unsecured Notes") and were priced at 97.1%. The issue discount of $15.9 million of the New 2025 Notes is being accreted to interest expense over the term of the New 2025 Notes using the effective interest method. The net proceeds from the offering plus cash on hand (i) were used to redeem the then outstanding $325.6 million 10.125% senior unsecured notes due 2020, including the required $20.3

million make-whole premium and accrued interest, and (ii) were used to repay $196.0 million of borrowings under its secured Term Loan Facility. Per the terms of the Credit Agreement, the $196.0 million prepayment on the Term Loan Facility relieves the Company of its obligation to make quarterly principal payments on the Term Loan Facility until the cumulative amount of such relieved payments exceeds $196.0 million. The Company recorded a $2.1 million loss on extinguishment of debt associated with the write-off of unamortized debt discount on the Term Loan Facility accounted for as an extinguishment during the fourth quarter of Fiscal 2016. Following the offering of the New 2025 Notes, $900.0 million aggregate principal amount of the 2025 Unsecured Notes is outstanding.

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Debt covenants

The indentures (the “Indentures”) governing the 6.00% senior unsecured notes due 2023 (the “2023 Unsecured Notes”) and the 2025 Unsecured Notes (collectively the “Notes”) contain covenants that, among other things, restrict the ability of ZGL and its subsidiaries to incur additional indebtedness and issue preferred stock; pay dividends or make other distributions with respect to any equity interests, make certain investments or other restricted payments, create liens, sell assets, incur restrictions on the ability of the ZGL’s restricted subsidiaries to pay dividends or make other payments to ZGL, consolidate or merge with or into other companies or transfer all or substantially all of their assets, engage in transactions with affiliates, and enter into sale and leaseback transactions. The terms of the Indentures include customary events of default.

The Credit Agreement contains customary events of default, including among others, non-payment of principal, interest, or other amounts when due, inaccuracy of representations and warranties, breach of covenants, cross default to certain other indebtedness, insolvency or inability to pay debts, bankruptcy, or a change of control. The Credit Agreement also contains a covenant, applicable only to the Revolver, that ZGL maintain a senior secured leverage ratio below 5.25:1.00 at any time when the aggregate principal amount of loans outstanding under the Revolver is greater than 35% of the commitments under the Revolver. The Credit Agreement also requires ZGL and its subsidiaries to comply with customary affirmative and negative covenants, including covenants restricting the ability of ZGL and its subsidiaries, subject to specified exceptions, to incur additional indebtedness, make additional guaranties, incur additional liens on assets, or dispose of assets, pay dividends, or make other distributions, voluntarily prepay certain other indebtedness, enter into transactions with affiliated persons, make investments and amend the terms of certain other indebtedness.

The Indentures limit any increase in ZGL’s secured indebtedness (other than certain forms of secured indebtedness expressly permitted under such indentures) to a pro forma secured debt ratio of 4.50 times ZGL’s previous quarter’s annualized modified EBITDA (as defined in the indentures), and limit ZGL’s incurrence of additional indebtedness to a total indebtedness ratio of 6.00 times the previous quarter’s annualized modified EBITDA.

The Company was in compliance with all covenants associated with its debt agreements as of September 30, 2016.

Guarantees

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of ZGL’s current and future domestic restricted subsidiaries. The Notes were co-issued with Zayo Capital, which does not have independent assets or operations.

Debt issuance costs

In connection with the Credit Agreement (and subsequent amendments thereto), and the various Notes offerings, the Company incurred debt issuance costs of $90.1 million (net of extinguishments). These costs are being amortized to interest expense over the respective terms of the underlying debt instruments using the effective interest method, unless extinguished earlier, at which time the related unamortized costs are to be immediately expensed.

Unamortized debt issuance costs of $11.4 million associated with the Company's previous indebtedness were recorded as part of the loss on extinguishment of debt during the fourth quarter of Fiscal 2016.

The balance of debt issuance costs as of September 30, 2016 and June 30, 2016 was $52.1 million and $53.8 million, net of accumulated amortization of $38.0 million and $35.8 million, respectively. The amortization of debt issuance costs is included on the condensed consolidated statements of cash flows within the caption "Non-cash interest expense” along with the amortization or accretion of the premium and discount on the Company’s indebtedness and changes in the fair value of the Company’s interest rate derivatives. Interest expense associated with the amortization of debt issuance costs was $2.2 million and $2.5 million for the three months ended September 30, 2016 and 2015, respectively.

Debt issuance costs are presented in the condensed consolidated balance sheets as a reduction to “Long-term debt, non-current”.

Interest rate derivatives

On August 13, 2012, the Company entered into forward-starting interest rate swap agreements with an aggregate notional value of $750.0 million, a maturity date of June 30, 2017, and a start date of June 30, 2013. There were no up-front fees for these agreements. The contract states that the Company shall pay a 1.67% fixed rate of interest for the term of the agreement beginning on the start date. The counter-party will pay to the Company the greater of actual LIBOR or 1.25%. The Company entered in to the forward-starting swap arrangements to reduce the risk of increased interest costs associated with potential changes in LIBOR rates.

Changes in the fair value of interest rate swaps are recorded in interest expense in the condensed consolidated statements of operations for the applicable period. The fair value of the interest rate swaps of $2.3 million and $3.0 million are included in “Other long term liabilities” in the Company’s condensed consolidated balance sheets as of September 30, 2016 and June 30, 2016, respectively. During the three months ended September 30, 2016 and 2015, $(0.7) million and $0.4 million was recorded as a (decrease)/increase in interest expense for the change in fair value of the interest rate swaps.

(6) INCOME TAXES

The Company’s effective tax rates on pre-tax income/(loss) for the three months ended September 30, 2016 and September 30, 2015 was 29.8% and 21.6%, respectively.

The interim period effective tax rate is derived from anticipated pre-tax book income for the full fiscal year adjusted for anticipated items that are deductible/non-deductible for tax purposes only (i.e., permanent items). Additionally, the tax expense or benefit related to discrete permanent differences in an interim period are recorded in the period they occur.

The interim effective tax rate for the three months ended September 30, 2016 was positively impacted by the United Kingdom (“UK”) tax rate decrease (described further below) as well as non-US tax expense not recognized due to full valuation allowances recorded on certain foreign entities. The effective tax continues to be negatively impacted by stock-based compensation expense related to the common units of Communications Infrastructure Investments, LLC (“CII”), which is not deductible for income tax purposes. The interim effective tax rate was further negatively impacted by an excess of GAAP stock compensation expense for the current quarter, related to the Company’s Restricted Stock Unit plan, over what is deductible for income tax purposes.

In the UK, the main rate of corporation tax was reduced during the current quarter from 18% to 17%, applicable from April 1, 2020. The Company, in accordance with ASC 740-270-25, is recording the effect of this tax rate change on its deferred tax assets and liabilities as a discrete item in the current interim period. The impact of the change in the UK tax rate in the three months ended September 30, 2016 was a reduction in the Company’s tax effective tax rate of 7.4%.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(7) EQUITY

During the three months ended September 30, 2016, the Company recorded a $24.3 million increase in additional paid-in capital associated with stock-based compensation expense related to the Company's equity classified stock-based compensation awards (See Note 8 –Stock-based Compensation).

(8) STOCK-BASED COMPENSATION

The following tables summarize the Company's stock-based compensation expense for liability and equity classified awards included in the condensed consolidated statements of operations.

	Three Months Ended September 30,	
	2016	2015
	(in millions)	
Included in:		
Operating costs	$ 3.3	$ 6.7
Selling, general and administrative expenses	28.7	39.4
Total stock-based compensation expense	$ 32.0	$ 46.1
CII common units	$ 4.2	$ 19.5
Part A restricted stock units	21.3	10.0
Part B restricted stock units	6.2	16.4
Part C restricted stock units	0.3	0.2
Total stock-based compensation expense	$ 32.0	$ 46.1

CII Common Units

During the three months ended September 30, 2016 and 2015, the Company recognized $4.2 million and $19.5 million, respectively, of stock-based compensation expense related to vesting of CII common and preferred units. As of September 30, 2016, the unrecognized compensation associated with the Company component of unvested CII common units was $5.9 million.

Performance Incentive Compensation Plan ("PCIP")

During October 2014, the Company adopted the 2014 Performance Compensation Incentive Plan ("PCIP"). The PCIP includes incentive cash compensation (ICC) and equity (in the form of restricted stock units or "RSUs"). Grants under the PCIP RSU plans are made quarterly for all participants. The PCIP was effective on October 16, 2014 and will remain in effect for a period of 10 years (or through October 16, 2024) unless it is earlier terminated by the Company's Board of Directors.

The PCIP has the following components:

Part A

Under Part A of the PCIP, all full-time employees, including the Company's executives, are eligible to earn quarterly awards of RSUs. Each participant in Part A of the PCIP will have a RSU annual award target value, which will be allocated to each fiscal quarter. The final Part A value awarded to a participant for any fiscal quarter is determined by the Compensation Committee subsequent to the end of the respective performance period taking into account the Company's measured value creation for the quarter, as well as such other subjective factors that it deems relevant

Table of Contents

(including group and individual level performance factors). The number of Part A RSUs granted will be calculated based on the final award value determined by the Compensation Committee divided by the average closing price of the Company's common stock over the last ten trading days of the respective performance period. Part A RSUs will vest assuming continuous employment fifteen months subsequent to the end of the performance period. Upon vesting, the RSUs convert to an equal number of shares of the Company's common stock.

During the three months ended September 30, 2016 and 2015, the Company recognized $21.3 million and $10.0 million, respectively, of compensation expense associated with the vested portion of the Part A awards. The September 2016 and June 2016 quarterly awards were recorded as liabilities totaling $3.3 million and $2.0 million, as of September 30, 2016 and June 30, 2016, respectively, as the awards represent an obligation denominated in a fixed dollar amount to be settled in a variable number of shares during the subsequent quarter. The quarterly stock-based compensation liability is included in "Other long-term liabilities" in the accompanying condensed consolidated balance sheets. Upon the issuance of the RSUs, the liability is re-measured and then reclassified to additional paid-in capital, with a corresponding charge (or credit) to stock based compensation expense. The value of the remaining unvested RSUs is expensed ratably through the vesting date. At September 30, 2016, the remaining unrecognized compensation cost to be expensed over the remaining vesting period for Part A awards is $29.7 million.

