

Zayo Group Holdings, Inc.
Form 10-Q
February 08, 2019

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 December 31, 2018

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 | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |

1821 30th Street, Unit A,
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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 February 4, 2019, was 234,878,205 shares.

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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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)

| | December 31, 2018 | June 30, 2018 |
|--|-------------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 176.4 | \$ 256.7 |
| Trade receivables, net of allowance of \$12.2 and \$11.1 as of December 31, 2018 and June 30, 2018, respectively | 202.8 | 235.6 |
| Prepaid expenses | 74.7 | 74.1 |
| Other current assets | 26.1 | 29.7 |
| Assets held for sale | — | 41.8 |
| Total current assets | 480.0 | 637.9 |
| Property and equipment, net | 5,582.3 | 5,427.6 |
| Intangible assets, net | 1,163.8 | 1,212.1 |
| Goodwill | 1,706.6 | 1,719.1 |
| Deferred income taxes, net | 33.3 | 37.6 |
| Other assets | 171.4 | 175.6 |
| Total assets | \$ 9,137.4 | \$ 9,209.9 |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 48.2 | \$ 45.9 |
| Accrued liabilities | 253.3 | 312.3 |
| Accrued interest | 72.7 | 72.6 |
| Current portion of long-term debt | 5.0 | 5.0 |
| Capital lease obligations, current | 16.0 | 11.9 |
| Deferred revenue, current | 167.3 | 162.9 |
| Liabilities associated with assets held for sale | — | 6.1 |
| Total current liabilities | 562.5 | 616.7 |
| Long-term debt, non-current | 5,902.6 | 5,690.1 |
| Capital lease obligation, non-current | 165.9 | 121.6 |
| Deferred revenue, non-current | 1,101.8 | 1,076.3 |
| Deferred income taxes, net | 172.3 | 147.1 |

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| | | |
|--|------------|------------|
| Other long-term liabilities | 50.5 | 57.8 |
| Total liabilities | 7,955.6 | 7,709.6 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity | | |
| Preferred stock, \$0.001 par value - 50,000,000 shares authorized; no shares issued and outstanding as of December 31, 2018 and June 30, 2018, respectively | — | — |
| Common stock, \$0.001 par value - 850,000,000 shares authorized; 234,851,738 and 246,438,483 shares issued and outstanding as of December 31, 2018 and June 30, 2018, respectively | 0.2 | 0.2 |
| Additional paid-in capital | 1,530.7 | 1,881.6 |
| Accumulated other comprehensive loss | (35.4) | (15.5) |
| Accumulated deficit | (313.7) | (366.0) |
| Total stockholders' equity | 1,181.8 | 1,500.3 |
| Total liabilities and stockholders' equity | \$ 9,137.4 | \$ 9,209.9 |

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

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions, except per share data)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|------------------------------------|----------|----------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 639.1 | \$ 653.1 | \$ 1,280.2 | \$ 1,296.2 |
| Operating costs and expenses | | | | |
| Operating costs (excluding depreciation and amortization and including stock-based compensation—Note 9) | 222.0 | 232.0 | 450.4 | 467.7 |
| Selling, general and administrative expenses (including stock-based compensation—Note 9) | 125.5 | 122.2 | 247.6 | 250.3 |
| Depreciation and amortization | 146.9 | 195.7 | 314.7 | 379.5 |
| Total operating costs and expenses | 494.4 | 549.9 | 1,012.7 | 1,097.5 |
| Operating income | 144.7 | 103.2 | 267.5 | 198.7 |
| Other expenses | | | | |
| Interest expense | (84.0) | (73.1) | (166.2) | (146.7) |
| Loss on extinguishment of debt | — | — | — | (4.9) |
| Foreign currency (loss)/gain on intercompany loans | (8.3) | 3.1 | (12.9) | 13.9 |
| Other income, net | 0.3 | 0.4 | 6.9 | 1.3 |
| Total other expenses, net | (92.0) | (69.6) | (172.2) | (136.4) |
| Income from operations before income taxes | 52.7 | 33.6 | 95.3 | 62.3 |
| Provision for income taxes | 22.5 | 20.4 | 43.0 | 25.8 |
| Net income | \$ 30.2 | \$ 13.2 | \$ 52.3 | \$ 36.5 |
| Weighted-average shares used to compute net income per share: | | | | |
| Basic | 237.1 | 247.4 | 241.8 | 246.9 |
| Diluted | 238.8 | 249.3 | 243.5 | 249.2 |
| Net income per share: | | | | |
| Basic | \$ 0.13 | \$ 0.05 | \$ 0.22 | \$ 0.15 |
| Diluted | \$ 0.13 | \$ 0.05 | \$ 0.21 | \$ 0.15 |

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

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|---------|----------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 30.2 | \$ 13.2 | \$ 52.3 | \$ 36.5 |
| Foreign currency translation adjustments, net of tax | (30.6) | 0.8 | (22.4) | 22.9 |
| Defined benefit pension plan adjustments, net of tax | 4.4 | (5.0) | 2.5 | (5.0) |
| Comprehensive income | \$ 4.0 | \$ 9.0 | \$ 32.4 | \$ 54.4 |

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

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

SIX MONTHS ENDED DECEMBER 31, 2018

(in millions, except share data)

| | Common Shares | Common Stock | Additional paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|--|------------------|-----------------|----------------------------------|---|------------------------|----------------------------------|
| Balance at June 30, 2018 | 246,438,483 | \$ 0.2 | \$ 1,881.6 | \$ (15.5) | \$ (366.0) | \$ 1,500.3 |
| Stock-based compensation | 1,387,147 | — | 51.6 | — | — | 51.6 |
| Foreign currency translation adjustment | — | — | — | (22.4) | — | (22.4) |
| Repurchase and retirement of common shares | (12,973,892) | — | (402.5) | — | — | (402.5) |
| Defined benefit pension plan adjustments | — | — | — | 2.5 | — | 2.5 |
| Net income | — | — | — | — | 52.3 | 52.3 |
| Balance at December 31, 2018 | 234,851,738 | \$ 0.2 | \$ 1,530.7 | \$ (35.4) | \$ (313.7) | \$ 1,181.8 |

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

ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)

| | Six Months Ended December 31, | |
|--|----------------------------------|----------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net income | \$ 52.3 | \$ 36.5 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 314.7 | 379.5 |
| Loss on extinguishment of debt | — | 4.9 |
| Gain on sale of SRT | (5.5) | — |
| Non-cash interest expense | 5.0 | 4.8 |
| Stock-based compensation | 52.9 | 51.3 |
| Amortization of deferred revenue | (74.3) | (65.6) |
| Foreign currency loss/(gain) on intercompany loans | 12.9 | (13.9) |
| Deferred income taxes | 32.4 | 17.2 |
| Provision for bad debts | 4.1 | 2.3 |
| Non-cash loss on investments | 0.6 | 0.3 |
| Changes in operating assets and liabilities, net of acquisitions | | |
| Trade receivables | 22.9 | (41.5) |
| Accounts payable and accrued liabilities | (26.9) | 29.2 |
| Additions to deferred revenue | 81.1 | 61.9 |
| Other assets and liabilities | 0.2 | (10.2) |
| Net cash provided by operating activities | 472.4 | 456.7 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (384.7) | (386.8) |
| Proceeds from sale of SRT, net of cash held in escrow | 39.0 | — |
| Other | — | (0.2) |
| Net cash used in investing activities | (345.7) | (387.0) |
| Cash flows from financing activities | | |
| Proceeds from debt | 250.0 | 312.8 |
| Principal payments on long-term debt | (42.5) | (313.2) |
| Principal payments on capital lease obligations | (4.0) | (4.0) |
| Payment of debt issue costs | — | (3.4) |
| Common stock repurchases | (402.5) | — |
| Cash paid for Santa Clara acquisition financing arrangement and other | (4.6) | (2.6) |
| Net cash used in financing activities | (203.6) | (10.4) |
| Net cash flows | (76.9) | 59.3 |
| Effect of changes in foreign exchange rates on cash | (6.8) | 1.0 |
| Net increase in cash, cash equivalents and restricted cash | (83.7) | 60.3 |
| Cash, cash equivalents and restricted cash, beginning of year | 261.3 | 225.2 |
| Cash, cash equivalents and restricted cash, end of period | \$ 177.6 | \$ 285.5 |

Supplemental disclosure of non-cash investing and financing activities:

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| | | |
|---|-----------|-----------|
| Cash paid for interest, net of capitalized interest | \$ 153.1 | \$ 136.3 |
| Cash paid for income taxes | \$ 2.7 | \$ 3.1 |
| Non-cash purchases of equipment through capital leasing | \$ 53.0 | \$ 0.3 |
| Non-cash purchases of equipment through nonmonetary exchange | \$ 31.1 | \$ 10.7 |
| Decrease in accounts payable and accrued expenses for purchases of property and equipment | \$ (26.8) | \$ (47.4) |

| Reconciliation of cash, cash equivalents, and restricted cash: | December 31, 2018 | June 30, 2018 | December 31, 2017 | June 30, 2017 |
|--|----------------------|------------------|----------------------|------------------|
| Cash and cash equivalents | \$ 176.4 | \$ 256.7 | \$ 280.8 | \$ 220.7 |
| Restricted cash included in other assets | 1.2 | 4.6 | 4.7 | 4.5 |
| Total cash, cash equivalents and restricted cash | \$ 177.6 | \$ 261.3 | \$ 285.5 | \$ 225.2 |

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

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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 providing access to bandwidth infrastructure. 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 provides communication infrastructure solutions, including fiber and bandwidth connectivity, colocation and cloud infrastructure, to businesses primarily in the United States (“U.S.”), Canada and Europe. The Company provides its products and offerings through six segments:

- Fiber Solutions, including dark fiber and mobile infrastructure solutions.
- Transport, including Ethernet, wavelength, wholesale IP and SONET solutions.
- Enterprise Networks, including private lines, dedicated Internet and cloud-based computing and storage products.
- Colocation, including provision of colocation space and power and interconnection offerings.
- Allstream, including Cloud VoIP and Data Solutions.
- Other offerings, including Zayo Professional Services (“ZPS”).

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

On May 3, 2018, the Company announced that it completed the first phase of its investigation on the advisability and feasibility of a conversion to a real estate investment trust for U.S. federal income tax purposes (a “REIT”). The Company has begun the next phase of its evaluation and preparation for a potential conversion to a REIT. As part of these efforts, the Company has begun a direct dialogue with the U.S. Internal Revenue Service (“IRS”) in an effort to obtain clarity and support for its position, and is seeking a private letter ruling (“PLR”) from the IRS. The Company’s ability to qualify for taxation as a REIT will depend upon its continuing compliance following REIT conversion with various requirements, including requirements related to the nature of its assets, the sources of its income and the distributions to its stockholders.

The Company is requesting that the PLR address whether the Company’s revenues from dark and lit fiber satisfy applicable REIT income tests, and the Company’s ultimate decision to convert to a REIT may depend upon a favorable ruling from the IRS on this topic. The Company submitted a PLR request to the IRS in July 2018, but the IRS may not provide a response until later in 2019 or later or may not respond at all.

On November 7, 2018, the Company announced plans to separate into two publicly traded companies- one to focus on providing communications infrastructure and another to leverage infrastructure to provide solutions for enterprise customers- with the core tenets of the plan being simplification of the business and a focus on a communications infrastructure business. The Company is evaluating multiple options that will achieve the core tenets of the plan and maximize shareholder value.

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

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

accompanying condensed 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 condensed consolidated financial statements should, therefore, be read in conjunction with the consolidated financial statements and notes thereto for the year ended June 30, 2018 included in the Company’s Annual Report on Form 10-K/A for the year ended June 30, 2018. 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. The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of the operating results for any future interim period or the full year. Unless otherwise noted, dollar amounts and disclosures throughout the notes to the condensed consolidated financial statements are presented in millions of dollars.

The Company’s fiscal year ends June 30 each year, and we refer to the fiscal year ending June 30, 2020 as “Fiscal 2020”, the fiscal year ending June 30, 2019 as “Fiscal 2019” and the fiscal year ending June 30, 2018 as “Fiscal 2018”.

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. 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, determining the fair value of plan assets related to post-employment benefits and estimating certain 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.

Significant Accounting Policies

On July 1, 2018, the Company adopted the requirements of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASC 606”). See “Recently Adopted Accounting Pronouncements” below and Note 13

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– Revenue and Contract Costs for additional disclosure on the Company’s adoption of ASC 606 and its impact on the condensed consolidated financial statements.

There have been no other changes to the Company’s significant accounting policies as described in its Annual Report on Form 10-K/A for the year ended June 30, 2018.

Recently Issued Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to reclassify the income tax effects resulting from tax bill H.R.1 from

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

accumulated other comprehensive income to retained earnings. The standard also requires certain new disclosures regardless of the election. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (Fiscal 2020 for the Company), with early adoption permitted. The Company does not expect ASU 2018-02 to have a material impact on the 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 (ASC 606). 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 (Fiscal 2020 for the Company). Early adoption is permitted. The standard will require application of the new guidance at the beginning of the earliest comparative period presented using a modified retrospective transition, and provides for certain practical expedients. The Company established a project team and commenced an initial impact assessment process. To date, the Company has reviewed a sample of lessee and lessor arrangements and made preliminary assessments of the impact this standard will have on the consolidated financial statements. Although it is still assessing the impact of this standard, the Company expects the new guidance to significantly increase the reported assets and liabilities on the consolidated balance sheets. There are currently no plans to early adopt ASU 2016-02.

Recently Adopted Accounting Pronouncements

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires an employer to report the service cost component of net periodic pension cost and net periodic postretirement cost in the same line item in the statement of operations as other compensation costs arising from services rendered by the related employees during the period. The other net cost components are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations. Additionally, the line item used in the statement of operations to present the other net cost components must be disclosed in the notes to the financial statements. This ASU is effective for fiscal years beginning after December 15, 2017 (Fiscal 2019 for the Company), and interim periods within those fiscal years, and must be applied on a retrospective basis. The adoption did not result in a material impact to the condensed consolidated financial statements for either of the three and six months ended December 31, 2018 or 2017 and retrospective application was applied.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires a statement of cash flows to explain the change during the period in the total of cash, cash

equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 (Fiscal 2019 for the Company). The retrospective adoption of this accounting standard did not have a material impact on its condensed consolidated financial statements.

In August 2016, the FASB issued 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

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 (Fiscal 2019 for the Company). The retrospective adoption of this accounting standard did not have a material impact on its condensed consolidated financial statements.

In May 2014, the FASB issued ASC 606, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from certain contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and addressed accounting for costs to acquire and fulfill contracts. The standard does not impact the manner in which the Company accounts for revenue arrangements accounted for as leases. Effective July 1, 2018, the Company adopted the requirements of ASC 606 and used the full retrospective transition method. The full retrospective transition method requires the Company to restate each prior reporting period presented. The Company has implemented internal controls and system functionality to enable the preparation of financial information in accordance with ASC 606.

The adoption of ASC 606 has an impact on the manner in which the Company recognizes revenue associated with dark fiber sales that include the transfer of title to certain network assets, which prior to ASC 606 was considered a sale of real estate or integral equipment. Under previous GAAP, the Company deferred the recognition of revenue on the sale of network infrastructure assets that were considered to be integral equipment if the Company had a substantial continuing involvement in the transferred asset. The consideration received in this type of arrangement had historically been amortized to revenue ratably over the period in which the Company had a substantial continuing involvement in the transferred asset. Under ASC 606 the asset transferred in this type of arrangement is derecognized from the balance sheet and the amount of the transaction price attributable to the asset being sold is recognized upon customer acceptance. This change had an impact of (decreasing)/increasing the revenue previously reported by the Company during the years ended June 30, 2018 and 2017 by (\$1.5) million and \$20.5 million, respectively. The full retrospective adoption of ASC 606 also resulted in increasing the previously reported operating costs during the year ended June 30, 2017 by \$18.8 million, which represents the net book value of assets transferred to customers in these types of arrangements during Fiscal 2017.

The assets transferred in these real estate sales had historically been included in property and equipment, net on the Company's balance sheet. Upon the adoption of ASC 606, the net book value of these assets of \$19.6 million was removed from the Company's condensed consolidated balance sheet. The Company also derecognized from its June 30, 2018 balance sheet \$1.5 million and \$20.5 million in related deferred revenue, current and non-current, respectively, which represented the unamortized consideration received on these arrangements.

An additional impact from the adoption of ASC 606 is the accounting for the incremental costs of acquiring new service contracts, including certain compensation expense for internal sales representatives. Under ASC 606, the Company capitalizes these incremental costs of obtaining customer contracts and amortizes the expense over the relevant contract term. In addition, the Company will assess its deferred contract cost asset for impairment on a periodic basis. Prior to the adoption of ASC 606, compensation paid to internal sales representatives for obtaining new service contracts was expensed as incurred. The impact of the retrospective adoption of ASC 606 resulted in an increase to selling, general and administrative expenses as previously reported by the Company during the years ended June 30, 2018 and 2017 by \$1.1 million and \$0.2 million, respectively. Additionally, the Company recorded an increase to the previously reported other current assets and other assets on the consolidated balance sheet as of June 30, 2018 of \$7.1 million and \$5.6 million, respectively, to reflect the deferred cost of acquiring service contracts that will be recognized in future periods over the relevant contract term.

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below presents the impact the full retrospective adoption of ASC 606 had on the Company's condensed statement of operations for the years ended June 30, 2018 and 2017 and each of the quarters of Fiscal 2018:

| | Fiscal Year ended | | Quarter Ended (unaudited) | | | |
|--|-------------------|------------------|---------------------------|-------------------------|----------------------|---------------------|
| | June 30, 2018 | June 30, 2017 | September 30, 2017 | December 31, 2017 | March 31, 2018 | June 30, 2018 |
| | (in millions) | | | | | |
| Revenue | \$ (1.5) | \$ 20.5 | \$ (0.4) | \$ (0.4) | \$ (0.4) | \$ (0.3) |
| Operating costs | — | 18.8 | — | — | — | — |
| Selling, general and administrative expenses | 1.1 | 0.2 | (0.2) | 0.6 | (0.3) | 1.0 |
| Depreciation and amortization | (0.9) | (0.7) | (0.3) | (0.3) | (0.2) | (0.1) |
| Provision for income taxes | (2.7) | 0.8 | — | (2.5) | — | (0.2) |
| Net income | 1.0 | 1.4 | 0.1 | 1.8 | 0.1 | (1.0) |

The table below presents the impact the full retrospective adoption of ASC 606 had on the Company's consolidated balance sheet for the year ended June 30, 2018:

| | As of June 30, 2018 | | |
|-------------------------------|---|-----------------------|----------------|
| | As Previously Reported (in millions) | Effect of Adoption | As Adjusted |
| Assets | | | |
| Other current assets | \$ 22.6 | \$ 7.1 | \$ 29.7 |
| Property and equipment, net | \$ 5,447.2 | \$ (19.6) | \$ 5,427.6 |
| Other assets | \$ 170.0 | \$ 5.6 | \$ 175.6 |
| Liabilities | | | |
| Deferred revenue, current | \$ 164.4 | \$ (1.5) | \$ 162.9 |
| Deferred revenue, non-current | \$ 1,096.8 | \$ (20.5) | \$ 1,076.3 |
| Deferred income taxes, net | \$ 143.2 | \$ 3.9 | \$ 147.1 |
| Stockholders' equity | | | |
| Accumulated deficit | \$ (377.2) | \$ 11.2 | \$ (366.0) |

(2) EARNINGS PER SHARE

Basic earnings per share attributable to the Company's common shareholders is computed by dividing net earnings attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings 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.

The Company's computation of diluted income per share included an adjustment of 1.7 million shares for each of the three and six months ended December 31, 2018 and included an adjustment of 1.9 million and 2.3 million shares for the three and six months ended December 31, 2017, respectively, to the basic weighted-average shares to account for the dilutive effect of the Part A and Part B restricted stock units ("RSUs") and related issuance of common shares upon vesting (see Note 9 – Stock-based Compensation) (calculated using the treasury method).

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(3) ACQUISITIONS AND DISPOSITIONS

Since inception through December 31, 2018, the Company has consummated 45 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.

Acquisitions Completed During Fiscal 2018

Neutral Path Communications

On April 17, 2018, the Company acquired substantially all of the assets of Neutral Path Communications and Near North Partners (collectively, "Neutral Path") for \$33.3 million, which is net of cash acquired and also included an estimate for a contingent payment based on sales performance through June 30, 2018. The purchase price is subject to net working capital and certain post-closing adjustments. As of December 31, 2018, \$4.0 million of the purchase consideration is being held in escrow pending the expiration of the indemnification adjustment period. The all-cash acquisition was funded with cash on hand and was considered an asset purchase for U.S. federal income tax purposes. Neutral Path is a long haul infrastructure provider, providing access to a fiber network section in the Midwest. The transaction added owned plus additional leased route miles to the Company's extensive North American network, including a unique high-count fiber route from Minneapolis to Omaha.

McLean Data Center

On April 4, 2018, the Company acquired McLean Data Center, a privately owned data center, for an insignificant amount. The acquisition was considered an asset purchase for U.S. federal income tax purposes and a business combination for accounting purposes. The Company assumed an operating lease obligation and acquired certain assets, such as cash, structural components, equipment, and assumed customer contracts.

Spread Networks

On February 28, 2018, the Company acquired Spread Networks, LLC (“Spread Networks”), a privately owned telecommunications provider that owns and offers access to a high-fiber count long haul route connecting New York and Chicago, for net purchase consideration of \$130.5 million, net of cash acquired, subject to certain post-closing adjustments. As of December 31, 2018, \$0.6 million of the purchase consideration is being held in escrow pending the expiration of the indemnification adjustment period. The all-cash acquisition was funded with cash on hand and debt and was considered an asset purchase for U.S. federal income tax purposes. Additional connectivity of the route will be enabled by Zayo’s existing network.

Optic Zoo Networks

On January 18, 2018, the Company acquired Vancouver, BC Canada-based Optic Zoo Networks for net purchase consideration of CAD \$30.9 million (or \$24.8 million), net of cash acquired, subject to certain post-closing adjustments. Optic Zoo Networks owns and provides access to high-capacity fiber in Vancouver. As of December 31, 2018, CAD \$3.1 million (or \$2.3 million) of the purchase consideration is being held in escrow pending the expiration of the

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indemnification adjustment period. The acquisition was funded with cash on hand and was considered a stock purchase for U.S. federal income 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 December 31, 2018, for the Optic Zoo Networks and McLean Data Center acquisitions, the Company has completed its fair value analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair value of working capital and non-working capital acquired assets and assumed liabilities, including the allocations to goodwill and intangible assets, property and equipment and resulting deferred taxes. For the Spread Networks acquisition, the items with the highest likelihood of change are working capital related accounts and goodwill. For the Neutral Path acquisition, the Company has not completed its fair value analysis and related calculations, and the Company continues to refine its estimates of the fair value of working capital and non-working capital acquired assets and assumed liabilities and such estimates are subject to revision pending the final fair value determination. As a result of integrated reporting, it is impracticable to determine the amount of revenue and net income associated with each acquisition recognized in the post-acquisition period.

The table below reflects the Company's estimates of the acquisition date fair values of the assets acquired and liabilities assumed from its Fiscal 2018 acquisitions:

| | Neutral Path | McLean Data Center | Spread Networks | Optic Zoo Networks |
|------------------|-------------------|--------------------------|----------------------|-----------------------|
| Acquisition date | April 17, 2018 | April 4, 2018 | February 28, 2018 | January 18, 2018 |
| | (in millions) | | | |
| Cash | \$ 0.7 | \$ 9.2 | \$ 1.5 | \$ 1.4 |

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| | | | | |
|-----------------------------|---------|----------|----------|---------|
| Other current assets | 0.2 | — | 4.2 | 0.4 |
| Property and equipment | 15.2 | 0.6 | 143.7 | 13.1 |
| Intangibles | 6.9 | — | 9.3 | 3.8 |
| Goodwill | 15.9 | — | 14.4 | 10.4 |
| Deferred tax assets | 1.5 | — | 7.1 | — |
| Other assets | — | — | 1.4 | 0.2 |
| Total assets acquired | 40.4 | 9.8 | 181.6 | 29.3 |
| Current liabilities | 0.6 | 1.6 | 2.6 | 0.6 |
| Deferred revenue | 5.8 | — | 27.2 | 1.2 |
| Deferred tax liability, net | — | — | — | 1.3 |
| Other liabilities | — | 8.2 | 19.8 | — |
| Total liabilities assumed | 6.4 | 9.8 | 49.6 | 3.1 |
| Net assets acquired | 34.0 | — | 132.0 | 26.2 |
| Less cash acquired | (0.7) | (9.2) | (1.5) | (1.4) |
| Net consideration paid | \$ 33.3 | \$ (9.2) | \$ 130.5 | \$ 24.8 |

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

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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. See Note 4 – Goodwill for 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 generally 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, travel expense, severance expense incurred associated with acquisitions or disposals, and other direct expenses incurred that are associated with signed and/or closed acquisitions or disposals and unsuccessful acquisitions. The Company incurred transaction costs of \$2.8 million and \$3.5 million for the three and six months ended December 31, 2018, respectively, and \$5.9 million and \$14.2 million for the three and six months ended December 31, 2017, respectively. Included in the three months ended December 31, 2018 transaction costs are \$0.9 million related to divestiture of assets costs. 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.

Scott-Rice Telephone Co.

On July 31, 2018, the Company completed the sale of Scott-Rice Telephone Co. ("SRT"), a Minnesota incumbent local exchange carrier, for \$42.2 million to Nuvera Communications, Inc. (formerly New Ulm Telecom, Inc.). As of December 31, 2018, \$3.2 million of purchase consideration was held in escrow. The Company recognized a pre-tax gain of \$5.5 million on the sale, which is included in other income, net in the condensed consolidated statements of operations. The Company acquired SRT as part of its March 1, 2017 purchase of Electric Lightwave Parent, Inc. and it was included as part of the Allstream segment. SRT had a pre-tax net loss of \$1.6 million for the year ended June 30, 2018 and pre-tax net income of \$2.9 million from when it was acquired in March 1, 2017 through June 30, 2017.

SRT qualified as held-for-sale as of March 31, 2018 and was classified as held-for-sale in the Company's June 30, 2018 balance sheet. The Company concluded that SRT was not a significant disposal group and did not represent a

strategic shift, and therefore was not classified as discontinued operations. The following tables summarize the net assets and liabilities held for sale as of June 30, 2018:

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| | June 30, 2018 (in millions) |
|--|--------------------------------------|
| Assets held for sale: | |
| Property and equipment, net | \$ 35.7 |
| Goodwill | 5.2 |
| Other assets | 0.9 |
| Total assets held for sale | \$ 41.8 |
| Liabilities associated with assets held for sale: | |
| Deferred tax liability, net | \$ 5.1 |
| Other liabilities | 1.0 |
| Total liabilities associated with assets held for sale | \$ 6.1 |

(4) GOODWILL

The Company's goodwill balance was \$1,706.6 million and \$1,719.1 million as of as of December 31, 2018 and June 30, 2018, respectively.

The Company's reporting units are comprised of its strategic product groups ("SPG" or "SPGs"). Effective April 1, 2018, the Company implemented further organizational changes by creating two new reporting units: CloudLink Solutions ("CloudLink") and Live Video Solutions ("Live Video"). In connection with the organizational change, goodwill was re-allocated to the Company's SPGs on a relative fair value basis. The Company completed an assessment immediately prior to and after the organizational change at the SPG level and determined that it is more likely than not that the fair value of the Company's reporting units is greater than their carrying amounts.

As of December 31, 2018, the Company's SPGs were comprised of the following: Fiber Solutions, Zayo Wavelength Solutions ("Waves"), Zayo SONET Solutions ("SONET"), Zayo Ethernet Solutions ("Ethernet"), Live Video, Wide Area Networks ("WANs", formerly Enterprise Private and Connectivity), Zayo Cloud Solutions ("Cloud"), Zayo Colocation ("zColo"), CloudLink, Allstream, and Other (primarily Zayo Professional Services).

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The following reflects the changes in the carrying amount of goodwill during the six months ended December 31, 2018:

| Product Group | As of June 30, 2018 (in millions) | Adjustments to Fiscal 2018 Acquisitions | Foreign Currency Translation and Other | As of December 31, 2018 |
|-----------------|---|--|--|-------------------------------|
| Fiber Solutions | \$ 756.4 | \$ (5.3) | \$ (3.6) | \$ 747.5 |
| Waves | 194.8 | (1.2) | (1.5) | 192.1 |
| Sonet | 87.6 | — | — | 87.6 |
| Ethernet | 104.2 | (0.2) | (0.1) | 103.9 |
| Live Video | 3.3 | — | — | 3.3 |
| WANs | 179.3 | — | (0.2) | 179.1 |
| zColo | 260.1 | — | (0.4) | 259.7 |
| Cloud | 65.3 | — | — | 65.3 |
| Cloudlink | 13.5 | — | — | 13.5 |
| Allstream | 39.0 | — | — | 39.0 |
| Other | 15.6 | — | — | 15.6 |
| Total | \$ 1,719.1 | \$ (6.7) | \$ (5.8) | \$ 1,706.6 |

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(5) INTANGIBLE ASSETS

Identifiable intangible assets as of December 31, 2018 and June 30, 2018 were as follows:

| | Gross Carrying Amount (in millions) | Accumulated Amortization | Net |
|------------------------------------|--|-----------------------------|------------|
| December 31, 2018 | | | |
| Finite-Lived Intangible Assets | | | |
| Customer relationships | \$ 1,595.2 | \$ (451.7) | \$ 1,143.5 |
| Underlying rights and other | 3.4 | (1.1) | 2.3 |
| Total | 1,598.6 | (452.8) | 1,145.8 |
| Indefinite-Lived Intangible Assets | | | |
| Certifications | 3.5 | — | 3.5 |
| Underlying rights and other | 14.5 | — | 14.5 |
| Total | \$ 1,616.6 | \$ (452.8) | \$ 1,163.8 |
| June 30, 2018 | | | |
| Finite-Lived Intangible Assets | | | |
| Customer relationships | \$ 1,597.0 | \$ (405.6) | \$ 1,191.4 |
| Underlying rights and other | 2.7 | (0.6) | 2.1 |
| Total | 1,599.7 | (406.2) | 1,193.5 |
| Indefinite-Lived Intangible Assets | | | |
| Certifications | 3.5 | — | 3.5 |
| Underlying rights and other | 15.1 | — | 15.1 |
| Total | \$ 1,618.3 | \$ (406.2) | \$ 1,212.1 |

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(6) LONG-TERM DEBT

As of December 31, 2018 and June 30, 2018, long-term debt was as follows:

| | Date of Issuance or most recent amendment | Maturity | Interest Payments | Interest Rate | Outstanding as of | |
|-------------------------------|---|----------|-------------------|---------------|-------------------|---------------|
| | | | | | December 31, 2018 | June 30, 2018 |
| Term Loan Facility due 2021 | Jan 2017 | Jan 2021 | Monthly | LIBOR +2.00% | \$ 491.3 | \$ 493.8 |
| B-2 Term Loan Facility | Feb 2018 | Jan 2024 | Monthly | LIBOR +2.25% | 1,269.3 | 1,269.3 |
| 6.00% Senior Unsecured Notes | Jan & Mar 2015 | Apr 2023 | Apr/Oct | 6.00% | 1,430.0 | 1,430.0 |
| 6.375% Senior Unsecured Notes | May 2015 & Apr 2016 | May 2025 | May/Nov | 6.375% | 900.0 | 900.0 |
| 5.75% Senior Unsecured Notes | Jan, Apr & Jul 2017 | Jan 2027 | Jan/Jul | 5.75% | 1,650.0 | 1,650.0 |
| Revolving Loan Facility | Dec 2018 (1) | Apr 2020 | Monthly | LIBOR +1.75% | 210.0 | — |
| Total obligations | | | | | 5,950.6 | 5,743.1 |
| Unamortized premium, net | | | | | 11.7 | 11.6 |
| | | | | | (54.7) | (59.6) |

| | | |
|---|------------|------------|
| Unamortized debt issuance costs | | |
| Carrying value of debt | 5,907.6 | 5,695.1 |
| Less current portion | (5.0) | (5.0) |
| Total long-term debt, less current portion | \$ 5,902.6 | \$ 5,690.1 |

(1) The most recent issuance on the Revolving Loan Facility was December 2018, the most recent amendment on the Revolving Loan Facility was in December 2017.