The following table summarizes the Company's Part A RSU activity for the three months ended September 30, 2016:

	Number of Part A RSUs	Weighted average grant-date fair value per share	Weighted average remaining contractual term in months
Outstanding at July 1, 2016	2,169,901	$ 26.04	7.9
Granted	788,471	29.01	
Vested	(419,217)	28.62	
Forfeited	(126,280)	n/a	
Outstanding at September 30, 2016	2,412,875	$ 26.56	8.0

Part B

Under Part B of the PCIP, participants, including the Company's executives, are awarded quarterly grants of RSUs. The number of the RSUs earned by the participants is based on the Company's stock price performance over a performance period of one year with the starting price being the average closing price over the last ten trading days of the quarter immediately prior to the grant and vest assuming continuous employment through the end of the measurement period. The existence of a vesting provision that is associated with the performance of the Company's stock price is a market condition, which affects the determination of the grant date fair value. Upon vesting, RSUs earned convert to an equal number of shares of the Company's common stock.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the Company’s Part B RSU activity for the three months ended September 30, 2016:

	Number of Part B RSUs	Weighted average grant-date fair value per unit	Weighted average remaining contractual term in months
Outstanding at July 1, 2016	860,936	$ 29.50	6.2
Granted	200,425	47.00	
Vested	(202,696)	25.26	
Forfeited	(200,920)	n/a	
Outstanding at September 30, 2016	657,745	$ 36.12	5.9

The table below reflects the total Part B RSUs granted during Fiscal 2017 and 2016, the maximum eligible shares of the Company’s stock that the respective Part B RSU grant could be converted into shares of the Company’s common stock, and the grant date fair value per Part B RSU:

	During the three months ended September 30, 2016
Part B RSUs granted	200,425
Maximum eligible shares of the Company's common stock	1,030,185
Grant date fair value per Part B RSU	$ 47.00

	During the three months ended			
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Part B RSUs granted	312,516	284,773	282,074	272,813
Maximum eligible shares of the Company's common stock	1,606,332	1,463,733	1,449,860	1,426,812
Grant date fair value per Part B RSU	$ 37.03	$ 25.12	$ 25.26	$ 17.83
Units converted to Company's common stock at vesting date	n/a	n/a	n/a	40,182

The Company recognized stock-based compensation expense of $6.2 million and $16.4 million related to Part B awards for the three months ended September 30, 2016 and 2015, respectively.

The grant date fair value of Part B RSU grants is estimated utilizing a Monte Carlo simulation. This simulation estimates the ten-day average closing stock price ending on the vesting date, the stock price performance over the performance period, and the number of common shares to be issued at the vesting date. Various assumptions are utilized in the valuation method, including the target stock price performance ranges and respective share payout percentages, the Company's historical stock price performance and volatility, peer companies' historical volatility and an appropriate risk-free rate. The aggregate future value of the grant under each simulation is calculated using the estimated per share value of the common stock at the end of the vesting period multiplied by the number of common shares projected to be granted at the vesting date. The present value of the aggregate grant is then calculated under each of the simulations, resulting in a distribution of potential present values. The fair value of the grant is then calculated based on the average of the potential present values. The remaining unrecognized compensation cost associated with Part B RSU grants is $14.4 million at September 30, 2016.

Part C

Under Part C of the PCIP, independent directors of the Company are eligible to receive quarterly awards of RSUs. Independent directors electing to receive a portion of their annual director fees in the form of RSUs are granted a set dollar amount of Part C RSUs each quarter. The quantity of Part C RSUs granted is based on the average closing price of the Company's common stock over the last ten trading days of the quarter ended immediately prior to the grant date and vest at the end of each quarter for which the grant was made. During the three months ended September 30, 2016, the Company's independent directors were granted 10,611 Part C RSUs. Part C RSUs vest in the same quarter that they are issued. During the three months ended September 30, 2016 and 2015 the Company recognized $0.3 million and $0.2 million, respectively, of compensation expense associated with the Part C RSUs.

(9) FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade receivables, accounts payable, interest rate swaps, long-term debt, certain post-employment plans and stock-based compensation liability. The carrying values of cash and cash equivalents, restricted cash, trade receivables and accounts payable approximated their fair values at September 30, 2016 and June 30, 2016 due to the short maturity of these instruments.

The carrying value of the Company's Notes, excluding debt issuance costs, reflects the original amounts borrowed, inclusive of net unamortized discount, and was $2,320.8 million and $2,320.7 million as of September 30, 2016 and June 30, 2016, respectively. Based on market interest rates for debt of similar terms and average maturities, the fair value of the Company's Notes as of September 30, 2016 and June 30, 2016 was estimated to be $2,460.0 million and $2,338.1 million, respectively. The Company's fair value estimates associated with its Note obligations were derived utilizing Level 2 inputs – quoted prices for similar instruments in active markets.

The carrying value of the Company's Term Loan Facility, excluding debt issuance costs, reflects the original amounts borrowed, inclusive of unamortized discounts, and was $1,819.4 million and $1,818.4 million as of September 30, 2016 and June 30, 2016, respectively. The Company's Term Loan Facility accrues interest at variable rates based upon the one month, three month or six month LIBOR (with a LIBOR floor of 1.00%) plus a spread of 2.75%. Since management does not believe that the Company's credit quality has changed significantly since the date when the Term Loan Facility was last amended on May 6, 2015, its carrying amount approximates fair value. Excluding any offsetting effect of the Company's interest rate swaps, a hypothetical increase in the applicable interest rate on the Company's Term Loan Facility of one percentage point above the 1.0% LIBOR floor would increase the Company's annual interest expense by approximately $18.4 million.

The Company's interest rate swaps are valued using discounted cash flow techniques that use observable market inputs, such as LIBOR-based yield curves, forward rates, and credit ratings. Changes in the fair value of the interest rate swaps of $(0.7) million and $0.4 million were recorded as a (decrease)/increase to interest expense during the three months ended September 30, 2016 and 2015, respectively. A hypothetical increase in LIBOR rates of 100 basis points would favorably increase the fair value of the interest rate swaps by approximately $3.9 million.

As of September 30, 2016 and June 30, 2016, there was no balance outstanding under the Company's Revolver.

Financial instruments measured at fair value on a recurring basis are summarized below:

	Level	September 30, 2016	June 30, 2016

Liabilities Recorded at Fair Value in the Financial Statements:		(in millions)	
Interest rate swap	Level 2	$ 2.3	$ 3.0

(10) COMMITMENTS AND CONTINGENCIES

Purchase commitments

At September 30, 2016, the Company was contractually committed for $296.0 million of capital expenditures for construction materials and purchases of property and equipment. A majority of these purchase commitments are expected to be satisfied in the next twelve months. These purchase commitments are primarily success based; that is, the Company has executed customer contracts that support the future capital expenditures.

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Contingencies

In the normal course of business, the Company is party to various outstanding legal proceedings, asserted and unasserted claims, and carrier disputes. In the opinion of management, the ultimate disposition of these matters, both asserted and unasserted, will not have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

(11) RELATED PARTY TRANSACTIONS

In May 2016, CII sold Onvoy, LLC and its subsidiaries ("OVS") to an entity that has a material ownership interest in the Company. The Company continues to have ongoing contractual relationships with OVS, whereby the Company provides OVS and its subsidiaries with bandwidth capacity and OVS provides the Company and its subsidiaries with voice services. The contractual relationships are based on agreements that were entered into at estimated market rates.

The following table represents the revenue and expense transactions the Company recorded with OVS for the periods presented:

	Three Months Ended September 30,	
	2016	2015
	(in millions)	
Revenues	$ 1.6	$ 1.7
Operating costs	$ 0.1	$ 0.1

As of September 30, 2016 and June 30, 2016, the Company had no outstanding balances due from OVS.

Dan Caruso, the Company's Chief Executive Officer and Chairman of the Board, is a party to an aircraft charter (or membership) agreement through his affiliate, Bear Equity LLC, for business and personal travel. Under the terms of the charter agreement, all fees for the use of the aircraft are effectively variable in nature. For his business travel on behalf of the Company, Mr. Caruso is reimbursed for his use of the aircraft subject to an annual maximum reimbursement threshold approved by the Company's Nominating and Governance Committee. During the three months ended September 30, 2016 and 2015 the Company reimbursed Mr. Caruso $0.2 million and $0.1 million, respectively, for his business use of the aircraft.

(12) SEGMENT REPORTING

The Company uses the management approach to determine the segment financial information that should be disaggregated and presented separately in the Company's notes to its financial statements. The management approach is based on the manner by which management has organized the segments within the Company for making operating decisions, allocating resources, and assessing performance.

As the Company has increased in scope and scale, it has developed its management and reporting structure to support this growth. The Company’s dark fiber solutions, network connectivity, colocation and cloud infrastructure, Zayo Canada and other services are comprised of various related product groups generally defined around the type of service the customer is buying, referred to as Strategic Product Groups ("SPG" or "SPGs"). Each SPG is responsible for the revenue, costs and associated capital expenditures of their respective services. The SPGs enable sales, make pricing and product decisions, engineer networks and deliver services to customers, and support customers for their specific telecom and Internet infrastructure services.

With the continued increase in the Company’s scope and scale, effective October 1, 2015 the Company's chief operating decision maker ("CODM"), the Company's Chief Executive Officer, implemented certain organizational changes to the management and operation of the business that directly impacts how the CODM makes resource allocation decisions and manages the Company. The change in structure had the impact of establishing a new reportable segment and re-aligning the Company's existing SPGs to the revised reportable segments. Prior to this change, the operating segments were reported as Physical Infrastructure, which included the Company's Dark Fiber, MIG and zColo SPGs, Cloud and Connectivity, which included the Company's Waves, SONET, Ethernet, IP and Cloud SPGs, and Other, which primarily included ZPS. The new structure has moved the zColo and Cloud SPGs out of the Physical Infrastructure and Cloud and Connectivity reporting segments, respectively, creating a new reportable segment named Colocation and Cloud Infrastructure. The Dark Fiber and MIG SPGs are now reported in the Dark Fiber Solutions operating segment, and Ethernet, IP, Waves, and SONET SPGs, are now reported in the Network Connectivity operating segment. SPGs report directly to the reportable segment managers who are responsible for the operations and financial results for the Dark Fiber Solutions, Network Connectivity, Colocation and Cloud Infrastructure, and Other reportable segments (collectively, the "Revised Segments"). The segment managers report directly to the CODM, and it is the financial results of those segments that are evaluated and drive the resource allocation decisions made by the CODM.