Term Loan Facility 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 a portion of the outstanding term loans under the Term Loan Facility from July 2, 2019 to May 6, 2021, which was subsequently revised to January 19, 2021 in Incremental Amendment No. 2 (as defined and discussed below). The terms of the Term Loan Facility require the Company to make quarterly principal payments of 25 basis points per quarter of the original loan amount (unless reduced by any prepayments) plus an annual payment of up to 50% of excess cash flow, as determined in accordance with the Credit Agreement (no such annual payment was required during Fiscal 2018).

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 portion of the Term Loan Facility due 2021 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%. No other terms of the Credit Agreement were amended. The Incremental Term Loan proceeds were used to fund the acquisition of Allstream, Inc. and Allstream Fiber U.S. Inc. 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 Repricing Amendment, the Incremental Term Loan was repriced at par 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.

On January 19, 2017, ZGL and Zayo Capital entered into an Incremental Amendment No. 2 (the “Incremental Amendment”) to the Company’s Credit Agreement. Per the terms of the Incremental Amendment, the existing \$1.85

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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billion of term loans under the Credit Agreement were repriced at 99.75% with one \$500.0 million tranche that bears interest at a rate of LIBOR plus 2.0%, with a minimum LIBOR rate of 0.0% and a maturity date of four years from incurrence (January 19, 2021), which represents a downward adjustment of 75 basis points along with the lowering of the previous LIBOR floor, and a second \$1.35 billion tranche (the “B-2 Term Loan” and along with the \$500.0 million tranche, the “Refinancing Term Loans”) that bears interest at a rate of LIBOR plus 2.5%, with a minimum LIBOR rate of 1.0% and a maturity of seven years from incurrence, which represents a downward adjustment of 25 basis points. In addition, per the terms of the Incremental Amendment, ZGL and Zayo Capital added a new \$650.0 million term loan tranche under the Credit Agreement (the “Electric Lightwave Incremental Term Loan”) that bears interest at LIBOR plus 2.5%, with a minimum LIBOR rate of 1.0%, with a maturity of seven years from the closing date of the Incremental Amendment. In connection with the Incremental Amendment, the full \$2,500.0 million Term Loan Facility, including the Refinancing Term Loans and the Electric Lightwave Incremental Term Loan, was re-issued at a price of 99.75%. No other material terms of the Credit Agreement with respect to the Refinancing Term Loans and the Electric Lightwave Incremental Term Loan were amended. On April 10, 2017, \$570.1 million of the B-2 Term Loan and the Electric Lightwave Incremental Term Loan was repaid from proceeds of issuance of senior unsecured notes as further discussed below. Additionally, in July 2017, \$310.7 million of the B-2 Term Loan was repaid from the proceeds of issuance of senior unsecured notes as further discussed below.

On July 20, 2017, ZGL and Zayo Capital entered into a second repricing (the “Repricing Amendment No. 2”) to the Credit Agreement. Per the terms of the Repricing Amendment No. 2, the outstanding balances of the B-2 Term Loan and Electric Lightwave Incremental Term Loan were repriced at par to bear interest at a rate of LIBOR plus 2.25%, with a minimum LIBOR rate of 1.0%, which represented a downward adjustment of 25 basis points. No other terms of the Credit Agreement were amended.

In connection with the Repricing Amendment No. 2, the Company recognized an expense of \$4.9 million during the six months ended December 31, 2017 associated with debt extinguishment. The \$4.9 million loss on extinguishment of debt primarily represents non-cash expenses associated with the write-off of unamortized debt issuance costs and the issuance discounts on the portion of the Credit Agreement, as further amended. The loss on extinguishment of debt also includes certain fees paid to third parties involved in the Repricing Amendment No. 2.

On December 22, 2017, ZGL and Zayo Capital entered into a third repricing amendment (the “Repricing Amendment No. 3”) to the Credit Agreement. Per the terms of the Repricing Amendment No. 3, the Revolver under the Credit Agreement was repriced to bear interest at a rate of LIBOR plus 1.00% to LIBOR plus 1.75% per annum based on the Company’s leverage ratio, which represented a downward adjustment of 100 basis points. No other terms of the Credit Agreement were amended. The Revolver matures on April 17, 2020. 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 are subject to a fee of 1.00% to 1.75% per annum based upon ZGL’s leverage ratio.

On February 26, 2018, ZGL and Zayo Capital entered into an amendment (the “Incremental Amendment No. 3”) to the Credit Agreement. Per the terms of the Incremental Amendment No. 3, the Company added a new \$150 million term loan tranche under the Credit Agreement (the “Incremental \$150 Million Term Loan”). The Incremental \$150 Million Term Loan bears interest at LIBOR plus 2.25%, with a minimum LIBOR rate of 1.0%, with a maturity date of January 19, 2024, which is coterminous with the B-2 Term Loan. The Company used the proceeds of the Incremental \$150 Million Term Loan for general corporate purposes, including the funding of acquisitions permitted under the Credit Agreement. No other terms of the Credit Agreement were amended.

The weighted average interest rates (including margin) on the Term Loan Facility were approximately 4.7% and 4.3% as of December 31, 2018 and June 30, 2018, respectively. The weighted average interest rate on the Revolver was

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approximately 4.3% as of December 31, 2018. The interest rate on the Revolver was approximately 3.8% as of June 30, 2018, and there were no borrowings outstanding under the Revolver as of such date.

The Company borrowed \$250.0 million under the Revolver during the three and six months ended December 31, 2018. As of December 31, 2018, \$210.0 million was outstanding under the Revolver and \$1,760.6 million in aggregate principal amount was outstanding under the Term Loan Facility. Standby letters of credit were outstanding in the amount of \$8.2 million as of December 31, 2018, leaving \$231.8 million available under the Revolver. In January 2019, the Company borrowed \$25.0 million under the Revolver and subsequently repaid \$25.0 million, leaving \$231.8 million available under the Revolver.

Senior Unsecured Notes

6.00% Senior Unsecured Notes due 2023

On January 23, 2015 and March 9, 2015, ZGL and Zayo Capital completed private offerings of aggregate principal amounts of \$700.0 million and \$730.0 million, respectively, of 6.00% senior unsecured notes due in 2023 (the “2023 Unsecured Notes”).

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 2025 Unsecured Notes (the “Incremental 2025 Notes”). The Incremental 2025 Notes were priced at 97.76% and were an additional issuance of the \$350.0 million 6.375% senior unsecured notes due in 2025 that were originally issued on May 6, 2015 (the “2025 Notes” and together with the Incremental 2025 Notes, the “2025 Unsecured Notes”). The net proceeds from the Incremental 2025 Notes, plus cash on hand, were used to (i) 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) repay \$196.0 million of borrowings under the then outstanding secured Term Loan Facility.

5.75% Senior Unsecured Notes due 2027

On January 27, 2017, ZGL and Zayo Capital completed a private offering of \$800.0 million aggregate principal amount of 5.75% senior unsecured notes due 2027 (the “January 2027 Notes”), which were issued at par. The net proceeds from the offering, along with the Electric Lightwave Incremental Term Loan discussed above, were used to fund the Electric Lightwave acquisition.

On April 10, 2017, the Company completed a private offering of \$550.0 million aggregate principal amount of 5.75% senior unsecured notes due 2027 (the “Incremental 2027 Notes”). The Incremental 2027 Notes were an additional issuance of the January 2027 Notes and were priced at 104.0%. The net proceeds from the Incremental 2027 Notes were used to repay certain outstanding balances on the Company’s B-2 Term Loan.

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On July 5, 2017, the Company completed a private offering of \$300.0 million aggregate principal amount of 5.75% senior notes due 2027 (the “July Incremental 2027 Notes” and together with the Incremental 2027 Notes and the January 2027 Notes, the “2027 Unsecured Notes”). The July Incremental 2027 Notes were an additional issuance of the January 2027 Notes and Incremental 2027 Notes and were priced at 104.25%. The net proceeds of \$310.7 million from the offering were used to further repay certain outstanding balances on the Company’s B-2 Term Loan.

Debt covenants

The indentures (the “Indentures”) governing the 2023 Unsecured Notes, the 2025 Unsecured Notes and the 2027 Unsecured Notes (collectively the “Notes”) contain covenants that, among other things, restrict the ability of ZGL and its

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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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 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 or equal to 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 the 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 December 31, 2018.

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.

The Term Loan Facility and Revolver are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by all of ZGL's current and future domestic restricted subsidiaries.

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 \$114.1 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.

The balance of debt issuance costs as of December 31, 2018 and June 30, 2018 was \$54.7 million and \$59.6 million, net of accumulated amortization of \$59.4 million and \$54.5 million, respectively. The amortization of debt issuance costs is included on the condensed consolidated statements of cash flows within non-cash interest expense along with the amortization or accretion of the premium and discount on the Company's indebtedness. Interest expense associated with the amortization of debt issuance costs was \$2.4 million and \$4.9 million for the three and six months ended December 31, 2018, respectively, and \$2.3 million and \$4.7 million for the three and six months ended December 31, 2017, respectively.

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(7) INCOME TAXES

A reconciliation of the actual income tax provision and the tax computed by applying the U.S. federal rate to the earnings before income taxes during the three and six month periods ended December 31, 2018 and 2017, respectively, is as follows:

| | Three months ended December 31, | | Six months ended December 31, | |
|--|------------------------------------|---------|----------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in millions) | | | |
| Expected provision at the statutory rate | \$ 11.1 | \$ 7.4 | \$ 20.0 | \$ 17.4 |
| Increase/(decrease) due to: | | | | |
| Non-deductible stock-based compensation | 2.5 | 1.0 | 3.6 | 2.5 |
| State income taxes benefit, net of federal benefit | 2.5 | 0.9 | 4.0 | 1.5 |
| Transaction costs not deductible for tax purposes | 0.1 | 0.1 | 0.4 | 0.2 |
| Change in statutory tax rates outside U.S. | — | 0.8 | (0.1) | 0.8 |
| Changes in uncertain tax positions | 6.4 | — | 6.4 | — |
| Foreign tax rate differential | 1.3 | 0.5 | 1.5 | (1.7) |
| U.S. Tax Reform | (0.4) | 44.1 | 7.2 | 44.1 |
| Change in valuation allowance | (0.5) | (25.7) | (0.8) | (31.4) |
| Other, net | (0.5) | (8.7) | 0.8 | (7.6) |
| Provision for income taxes | \$ 22.5 | \$ 20.4 | \$ 43.0 | \$ 25.8 |

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as the Tax Cuts and Jobs Act of 2017 (“U.S. Tax Reform”). U.S. Tax Reform reduced the U.S. corporate tax rate from 35% to 21%, created a territorial tax system with a one-time mandatory repatriation tax on previously deferred foreign earnings, and changed business-related deductions and credits.

ASC 740, Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment. The SEC staff issued SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which will allow registrants to record provisional amounts during a measurement period. The measurement period is similar to the measurement period used when accounting for business combinations under ASC 805, Business Combinations.

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SAB 118 allows a registrant to recognize provisional amounts when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. Provisional amounts were recorded in prior quarters; however, the measurement period ended as of December 31, 2018 and final amounts are now recorded.

Amounts recognized due to the U.S. Tax Reform for the three months ended December 31, 2018:

| | Through September 30, 2018: | Tax Expense recognized for the three months ended December 31, 2018 | Through December 31, 2018: |
|--|-----------------------------|---|----------------------------------|
| | (in millions) | | |
| Change in statutory tax rate, U.S. only | \$ (7.4) | \$ — | \$ (7.4) |
| Changes to indefinite reinvestment assertion | 0.8 | (0.2) | 0.6 |
| Repatriation Tax | 39.0 | (0.2) | 38.8 |

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Net impacts of U.S. Tax Reform \$ 32.4 \$ (0.4) \$ 32.0

Amounts recognized due to the U.S. Tax Reform for the six months ended December 31, 2018:

| | Through June 30, 2018: | Tax Expense recognized for the six months ended December 31, 2018 | Through December 31, 2018: |
|--|------------------------|--|----------------------------------|
| | (in millions) | | |
| Change in statutory tax rate, U.S. only | \$ (13.6) | \$ 6.2 | \$ (7.4) |
| Changes to indefinite reinvestment assertion | 0.8 | (0.2) | 0.6 |
| Repatriation Tax | 37.6 | 1.2 | 38.8 |
| Net impacts of U.S. Tax Reform | \$ 24.8 | \$ 7.2 | \$ 32.0 |

Provisional numbers were recorded as discrete adjustments to income tax expense in the period in which those adjustments become estimable and/or are finalized. Final amounts are recorded as discrete adjustments in the current period ended December 31, 2018.

As of December 31, 2017, the Company reversed its indefinite reinvestment assertion on all its foreign subsidiaries because the Company will be required to pay tax on all the accumulated undistributed earnings of its foreign subsidiaries. As of December 31, 2018, the Company has \$0.6 million recorded as a deferred tax liability for additional tax due upon actual repatriation.

The Company files income tax returns in various federal, state, and local jurisdictions including the United States, Canada, United Kingdom and France. In the normal course of business, the Company is subject to examination by

taxing authorities throughout the world. With few exceptions, the Company is no longer subject to income tax examinations by tax authorities in major tax jurisdictions for years before 2013.

As of December 31, 2018 and June 30, 2018, the Company had gross unrecognized tax benefits of \$10.3 million and \$3.0 million, respectively. During Fiscal 2019, an additional \$7.3 million (\$6.4 million net of federal benefit) was recognized for prior year tax positions. These amounts include accrued interest and penalties of \$1.7 million as of December 31, 2018 and \$0.1 million as of June 30, 2018. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

(8) EQUITY

On May 7, 2018, our Board of Directors authorized the repurchase of up to \$500 million of our common stock from time to time using a variety of methods, including open market purchases, privately negotiated transactions and other means in accordance with federal securities laws. During the three months ended December 31, 2018, the Company repurchased 12,967,663 shares of its outstanding common stock at an average price of \$31.02, or \$402.3 million. During the six months ended December 31, 2018, the Company repurchased 12,973,892 shares of its outstanding common stock at an average price of \$31.03, or \$402.5 million. The authorization expired on November 7, 2018 with the Company having repurchased \$496.0 million under the authorization.

During the six months ended December 31, 2018, the Company recorded a \$51.6 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 9 –Stock-based Compensation).

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(9) 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 December 31, | | Six Months Ended December 31, | |
|--|---------------------------------------|---------|----------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in millions) | | | |
| Included in: | | | | |
| Operating costs | \$ 2.7 | \$ 2.3 | \$ 5.4 | \$ 5.5 |
| Selling, general and administrative expenses | 23.5 | 21.2 | 47.5 | 45.8 |
| Total stock-based compensation expense | \$ 26.2 | \$ 23.5 | \$ 52.9 | \$ 51.3 |
| Part A restricted stock units | \$ 22.4 | \$ 19.4 | \$ 45.7 | \$ 41.6 |
| Part B restricted stock units | 3.3 | 3.6 | 6.2 | 8.7 |
| Part C restricted stock units | 0.5 | 0.5 | 1.0 | 1.0 |
| Total stock-based compensation expense | \$ 26.2 | \$ 23.5 | \$ 52.9 | \$ 51.3 |

Performance Compensation Incentive Program

During October 2014, the Company adopted the 2014 Performance Compensation Incentive Program ("PCIP"). The PCIP includes incentive cash compensation and equity in the form of restricted stock units ("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, certain 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 an 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 of the Board of Directors 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 (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 on the last day of the fifteen month period subsequent to the end of the performance period (for awards relating to quarterly periods through June 30, 2017) or the twelve month period subsequent to the end of the performance period (for awards relating to the quarterly period ended September 30, 2017 and subsequent quarters), subject to continuous employment through such date. Upon vesting, the RSUs convert to an equal number of shares of the Company's common stock. Additionally, Part A RSUs may be granted to certain employees upon commencement of their employment with the Company.

During the three and six months ended December 31, 2018, the Company recognized \$22.4 million and \$45.7 million, respectively, of compensation expense associated with the vested portion of the Part A awards. During the three and six months ended December 31, 2017, the Company recognized \$19.4 million and \$41.6 million, respectively, of

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compensation expense associated with the vested portion of the Part A awards. The December 2018 and June 2018 quarterly awards were recorded as liabilities totaling \$5.0 million and \$5.7 million, as of December 31, 2018 and June 30, 2018, 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 accrued 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 December 31, 2018, the remaining unrecognized compensation cost to be expensed over the remaining vesting period for Part A awards is \$23.5 million.

The following table summarizes the Company's Part A RSU activity for the six months ended December 31, 2018:

| | Number of Part A RSUs | Weighted average grant-date fair value per share | Weighted average remaining contractual term in months |
|----------------------------------|--------------------------|--|---|
| Outstanding at July 1, 2018 | 2,246,495 | \$ 35.08 | 6.4 |
| Granted | 1,368,253 | 30.75 | |
| Vested | (1,356,961) | 34.67 | |
| Forfeited | (284,496) | n/a | |
| Outstanding at December 31, 2018 | 1,973,291 | \$ 32.19 | 5.7 |

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 the ending price being the average closing price over the last ten trading days of the quarter immediately prior to vesting. The RSUs vest on the last day of the twelve month period after the beginning of the performance period (for awards vesting on or prior to June 30, 2018) or the fifteen month period after the beginning of the performance period (for awards vesting after June 30, 2018), subject to continued employment through such date. 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.

The Company's Chief Executive Officer ("CEO") is also awarded quarterly grants of RSUs under the same provisions as other Part B participants outlined above. However, beginning with the grant during the three months ended December 31, 2018, the CEO's awards are subject to additional vesting criteria that are based on the Company's stock performance subsequent to the end of the measurement period. In order for the CEO to receive the maximum award, the Company's stock price must remain at or above the ending measurement period price for the six months subsequent to the end of the performance period.

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The following table summarizes the Company's Part B RSU activity for the six months ended December 31, 2018:

| | Number of Part B RSUs | Weighted average grant-date fair value per unit | Weighted average remaining contractual term in months |
|----------------------------------|--------------------------|---|---|
| Outstanding at July 1, 2018 | 185,775 | \$ 57.19 | 8.9 |
| Granted | 119,541 | 42.95 | |
| Vested | (64,836) | 45.10 | |
| Forfeited | — | n/a | |
| Outstanding at December 31, 2018 | 240,480 | \$ 53.37 | 7.5 |

The table below reflects the total Part B RSUs granted during Fiscal 2019 and 2018, the maximum eligible shares of the Company's common 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 period indicated. The table below also reflects the units converted to the Company's common stock at a vesting date that is subsequent to the period indicated for those RSUs granted during the period indicated:

| | During the three months ended | |
|---|-------------------------------|--------------------------|
| | December 31, 2018 | September 30, 2018 |
| Part B RSUs granted | 61,123 | 58,418 |
| Maximum eligible shares of the Company's common stock | 513,433 | 403,084 |
| Average grant date fair value per Part B RSU | \$ 22.43 | \$ 64.41 |
| Units converted to Company's common stock at vesting date | n/a | n/a |

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| | During the three months ended | | | |
|---|-------------------------------|-----------|--------------|---------------|
| | June 30, | March 31, | December 31, | September 30, |
| | 2018 | 2018 | 2017 | 2017 |
| Part B RSUs granted | 78,123 | 77,218 | 82,556 | 163,960 |
| Maximum eligible shares of the Company's common stock | 539,049 | 532,804 | 569,636 | 590,256 |
| Average grant date fair value per Part B RSU | \$ 74.44 | \$ 52.47 | \$ 45.10 | \$ 19.06 |
| Units converted to Company's common stock at vesting date | n/a | n/a | n/a | 54,671 |

During the three and six months ended December 31, 2018, the Company recognized stock-based compensation expense of \$3.3 million and \$6.2 million, respectively, related to Part B awards. During the three and six months ended December 31, 2017, the Company recognized stock-based compensation expense of \$3.6 million and \$8.7 million, respectively, related to Part B awards.

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

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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 \$5.9 million at December 31, 2018.

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 and six months ended December 31, 2018, the Company's independent directors were granted 16,049 and 30,186 Part C RSUs, respectively. During the three and six months ended December 31, 2017, the Company's independent directors were granted 14,261 and 29,947 Part C RSUs, respectively. During the three and six months ended December 31, 2018 the Company recognized \$0.5 million and \$1.0 million, respectively, of stock-based compensation expense associated with the Part C awards. During the three and six months ended December 31, 2017, the Company recognized \$0.5 million and \$1.0 million, respectively, of compensation expense associated with the Part C RSUs.

(10) EMPLOYEE BENEFITS

The service cost component of the defined benefit pension and post-retirement benefit (OPEB) plans is included within selling, general and administrative expenses and all other components are recognized in other income, net in the accompanying condensed consolidated statements of operations.

| | Pension Plans | | Six months ended | |
|--------------------------------|----------------|--------|------------------|--------|
| | Three months | | December 31, | |
| | ended December | | 2018 | 2017 |
| | 31, | | | |
| | 2018 | 2017 | 2018 | 2017 |
| | (in millions) | | (in millions) | |
| Service cost | \$ 0.6 | \$ 0.7 | \$ 1.4 | \$ 1.5 |
| Interest cost | 0.9 | 0.6 | 1.8 | 0.7 |
| Expected return on plan assets | (1.2) | (1.0) | (2.6) | (1.1) |

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| | | | | |
|---|--------|--------|--------|--------|
| Amortization of service cost from earlier periods | 0.2 | — | 0.4 | — |
| Gain on curtailment(1) | — | — | (0.4) | — |
| Net periodic pension cost | \$ 0.5 | \$ 0.3 | \$ 0.6 | \$ 1.1 |

(1) During the three months ended September 30, 2018, the Company approved an amendment to the defined benefit pension plan freezing benefit accruals for certain members of the pension plan as of September 30, 2018. The plan freeze had an immaterial impact to the financial statements for the period ended September 30, 2018.

| | OPEB Plans | | | |
|---|--|--------|--|--------|
| | Three months ended December 31, 2018 | | Six months ended December 31, 2018 | |
| | 2017 | 2018 | 2017 | 2018 |
| | (in millions) | | (in millions) | |
| Service cost | \$ — | \$ 0.1 | \$ 0.1 | \$ 0.1 |
| Interest cost | 0.1 | 0.1 | 0.2 | 0.2 |
| Net periodic post-retirement benefit cost | \$ 0.1 | \$ 0.2 | \$ 0.3 | \$ 0.3 |

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(11) FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade receivables, accounts payable, 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 December 31, 2018 and June 30, 2018 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 premium, and was \$4,002.2 million and \$4,003.4 million as of December 31, 2018 and June 30, 2018, respectively. Based on market interest rates for debt of similar terms and average maturities, the fair value of the Company's Notes as of December 31, 2018 and June 30, 2018 was estimated to be \$3,666.8 million and \$3,986.5 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 \$1,750.1 million and \$1,751.3 million as of December 31, 2018 and June 30, 2018, respectively. The Company's Term Loan Facility accrues interest at variable rates based upon the one-month, three-month or six-month LIBOR plus i) a spread of 2.0% on the Company's \$500.0 million tranche (which has a LIBOR floor of 0.0%) and ii) a spread of 2.25% on its B-2 Term Loan tranche (which has a LIBOR floor of 1.00%). Based on market interest rates for debt of similar terms and average maturities, the fair value of the Company's Term Loan Facility as of December 31, 2018 and June 30, 2018 was estimated to be \$1,685.6 million and \$1,772.3 million, respectively. The Company's fair value estimates associated with its Term Loan Facility obligations were derived utilizing Level 2 inputs—quoted prices for similar instruments in active markets.

As of December 31, 2018, there was a \$210.0 million balance outstanding under the Company's Revolver. As of June 30, 2018, there was no balance outstanding under the Company's Revolver.

A hypothetical increase in the applicable interest rate on the Company's Term Loan Facility and Revolver of one percentage point above the 1.0% LIBOR floor would increase the Company's annual interest expense by approximately \$19.7 million.

(12) COMMITMENTS AND CONTINGENCIES

Purchase commitments

At December 31, 2018, the Company was contractually committed for \$420.9 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.

During the three and six months ended December 31, 2018, the Company entered into a CAD \$127.0 million (or \$93.2 million) commitment for telecommunications services over a two year period.

During the six months ended December 31, 2018, the Company entered into a CAD \$40.0 million (or \$29.3 million) commitment for telecommunications services over a three year period.

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Outstanding Letters of Credit

As of December 31, 2018, the Company had \$8.2 million in outstanding letters of credit, which were primarily entered into in connection with various lease agreements. Additionally, as of December 31, 2018, Zayo Canada, Inc., a subsidiary of the Company, had CAD \$3.5 million (or \$2.6 million) in letters of credit under a CAD \$5.0 million (or \$3.7 million) unsecured credit agreement.

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.

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ZAYO GROUP HOLDINGS, INC. AND SUBSIDIARIES

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(13) REVENUE AND CONTRACT COSTS

The Company earns revenues from contracts with customers, primarily through the provision of telecommunications and other related offerings. Revenues from leasing arrangements, such as those from dark fiber contracts and colocation facility rental agreements, are not accounted for under ASC 606. Other revenues are accounted for under ASC 606, which the Company adopted on July 1, 2018, using the full retrospective transition method.

The Company recognizes revenues derived from leasing access to the Company's fiber optic telecommunications infrastructure and colocation offerings when the offering has been provided and there is persuasive evidence of an arrangement, the fee is fixed or determinable, customer acceptance has been obtained with relevant contract terms, and collection of the receivable is reasonably assured. Taxes collected from customers and remitted to a governmental authority are reported on a net basis and are excluded from revenue.

Most revenue is billed in advance on a fixed-rate basis and the remainder is billed in arrears on a transactional basis determined by customer usage. The Company often bills customers for upfront charges, which are non-refundable. These charges relate to activation fees, installation charges or prepayments for future access or offerings and are influenced by various business factors including how the Company and customer agree to structure the payment terms. These upfront charges are assessed to determine if they represent separate performance obligations or to determine if they provide the customer with a material right (such as discounted pricing on renewals or future orders). A majority of the Company's upfront payments from customers do not relate to a separate performance obligation, do not provide the customer with a material right and are recognized to revenue ratably over the underlying contract term. Upfront payments that give the customer a right to renew a product offering at a discounted rate are amortized over the period the Company expects to provide the underlying offering.

The Company typically records revenues from leases of dark fiber, including indefeasible rights-of-use ("IRU") agreements, over the term that the customer is given exclusive access to the assets. Dark fiber IRU agreements generally require the customer to make a down payment upon the execution of the agreement with monthly IRU fees paid over the contract term; however, in some cases, the Company receives up to the entire lease payment at the inception of the lease and recognizes the revenue ratably over the lease term. Revenue related to professional services to provide network management and technical support is recognized as services are provided.

In determining the appropriate amount of revenue and related reserves to reflect in its consolidated financial statements, management evaluates payment history, credit ratings, customer financial performance, and historical or potential billing disputes and related estimates are based on these factors and assumptions.

Nature of the Company's Products and Offerings

The Company operates and manages the business in six reportable segments. Revenue is disaggregated by products and offerings, which the Company views as the relevant categorization of revenues for the Company's businesses. See

Note 15 – Segment Reporting, for additional information on the nature of the Company’s Products and Offerings by segment.

The Company’s Fiber Solutions and zColo segments have contract terms that are accounted for as leases and are further described below.

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Fiber Solutions arrangements are generally fixed rate contracts and can be payable upfront, on a monthly recurring basis or a combination of both. Monthly recurring payment structures in this segment generally include annual inflationary pricing escalators. A majority of the revenue earned from the Fiber Solutions segment is not accounted for under ASC 606 as the contract terms are accounted for as lease arrangements. The Company recognizes revenue associated with its dark fiber leases on a straight-line basis from the customer acceptance date through the lease term.

The Fiber Solutions segment may provide telecommunications construction solutions or perform variable non-routine maintenance activities that are billable to its customers. These types of solutions are accounted for under ASC 606 and are recognized as the service is performed. Revenue recognized from these non-lease arrangements was \$9.4 million and \$14.6 million during the three and six months ended December 31, 2018, respectively, and \$5.7 million and \$10.2 million during the three and six months ended December 31, 2017, respectively.

The Company's contract terms for the zColo segment includes terms that may be fixed or variable. The Company's zColo revenue contracts generally include multiple performance obligations including space and infrastructure, which is considered a lease component, and power and remote hand component, which are considered to be separate components of the zColo revenue arrangement. The transaction price in contracts that include multiple performance obligations is allocated to each performance obligation based on the Company's standalone selling price for each component when such offerings are sold separately. In instances where the Company does not sell the product or offering separately, the Company estimates the standalone selling prices based on observable inputs as well as various market conditions. The Company estimates the standalone selling price to be the price of the offerings when sold on a standalone basis without any promotional discounts.

The Company recognizes revenue on space and infrastructure leases on a straight-line basis over the customer lease term. The Company's customer leases often include customary renewal terms; however, the Company does not include any extension options in a customer's lease term for lease classification purposes or recognizing rental revenue unless it is reasonably certain that the customer will exercise the extension renewal option. The excess of zColo lease revenue recognized in excess of lease payments received is recorded within the other assets on the Company's condensed consolidated balance sheets.

Customer power arrangements are coterminous with the respective customer lease and may be billed at fixed or variable rates. The Company recognizes revenue on its fixed rate power contracts as the arrangements are rendered, as the customer simultaneously receives and consumes the benefit of the arrangements provided. Variable contracts are invoiced based on usage and are billed in arrears and recognized as the usage occurs. Revenue is recognized on remote hand services as the services are provided. Revenue recognized by the zColo segment from these non-lease arrangements was \$13.9 million and \$28.4 million during the three and six months ended December 31, 2018, respectively, and was \$14.5 million and \$28.6 million during the three and six months ended December 31, 2017, respectively.