The Company's segments are further described below:

Dark Fiber Solutions. Through the Dark Fiber Solutions segment, the Company provides raw bandwidth infrastructure to customers that require more control of their internal networks. These services include dark fiber and mobile infrastructure (fiber-to-the-tower and small cell). Dark fiber is a physically separate and secure, private platform for dedicated bandwidth. The Company leases dark fiber pairs (usually 2 to 12 total fibers) to its customers, who "light" the fiber using their own optronics. The Company's mobile infrastructure services provide direct fiber connections to cell towers, small cells, hub sites, and mobile switching centers. Dark Fiber Solutions customers include carriers and other communication service providers, Internet service providers, wireless service providers, major media and content companies, large enterprises, and other companies that have the expertise to run their own fiber optic networks or require interconnected technical space. The contract terms in the Dark Fiber Solutions segment tend to range from three to twenty years.

Network Connectivity. The Network Connectivity segment provides bandwidth infrastructure solutions over the Company's metro, regional, and long-haul fiber networks where it uses optronics to light the fiber and the Company's customers pay for access based on the amount and type of bandwidth they purchase. The Company's services within this segment include wavelength, Ethernet, IP and SONET. The Company targets customers who require a minimum of 10G of bandwidth across their networks. Network Connectivity customers include carriers, financial services companies, healthcare, government institutions, education institutions and other enterprises. The contract terms in this segment tend to range from two to five years.

Colocation and Cloud Infrastructure. The Colocation and Cloud Infrastructure segment provides data center infrastructure solutions to a broad range of enterprise, carrier, content and cloud customers. The Company's services within this segment include colocation, interconnection, cloud, hosting and managed services, such as security and remote hands offerings. Solutions range in size from single cabinet and server support to comprehensive international outsourced IT infrastructure environments. The Company's data centers also support a large component of the Company's networking equipment for the purpose of aggregating and distributing data, voice, Internet, and video traffic. The contract terms in this segment tend to range from two to five years

Zayo Canada. The Zayo Canada segment is comprised of the recently acquired business of Allstream (see Note 2 – Acquisitions). The services provided by this segment include legacy dark fiber, network connectivity, cloud and colocation infrastructure, voice, unified communications, managed security services and small and medium businesses (“SMB”) of Allstream. Voice provides a full range of local voice services allowing business customers to complete telephone calls in their local exchange, as well as make long distance, toll-free and related calls. Unified communications is the integration of real-time communication services such as telephony (including IP telephony), instant messaging and video conferencing with non-

21

real-time communication services, such as integrated voicemail and e-mail. Unified communications provides a set of products that give users the ability to work and communicate across multiple devices, media types and geographies. Managed security services provide proactive services and solutions designed to enable organizations to operate in an environment of constantly evolving threats from organized cyber-crime. The service provides real-time threat analysis and correlation of information security threats, response and mitigations services, secure access to the internet and the cloud, information risk and compliance services, and management of the IT security envelope. Zayo Canada provides services to over 26,000 customers in the SMB market while leveraging its extensive network and product offerings. These include IP, internet, voice, IP trunking, cloud private branch exchange, collaboration services and unified communications.

Other. The Other segment is primarily comprised of ZPS. ZPS provides network and technical resources to customers who wish to leverage our expertise in designing, acquiring and maintaining networks. Services are typically provided for a term of one year for a fixed recurring monthly fee in the case of network and on an hourly basis for technical resources (usage revenue).

Revenues for all of the Company’s products are included in one of the Company’s segments. The segment presentation has been recast for all prior periods presented for comparability. The results of operations for each segment include an allocation of certain indirect costs and corporate related costs, including overhead and third party-financed debt. The allocation is based on a percentage that represents management’s estimate of the relative burden each segment bears of indirect and corporate costs. Management has evaluated the allocation methods utilized to allocate these costs and determined they are systematic, rational and consistently applied. Identifiable assets for each reportable segment are reconciled to total consolidated assets including unallocated corporate assets and intersegment eliminations. Unallocated corporate assets consist primarily of cash and deferred taxes.

Segment Adjusted EBITDA

Segment Adjusted EBITDA is the primary measure used by the Company’s CODM to evaluate segment operating performance.

The Company defines Segment Adjusted EBITDA as earnings/(loss) from operations before interest, income taxes, depreciation and amortization (“EBITDA”) adjusted to exclude acquisition or disposal-related transaction costs, losses on extinguishment of debt, stock-based compensation, unrealized foreign currency gains/(losses) on intercompany loans, and non-cash income/(loss) on equity and cost method investments. The Company uses Segment Adjusted EBITDA to evaluate operating performance, and this financial measure is among the primary measures used by management for planning and forecasting of future periods. The Company believes that the presentation of Segment Adjusted EBITDA is relevant and useful for investors because it allows investors to view results in a manner similar to the method used by management and facilitates comparison of the Company’s results with the results of other companies that have different financing and capital structures.

Segment Adjusted EBITDA results, along with other quantitative and qualitative information, are also utilized by the Company and its Compensation Committee for purposes of determining bonus payouts to employees.

Segment Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of the Company's results from operations and operating cash flows as reported under GAAP. For example, Segment Adjusted EBITDA:

- does not reflect capital expenditures, or future requirements for capital and major maintenance expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, working capital needs;

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

- does not reflect the significant interest expense, or the cash requirements necessary to service the interest payments, on the Company's debt; and
- does not reflect cash required to pay income taxes.

The Company's computation of Segment Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because all companies do not calculate segment Adjusted EBITDA in the same fashion.

	As of and for the three months ended September 30, 2016						
	Dark Fiber Solutions	Network Connectivity	Colocation and Cloud Infrastructure	Zayo Canada	Other	Corp/ Eliminations	Total
	(in millions)						
Revenue from external customers	$ 148.4	$ 175.6	$ 64.1	$ 112.2	$ 4.6	$ —	$ 504.9
Segment Adjusted EBITDA	108.2	91.6	32.2	27.5	1.1	—	260.6
Total assets	3,237.8	1,898.1	1,090.5	475.7	32.3	99.6	6,834.0
Capital expenditures	128.1	48.9	28.0	3.3	—	—	208.3

	As of and for the three months ended September 30, 2015						
	Dark Fiber Solutions	Network Connectivity	Colocation and Cloud Infrastructure	Zayo Canada	Other	Corp/ Eliminations	Total
	(in millions)						
Revenue from external customers	$ 135.0	$ 167.0	$ 58.3	$ —	$ 6.5	$ —	$ 366.8
Segment Adjusted EBITDA	96.6	88.7	28.4	—	1.7	—	215.4
Total assets	2,862.9	1,825.5	1,022.1	—	36.3	419.1	6,165.9
Capital expenditures	93.5	46.7	19.0	—	—	—	159.2

	As of June 30, 2016						
	Dark Fiber Solutions	Network Connectivity	Colocation and Cloud Infrastructure	Zayo Canada	Other	Corp/ Eliminations	Total
	(in millions)						
Total assets	$ 3,155.0	$ 1,901.8	$ 1,069.4	$ 477.6	$ 33.4	$ 90.3	$ 6,727.5

Reconciliation from Total Segment Adjusted EBITDA to income/(loss) from operations before taxes:

	For the three months ended September 30,	
	2016	2015
	(in millions)	
Total Segment Adjusted EBITDA	$ 260.6	$ 215.4
Interest expense	(53.3)	(53.8)
Depreciation and amortization expense	(138.5)	(117.1)
Transaction costs	(3.0)	—
Stock-based compensation	(32.0)	(46.1)
Foreign currency loss on intercompany loans	(11.2)	(10.7)
Non-cash loss on investments	(0.3)	(0.2)
Income/(loss) from operations before income taxes	$ 22.3	$ (12.5)

Table of Contents

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(13) SUBSEQUENT EVENTS

On October 3, 2016, the Company entered into a Membership Interest Purchase Agreement to acquire a data center in Santa Clara, California for $12.8 million. The data centers, located at 5101 Lafayette Street in Santa Clara added approximately 14,000 square feet of colocation space.

Table of Contents

ITEM 2.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain Factors That May Affect Future Results

Information contained or incorporated by reference in this Quarterly Report on Form 10-Q (this “Report”) and in other filings by Zayo Group Holdings, Inc. (“we” or “us”), with the Securities and Exchange Commission (the “SEC”) that is not historical by nature constitutes “forward-looking statements,” and can be identified by the use of forward-looking terminology such as “believes,” “expects,” “plans,” “intends,” “estimates,” “projects,” “could,” “may,” “will,” “should,” or “an the negatives thereof, other variations thereon or comparable terminology, or by discussions of strategy. No assurance can be given that future results expressed or implied by the forward-looking statements will be achieved, and actual results may differ materially from those contemplated by the forward-looking statements. Such statements are based on our current expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those relating to our financial and operating prospects, current economic trends, future opportunities, ability to retain existing customers and attract new ones, our acquisition strategy and ability to integrate acquired companies and assets, outlook of customers, reception of new products and technologies, and strength of competition and pricing. Other factors and risks that may affect our business and future financial results are detailed in our SEC filings, including, but not limited to, those described under “Risk Factors” in our Annual Report on Form 10-K (our “Annual Report”) filed with the SEC on August 26, 2016 and in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We caution you not to place undue reliance on these forward-looking statements, which speak only as of their respective dates. We undertake no obligation to publicly update or revise forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events, except as may be required by law.

The following discussion and analysis should be read together with our unaudited condensed consolidated financial statements and the related notes appearing in this Report and in our audited annual consolidated financial statements as of and for the year ended June 30, 2016, included in our Annual Report.

Amounts presented in this Item 2 are rounded. As such, rounding differences could occur in period over period changes and percentages reported throughout this Item 2.

Overview

We are a large and fast growing provider of bandwidth infrastructure in the United States, Europe and Canada. Our products and services enable mission-critical, high-bandwidth applications, such as cloud-based computing, video, mobile, social media, machine-to-machine connectivity, and other bandwidth-intensive applications. Key products include leased dark fiber, fiber to cellular towers and small cell sites, dedicated wavelength connections, Ethernet, IP connectivity, cloud services and other high-bandwidth offerings. We provide our services over a unique set of dense metro, regional, and long-haul fiber networks and through our interconnect-oriented data center facilities. Our fiber networks and data center facilities are critical components of the overall physical network architecture of the Internet and private networks. Our customer base includes some of the largest and most sophisticated consumers of bandwidth infrastructure services, such as wireless service providers; telecommunications service providers; financial services companies; social networking, media, and web content companies; education, research, and healthcare institutions; and governmental agencies. We typically provide our bandwidth infrastructure services for a fixed monthly recurring fee under contracts that vary between one and twenty years in length. As of September 30, 2016, we had $7.3 billion in revenue under contract with a weighted average remaining contract term of approximately 50 months. We operate our business with a unique focus on capital allocation and financial performance with the ultimate goal of maximizing equity value for our stockholders. Our core values center on partnership, alignment, and transparency with our three primary constituent groups – employees, customers, and stockholders.

Our common stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "ZAYO". Our primary operating subsidiary is Zayo Group, LLC, a Delaware limited liability company ("ZGL"), and we are headquartered in Boulder, Colorado.

Table of Contents

Our fiscal year ends June 30 each year, and we refer to the fiscal year ending June 30, 2017 as "Fiscal 2017" and the fiscal year ended June 30, 2016 as "Fiscal 2016."

Our Segments

We use the management approach to determine the segment financial information that should be disaggregated and presented. The management approach is based on the manner by which management has organized the segments within the Company for making operating decisions, allocating resources, and assessing performance. As of September 30, 2016, we have five reportable segments as described below:

Dark Fiber Solutions. Through the Dark Fiber Solutions segment, we provide raw bandwidth infrastructure to customers that require more control of their internal networks. These services include dark fiber and mobile infrastructure (fiber-to-the-tower and small cell). Dark fiber is a physically separate and secure, private platform for dedicated bandwidth. We lease dark fiber pairs (usually 2 to 12 total fibers) to our customers, who "light" the fiber using their own optronics. Our mobile infrastructure services provide direct fiber connections to cell towers, small cells, hub sites, and mobile switching centers. Dark Fiber Solutions customers include carriers and other communication service providers, Internet service providers, wireless service providers, major media and content companies, large enterprises, and other companies that have the expertise to run their own fiber optic networks or require interconnected technical space. The contract terms in the Dark Fiber Solutions segment tend to range from three to twenty years.

Network Connectivity. The Network Connectivity segment provides bandwidth infrastructure solutions over our metro, regional, and long-haul fiber networks where it uses optronics to light the fiber and our customers pay for access based on the amount and type of bandwidth they purchase. Our services within this segment include wavelength, Ethernet, IP and SONET. We target customers who require a minimum of 10G of bandwidth across their networks. Network Connectivity customers include carriers, financial services companies, healthcare, government institutions, education institutions and other enterprises. The contract terms in this segment tend to range from two to five years.

Colocation and Cloud Infrastructure. The Colocation and Cloud Infrastructure segment provides data center infrastructure solutions to a broad range of enterprise, carrier, content and cloud customers. The Company's services within this segment include colocation, interconnection, cloud, hosting and managed services, such as security and remote hands offerings. Solutions range in size from single cabinet and server support to comprehensive international outsourced IT infrastructure environments. The Company's data centers also support a large component of the Company's networking equipment for the purpose of aggregating and distributing data, voice, Internet, and video traffic. The contract terms in this segment tend to range from two to five years.

Zayo Canada. The Zayo Canada segment is comprised of the recently acquired business of Allstream, Inc. and Allstream Fiber U.S. Inc. (together, "Allstream"). The services provided by this segment include legacy dark fiber, network connectivity, cloud and colocation infrastructure, voice, unified communications, managed security services and small and medium businesses ("SMB") of Allstream. Voice provides a full range of local voice services allowing business customers to complete telephone calls in their local exchange, as well as make long distance, toll-free and related calls. Unified communications is the integration of real-time communication services such as telephony (including IP telephony), instant messaging and video conferencing with non-real-time communication services, such as integrated voicemail and e-mail. Unified communications provides a set of products that give users the ability to work and communicate across multiple devices, media types and geographies. Managed security services provide proactive services and solutions designed to enable organizations to operate in an environment of constantly evolving threats from organized cyber-crime. The service provides real-time threat analysis and correlation of information security threats, response and mitigations services, secure access to the internet and the cloud, information risk and compliance services, and management of the IT security envelope. Zayo Canada provides services to over 26,000 customers in the SMB market while leveraging its extensive network and product offerings. These include IP, internet, voice, IP trunking, cloud private branch exchange, collaboration services and unified communications.

Other. Our Other segment is primarily comprised of ZPS. Through our professional services ZPS Strategic Product Group, we provide network and technical resources to customers who wish to leverage our expertise in designing, acquiring and maintaining networks. Services are typically provided for a term of one year for a fixed recurring monthly fee in the case of network and on an hourly basis for technical resources (usage revenue).

Factors Affecting Our Results of Operations

Business Acquisitions

We were founded in 2007 with the investment thesis of building a bandwidth infrastructure platform to take advantage of the favorable Internet, data, and wireless growth trends driving the ongoing demand for bandwidth infrastructure, and to be an active participant in the consolidation of the industry. These trends have continued in the years since our founding, despite volatile economic conditions, and we believe that we are well positioned to continue to capitalize on those trends. We have built a significant portion of our network and service offerings through 38 acquisitions through September 30, 2016.

As a result of the growth of our business from these acquisitions, and capital expenditures and the increased debt used to fund those investing activities, our results of operations for the respective periods presented and discussed herein are not comparable.

Recent Acquisitions

Clearview

On April 1, 2016, we acquired 100% of the equity interest in Clearview International, LLC, a Texas based colocation and cloud infrastructure services provider, for cash consideration of $18.3 million. The acquisition was funded with cash on hand.

The acquisition consisted of two Texas data centers. The data centers, located at 6606 LBJ Freeway in Dallas, Texas and 700 Austin Avenue in Waco, Texas, added approximately 30,000 square feet of colocation space, as well as a set of hybrid cloud infrastructure services that complement our global cloud capabilities.

The results of the acquired Clearview business are included in our operating results beginning April 1, 2016.

Allstream

On January 15, 2016, we acquired 100% of the equity interest in Allstream, Inc. and Allstream Fiber U.S. Inc. for cash consideration of CAD $422.9 million (or $297.6 million), net of cash acquired, subject to certain post-closing adjustments. The consideration paid is net of CAD $42.1 million (or $29.6 million) of working capital and other liabilities assumed by us in the acquisition. The acquisition was funded with an incremental borrowing under our Term Loan Facility (as defined below).

The acquisition added more than 18,000 route miles to our fiber network, including 12,500 miles of long-haul fiber connecting all major Canadian markets and 5,500 route miles of metro fiber network connecting approximately 3,300 on-net buildings concentrated in Canada’s top five metropolitan markets.

The operating results of the acquired Allstream business are included in our operating results beginning January 15, 2016.

Viatel

On December 31, 2015, we acquired 100% of the interest in Viatel Infrastructure Europe Ltd, Viatel (UK) Limited, Viatel France SAS, Viatel Deutschland GmbH and Viatel Nederland BV (collectively “Viatel”) for cash consideration of €92.9 million (or $101.2 million), net of cash acquired. The acquisition was funded with cash on hand.

Table of Contents

The Viatel acquisition provides us with Pan-European intercity and metro fiber capability via a 8,400 kilometer fiber network across eight countries. The transaction added 12 new metro networks, seven data centers and connectivity to 81 on-net buildings. Two wholly-owned subsea cable systems provide connectivity on two of Europe’s key routes – London-Amsterdam and London-Paris.

The operating results of the acquired Viatel business are included in our results beginning January 1, 2016.

Dallas Data Center

On December 31, 2015, the Company acquired a 36,000 square foot data center located in Dallas, Texas for cash consideration of $16.6 million. The acquisition was funded with cash on hand.

The operating results of the acquired Dallas Data Center business are included in our results beginning January 1, 2016.

Table of Contents

Substantial Indebtedness

Term Loan Facility due 2021 and Revolving Credit Facility

On May 6, 2015, ZGL and Zayo Capital, Inc. ("Zayo Capital") entered into an Amendment and Restatement Agreement whereby the Credit Agreement (the "Credit Agreement") governing their senior secured term loan facility (the "Term Loan Facility") and $450.0 million senior secured revolving credit facility (the "Revolver") was amended and restated in its entirety. The amended and restated Credit Agreement extended the maturity date of the outstanding term loans under the Term Loan Facility to May 6, 2021. The interest rate margins applicable to the Term Loan Facility were decreased by 25 basis points to LIBOR plus 2.75% with a minimum LIBOR of 1.0%. In addition, the amended and restated Credit Agreement removed the fixed charge coverage ratio covenant and replaced such covenant with a springing senior secured leverage ratio maintenance requirement applicable only to the Revolver, increased certain lien and debt baskets, and removed certain covenants related to collateral. The terms of the Term Loan Facility require us to make quarterly principal payments of $5.1 million plus an annual payment of up to 50% of excess cash flow, as determined in accordance with the Credit Agreement (no such payment was required during the three months ended September 30, 2016 or 2015).

The Revolver matures at the earliest of (i) April 17, 2020 and (ii) six months prior to the maturity date of the Term Loan Facility, subject to amendment thereof. The Credit Agreement also allows for letter of credit commitments of up to $50.0 million. The Revolver is subject to a fee per annum of 0.25% to 0.375% (based on ZGL's current leverage ratio) of the weighted-average unused capacity, and the undrawn amount of outstanding letters of credit backed by the Revolver are subject to a 0.25% fee per annum. Outstanding letters of credit backed by the Revolver accrue interest at a rate ranging from LIBOR plus 2.0% to LIBOR plus 3.0% per annum based upon ZGL's leverage ratio.

On January 15, 2016, ZGL and Zayo Capital entered into an Incremental Amendment (the "Amendment") to the Credit Agreement. Under the terms of the Amendment, the Term Loan Facility was increased by $400.0 million (the "Incremental Term Loan"). The additional amounts borrowed bear interest at LIBOR plus 3.5% with a minimum LIBOR rate of 1.0%. The $400.0 million add-on was priced at 99.0% (the "Term Loan Proceeds"). The issue discount of $4.8 million on the Amendment is being accreted to interest expense over the term of the Term Loan Facility under the effective interest method. No other terms of the Credit Agreement were amended. The Term Loan Proceeds were used to fund the Allstream acquisition (see Note 2 – Acquisitions) and for general corporate purposes.

On July 22, 2016, ZGL and Zayo Capital entered into a Repricing Amendment (the "Repricing Amendment") to the Credit Agreement. Per the terms of the Amendment, the Incremental Term Loan was repriced to bear interest at a rate of LIBOR plus 2.75%, with a minimum LIBOR rate of 1.0%, which represented a downward adjustment of 75 basis points. No other terms of the Credit Agreement were amended.