Contracts in the Company's zColo segment do not include significant financing components.

The Company's contract terms for Transport, Enterprise Networks, Allstream and Other segments include terms that may be fixed or variable. The Company recognizes revenue on its fixed rate contracts as the product offerings are rendered, as the customer simultaneously receives and consumes the benefit of the products provided. Variable contracts are invoiced based on usage and are billed in arrears and recognized as the usage occurs. These contracts do not include significant financing components and generally include a single performance obligation. The transaction price in contracts that include multiple performance obligations is allocated to each performance obligation based on the Company's standalone selling price for each product offering. The Company estimates the standalone selling price to be the price of the offering when sold on a standalone basis without any promotional discounts.

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The Company may provide performance-based credits associated with the solution it offers, which are accounted for as variable consideration when estimating the transaction price. Credits are estimated at contract inception and are updated at the end of each reporting period as additional information becomes available. The assessment of this variable consideration involves judgment and impacts the Company's determination of transaction price and related disclosures.

Remaining Performance Obligation Associated with Non-Lease Arrangements

A majority of the Company's revenue is provided over a contract term. When allocating the total contract transaction price to identified performance obligations, a portion of the total transaction price relates to performance obligations that are yet to be satisfied or are partially satisfied as of the end of the reporting period.

In determining the transaction price allocated to remaining performance obligations, the Company does not include non-recurring charges and estimates for usage.

Remaining performance obligations associated with the Company's contracts reflect recurring charges billed, adjusted to reflect estimates for sales incentives and revenue adjustments.

The table below reflects an estimate of the remaining transaction price of fixed fee, non-lease revenue arrangements to be recognized in the future periods presented. The table below does not include estimated amounts to be recognized in future periods associated with variable usage-based consideration.

| | Six months ended June 30, 2019 | Year ended June 30, | | | | | Total |
|---------------------|--|---------------------|----------|---------|---------|------------|------------|
| | (in millions) | 2020 | 2021 | 2022 | 2023 | Thereafter | |
| Reportable Segment | | | | | | | |
| Fiber Solutions | \$ 7.3 | \$ 5.8 | \$ 1.7 | \$ 0.3 | \$ — | \$ — | \$ 15.1 |
| Transport | 224.8 | 271.9 | 133.7 | 44.5 | 19.1 | 21.8 | 715.8 |
| Enterprise Networks | 125.1 | 148.4 | 67.8 | 19.5 | 6.1 | 1.1 | 368.0 |
| zColo | 18.5 | 23.6 | 12.4 | 6.3 | 3.5 | 5.4 | 69.7 |
| Allstream | 97.0 | 44.0 | 12.2 | 2.5 | 0.7 | 0.4 | 156.8 |
| Total | \$ 472.7 | \$ 493.7 | \$ 227.8 | \$ 73.1 | \$ 29.4 | \$ 28.7 | \$ 1,325.4 |

Contract Assets and Liabilities

The timing of revenue recognition may differ from the time of billing to the Company's customers. Customer receivables represent an unconditional right to consideration net of an estimated allowance for doubtful accounts. Contract balances represent amounts from an arrangement when either the Company has performed, by transferring a solution to the customer in advance of receiving all or partial consideration for such goods and offerings from the customer, or the customer has made payment to the Company in advance of obtaining control of the goods and/or offerings promised to the customer in the contract.

Contract liabilities arise when the Company bills its customers and receives consideration in advance of providing the goods or offerings promised in the contract. Contract liabilities are recognized as revenue when product offerings are provided to the customer. Contract liabilities are presented in the Company's condensed consolidated balance sheet as deferred revenue.

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The following table presents information about the Company's customer receivables, contract assets and contract liabilities as of December 31, 2018 and June 30, 2018:

| | December 31, 2018 | June 30, 2018 |
|-----------------------------|----------------------|------------------|
| | (in millions) | |
| Customer receivable, net(1) | \$ 160.2 | \$ 164.0 |
| Contract liabilities(1) | \$ 58.9 | \$ 68.9 |

(1) - Amounts do not include balances associated with lease revenue from the Company's Fiber Solutions and zColo segments.

During the three and six months ended December 31, 2018, the Company recognized \$5.5 million and \$10.9 million, respectively, of revenue that was included in contract liabilities as of June 30, 2018. During the three and six months ended December 31, 2017, the Company recognized \$5.7 million and \$11.3 million, respectively, of revenue that was included in contract liabilities as of June 30, 2017.

Contract Costs

The Company recognizes an asset for incremental commission and bonus expenses paid to internal sales personnel and third party agents in conjunction with obtaining certain customer contracts. These costs are only deferred when the commissions are incremental and would not have been incurred absent the customer contract. Costs to obtain a contract are amortized and recorded ratably within selling, general and administrative expenses on the Company's condensed consolidated statements of operations over the estimated contract term.

The Company also defers costs incurred to fulfill contracts that relate directly to the contract, are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract and are expected to be

recovered through revenue generated under the contract. Contract fulfillment costs are expensed to cost of service as the Company satisfies its performance obligations. These costs principally relate to direct costs associated with activating new customer solutions.

The Company estimates the amortization period for its costs incurred to obtain and fulfill customer contracts at a portfolio level due to the similarities within its customer contract portfolios.

Other costs, such as general costs or costs related to past performance obligations, are expensed as incurred.

As of December 31, 2018 and June 30, 2018, the Company had \$6.1 million and \$7.1 million, respectively, of short-term unamortized contract costs included in other current assets and \$4.3 million and \$5.6 million, respectively, of long term unamortized contract costs included in other assets on its condensed consolidated balance sheets. During the three and six months ended December 31, 2018, the Company recorded \$1.8 million and \$3.9 million, respectively, in selling, general and administrative expenses associated with the amortization of deferred contract costs. During the three and six months ended December 31, 2017, the Company recorded \$2.1 million and \$4.3 million, respectively, in selling, general and administrative expenses associated with the amortization of deferred contract costs. The amortization period for these contract costs ranges from 12 to 54 months.

(14) RELATED PARTY TRANSACTIONS

In May 2016, Communication Infrastructure Investments, LLC sold Onvoy, LLC and its subsidiaries (“OVS”), a company that provided voice and managed offerings that the Company spun off during the year ended June 30, 2014, to

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an entity that had a material ownership interest in the Company during Fiscal 2018. As of June 30, 2018, the entity that owns Inteliquent, Inc., successor by merger to OVS (“Inteliquent”), no longer has an ownership interest in the Company and is no longer considered a related party.

The following table represents the revenue and expense transactions the Company recorded with Inteliquent for the prior period:

| | Three Months Ended December 31, 2017 (in millions) | Six Months Ended December 31, 2017 (in millions) |
|-----------------|---|--|
| Revenues | \$ 1.8 | \$ 3.7 |
| Operating costs | \$ 0.6 | \$ 1.2 |

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 and six months ended December 31, 2018, the Company reimbursed Mr. Caruso \$0.1 million and \$0.2 million, respectively, and during the three and six months ended December 31, 2017 reimbursed \$0.2 million and \$0.3 million, respectively, for his business use of the aircraft.

(15) 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 condensed consolidated 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 bandwidth infrastructure, colocation and connectivity offerings are comprised of various related product groups generally defined around the type of offering to which the customer is licensing access, referred to as SPGs. Each SPG is responsible for the revenue, costs and associated capital expenditures of its respective solutions. The SPGs enable licensing and sales, make pricing and product decisions, engineer networks and

deliver solutions to customers, and support customers for specific telecom and Internet infrastructure requirements.

During Fiscal 2018, with the continued increase in its scope and scale, the Company's chief operating decision maker ("CODM"), who is the Company's Chief Executive Officer, implemented certain organizational changes to the management and operation of the business that directly impact how the CODM makes resource allocation decisions and manages the Company. The changes in structure had the impact of creating two new SPGs and re-aligning an existing SPG among the Company's reportable segments. The changes in structure also resulted in changes in how the Company measures the relative burden each segment bears of indirect and corporate related costs.

Effective April 1, 2018 the Company's Ethernet SPG, previously reported under the Enterprise Networks segment, is now reported under the Company's Transport segment. Additionally, certain activities and operations of the legacy Waves, WAN, and Ethernet SPGs were combined to form a new SPG, CloudLink. These changes to the existing reportable segments (the "Realignment") have been recast for all prior period financial and operating metrics presented in this Quarterly Report on Form 10-Q for comparability, such as;

Certain activities and operations of the legacy Waves, WAN, and Ethernet SPGs, after giving effect to the Realignment, are now reported in a new SPG, CloudLink, under the Enterprise Networks segment; and

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The wholesale IP services and Sonet SPGs, and the remaining activities and operations of the legacy Waves and Ethernet SPGs (the activities and operations not related to CloudLink), after giving effect to the Realignment, are now reported under the Transport segment.

In addition to the changes in structure, the Company also adjusted intercompany pricing methodologies to more closely align to third party pricing on the products and offerings which are exchanged between our SPGs. However, it was not practicable to retrospectively present the impact of this change for all historical periods presented.

The Company's segments are further described below:

Fiber Solutions. The Fiber Solutions segment offers access to raw bandwidth infrastructure to customers that require control of their internal networks. These solutions include dark fiber, dedicated lit network sections 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 customers, who "light" the fiber using their own optronics. The Company's mobile infrastructure solutions permit direct fiber connections to cell towers, small cells, hub sites, and mobile switching centers. 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 Fiber Solutions segment tend to range from three to twenty years.

Transport. The Transport segment provides access to lit bandwidth infrastructure solutions over metro, regional, and long-haul fiber network sections. The segment uses customer-accessed optronics to light the fiber, and the Company's customers pay for access based on the amount and type of bandwidth they require. The offerings within this segment include Wavelengths, Ethernet, SONET, and wholesale IP offerings. The Company targets customers who require a minimum of 10G of bandwidth across their networks. Transport customers include carriers, content providers, financial services companies, healthcare, government entities, education institutions and other medium and large enterprises. The contract terms in this segment tend to range from two to five years.

Enterprise Networks. The Enterprise Networks segment provides connectivity and telecommunications solutions to medium and large enterprises. The offerings within this segment include Internet, wide area networking products, managed products and cloud based computing and storage offerings. Solutions range from point-to-point data connections to multi-site managed networks to international outsourced IT infrastructure environments. The contract terms in the Enterprise Networks segment tend to range from one to ten years.

Zayo Colocation ("zColo"). The Colocation segment provides data center infrastructure solutions to a broad range of enterprise, carrier, cloud, and content customers. The offerings within this segment include the provision of colocation space, power and interconnection offerings in North America and Western Europe. Solutions range in size from single cabinet solutions to 1MW+ data center infrastructure environments. The Company's data centers also support a large component of networking components for the purpose of aggregating and accommodating customers' data, voice,

Internet, and video traffic. The contract terms in this segment tend to range from two to five years.

Allstream. The Allstream segment provides Cloud VoIP and Data Solutions. This includes a full range of local voice offerings 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 Cloud-based IP telephony), instant messaging and video conferencing with non-real-time communication services, such as integrated voicemail and e-mail. Allstream

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also provides customers with comprehensive telecommunications services, including Ethernet, and IP/MPLS VPN Solutions.

Other. The Other segment is primarily comprised of Zayo Professional Services (“ZPS”). ZPS provides network and technical resources to customers who wish to leverage the Company’s expertise in designing, acquiring and maintaining network sections. The contract terms typically run for one year for a fixed recurring monthly fee in the case of network and on an hourly basis for technical resources (usage revenue). ZPS also generates revenue via telecommunication equipment sales.

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. Corporate assets consist primarily of cash and deferred taxes.

In connection with the Company’s acquisition of Electric Lightwave Parent, Inc., the Company acquired certain customer contracts that included the bundled provision of VoIP and data connectivity solutions. This bundled package was historically managed and reported as revenue by the Enterprise Networks segment. Subsequent to June 30, 2018, operational changes were made which resulted in the management of these bundled contracts to be provided by the Allstream segment and as such a portion of the revenue associated with these contracts will now be reported as revenue of the Allstream segment. The Enterprise Networks segment continues to own the infrastructure and equipment that supports these contracts and as such the segments entered into an intercompany agreement for the continued use of these assets, which will result in the recognition of intercompany revenue at the Enterprise Networks segment. Management determined it was impracticable to retrospectively present the impacts of this change to historical periods. This change increased Allstream’s Segment Adjusted EBITDA for the three and six months ended December 31, 2018 by \$0.7 million and \$1.4 million, respectively, and decreased Enterprise’s Segment Adjusted EBITDA for the three and six months ended December 31, 2018 by \$0.7 million and \$1.4 million, respectively.

Effective January 1, 2019 certain operational changes were made which change the way the CODM makes resource allocation decisions and manages the Company. As such, beginning with the quarter ending March 31, 2019 the Company will have four reportable segments: Zayo Networks, Colo, Allstream and Other. The Company will recast its prior period financial and operating metrics presented in previous filings to reflect the financial results of the Company’s new segment structure in its quarterly report for the quarter ending March 31, 2019. The change will not have an impact on consolidated revenues, EBITDA, capital expenditures or assets.

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, gains/(losses) on business dispositions 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.