The weighted average interest rates (including margins) on the Term Loan Facility were approximately 3.75% and 3.9% at September 30, 2016 and June 30, 2016, respectively. Interest rates on the Revolver as of September 30, 2016 and June 30, 2016 were approximately 3.6% and 3.4%, respectively.

As of September 30, 2016, no amounts were outstanding under the Revolver. Standby letters of credit were outstanding in the amount of $7.9 million as of September 30, 2016, leaving $442.1 million available under the Revolver.

6.375% Senior Unsecured Notes due 2025

On April 14, 2016, ZGL and Zayo Capital closed a private offering (the "Additional 2025 Notes Offering") of an additional $550.0 million of the 6.375% senior unsecured notes due 2025 (the "2025 Unsecured Notes") priced at

97.1%, resulting in aggregate gross proceeds for the Additional 2025 Unsecured Notes of $534.1 million. The issue discount of $15.9 million on the Additional 2025 Notes Offering is being accreted to interest expense over the term of the 2025 Unsecured Notes using the effective interest method. Interest on the 2025 Unsecured Notes is payable on May 15 and November 15 of each year, beginning on November 15, 2015. The 2025 Unsecured Notes will mature on May 15, 2025. The net proceeds of the Additional 2025 Notes Offering plus cash on hand were used to (i) repay approximately $196.0

Table of Contents

million of borrowings under the Term Loan Facility, and (ii) redeem the then outstanding $325.6 million 10.125% senior unsecured notes due 2020, including the required make-whole premium and accrued interest. Per the terms of the Credit Agreement, the $196.0 million prepayment on the Term Loan Facility relieves the Company of its obligation to make quarterly principal payments on the Term Loan Facility until the cumulative amount of such relieved payments exceeds $196.0 million. As a result of the redemption, we recorded a $2.1 million loss on extinguishment of debt associated with the write-off of unamortized debt discount on the Term Loan Facility during the fourth quarter of Fiscal 2016.

Capital Expenditures

During the three months ended September 30, 2016 and 2015, we invested $208.3 million and $159.2 million, respectively, in capital expenditures primarily to expand our fiber network to support new customer contracts. We expect to continue to make significant capital expenditures in future periods.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report for the year ended June 30, 2016.

Background for Review of Our Results of Operations

Revenue

Our revenue is comprised predominately of monthly recurring revenue (“MRR”). MRR is related to an ongoing service that is generally fixed in price and paid by the customer on a monthly basis. We also report monthly amortized revenue (“MAR”), which represents the amortization of previously collected upfront charges to customers. Upfront charges are typically related to indefeasible rights of use (“IRUs”) structured as pre-payments rather than monthly recurring payments (though we structure IRUs as both prepaid and recurring, largely dependent on the customers’ preference) and installation fees. The last category of revenue we report is other revenue. Other revenue primarily includes credits and adjustments, termination revenue, construction services, and equipment sales.

Our consolidated reported revenue in any given period is a function of our beginning revenue under contract and the impact of organic growth and acquisition activity. Our organic activity is driven by net new sales (“bookings”), gross installed revenue (“installs”) and churn processed (“churn”) as further described below.

Net New Sales. Net new sales (“bookings”) represent the dollar amount of orders, to be recorded as MRR and MAR upon installation, in a period that have been signed by the customer and accepted by our service delivery organization. The dollar value of bookings is equal to the monthly recurring price that the customer will pay for the services and/or the monthly amortized amount of the revenue that we will recognize for those services. To the extent a booking is cancelled by the customer prior to it being installed, it is subtracted from the total bookings number in the period that it is cancelled. Bookings do not immediately impact revenue until they are installed (gross installed revenue).

Gross Installed Revenue. Installs are the amount of MRR and MAR for services that have been installed, tested, accepted by the customer, and have been recognized in revenue during a given period. Installs include new services, price increases, and upgrades.

Churn Processed. Churn is any negative change to MRR and MAR. Churn includes disconnects, negative price changes, and disconnects associated with upgrades or replacement services. For each period presented, disconnects associated with attrition and upgrades or replacement services are the drivers of churn, accounting for more than 80%

of negative changes in MRR and MAR while price changes account for less than 20%. Monthly churn is also presented as a percentage of MRR and MAR ("churn percentage").

Given the size and amount of acquisitions we have completed, we have estimated the revenue growth rate associated with our organic activity in each period reported. Our estimated organic growth rate is calculated as if acquisitions closed during the periods presented were closed on the first day of the earliest period presented within this Quarterly Report. In calculating this pro-forma growth figure we add the revenue recorded by the acquired companies'

Table of Contents

(including estimated purchase accounting adjustments) for the reporting periods prior to the date of inclusion in our results of operations, and then calculating the growth rate between the two reported periods. The estimated pro-forma revenue growth rates are not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions been consummated on the first day of the earliest period presented. As we conduct operations outside of the United States of America and have historically acquired companies with functional currencies other than the United States Dollar ("USD"), the estimated pro-forma revenue growth rates may not adequately reflect operational performance as a result of changes in foreign currency exchange rates.

We have foreign subsidiaries that enter into contracts with customers and vendors in currencies other than the USD – principally the Pound Sterling ("GBP") and Canadian Dollar ("CAD") and to a lesser extent the Euro and Swiss Franc ("CHF"). Changes in foreign currency exchange rates impact our revenue and expenses each period. The comparisons excluding the impact of foreign currency exchange rates assume exchange rates remained constant at the comparative period rate.

Operating Costs and Expenses

Our operating costs and expenses consist of network expense ("Netex"), compensation and benefits, network operations expense ("Netops"), stock-based compensation expense, other expenses, and depreciation and amortization.

Netex consists of third-party network service costs resulting from our leasing of certain network facilities, primarily leases of circuits and dark fiber, from carriers to augment our owned infrastructure, for which we are generally billed a fixed monthly fee. Netex also includes colocation facility costs for rent and license fees paid to the landlords of the buildings in which our colocation business operates, along with the utility costs to power those facilities. While increases in demand for our services will drive additional operating costs in our business, consistent with our strategy of leveraging our owned infrastructure assets, we expect to primarily utilize our existing network infrastructure or build new network infrastructure to meet the demand. In limited circumstances, we will augment our network with additional circuits or services from third-party providers. Third-party network service costs include the upfront cost of the initial installation of such circuits. Such costs are included in operating costs in our condensed consolidated statements of operations over the respective service period.

Compensation and benefits expenses include salaries, wages, incentive compensation and benefits. Employee-related costs that are directly associated with network construction, service installations (and development of business support systems) are capitalized and amortized to operating costs and expenses. Compensation and benefits expenses related to the departments attributed to generating revenue are included in our operating costs line item while compensation and benefits expenses related to the sales, product, and corporate departments are included in our selling, general and administrative expenses line item of our condensed consolidated statements of operations.

Netops expense includes all of the non-personnel related expenses of operating and maintaining our network infrastructure, including contracted maintenance fees, right-of-way costs, rent for cellular towers and other places where fiber is located, pole attachment fees, and relocation expenses. Such costs are included in operating costs in our condensed consolidated statements of operations.

Stock-based compensation expense is included, based on the responsibilities of the awarded recipient, in either our operating costs or selling, general and administrative expenses in our condensed consolidated statements of operations.

Other expenses include expenses such as property tax, franchise fees, colocation facility maintenance, travel, office expense and other administrative costs. Other expenses are included in both operating costs and selling, general and administrative expenses depending on their relationship to generating revenue or association with sales and administration.

Transaction costs include expenses associated with professional services (i.e. legal, accounting, regulatory, etc.) rendered in connection with acquisitions or disposals (including spin-offs), travel expense, severance expense incurred on the date of acquisition or disposal, and other direct expenses incurred that are associated with signed and/or closed

Table of Contents

acquisitions or disposals. Transaction costs are included in selling, general and administrative expenses in our condensed consolidated statements of operations.

Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

Revenue

	For the three months ended September 30,				
	2016	2015	$ Variance	% Variance	
	(in millions)				
Segment and consolidated revenue:					
Dark Fiber Solutions	$ 148.4	$ 135.0	$ 13.4	10	%
Network Connectivity	175.6	167.0	8.6	5	%
Colocation and Cloud Infrastructure	64.1	58.3	5.8	10	%
Zayo Canada	112.2	—	112.2		*
Other	4.6	6.5	(1.9)	(29)	%
Consolidated	$ 504.9	$ 366.8	$ 138.1	38	%

* not meaningful

Our total revenue increased by $138.1 million, or 38%, to $504.9 million for the three months ended September 30, 2016, from $366.8 million for the three months ended September 30, 2015. The increase in revenue was driven by our Fiscal 2016 acquisitions as well as organic growth.

We estimate that the period-over-period pro-forma revenue growth was approximately 2.5%. Our estimated pro-forma growth was driven by installs that exceeded churn over the course of both periods, resulting from continued strong demand for bandwidth infrastructure services broadly across our service territory and customer verticals offset by the impact of the strengthening of the USD. The average exchange rate between the USD strengthened against the GBP by 15.3% and the exchange rates between the USD and Euro and USD and CAD weakened by 0.3% during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. Normalizing our estimated pro-forma revenue growth to exclude the impact of foreign currency exchange rate fluctuations, we estimate that pro-forma revenue would have increased between the three months ended September 30, 2016 and September 30, 2015 by an additional $4.4 million for a total period-over-period pro-forma revenue growth of 3.4%.

Additional underlying revenue drivers included:

· Bookings increased period over period to $8.2 million from $6.4 million in combined MRR and MAR. The total contract value associated with bookings, for the three months ended September 30, 2016 was approximately $562.1 million.
· During the three months ended September 30, 2016 and 2015, we recognized net installs of $2.1 million and $2.2 million, respectively.
· Monthly churn percentage remained consistent at 1.1% for the three months ended September 30, 2016 and 2015.

Dark Fiber Solutions. Revenue from our Dark Fiber Solutions segment increased by $13.4 million, or 10%, to $148.4 million from $135.0 million for the three months ended September 30, 2016 and 2015, respectively.

Dark Fiber is the largest SPG within the segment and benefited from continued growth in infrastructure demand. Our Mobile Infrastructure products also contributed to the segment's growth. Bookings of MRR and MAR for the three months ended September 30, 2016 were $2.5 million (with a total contract value of approximately $421.8 million), an increase from the $2.0 million in bookings for the same period in the prior year. Gross installs remained consistent at $1.9 million for the three months ended September 30, 2016 and 2015. The monthly churn percentage remained consistent between the two periods at 0.6% for the three months ended September 30, 2016 and 2015, with total churn processed of $0.8 million for the three months ended September 30, 2016 and 2015.