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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;

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 December 31, 2018 | | | | | | | Corp/ Eliminations | Total |
|---------------------------------|--|-----------|------------------------|---------|-----------|--------|------|-----------------------|-------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | | | |
| Revenue from external customers | \$ 228.7 | \$ 169.8 | \$ 81.6 | \$ 57.5 | \$ 96.7 | \$ 4.8 | \$ — | \$ 639.1 | |
| Segment Adjusted EBITDA | 183.1 | 58.0 | 33.4 | 27.9 | 17.6 | 1.2 | — | 321.2 | |
| Capital expenditures | 106.4 | 48.1 | 16.7 | 26.5 | 4.5 | — | — | 202.2 | |

| | As of and for the six months ended December 31, 2018 | | | | | | | Corp/ Eliminations | Total |
|---------------------------------|--|-----------|------------------------|----------|-----------|---------|------|-----------------------|-------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | | | |
| Revenue from external customers | \$ 449.6 | \$ 338.2 | \$ 164.2 | \$ 116.5 | \$ 201.7 | \$ 10.0 | \$ — | \$ 1,280.2 | |
| | 361.5 | 115.1 | 67.4 | 55.9 | 38.4 | 2.3 | — | 640.6 | |

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| | | | | | | | | |
|-------------------------|---------|---------|-------|---------|-------|------|-------|---------|
| Segment Adjusted EBITDA | | | | | | | | |
| Total assets | 5,001.0 | 1,864.5 | 753.5 | 1,067.9 | 306.1 | 31.8 | 112.6 | 9,137.4 |
| Capital expenditures | 205.5 | 88.5 | 29.9 | 51.7 | 9.1 | — | — | 384.7 |

As of and for the three months ended December 31, 2017

| | Fiber Solutions | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | Total |
|---------------------------------|-----------------|-----------|---------------------|---------|-----------|--------|-----------------------|----------|
| Revenue from external customers | \$ 203.4 | \$ 166.0 | \$ 93.9 | \$ 59.9 | \$ 123.5 | \$ 6.4 | \$ — | \$ 653.1 |
| Segment Adjusted EBITDA | 167.7 | 57.1 | 41.1 | 31.0 | 31.2 | 0.9 | \$ (0.1) | 328.9 |
| Capital expenditures | 114.5 | 41.1 | 10.2 | 24.7 | 2.9 | — | — | 193.4 |

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| | As of and for the six months ended December 31, 2017 | | | | | | | |
|---------------------------------|--|-----------|------------------------|----------|-----------|---------|-----------------------|------------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | Total |
| Revenue from external customers | \$ 401.8 | \$ 334.0 | \$ 179.3 | \$ 118.3 | \$ 251.2 | \$ 11.6 | \$ — | \$ 1,296.2 |
| Segment Adjusted EBITDA | 327.4 | 117.4 | 74.5 | 59.6 | 64.4 | 2.2 | (0.2) | 645.3 |
| Capital expenditures | 221.8 | 85.4 | 20.6 | 52.6 | 6.4 | — | — | 386.8 |

| | As of June 30, 2018 | | | | | | | |
|--------------|-------------------------------------|------------|------------------------|------------|-----------|---------|-----------------------|------------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | Total |
| Total assets | \$ 4,937.3 | \$ 1,870.9 | \$ 754.6 | \$ 1,032.4 | \$ 465.5 | \$ 33.4 | \$ 115.8 | \$ 9,209.9 |

Reconciliation from Total Segment Adjusted EBITDA to income from operations before taxes:

| | For the three months ended December 31, | |
|--|---|----------|
| | 2018 | 2017 |
| | (in millions) | |
| Total Segment Adjusted EBITDA | \$ 321.2 | \$ 328.9 |
| Interest expense | (84.0) | (73.1) |
| Depreciation and amortization expense | (146.9) | (195.7) |
| Transaction costs | (2.8) | (5.9) |
| Stock-based compensation | (26.2) | (23.5) |
| Foreign currency (loss)/gain on intercompany loans | (8.3) | 3.1 |

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| | | |
|--|---------|---------|
| Non-cash loss on investments | (0.3) | (0.2) |
| Income from operations before income taxes | \$ 52.7 | \$ 33.6 |

| | For the six months ended December 31, | |
|--|--|----------|
| | 2018 | 2017 |
| | (in millions) | |
| Total Segment Adjusted EBITDA | \$ 640.6 | \$ 645.3 |
| Interest expense | (166.2) | (146.7) |
| Depreciation and amortization expense | (314.7) | (379.5) |
| Transaction costs | (3.5) | (14.2) |
| Stock-based compensation | (52.9) | (51.3) |
| Loss on extinguishment of debt | — | (4.9) |
| Foreign currency (loss)/gain on intercompany loans | (12.9) | 13.9 |
| Gain on business disposition | 5.5 | — |
| Non-cash loss on investments | (0.6) | (0.3) |
| Income from operations before income taxes | \$ 95.3 | \$ 62.3 |

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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. (the “Company,” “we” or “us”) with the Securities and Exchange Commission (the “SEC”) that is not historical by nature constitutes “forward-looking statements,” within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and can be identified by the use of forward-looking terminology such as “believes,” “expects,” “plans,” “intends,” “estimates,” “projects,” “could,” “may,” “will,” “should,” or “anticipates,” or 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, strength of competition and pricing, and potential organizational strategies that we may opt to pursue in the future, such as our proposed restructuring activities and potential REIT conversion including our ability to successfully combine our divisions and the feasibility and timing of any REIT conversion. 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 filed with the SEC on August 24, 2018 (as amended by the Form 10-K/A filed with the SEC on September 20, 2018, our “Annual Report”), and in our Quarterly Report on Form 10-Q filed with the SEC on November 8, 2018 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 elsewhere in this Report and in our audited annual consolidated financial statements as of and for the year ended June 30, 2018, 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.

In May 2018, we announced that we completed the first phase of our investigation on the advisability and feasibility of a conversion to a real estate investment trust for U.S. federal income tax purposes (a “REIT”). Please see “Evaluation and Preparation for Potential REIT Conversion” in the below “Overview.”

On November 7, 2018, we announced plans to separate into two publicly traded companies- one to focus on providing communications infrastructure and another to leverage infrastructure to provide solutions for enterprise customers- with the core tenets of the plan being simplification of the business and a focus on a communications infrastructure business. We are evaluating multiple options that will achieve the core tenets of the plan and maximize shareholder value.

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Overview

We are a large and growing provider of access to bandwidth infrastructure in the United States (“U.S.”), Europe and Canada. Our products and offerings enable our customers’ mission-critical, high-bandwidth applications, such as cloud-based computing, video, mobile, social media, machine-to-machine connectivity, and other bandwidth-intensive applications. Our key products and offerings include leased dark fiber, fiber to cellular towers and small cell sites, dedicated wavelength connections, Ethernet, IP connectivity, cloud-based computing and storage products and other high-bandwidth offerings. We provide access to our bandwidth infrastructure and other offerings over a unique set of dense metro, regional, and long-haul fiber network sections and through our interconnect-oriented data center facilities. Our fiber network sections 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 users of bandwidth infrastructure, such as wireless service carriers; telecommunications service carriers; financial services companies; social networking, media, and web content companies; education, research, and healthcare institutions; and governmental agencies. We typically provide customers with access to our bandwidth infrastructure solutions for a fixed monthly recurring fee under contracts that vary between one and twenty years in length. 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.

Our fiscal year ends June 30 each year, and we refer to the fiscal year ending June 30, 2019 as “Fiscal 2019” and the fiscal year ended June 30, 2018 as “Fiscal 2018.”

Reportable Segments and our Strategic Product Groups

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. With the continued increase in our scope and scale, effective April 1, 2018, our chief operating decision maker (“CODM”), who is our Chief Executive Officer, implemented certain organizational changes to the management and operation of the business that directly impact how the CODM makes resource allocation decisions and manages the Company. The change in structure had the impact of re-aligning our existing Strategic Product Groups (“SPGs”) within our existing segments. The changes in structure also resulted in changes in how the Company measures the relative burden each segment bears of indirect and corporate related costs, and in adjustments to intercompany pricing that more closely align to third party pricing on the products and offerings which are exchanged between our SPGs. See Note 15 – Segment Reporting, in our condensed consolidated financial statements for further description of the changes. Where practicable, changes to all prior period financial and operational metrics have been recasted in our quarterly report for comparability. We have six reportable segments as described below:

Fiber Solutions. Through the Fiber Solutions segment, we provide access to raw bandwidth infrastructure to customers that require control of their internal networks. These solutions include dark fiber, dedicated lit network sections 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 solutions permit direct fiber connections to cell towers, small cells, hub sites, and mobile switching centers. 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 Fiber Solutions segment tend to range from three to twenty years.

Transport. The Transport segment provides access to lit bandwidth infrastructure solutions over our metro, regional, and long-haul fiber network sections. The segment uses customer-accessed optronics to light the

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fiber, and our customers pay for access based on the amount and type of bandwidth they require. The offerings within this segment include Wavelengths, Ethernet, SONET, and wholesale IP. We target customers who require a significant amount of bandwidth across their networks. Transport customers include carriers, content providers, financial services companies, healthcare, government entities, education institutions and other medium and large enterprises. The contract terms in this segment tend to range from two to five years.

Enterprise Networks. The Enterprise Networks segment provides connectivity and lit bandwidth telecommunication solutions to medium and large enterprises. Our offerings within this segment include Internet, wide area networking products, managed products and cloud-based computing and storage offerings. Solutions range from point-to-point data connections to multi-site managed networks to international outsourced IT infrastructure environments. The contract terms in the Enterprise Networks segment tend to range from one to ten years.

Zayo Colocation (zColo). The Colocation segment provides data center infrastructure solutions to a broad range of enterprise, carrier, cloud, and content customers. Our offerings within this segment include the provision of colocation space, power and interconnection offerings in North America and Western Europe. Solutions range in size from single cabinet solutions to 1MW+ data center infrastructure environments. Our data centers also support a large component of networking components for the purpose of aggregating and accommodating customer's data, voice, Internet, and video traffic. The contract terms in this segment tend to range from two to five years.

Allstream. The Allstream segment provides Cloud VoIP and Data Solutions. This includes a full range of local voice offerings 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 Cloud-based IP telephony), instant messaging and video conferencing with non-real-time communication services, such as integrated voicemail and e-mail. Allstream also provides customers with comprehensive telecommunications services including Ethernet and IP/MPLS VPN Solutions.

Other. Our Other segment is primarily comprised of Zayo Professional Services ("ZPS"). ZPS provides network and technical resources to customers who wish to leverage our expertise in designing, acquiring and maintaining network sections. The contract terms typically run for one year for a fixed recurring monthly fee in the case of network and on an hourly basis for technical resources (usage revenue). ZPS also generates revenue via telecommunication equipment sales.

Effective January 1, 2019 certain operational changes were made which change the way the CODM makes resource allocation decisions and manages the Company. As such, beginning with the quarter ending March 31, 2019 the Company will have four reportable segments: Zayo Networks, Colo, Allstream and Other. The Company will recast its prior period financial and operating metrics presented in previous filings to reflect the financial results of the Company's new segment structure in its quarterly report for the quarter ending March 31, 2019. The change will not have an impact on consolidated revenues, EBITDA, capital expenditures or assets.

Evaluation and Preparation for Potential REIT Conversion

On May 3, 2018, we announced that we completed the first phase of our investigation on the advisability and feasibility of a conversion to a REIT. We have begun the next phase of our evaluation and preparation for a potential conversion to a REIT. As part of these efforts, we have begun a direct dialogue with the U.S. Internal Revenue Service ("IRS") in an effort to obtain clarity and support for our position, and we are seeking a private letter ruling ("PLR") from

the IRS. Also, we have begun to execute the organizational changes that are required to operate as a REIT, including the adoption of certain amendments to our organizational documents that, among other things, impose certain stock ownership limitations and transfer restrictions, the realignment of our business segments to clearly delineate the leasing of network assets from ancillary services and, in particular, the separation and potential divestiture or deconsolidation of our Allstream business segment. These organizational changes do not result in any changes to our reportable segments.

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If, following our current phase of evaluation and preparation, we decide to convert to a REIT and are successful in qualifying for taxation as a REIT, we will generally be permitted to deduct from federal income taxes the dividends that we pay to our stockholders. The income represented by such dividends would not be subject to federal income taxation at the entity level but would be taxed, if at all, at the stockholder level. Nevertheless, the income of our domestic taxable REIT subsidiaries (each, a “TRS”), which will hold our U.S. operations that may not be REIT-compliant, will be subject, as applicable, to federal and state corporate income tax. Likewise, our foreign subsidiaries will continue to be subject to foreign income taxes in jurisdictions in which they hold assets or conduct operations, regardless of whether held or conducted through TRSs or through entities that are disregarded from us for U.S. federal income tax purposes. Also, we will be subject to a separate corporate income tax on any gains recognized during a specified period (generally 5 years) following the REIT conversion that are attributable to “built-in” gains with respect to the assets that we own on the date we convert to a REIT.

Our ability to qualify for taxation as a REIT will depend upon our continuing compliance following our REIT conversion with various requirements, including requirements related to the nature of our assets, the sources of our income and the distributions to our stockholders. If we fail to qualify for taxation as a REIT, we will be subject to federal income tax at regular corporate income tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain federal, state, local and foreign taxes on our income and property. In particular, while state income tax regimes often parallel the federal income tax regime for REITs described above, many states do not completely follow federal rules and some may not follow them at all.

The current phase of our evaluation and preparation currently includes seeking a PLR from the IRS. We are requesting that the PLR address whether our revenues from dark and lit fiber satisfy applicable REIT income tests, and our ultimate decision to convert to a REIT may depend upon a favorable ruling from the IRS on this topic. We submitted the PLR request to the IRS in July 2018, but the IRS may not provide a response until later in 2019 or later or may not respond at all.

At this stage of our evaluation and preparation for a potential conversion to a REIT, we cannot accurately estimate the costs required to support any potential conversion, but we anticipate that our costs would include various administrative costs in addition to certain related tax liabilities.

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 access to 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 product offerings through 45 acquisitions through December 31, 2018.

As a result of the growth of our business from these acquisitions and the capital expenditures and 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

Neutral Path Communications

On April 17, 2018, we acquired substantially all of the assets of Neutral Path Communications and Near North Partners (collectively, “Neutral Path”) for \$33.3 million, which is net of cash acquired and also included an estimate for a contingent payment based on sales performance through June 30, 2018. The purchase price is subject to net working capital and certain post-closing adjustments. As of December 31, 2018, \$4.0 million of the purchase consideration is

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being held in escrow pending the expiration of the indemnification adjustment period. The all-cash acquisition was funded with cash on hand and was considered an asset purchase for U.S. federal income tax purposes.

Neutral Path is a long haul infrastructure provider, providing access to a fiber network section in the Midwest. The transaction added 452 owned route miles, plus additional leased route miles, to our extensive North American network, including a unique high-count fiber route from Minneapolis to Omaha. The fiber footprint augments our network with three owned diverse fiber routes out of Minneapolis, Chicago and Omaha.

The results of the acquired Neutral Path business are included in our operating results beginning April 17, 2018.

McLean Data Center

On April 4, 2018, we acquired McLean Data Center, a privately owned data center for an insignificant amount. The acquisition was considered an asset purchase for U.S. federal income tax purposes and a business combination for accounting purposes. The Company assumed an operating lease obligation and certain assets, such as cash, structural components, equipment and customer contracts equipment and customer contracts.

Spread Networks

On February 28, 2018, we acquired Spread Networks, LLC (“Spread Networks”), a privately-owned telecommunications provider that owns and offers access to a 825-mile, high-fiber count long haul route connecting New York and Chicago, for net purchase consideration of \$130.5 million, net of cash acquired, subject to certain post-closing adjustments. As of December 31, 2018, \$0.6 million of the purchase consideration is being held in escrow pending the expiration of the indemnification adjustment period. The all-cash acquisition was funded with cash on hand and was considered an asset purchase for U.S. federal income tax purposes.

The route connects 755 Secaucus Road in Secaucus, New Jersey and 1400 Federal Boulevard in Carteret, New Jersey to 350 Cermak Road in Chicago, Illinois, with additional connectivity to be enabled by Zayo’s existing network. Zayo plans to use the acquired assets to provide a low-latency wavelength route from Seattle to New York.

The results of the acquired Spread Networks business are included in our operating results beginning February 28, 2018.

Optic Zoo Networks

On January 18, 2018, we acquired Vancouver, BC Canada-based Optic Zoo Networks for net purchase consideration of CAD \$30.9 million (or \$24.8 million), net of cash acquired, subject to certain post-closing adjustments. Optic Zoo Networks owns and provides access to high-capacity fiber in Vancouver. As of December 31, 2018, CAD \$3.1 million (or \$2.3 million), of the purchase consideration is being held in escrow pending the expiration of the indemnification adjustment period. The acquisition was funded with cash on hand and was considered a stock purchase for U.S. federal income tax purposes.

The transaction strengthens Zayo’s position in Vancouver and Western Canada, adding 103 route miles and more than 100 on-net buildings to Zayo’s Vancouver footprint.

The results of the acquired Optic Zoo Networks business are included in our operating results beginning January 18, 2018.

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Disposition

Scott-Rice Telephone Co.

On July 31, 2018, we completed the sale of Scott-Rice Telephone Co. (“SRT”), a Minnesota incumbent local exchange carrier, for \$42.2 million to Nuvera Communications, Inc. (formerly New Ulm Telecom, Inc.). As of December 31, 2018, \$3.2 million of purchase consideration was held in escrow. We recognized a pre-tax gain of \$5.5 million on the sale, which is included in other income, net in the condensed consolidated statements of operations. We acquired SRT as part of our March 1, 2017 purchase of Electric Lightwave Parent, Inc. and it was included as part of the Allstream segment. SRT had a pre-tax net loss of \$1.6 million for the year ended June 30, 2018 and pre-tax net income of \$2.9 million from when it was acquired in March 1, 2017 through June 30, 2017.