Table of Contents

Network Connectivity. Revenue from our Network Connectivity segment increased by $8.6 million, or 5%, to $175.6 million from $167.0 million for the three months ended September 30, 2016 and 2015, respectively. The increase was a result of both organic and acquisition related growth.

Growth was strongest in the segment's Waves SPG, driven by customer demand and increased effectiveness in marketing these products, including price concessions that were proactively offered in exchange for customer contract extensions in Fiscal 2016. SONET is a legacy product, and its revenue declined between the two periods, consistent with our expectations.

Bookings of MRR and MAR increased to $3.6 million from $3.4 million between the two comparative periods, with a total contract value of approximately $105.3 million for the three months ended September 30, 2016. Gross installs were $3.4 million for the three months ended September 30, 2016 and 2015. The monthly churn percentage increased from 1.4% for the three months ended September 30, 2015 to 1.6% for the three months ended September 30, 2016, with a total churn processed of $2.8 million for the three months ended September 30, 2016 compared to $2.3 million for the three months ended September 30, 2015.

Colocation and Cloud Infrastructure. Revenue from our Colocation and Cloud Infrastructure segment increased by $5.8 million, or 10%, to $64.1 million from $58.3 million for the three months ended September 30, 2016 and 2015, respectively. The increase was a result of both acquisition related and organic growth.

zColo is the largest SPG within the segment and benefited from continued growth in infrastructure demand. Bookings of MRR and MAR increased to $1.1 million from $0.9 million between the two comparative periods, with a total contract value of approximately $34.7 million for the three months ended September 30, 2016. Gross installs were $1.1 million for the three months ended September 30, 2016, compared to $0.7 million in the prior year. The monthly churn percentage decreased from 1.1% for the three months ended September 30, 2015 to 1.0% for the three months ended September 30, 2016, resulting in total churn processed of $0.6 million for the three months ended September 30, 2016 and 2015.

Other. Revenue from our Other segment decreased by $1.9 million, or 29%, to $4.6 million from $6.5 million, for the three months ended September 30, 2016 and 2015, respectively. The drop in revenue from the Other segment was primarily driven by fewer equipment sales. The Other segment represented approximately 1% of our total revenue during the three months ended September 30, 2016.

The following table reflects the stratification of our revenues during these periods. The substantial majority of our revenue continued to come from recurring payments from customers under contractual arrangements.

	For the three months ended September 30,			
	2016		2015	
	(in millions)			
Monthly recurring revenue	$ 451.8	90 %	$ 332.3	91 %
Amortization of deferred revenue	27.5	5 %	20.4	5 %
Usage revenue	17.7	3 %	6.1	2 %
Other revenue	7.9	2 %	8.0	2 %
Total Revenue	$ 504.9	100 %	$ 366.8	100 %

33

Table of Contents

Operating Costs and Expenses

	For the three months ended September 30,			
	2016	2015	$ Variance	% Variance
	(in millions)			
Segment and consolidated operating costs and expenses:				
Dark Fiber Solutions	$ 117.0	$ 111.6	$ 5.4	5 %
Network Connectivity	134.9	133.7	1.2	1 %
Colocation and Cloud Infrastructure	62.0	64.2	(2.2)	(3) %
Zayo Canada	99.9	—	99.9	*
Other	4.1	5.2	(1.1)	(21) %
Consolidated	$ 417.9	$ 314.7	$ 103.2	33 %

* not meaningful

Our operating costs increased by $103.2 million, or 33%, to $417.9 million for the three months ended September 30, 2016 from $314.7 million for the three months ended September 30, 2015. The increase in consolidated operating costs was primarily due to a $21.4 million increase in depreciation and amortization and other increased costs as a result of our Fiscal 2016 acquisitions and organic growth of our network, offset by a $14.1 million decrease in stock-based compensation.

Dark Fiber Solutions. Dark Fiber Solutions operating costs increased by $5.4 million, or 5%, to $117.0 million for the three months ended September 30, 2016 from $111.6 million for the three months ended September 30, 2015. The increase in operating costs and expenses was primarily a result of a $9.2 million increase in depreciation and amortization and other increased costs as a result of Fiscal 2016 acquisitions and organic growth of our network, offset by a $5.5 million decrease in stock-based compensation.

Network Connectivity. Network Connectivity operating costs increased by $1.2 million, or 1%, to $134.9 million for the three months ended September 30, 2016 from $133.7 million for the three months ended September 30, 2015. The increase in operating costs and expenses was primarily a result of a $3.2 million increase in depreciation and amortization and other increased costs as a result of Fiscal 2016 acquisitions and organic growth of our network, offset by a $7.8 million decrease in stock-based compensation.

Colocation and Cloud Infrastructure. Colocation and Cloud Infrastructure operating costs decreased by $2.2 million, or 3%, to $62.0 million for the three months ended September 30, 2016 from $64.2 million for the three months ended September 30, 2015. The decrease in operating costs and expenses was primarily a result of a $2.7 million decrease in stock-based compensation, offset by a $1.5 million increase in depreciation and amortization expense.

Other. Other operating costs decreased to $4.1 million for the three months ended September 30, 2016, as compared to $5.2 million for the three months ended September 30, 2015. The decrease was directly attributed to a decrease in revenue associated with equipment sales.

Table of Contents

The table below sets forth the components of our operating costs and expenses during the three months ended September 30, 2016 and 2015.

	For the three months ended September 30,				
	2016	2015	$ Variance	% Variance	
	(in millions)				
Netex	$ 93.3	$ 50.6	$ 42.7	84	%
Compensation and benefits expenses	63.9	39.6	24.3	61	%
Network operations expense	56.0	39.6	16.4	41	%
Other expenses	31.2	21.7	9.5	44	%
Transaction costs	3.0	—	3.0		*
Stock-based compensation	32.0	46.1	(14.1)	(31)	%
Depreciation and Amortization	138.5	117.1	21.4	18	%
Total operating costs and expenses	$ 417.9	$ 314.7	$ 103.2	33	%

* not meaningful

Netex. Our Netex increased by $42.7 million, or 84%, to $93.3 million for the three months ended September 30, 2016 from $50.6 million for the three months ended September 30, 2015. The increase in Netex was primarily due to increased facility costs related to the colocation acquisitions completed in Fiscal 2016, partially offset by cost savings, as planned network related synergies were realized.

Compensation and Benefits Expenses. Compensation and benefits expenses increased by $24.3 million, or 61%, to $63.9 million for the three months ended September 30, 2016 from $39.6 million for the three months ended September 30, 2015.

The increase in compensation and benefits expenses reflected the increase in headcount during Fiscal 2017 to support our growing business, including certain employees retained from businesses acquired during Fiscal 2016, and was partially offset by a decrease in bonus expense.

Headcount as of the end of the respective periods was:

	September 30, 2016	September 30, 2015
Dark Fiber Solutions	796	787
Network Connectivity	763	722
Colocation and Cloud Infrastructure	379	331
Zayo Canada	1,162	—
Other	26	27
Total	3,126	1,867

Network Operations Expenses. Network operations expenses increased by $16.4 million, or 41%, to $56.0 million for the three months ended September 30, 2016 from $39.6 million for the three months ended September 30, 2015. The increase principally reflected the growth of our network assets and the related expenses of operating that expanded network. Our total network route miles increased approximately 31% to 114,492 miles at September 30, 2016 from 87,273 miles at September 30, 2015.

Other Expenses. Other expenses increased by $9.5 million, or 44%, to $31.2 million for the three months ended September 30, 2016, from $21.7 million for the three months ended September 30, 2015. The increase was primarily the result of additional expenses attributable to our Fiscal 2016 acquisitions.

Transaction Costs. We recognized $3.0 million in transaction costs during the three months ended September 30, 2016 associated with our Fiscal 2016 acquisitions. We did not incur transaction costs during the three months ended September 30, 2015.

Table of Contents

Stock-Based Compensation. Stock-based compensation expense decreased by $14.1 million, or 31%, to $32.0 million for the three months ended September 30, 2016 from $46.1 million for the three months ended September 30, 2015. The decrease in stock-based compensation expense was primarily driven by certain tranches of the Company's pre-IPO common unit grants becoming fully vested prior to the three months ended September 30, 2016. This decrease was partially offset by an increase in the number of post-IPO RSU grants vesting during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Depreciation and Amortization

Depreciation and amortization expense increased by $21.4 million, or 18%, to $138.5 million for the three months ended September 30, 2016 from $117.1 million for the three months ended September 30, 2015. The increase was primarily a result of depreciation related to increased capital expenditures and increased amortization expense associated with our Fiscal 2016 acquisitions.

Total Other Expense, Net

The table below sets forth the components of our total other expense, net for the three months ended September 30, 2016 and 2015, respectively.

	For the three months ended September 30,				
	2016	2015	$ Variance	% Variance	
	(in millions)				
Interest expense	$ (53.3)	$ (53.8)	$ 0.5	1	%
Foreign currency loss on intercompany loans	(11.2)	(10.7)	(0.5)	(5)	%
Other expense, net	(0.2)	(0.1)	(0.1)		*
Total other expenses, net	$ (64.7)	$ (64.6)	$ (0.1)		*

* not meaningful

Interest expense. Interest expense decreased by $0.5 million, or 1%, to $53.3 million from $53.8 million for the three months ended September 30, 2016 and 2015, respectively. The decrease was primarily a result of changes in the fair value of our interest rate swaps, and reduced interest rates on our outstanding indebtedness as a result of our Fiscal 2016 debt transactions, partially offset by an increase in indebtedness from the comparative period.

Foreign currency loss on intercompany loans. Foreign currency loss on intercompany loans increased $0.5 million, or 5%, to an $11.2 million loss for the three months ended September 30, 2016, from a loss of $10.7 million for the three months ended September 30, 2015. This non-cash loss was driven by the strengthening of the USD against the GBP period-over-period and the related impact on intercompany loans entered into by foreign subsidiaries in their functional currency.

Provision for Income Taxes

The Company's effective tax rates on pre-tax income/(loss) for the three months ended September 30, 2016 and September 30, 2015 was 29.8% and 21.6%, respectively.

The interim period effective tax rate is derived from anticipated pre-tax book income or loss for the full fiscal year adjusted for anticipated items that are deductible/non- deductible for tax purposes only (i.e., permanent items). Additionally, the tax expense or benefit related to discrete permanent differences in an interim period are recorded in the period they occur.