Substantial Indebtedness

As of December 31, 2018 and June 30, 2018, long-term debt was as follows:

| | Date of Issuance or most recent amendment | Maturity | Interest Payments | Interest Rate | Outstanding as of | |
|---------------------------------|---|----------|-------------------|---------------|-------------------|---------------|
| | | | | | December 31, 2018 | June 30, 2018 |
| Term Loan Facility due 2021 | Jan 2017 | Jan 2021 | Monthly | LIBOR +2.00% | \$ 491.3 | \$ 493.8 |
| B-2 Term Loan Facility | Feb 2018 | Jan 2024 | Monthly | LIBOR +2.25% | 1,269.3 | 1,269.3 |
| 6.00% Senior Unsecured Notes | Jan & Mar 2015 | Apr 2023 | Apr/Oct | 6.00% | 1,430.0 | 1,430.0 |
| 6.375% Senior Unsecured Notes | May 2015 & Apr 2016 | May 2025 | May/Nov | 6.375% | 900.0 | 900.0 |
| 5.75% Senior Unsecured Notes | Jan, Apr & Jul 2017 | Jan 2027 | Jan/Jul | 5.75% | 1,650.0 | 1,650.0 |
| Revolving Loan Facility | Dec 2018 (1) | Apr 2020 | Monthly | LIBOR +1.75% | 210.0 | — |
| Total obligations | | | | | 5,950.6 | 5,743.1 |
| Unamortized premium, net | | | | | 11.7 | 11.6 |
| Unamortized debt issuance costs | | | | | (54.7) | (59.6) |
| Carrying value of debt | | | | | 5,907.6 | 5,695.1 |
| Less current portion | | | | | (5.0) | (5.0) |
| | | | | | \$ 5,902.6 | \$ 5,690.1 |

Total long-term debt,
less current portion

(1) The most recent issuance on the Revolving Loan Facility was December 2018, the most recent amendment on the Revolving Loan Facility was in December 2017.

The weighted average interest rates (including margins) on the Term Loan Facility were approximately 4.7% and 4.3% at December 31, 2018 and June 30, 2018, respectively. The weighted average interest rate on the Revolver was approximately 4.3% as of December 31, 2018. The interest rate on the Revolver was approximately 3.8% as of June 30, 2018, and there were no borrowings outstanding under the Revolver as of such date. As of December 31, 2018, \$210.0 million was outstanding under the Revolver. Standby letters of credit were outstanding in the amount of \$8.2 million as of December 31, 2018, leaving \$231.8 million available under the Revolver, subject to certain conditions.

Substantial Capital Expenditures

During the six months ended December 31, 2018 and 2017, we invested \$384.7 million and \$386.8 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.

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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, 2018.

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 offering 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 contribution payments, and component 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 product offering delivery organization. The dollar value of bookings is equal to the monthly recurring price that the customer will pay for the offerings and/or the monthly amortized amount of the revenue that we will recognize for those offerings. To the extent a booking is cancelled by the customer prior to the offerings being originated, it is subtracted from the total bookings number in the period that it is cancelled. Bookings do not immediately impact revenue until the solutions are installed (gross installed revenue).

Gross Installed Revenue. Installs are the amount of MRR and MAR for offerings that have been installed, tested, accepted by the customer, and have been recognized in revenue during a given period. Installs include new offerings, 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 offerings. For each period presented, disconnects associated with attrition and upgrades or replacement offerings are the drivers of churn, accounting for more than 75% of negative changes in MRR and MAR, while price changes account for less than 25%. 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

(including estimated purchase accounting adjustments) for the reporting periods prior to the date of inclusion in our results of operations, and then calculate 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 U.S. and have historically acquired companies with functional currencies other than the U.S. 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 British pound sterling (“GBP”) and Canadian dollar (“CAD”) and to a lesser extent the Euro.

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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 costs resulting from our leasing of certain network facilities, primarily leases of circuits and dark fiber, from third parties 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 offerings 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 infrastructure or offerings from third-party providers. Third-party network costs include the upfront cost of the initial installation of such infrastructure. Such costs are included in operating costs in our condensed consolidated statements of operations over the respective contract period.

Compensation and benefits expenses include salaries, wages, incentive compensation and benefits. Employee-related costs that are directly associated with network construction and location 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 and severance expense incurred that are associated with acquisitions or disposals, and other direct expenses incurred that are associated with signed and/or closed acquisitions or disposals and unsuccessful acquisitions. Transaction costs are included in “selling,

general and administrative expenses” in our condensed consolidated statements of operations.

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Three Months Ended December 31, 2018 Compared to the Three Months Ended December 31, 2017

Revenue

| | For the three months ended December 31, | | | | |
|-----------------------------------|---|----------|-------------|------------|---|
| | 2018 | 2017 | \$ Variance | % Variance | |
| | (in millions) | | | | |
| Segment and consolidated revenue: | | | | | |
| Fiber Solutions | \$ 228.7 | \$ 203.4 | \$ 25.3 | 12 | % |
| Transport | 169.8 | 166.0 | 3.8 | 2 | % |
| Enterprise Networks | 81.6 | 93.9 | (12.3) | (13) | % |
| zColo | 57.5 | 59.9 | (2.4) | (4) | % |
| Allstream | 96.7 | 123.5 | (26.8) | (22) | % |
| Other | 4.8 | 6.4 | (1.6) | (25) | % |
| Consolidated | \$ 639.1 | \$ 653.1 | \$ (14.0) | (2) | % |

Our total revenue decreased by \$14.0 million, or 2%, to \$639.1 million for the three months ended December 31, 2018 from \$653.1 million for the three months ended December 31, 2017.

We estimate that the period-over-period pro-forma organic revenue decline was approximately 3.2%. Our pro-forma revenue decline was primarily driven by changes in exchange rates. The average exchange rate of the GBP against the USD weakened by 3.1%, the average exchange rate of the Euro against the USD weakened by 3.1%, and the average exchange rate of the CAD against the USD weakened by 3.9% during the three months ended December 31, 2018 as compared to the three months ended December 31, 2017. We estimate that pro-forma revenue was negatively impacted by fluctuations in foreign currency rates between the three months ended December 31, 2018 and December 31, 2017 by \$5.3 million resulting in a period-over-period pro-forma organic revenue decline of \$8.7 million, or approximately 2.4%.

Additional underlying revenue drivers included:

- MRR and MAR associated with new bookings during the three months ended December 31, 2018 and 2017 increased period-over-period to \$8.3 million from \$7.9 million, excluding Allstream. The total contract value associated with bookings for the three months ended December 31, 2018 was approximately \$560.0 million, excluding Allstream.
- Net installs remained consistent period-over-period at \$1.6 million, excluding Allstream.
- Monthly churn percentage remained consistent period-over-period at 1.2%, excluding Allstream.

Fiber Solutions. Revenue from our Fiber Solutions segment increased by \$25.3 million, or 12%, to \$228.7 million for the three months ended December 31, 2018 from \$203.4 million for the three months ended December 31, 2017. The increase was a result of both organic and acquisition related growth.

Transport. Revenue from our Transport segment increased by \$3.8 million, or 2%, to \$169.8 million for the three months ended December 31, 2018 from \$166.0 million for the three months ended December 31, 2017. The increase was a result of both organic and acquisition related growth.

Enterprise Networks. Revenue from our Enterprise Networks segment decreased by \$12.3 million, or 13%, to \$81.6 million for the three months ended December 31, 2018 from \$93.9 million for the three months ended December 31, 2017. The decrease was due to the timing of net installs and foreign currency movements and increased churn.

zColo. Revenue from our zColo segment decreased by \$2.4 million, or 4%, to \$57.5 million for the three months ended December 31, 2018 from \$59.9 million for the three months ended December 31, 2017. The decrease was due to the timing of net installs and foreign currency movements.

Allstream. Revenue from our Allstream segment decreased by \$26.8 million, or 22%, to \$96.7 million for the three months ended December 31, 2018 from \$123.5 million for the three months ended December 31, 2017. The decrease was due to increased churn.

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Other. Revenue from our Other segment decreased by \$1.6 million, or 25%, to \$4.8 million for the three months ended December 31, 2018 from \$6.4 million for the three months ended December 31, 2017. The Other segment represented less than 1% of our total revenue during the three months ended December 31, 2018.

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 December 31, | | | |
|----------------------------------|---|------|----------|------|
| | 2018 | | 2017 | |
| | (in millions) | | | |
| Monthly recurring revenue(1) | \$ 576.0 | 90 % | \$ 583.4 | 89 % |
| Amortization of deferred revenue | 37.3 | 6 % | 33.2 | 5 % |
| Usage revenue | 15.0 | 2 % | 18.7 | 3 % |
| Other revenue(1) | 10.8 | 2 % | 17.8 | 3 % |
| Total Revenue | \$ 639.1 | 100% | \$ 653.1 | 100% |

(1) Prior period amounts were reclassified for comparability with the Fiscal 2019 presentation.

Operating Costs and Expenses

| | For the three months ended December 31, | | | |
|--|---|----------|----------------|---------------|
| | 2018 | 2017 | \$ Variance | % Variance |
| | (in millions) | | | |
| Segment and consolidated operating costs and expenses: | | | | |
| Fiber Solutions | \$ 104.4 | \$ 144.8 | \$ (40.4) | (28) % |
| Transport | 164.2 | 157.7 | 6.5 | 4 % |
| Enterprise Networks | 65.6 | 68.1 | (2.5) | (4) % |
| zColo | 57.9 | 55.2 | 2.7 | 5 % |
| Allstream | 98.0 | 118.0 | (20.0) | (17) % |
| Other | 4.3 | 6.1 | (1.8) | (30) % |
| Consolidated | \$ 494.4 | \$ 549.9 | \$ (55.5) | (10) % |

Our operating costs decreased by \$55.5 million, or 10%, to \$494.4 million for the three months ended December 31, 2018 from \$549.9 million for the three months ended December 31, 2017. The decrease in consolidated operating costs was primarily due to decreases in depreciation and amortization of \$48.8 million, \$10.9 million in Netex and \$3.1 million in transaction costs, partially offset by increases of \$3.5 million in compensation and benefits expenses, \$2.7 million in stock-based compensation, \$0.7 million in Netops and \$0.4 million in other expenses.

Fiber Solutions. Fiber Solutions operating costs decreased by \$40.4 million, or 28%, to \$104.4 million for the three months ended December 31, 2018 from \$144.8 million for the three months ended December 31, 2017. The decrease in operating costs and expenses was primarily a result of decreases of \$52.4 million in depreciation and amortization as a result of a change in the estimated useful lives of fiber optic network assets from 20 years to 33 years and \$0.3 million in transaction costs, partially offset by increases of \$5.2 million in Netex and Netops costs, \$3.1 million in compensation and benefits expenses, \$2.3 million in stock-based compensation and \$1.7 million in other expenses.

Transport. Transport operating costs increased by \$6.5 million, or 4%, to \$164.2 million for the three months ended December 31, 2018 from \$157.7 million for the three months ended December 31, 2017. The increase in operating costs and expenses was primarily a result of increases of \$2.2 million in depreciation and amortization, \$1.8 million in stock-based compensation, \$1.5 million in compensation and benefits expenses and \$1.4 million in Netex and Netops costs and other operating costs, partially offset by a decrease of \$0.4 million in transaction costs.

Enterprise Networks. Enterprise Networks operating costs decreased by \$2.5 million, or 4%, to \$65.6 million for the three months ended December 31, 2018 from \$68.1 million for the three months ended December 31, 2017. The

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decrease in operating costs and expenses was primarily a result of decreases of \$2.6 million in Netex and Netops costs and \$3.0 million in other operating expenses, partially offset by increases of \$2.1 million in stock-based compensation and \$1.0 million in compensation and benefits expenses.

zColo. zColo operating costs increased by \$2.7 million, or 5%, to \$57.9 million for the three months ended December 31, 2018 from \$55.2 million for the three months ended December 31, 2017. The increase in operating costs and expenses was primarily a result of increases in depreciation and amortization expense of \$2.0 million, \$0.8 million in Netex and Netops costs and \$0.5 million in compensation and benefits expenses, partially offset by a \$0.6 million decrease in other operating costs.

Allstream. Allstream operating costs decreased by \$20.0 million, or 17%, to \$98.0 million for the three months ended December 31, 2018 from \$118.0 million for the three months ended December 31, 2017. The decrease in operating costs and expenses was primarily a result of decreases in Netex and Netops costs of \$13.1 million, \$3.4 million in stock-based compensation, \$2.6 million in compensation and benefits, \$2.0 million in transaction costs and \$0.9 million in depreciation and amortization expense, partially offset by an increase in other operating costs of \$2.0 million.

Other. Other operating costs were \$4.3 million for the three months ended December 31, 2018, as compared to \$6.1 million for the three months ended December 31, 2017. The decrease was directly attributed to a decrease in revenue associated with equipment sales.

The table below sets forth the components of our operating costs and expenses during the three months ended December 31, 2018 and 2017.

| | For the three months ended December 31, | | | |
|------------------------------------|---|----------|-------------|------------|
| | 2018 | 2017 | \$ Variance | % Variance |
| | (in millions) | | | |
| Netex | \$ 121.1 | \$ 132.0 | \$ (10.9) | (8) % |
| Compensation and benefits expenses | 81.3 | 77.8 | 3.5 | 4 % |
| Netops | 70.9 | 70.2 | 0.7 | 1 % |
| Other expenses | 45.2 | 44.8 | 0.4 | 1 % |
| Transaction costs | 2.8 | 5.9 | (3.1) | (53) % |
| Stock-based compensation | 26.2 | 23.5 | 2.7 | 11 % |
| Depreciation and amortization | 146.9 | 195.7 | (48.8) | (25) % |
| Total operating costs and expenses | \$ 494.4 | \$ 549.9 | \$ (55.5) | (10) % |

Netex. Our Netex decreased by \$10.9 million, or 8%, to \$121.1 million for the three months ended December 31, 2018 from \$132.0 million for the three months ended December 31, 2017. The decrease in Netex was primarily due to increased costs in Fiscal 2018 as a result of acquisitions, in addition to cost savings, as planned network related synergies were realized.

Compensation and Benefits Expenses. Compensation and benefits expenses increased by \$3.5 million, or 4%, to \$81.3 million for the three months ended December 31, 2018 from \$77.8 million for the three months ended December 31, 2017. The increase in compensation and benefits expenses was primarily to support our growing business, including employees retained from businesses acquired during Fiscal 2018.

Netops. Netops increased by \$0.7 million, or 1%, to \$70.9 million for the three months ended December 31, 2018 from \$70.2 million for the three months ended December 31, 2017. The increase principally reflected the organic and inorganic growth of our network and the related expenses of operating that expanded network. Our total network route miles increased approximately 5% to 130,865 miles at December 31, 2018 from 126,990 miles at December 31, 2017.

Other Expenses. Other expenses increased by \$0.4 million, or 1%, to \$45.2 million for the three months ended December 31, 2018 from \$44.8 million for the three months ended December 31, 2017. The increase was primarily the result of additional expenses attributable to our Fiscal 2018 acquisitions.

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Transaction Costs. Transaction costs decreased by \$3.1 million to \$2.8 million for the three months ended December 31, 2018 from \$5.9 million for the three months ended December 31, 2017. The decrease is primarily the result of less acquisition activity than the comparison period.