The interim effective tax rate for the three months ended September 30, 2016 was positively impacted by the United Kingdom ("UK") tax rate decrease (described further below) as well as non-US tax expense not recognized due to full valuation allowances recorded on certain foreign entities. The effective tax continues to be negatively impacted by stock-based compensation expense related to the common units of Communications Infrastructure

Table of Contents

Investments, LLC, which is not deductible for income tax purposes. The interim effective tax rate was further negatively impacted by an excess of GAAP stock compensation expense for the current quarter, related to the Company's Restricted Stock Unit plan, over what is deductible for income tax purposes.

In the UK, the main rate of corporation tax was reduced during the current quarter from 18% to 17%, applicable from April 1, 2020. The Company, in accordance with ASC 740-270-25, is recording the effect of this tax rate change on its deferred tax assets and liabilities as a discrete item in the current interim period. The impact of the change in the UK tax rate in the three months ended September 30, 2016 was a reduction in the Company's tax effective tax rate of 7.4%.

Adjusted EBITDA

We define Adjusted EBITDA as earnings/(loss) from operations before interest, income taxes, depreciation and amortization ("EBITDA") adjusted to exclude acquisition or disposal-related transaction costs, losses on extinguishment of debt, stock-based compensation, unrealized foreign currency gains/(losses) on intercompany loans, and non-cash income/(loss) on equity and cost method investments. We use Adjusted EBITDA to evaluate operating performance, and this financial measure is among the primary measures used by management for planning and forecasting for future periods. We believe that the presentation of Adjusted EBITDA is relevant and useful for investors because it allows investors to view results in a manner similar to the method used by management and facilitates comparison of our results with the results of other companies that have different financing and capital structures.

We also monitor Adjusted EBITDA because our subsidiaries have debt covenants that restrict their borrowing capacity that are based on a leverage ratio, which utilizes a modified EBITDA, as defined in our Credit Agreement and the indentures governing our outstanding Notes. The modified EBITDA is consistent with our definition of Adjusted EBITDA; however, it includes the pro forma Adjusted EBITDA of and expected cost synergies from the companies acquired by us during the quarter for which the debt compliance certification is due.

Adjusted EBITDA results, along with other quantitative and qualitative information, are also utilized by management and our compensation committee for purposes of determining bonus payouts to employees.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under GAAP. For example, Adjusted EBITDA:

- does not reflect capital expenditures, or future requirements for capital and major maintenance expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, our working capital needs;
- does not reflect the significant interest expense, or the cash requirements necessary to service the interest payments, on our debt; and
- does not reflect cash required to pay income taxes.

Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because all companies do not calculate Adjusted EBITDA in the same fashion.

Table of Contents

Reconciliations from segment and consolidated Adjusted EBITDA to net income/(loss) from operations are as follows:

	For the three months ended September 30, 2016						
	Dark Fiber Solutions	Network Connectivity	Colocation and Cloud Infrastructure	Zayo Canada	Other	Corp/ Eliminations	Total
	(in millions)						
Segment and consolidated Adjusted EBITDA	$ 108.2	$ 91.6	$ 32.2	$ 27.5	$ 1.1	$ —	$ 260.6
Interest expense	(22.6)	(16.1)	(11.3)	(1.7)	—	(1.6)	(53.3)
Provision for income taxes	—	—	—	—	—	(6.6)	(6.6)
Depreciation and amortization expense	(64.7)	(37.0)	(25.7)	(10.5)	(0.6)	—	(138.5)
Transaction costs	(0.1)	(0.1)	—	(2.8)	—	—	(3.0)
Stock-based compensation	(12.0)	(13.7)	(4.3)	(1.8)	(0.2)	—	(32.0)
Foreign currency gain/(loss) on intercompany loans	0.1	0.1	—	(0.2)	—	(11.2)	(11.2)
Non-cash loss on investments	(0.1)	—	—	—	—	(0.2)	(0.3)
Net income/(loss)	$ 8.8	$ 24.8	$ (9.1)	$ 10.5	$ 0.3	$ (19.6)	$ 15.7

	For the three months ended September 30, 2015						
	Dark Fiber Solutions	Network Connectivity	Colocation and Cloud Infrastructure	Zayo Canada	Other	Corp/ Eliminations	Total
	(in millions)						
Segment and consolidated Adjusted EBITDA	$ 96.6	$ 88.7	$ 28.4	$ —	$ 1.7	$ —	$ 215.4
Interest expense	(25.5)	(17.5)	(10.0)	—	—	(0.8)	(53.8)
Provision for income taxes	—	—	—	—	—	(2.7)	(2.7)
Depreciation and amortization expense	(55.6)	(33.9)	(27.1)	—	(0.5)	—	(117.1)
Stock-based compensation	(17.6)	(21.5)	(7.0)	—	—	—	(46.1)
Foreign currency gain/(loss) on intercompany loans	—	0.1	—	—	—	(10.8)	(10.7)
Non-cash loss on investments	(0.2)	—	—	—	—	—	(0.2)
Net income/(loss)	$ (2.3)	$ 15.9	$ (15.7)	$ —	$ 1.2	$ (14.3)	$ (15.2)

Liquidity and Capital Resources

Our primary sources of liquidity have been cash provided by operations, equity contributions, and incurrence of debt. Our principal uses of cash have been for acquisitions, capital expenditures, and debt service requirements. We anticipate that our principal uses of cash in the future will be for acquisitions, capital expenditures, working capital, and debt service.

We have financial covenants under the Indentures governing our Notes and our Credit Agreement that, under certain circumstances, restrict our ability to incur additional indebtedness. The indentures governing the 2023 Unsecured Notes and the 2025 Unsecured Notes limit any increase in ZGL's secured indebtedness (other than certain forms of secured indebtedness expressly permitted under such indentures) to a pro forma secured debt ratio of 4.50 times ZGL's previous quarter's annualized modified EBITDA (as defined in the indentures), and limit ZGL's incurrence of additional indebtedness to a total indebtedness ratio of 6.00 times the previous quarter's annualized modified EBITDA. The Credit Agreement also contains a covenant, applicable only to the Revolver, that ZGL maintain a senior secured leverage ratio below 5.25:1.00 at any time when the aggregate principal amount of loans outstanding under the Revolver is greater than 35% of the commitments under the Revolver. The Credit Agreement also requires ZGL and its subsidiaries to comply with customary affirmative and negative covenants, including covenants restricting the ability of ZGL and its subsidiaries, subject to specified exceptions, to incur additional indebtedness, make additional guaranties, incur additional liens on assets, or dispose of assets, pay dividends, or make other distributions, voluntarily prepay certain other indebtedness, enter into transactions with affiliated persons, make investments and amend the terms of certain other indebtedness. The Credit Agreement contains customary events of default, including among others, non-payment of principal, interest, or other amounts when due, inaccuracy of representations and warranties, breach of covenants, cross default to certain other indebtedness, insolvency or inability to pay debts, bankruptcy, or a change of control.

As of September 30, 2016, we had $193.0 million in cash and cash equivalents and a working capital deficit of $97.4 million. Cash and cash equivalents consist of amounts held in bank accounts and highly-liquid U.S. treasury money market funds. Although we had a working capital deficit at September 30, 2016, a substantial portion of the deficit is a result of a current deferred revenue balance of $126.8 million that we will be recognizing as revenue over the

Table of Contents

next twelve months. The actual cash outflows associated with fulfilling this deferred revenue obligation during the next twelve months will be significantly less than the September 30, 2016 current deferred revenue balance. Additionally, as of September 30, 2016, we had $442.1 million available under our Revolver, subject to certain conditions.

Our capital expenditures increased by $49.1 million, or 31%, during the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, to $208.3 million from $159.2 million, respectively. The increase in capital expenditures is a result of meeting the needs of our larger customer base resulting from our acquisitions and organic growth. We expect to continue to invest in our network for the foreseeable future. These capital expenditures, however, are expected to primarily be success-based; that is, in most situations, we will not invest the capital until we have an executed customer contract that supports the investment.

As part of our corporate strategy, we continue to be regularly involved in discussions regarding potential acquisitions of companies and assets, some of which may be quite large. We expect to fund such acquisitions with cash from operations, debt issuances (including available borrowings under our $450.0 million Revolver), equity offerings, and available cash on hand. We regularly assess our projected capital requirements to fund future growth in our business, repay our debt obligations, and support our other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. As market conditions permit, we may refinance existing debt, issue new debt or equity securities through the capital markets, or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity.

Cash Flows

We believe that our cash flows from operating activities, in addition to cash and cash equivalents currently on-hand, will be sufficient to fund our operating activities and capital expenditures for the foreseeable future, and in any event for at least the next 12 to 18 months. Given the generally volatile global economic climate, no assurance can be given that this will be the case.

We regularly consider acquisitions and additional strategic opportunities, including large acquisitions, which may require additional debt or equity financing.

The following table sets forth components of our cash flow for the three months ended September 30, 2016 and 2015.

	Three Months Ended September 30,	
	2016	2015
	(in millions)	
Net cash provided by operating activities	$ 232.8	$ 195.2
Net cash used in investing activities	$ (206.8)	$ (159.5)
Net cash (used in)/provided by financing activities	$ (1.7)	$ 2.6

Net Cash Flows from Operating Activities

Net cash flows from operating activities increased by $37.6 million, or 19%, to $232.8 million from $195.2 million during the three months ended September 30, 2016 and 2015, respectively. Net cash flows from operating activities during the three months ended September 30, 2016 include our net income of $15.7 million, plus the add backs of non-cash items deducted in the determination of net income, principally depreciation and amortization of $138.5 million, stock-based compensation expense of $32.0 million, foreign currency loss on intercompany loans of $11.2 million, non-cash interest expense of $2.6 million and deferred income taxes of $4.8 million. Also contributing to the cash provided by operating activities were additions to deferred revenue of $40.9 million, partially offset by amortization of deferred revenue of $27.5 million. Cash flow during the period was increased by the net change in working capital components of $13.4 million.

Net cash flows from operating activities during the three months ended September 30, 2015 include the loss from operations of $15.2 million, plus the add backs of non-cash items deducted in the determination of net loss, principally depreciation and amortization of $117.1 million, stock-based compensation expense of $46.1 million, foreign currency loss on intercompany loans of $10.7 million, non-cash cash interest expense of $3.5 million and deferred income taxes of

Table of Contents

$2.0 million offset by an excess tax benefit from stock-based compensation of $7.9 million. Also contributing to the cash provided by operating activities were additions to deferred revenue of $49.7 million, less amortization of deferred revenue of $20.4 million. Cash flow during the period was increased by the net change in working capital components of $8.8 million.

The increase in net cash flows from operating activities during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 is primarily a result of additional earnings and synergies realized from our Fiscal 2016 acquisitions, and a $16.1 million decrease in cash paid for interest, net of capitalized interest and organic growth.

Cash Flows used in Investing Activities

We used cash in investing activities of $206.8 million and $159.5 million during the three months ended September 30, 2016 and 2015, respectively. During the three months ended September 30, 2016, our uses of cash for investing activities were primarily related to additions to property and equipment.

During the three months ended September 30, 2015, our principal uses of cash for investing activities were primarily $159.2 million in additions to property and equipment.

Cash Flows (used in)/provided by Financing Activities

Our net cash (used in)/provided by financing activities was $(1.7) million and $2.6 million during the three months ended September 30, 2016 and 2015, respectively.

Our cash flows used in financing activities during the three months ended September 30, 2016 were primarily comprised of $1.0 million in principal payments on capital lease obligations and a $0.7 million payment of debt issuance costs.

During the three months ended September 30, 2015, our cash flows provided by financing activities were primarily comprised of a $7.9 million excess tax benefit from stock-based compensation offset by $4.1 million in principal payments on long-term debt and $1.2 million in principal payments on capital lease obligations.

Off-Balance Sheet Arrangements

We do not have any special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we do not engage in leasing, hedging, or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the condensed consolidated financial statements, (ii) disclosed in Note 10 - Commitments and Contingencies to the condensed consolidated financial statements, or in the Future Contractual Obligations table included in Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report or (iii) discussed under “Item 3: Quantitative and Qualitative Disclosures About Market Risk” below.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk consists of changes in interest rates from time to time and market risk arising from changes in foreign currency exchange rates that could impact our cash flows and earnings.

As of September 30, 2016, we had outstanding $1,430.0 million 2023 Unsecured Notes and $900.0 million 2025 Unsecured Notes (collectively, the “Notes”), a balance of $1,837.4 million on our Term Loan Facility, and $51.9 million of capital lease obligations. As of September 30, 2016, we had $442.1 million available for borrowing under our Revolver, subject to certain conditions.

Table of Contents

Based on current market interest rates for debt of similar terms and average maturities and based on recent transactions, we estimate the fair value of our Notes to be $2,460.0 million as of September 30, 2016. Our 2023 Unsecured Notes and 2025 Unsecured Notes accrue interest at fixed rates of 6.00% and 6.375%, respectively.

Both our Revolver and our Term Loan Facility accrue interest at floating rates subject to certain conditions. As of September 30, 2016, the weighted average interest rates (including margin) on the Term Loan Facility and our Revolver were approximately 3.75% and 3.6%, respectively. A hypothetical increase in the applicable interest rate on our Term Loan Facility of one percentage point would increase our annual interest expense by 0.8% or $15.5 million, which is limited as a result of the applicable interest rate as of September 30, 2016 being below the Credit Agreement's 1.0% LIBOR floor. A hypothetical increase of one percentage point above the LIBOR floor would increase the Company's annual interest expense by approximately $18.4 million before considering the offsetting effects of our interest rate swaps.

In August 2012, we entered into interest rate swap agreements with an aggregate notional value of $750.0 million and a maturity date of June 30, 2017. The contracts state that we pay a 1.67% fixed rate of interest for the term of the agreements, beginning June 30, 2013. The counterparties pay to us the greater of actual LIBOR or 1.25%. We entered into the swap arrangements to reduce the risk of increased interest costs associated with potential future increases in LIBOR rates. A hypothetical increase in LIBOR rates of 100 basis points would increase the fair value of our interest rate swaps by approximately $3.9 million.

We are exposed to the risk of changes in interest rates if it is necessary to seek additional funding to support the expansion of our business and to support acquisitions. The interest rate that we may be able to obtain on future debt financings will be dependent on market conditions.

We have exposure to market risk arising from foreign currency exchange rates. During the three months ended September 30, 2016, our foreign activities accounted for 31% of our consolidated revenue. We monitor foreign markets and our commitments in such markets to assess currency and other risks. A 1% increase in foreign exchange rates would change consolidated revenue by approximately $1.6 million for the three months ended September 30, 2016. To date, we have not entered into any hedging arrangement designed to limit exposure to foreign currencies. As a result of our European expansion related to our acquisitions of Geo Networks Limited and Neo Telecoms as well as our recently closed acquisitions of Viatel and Allstream our level of foreign activities is expected to increase and if it does, we may determine that such hedging arrangements would be appropriate and will consider such arrangements to minimize our exposure to foreign exchange risk.

We do not have any material commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

Our management, including our Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Our Chief Executive Officer and Chief Financial Officer concluded that, as a result of not completing the remediation of material weaknesses in internal control over financial reporting identified and described in Item 9A of our Annual Report on Form 10-K for the year ended June 30, 2016, our disclosure controls and procedures were not effective as of September 30, 2016.

As previously disclosed in our Annual Report for the year ended June 30, 2016, the evaluation of the effectiveness of our internal control over financial reporting determined that the Company's internal control over financial reporting was not effective as of June 30, 2016 because of the material weaknesses described below. The material weaknesses were caused by the Company not having a sufficient number of employees that were adequately trained with respect to COSO 2013 Framework, and the Company not conducting timely monitoring activities to determine the effective operation of control activities within the information technology organization and revenue recognition with respect to collectability criterion.

The control deficiencies resulted in no misstatements in our consolidated financial statements as of and for the fiscal year ended June 30, 2016. These control deficiencies create a reasonable possibility that a material misstatement to our consolidated financial statements will not be prevented or detected on a timely basis, and therefore we concluded in Item 9A of our Annual Report for the year ended June 30, 2016 that the deficiencies represent material weaknesses in our internal control over financial reporting as of June 30, 2016.

Management's Remediation Plan

Management is committed to remediating the control deficiencies and has been actively engaged in developing remediation plans to address the above control deficiencies. Management is responsible for implementing changes and improvements in our internal control over financial reporting and for remediating the control deficiencies that gave rise to the material weaknesses. During the quarter ended September 30, 2016, the Company has taken the following actions to address the material weaknesses in internal controls over financial reporting:

- redesigned user and developer access controls to restrict IT and financial users' access privileges to IT applications commensurate with their assigned responsibilities.
- developed a monitoring process designed to actively monitor program changes and user access activities to ensure that program changes and user access were appropriate and that any deficiencies were investigated and remediated.
- designed an enhanced set of internal controls around revenue recognition collectability criterion. Specifically, management documented expectations, criteria for investigation, and the level of precision used in the performance of the review control, and how outliers were addressed.
- Management started conducting additional training regarding evidence standards for documenting operating effectiveness of internal control over financial reporting.

Management has started to perform certain of the additional controls described above during the quarter; however, because the reliability of the internal control process requires repeatable execution, the successful remediation of these material weaknesses will require review and evidence of effectiveness prior to concluding that the controls are effective and there is no assurance that additional remediation steps will not be necessary. Our remediation of the material weaknesses in our internal control over financial reporting is ongoing, however, we expect that the remediation of these material weaknesses will be completed by June 30, 2017.

Further, we are also in process of hiring additional personnel to assist with remediation efforts and internal control execution, as well as providing additional training for existing personnel.

Table of Contents

Changes in Internal Controls over Financial Reporting

Other than the actions taken as described above under “Management’s Remediation Plan” there were no changes in the Company’s internal control over financial reporting during the quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. We continue to implement the remediation plan outlined above to remediate the material weaknesses identified as part of our annual controls assessment.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we are from time to time party to various litigation matters that we believe are incidental to the operation of our business. We record an appropriate provision when the occurrence of loss is probable and can be reasonably estimated. We cannot estimate with certainty our ultimate legal and financial liability with respect to any such pending litigation matters and it is possible one or more of them could have a material adverse effect on us. However, we believe that the outcome of such pending litigation matters will not have a material adverse effect upon our results of operations, our consolidated financial condition or our liquidity.

ITEM 1A. RISK FACTORS

Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2016 sets forth information relating to other important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. Those risk factors, in addition to the other information set forth in this report, continue to be relevant to an understanding of our business, financial condition and operating results for the quarter ended September 30, 2016.

There have been no material changes in our risk factors from those disclosed in our Annual Report.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
3.1**	Amended and Restated Certificate of Incorporation of Zayo Group Holdings, Inc. (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-8 filed with the SEC on November 4, 2014, File No. 333-199856).
3.2**	Amended and Restated Bylaws of Zayo Group Holdings, Inc. (incorporated by reference to Exhibit 3.2 of our Registration Statement on Form S-8 filed with the SEC on November 4, 2014, File No. 333-199856).
4.1**	Indenture, dated as of January 23, 2015, among Zayo Group, LLC, Zayo Capital, Inc., the guarantors party thereto and The Bank of New York Mellon Trust Company N.A., as trustee (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed with the SEC on January 23, 2015, File No. 001-36690).
4.2**	Indenture, dated as of May 6, 2015, between Zayo Group, LLC, Zayo Capital, Inc., the guarantors party thereto and The Bank of New York Mellon Trust Company N.A., as trustee (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed with the SEC on May 7, 2015, File No. 001-36690).
10.1**	Repricing Amendment to Amended and Restated Credit Agreement, dated as of July 22, 2016, by and among Zayo Group, LLC, Zayo Capital, Inc., Morgan Stanley Senior Funding, Inc., as term facility administrative agent, SunTrust Bank, as revolving facility administrative agent, and the other lenders signatory thereto (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on July 25, 2016, File No. 001-36690).
10.2*+	2014 Stock Incentive plan (as amended on August 23, 2016).
10.3*+	Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Part A Awards).
10.4*+	Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Part B Awards).
10.5*+	Employment Agreement, dated as of July 27, 2016, by and between Zayo Group, LLC and John F. Waters, Jr.
10.6*+	Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (One-time Sign-On RSUs for John F. Waters, Jr.).
31.1*	Certification of Chief Executive Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32*	Certification of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial Statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statement of Stockholder’s Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

* Filed/furnished herewith.

** Previously filed and incorporated herein by reference.

+Management contract and/or compensatory plan or arrangement.

Table of Contents

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.

	Zayo Group Holdings, Inc.	
Date: November 8, 2016	By:	/s/ Dan Caruso Dan Caruso Chief Executive Officer
Date: November 8, 2016	By:	/s/ Ken desGarennes Ken desGarennes Chief Financial Officer