Stock-Based Compensation. Stock-based compensation expense increased by \$2.7 million, or 11%, to \$26.2 million for the three months ended December 31, 2018 from \$23.5 million for the three months ended December 31, 2017.

The increase in stock-based compensation expense was primarily driven by increases in the number of Part A awards granted.

Depreciation and Amortization. Depreciation and amortization expense decreased by \$48.8 million, or 25%, to \$146.9 million for the three months ended December 31, 2018 from \$195.7 million for the three months ended December 31, 2017. The decrease was primarily a result of a change in the estimated useful lives of fiber optic network assets from 20 years to 33 years.

Total Other Expense, Net

The table below sets forth the components of our total other expense, net for the three months ended December 31, 2018 and 2017, respectively.

| | For the three months ended December 31, | | | | |
|--|---|-----------|-------------|------------|---|
| | 2018 | 2017 | \$ Variance | % Variance | |
| | (in millions) | | | | |
| Interest expense | \$ (84.0) | \$ (73.1) | \$ (10.9) | (15) | % |
| Foreign currency (loss)/gain on intercompany loans | (8.3) | 3.1 | (11.4) | | * |
| Other income, net | 0.3 | 0.4 | (0.1) | 25 | % |
| Total other expenses, net | \$ (92.0) | \$ (69.6) | \$ (22.4) | (32) | % |

* not meaningful

Interest expense. Interest expense increased by \$10.9 million, or 15%, to \$84.0 million for the three months ended December 31, 2018 from \$73.1 million for the three months ended December 31, 2017. The increase was primarily a result of an increase in debt from the comparative period resulting from incremental debt raised to fund our acquisitions, borrowings under the Revolver to repurchase our common stock and increasing LIBOR rates.

Foreign currency (loss)/gain on intercompany loans. We recorded a foreign currency loss on intercompany loans of \$8.3 million for the three months ended December 31, 2018, compared to a gain of \$3.1 million for the three months ended December 31, 2017. We have intercompany loans between our U.S. and UK and Canadian legal entities, which were established to fund our international acquisitions. As the loans are recorded as an intercompany receivable at our U.S. entities, strengthening of the USD over a foreign currency results in a foreign currency loss on intercompany loans and the weakening of the USD over a foreign currency results in a gain on intercompany loans. This non-cash loss was driven by the strengthening of the USD over the GBP period-over-period and the related impact on intercompany loans entered into by foreign subsidiaries with functional currency in GBP.

Provision for Income Taxes

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as the Tax Cuts and Jobs Act of 2017 (“U.S. Tax Reform”). U.S. Tax Reform reduced the U.S. corporate tax rate from 35% to 21%, created a territorial tax system with a one-time mandatory repatriation tax on previously deferred foreign earnings, and changed business-related deductions and credits.

ASC 740, Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment. The SEC staff issued SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which will allow registrants to record provisional amounts during a ‘measurement period.’ The measurement

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period is similar to the measurement period used when accounting for business combinations under ASC 805, Business Combinations. SAB 118 allows a registrant to recognize provisional amounts when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. Provisional amounts were recorded in prior quarters; however, the measurement period ended as of December 31, 2018 and final amounts are now recorded.

Our provision for income taxes increased over the same quarter in the prior year by \$2.1 million to \$22.5 million for the three months ended December 31, 2018 from \$20.4 million for the three months ended December 31, 2017. Our provision for income taxes included both the current provision and a provision for deferred income tax expense resulting from timing differences between tax and financial reporting accounting bases.

A provision for uncertain tax positions has a material impact on the comparison of our effective tax rate and the expected income tax expense at the statutory rate for the current quarter and is the significant reason our effective tax rate is higher than the expected tax provision at the statutory rate.

The following table reconciles an expected tax provision based on a statutory federal tax rate applied to our earnings before income tax to our actual provision for income taxes:

| | For the three months ended December 31, | |
|--|--|---------|
| | 2018 | 2017 |
| | (in millions) | |
| Expected provision at the statutory rate | \$ 11.1 | \$ 7.4 |
| Increase/(decrease) due to: | | |
| Non-deductible stock-based compensation | 2.5 | 1.0 |
| State income taxes benefit, net of federal benefit | 2.5 | 0.9 |
| Transaction costs not deductible for tax purposes | 0.1 | 0.1 |
| Change in statutory tax rates outside U.S. | — | 0.8 |
| Changes in uncertain tax positions | 6.4 | — |
| Foreign tax rate differential | 1.3 | 0.5 |
| U.S. Tax Reform | (0.4) | 44.1 |
| Change in valuation allowance | (0.5) | (25.7) |
| Other, net | (0.5) | (8.7) |
| Provision for income taxes | \$ 22.5 | \$ 20.4 |

Six Months Ended December 31, 2018 Compared to the Six Months Ended December 31, 2017

| | For the six months ended December 31, | | | | |
|-----------------------------------|---------------------------------------|------------|-------------|------------|---|
| | 2018 | 2017 | \$ Variance | % Variance | |
| | (in millions) | | | | |
| Segment and consolidated revenue: | | | | | |
| Fiber Solutions | \$ 449.6 | \$ 401.8 | \$ 47.8 | 12 | % |
| Transport | 338.2 | 334.0 | 4.2 | 1 | % |
| Enterprise Networks | 164.2 | 179.3 | (15.1) | (8) | % |
| zColo | 116.5 | 118.3 | (1.8) | (2) | % |
| Allstream | 201.7 | 251.2 | (49.5) | (20) | % |
| Other | 10.0 | 11.6 | (1.6) | (14) | % |
| Consolidated | \$ 1,280.2 | \$ 1,296.2 | \$ (16.0) | (1) | % |

Our total revenue decreased by \$16.0 million, or 1%, to \$1,280.2 million for the six months ended December 31, 2018, from \$1,296.2 million for the six months ended December 31, 2017.

We estimate that the period-over-period pro-forma organic revenue decrease was approximately 2.4%. Our pro-forma revenue decline was primarily driven by changes in exchange rates. The average exchange rate of the GBP against the USD weakened by 1.8%, the average exchange rate of the Euro against the USD weakened by 2.1%, and the average

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exchange rate of the CAD against the USD weakened by 4.0% during the six months ended December 31, 2018 as compared to the six months ended December 31, 2017. We estimate that pro-forma revenue was negatively impacted by foreign currency exchange fluctuations between the six months ended December 31, 2018 and December 31, 2017 by \$9.8 million for a total period-over-period pro-forma organic revenue decline of approximately 1.6%.

- MRR and MAR associated with new bookings during the six months ended December 31, 2018 and 2017 increased period-over-period to \$15.6 million from \$15.5 million, excluding Allstream. The total contract value associated with bookings for the six months ended December 31, 2018 was approximately \$1.0 billion, excluding Allstream.
- Net installs remained consistent period-over-period at \$2.7 million, excluding Allstream.
- Monthly churn percentage remained consistent period-over-period at 1.2%, excluding Allstream.

Fiber Solutions. Revenue from our Fiber Solutions segment increased by \$47.8 million, or 12%, to \$449.6 million for the six months ended December 31, 2018 from \$401.8 million for the six months ended December 31, 2017. The increase was a result of both organic and acquisition related growth.

Transport. Revenue from our Transport segment increased by \$4.2 million, or 1%, to \$338.2 million for the six months ended December 31, 2018 from \$334.0 million for the six months ended December 31, 2017. The increase was a result of both organic and acquisition related growth.

Enterprise Networks. Revenue from our Enterprise Networks segment decreased by \$15.1 million, or 8%, to \$164.2 million for the six months ended December 31, 2018 from \$179.3 million for the six months ended December 31, 2017. The decrease was due to the timing of net installs and foreign currency movements and increased churn.

zColo. Revenue from our zColo segment decreased by \$1.8 million, or 2%, to \$116.5 million for the six months ended December 31, 2018 from \$118.3 million for the six months ended December 31, 2017. The decrease was due to the timing of net installs and foreign currency movements.

Allstream. Revenue from our Allstream segment decreased by \$49.5 million, or 20%, to \$201.7 million for the six months ended December 31, 2018 from \$251.2 million for the six months ended December 31, 2017. The decrease was due to increased churn.

Other. Revenue from our Other segment decreased by \$1.6 million, or 14%, to \$10.0 million for the six months ended December 31, 2018 from \$11.6 million for the six months ended December 31, 2017. The Other segment represented less than 1% of our total revenue during the six months ended December 31, 2018.

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 six months ended December 31, | | | |
|----------------------------------|---------------------------------------|------|------------|------|
| | 2018 | | 2017 | |
| | (in millions) | | | |
| Monthly recurring revenue(1) | \$ 1,154.7 | 90 % | \$ 1,168.8 | 90 % |
| Amortization of deferred revenue | 74.3 | 6 % | 65.6 | 5 % |

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| | | | | |
|------------------|------------|------|------------|-------|
| Usage revenue | 31.6 | 2 % | 38.2 | 3 % |
| Other revenue(1) | 19.6 | 2 % | 23.6 | 2 % |
| Total Revenue | \$ 1,280.2 | 100% | \$ 1,296.2 | 100 % |

(1) Prior period amounts were reclassified for comparability with the Fiscal 2019 presentation.

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Operating Costs and Expenses

| | For the six months ended December 31, | | | | |
|--|---------------------------------------|------------|----------------|---------------|---|
| | 2018 | 2017 | \$ Variance | % Variance | |
| | (in millions) | | | | |
| Segment and consolidated operating costs and expenses: | | | | | |
| Fiber Solutions | \$ 230.3 | \$ 293.2 | \$ (62.9) | (21) | % |
| Transport | 323.1 | 317.5 | 5.6 | 2 | % |
| Enterprise Networks | 130.4 | 136.4 | (6.0) | (4) | % |
| zColo | 118.6 | 111.8 | 6.8 | 6 | % |
| Allstream | 201.2 | 227.9 | (26.7) | (12) | % |
| Other | 9.1 | 10.7 | (1.6) | (15) | % |
| Consolidated | \$ 1,012.7 | \$ 1,097.5 | \$ (84.8) | (8) | % |

Our operating costs decreased by \$84.8 million, or 8%, to \$1,012.7 million for the six months ended December 31, 2018 from \$1,097.5 million for the six months ended December 31, 2017. The decrease in consolidated operating costs was primarily due to decreases in depreciation and amortization of \$64.8 million, \$19.7 million in Netex and \$10.7 million in transaction costs, partially offset by increases of \$4.1 million in Netops, \$2.4 million in compensation and benefits expenses, \$1.6 million in stock-based compensation and \$2.3 million in other expenses.

Fiber Solutions. Fiber Solutions operating costs decreased by \$62.9 million, or 21%, to \$230.3 million for the six months ended December 31, 2018 from \$293.2 million for the six months ended December 31, 2017. The decrease in operating costs and expenses was primarily a result of decreases of \$75.6 million in depreciation and amortization as a result of a change in the estimated useful lives of fiber optic network assets from 20 years to 33 years and \$2.6 million in transaction costs, partially offset by increases of \$8.3 million in Netex and Netops costs, \$3.8 million in compensation and benefits expenses, \$1.7 million in stock-based compensation and \$1.5 million in other expenses.

Transport. Transport operating costs increased by \$5.6 million, or 2%, to \$323.1 million for the six months ended December 31, 2018 from \$317.5 million for the six months ended December 31, 2017. The increase in operating costs and expenses was primarily a result of increases of \$5.9 million in Netex and Netops costs, \$1.6 million in stock-based compensation and \$0.9 million in compensation and benefits expenses, partially offset by decreases of \$2.1 million in transaction costs, \$0.6 million in depreciation and amortization and \$0.1 million in other operating expenses.

Enterprise Networks. Enterprise Networks operating costs decreased by \$6.0 million, or 4%, to \$130.4 million for the six months ended December 31, 2018 from \$136.4 million for the six months ended December 31, 2017. The decrease in operating costs and expenses was primarily a result of decreases in Netex and Netops of \$6.2 million, other operating expenses of \$2.1 million and transaction costs of \$1.7 million, partially offset by increases in stock-based compensation of \$2.3 million, \$1.4 million in depreciation and amortization and \$0.3 million in compensation and benefits expenses.

zColo. zColo operating costs increased by \$6.8 million, or 6%, to \$118.6 million for the six months ended December 31, 2018 from \$111.8 million for the six months ended December 31, 2017. The increase in operating costs and expenses was primarily a result of increases of \$4.9 million in depreciation and amortization expense, \$3.3 million in Netex and Netops costs and \$0.4 million in compensation and benefits, partially offset by decreases of \$1.5 million in other operating expenses and \$0.3 million in transaction costs.

Allstream. Allstream operating costs decreased by \$26.7 million, or 12%, to \$201.2 million for the six months ended December 31, 2018 from \$227.9 million for the six months ended December 31, 2017. The decrease in operating costs and expenses was primarily a result of decreases in Netex and Netops costs of \$24.4 million, \$3.9 million in stock-based compensation, \$3.6 million of compensation and benefits expenses and \$3.9 million in transaction costs, partially offset by increases of \$4.9 million in depreciation and amortization and \$4.2 million in other operating expenses.

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Other. Other operating costs decreased by \$1.6 million, or 15%, to \$9.1 million for the six months ended December 31, 2018 from \$10.7 million for the six months ended December 31, 2017. The decrease was directly attributed to a decrease in revenue associated with component sales.

The table below sets forth the components of our operating costs and expenses during the six months ended December 31, 2018 and 2017.

| | For the six months ended December 31, | | | | |
|------------------------------------|---------------------------------------|------------|-----------|----------|---|
| | 2018 | 2017 | \$ | % | |
| | (in millions) | | Variance | Variance | |
| Netex | \$ 243.8 | \$ 263.5 | \$ (19.7) | (7) | % |
| Compensation and benefits expenses | 162.0 | 159.6 | 2.4 | 2 | % |
| Netops | 145.9 | 141.8 | 4.1 | 3 | % |
| Other expenses | 89.9 | 87.6 | 2.3 | 3 | % |
| Transaction costs | 3.5 | 14.2 | (10.7) | (75) | % |
| Stock-based compensation | 52.9 | 51.3 | 1.6 | 3 | % |
| Depreciation and amortization | 314.7 | 379.5 | (64.8) | (17) | % |
| Total operating costs and expenses | \$ 1,012.7 | \$ 1,097.5 | \$ (84.8) | (8) | % |

Netex. Our Netex decreased by \$19.7 million, or 7%, to \$243.8 million for the six months ended December 31, 2018 from \$263.5 million for the six months ended December 31, 2017. The decrease in Netex was primarily due to increased costs in Fiscal 2018 as a result of acquisitions, in addition to cost savings, as planned network related synergies were realized.

Compensation and Benefits Expenses. Compensation and benefits expenses increased by \$2.4 million, or 2%, to \$162.0 million for the six months ended December 31, 2018 from \$159.6 million for the six months ended December 31, 2017. The increase in compensation and benefits expenses was primarily to support our growing business, including employees retained from businesses acquired during Fiscal 2018.

Netops. Netops increased by \$4.1 million, or 3%, to \$145.9 million for the six months ended December 31, 2018 from \$141.8 million for the six months ended December 31, 2017. The increase principally reflected the organic and inorganic growth of our network and the related expenses of operating that expanded network. Our total network route miles increased approximately 5% to 130,865 miles at December 31, 2018 from 126,990 miles at December 31, 2017.

Other Expenses. Other expenses increased by \$2.3 million, or 3%, to \$89.9 million for the six months ended December 31, 2018, from \$87.6 million for the six months ended December 31, 2017. The increase was primarily the

result of additional expenses attributable to our Fiscal 2018 acquisitions.

Transaction Costs. Transaction costs decreased by \$10.7 million, or 75%, to \$3.5 million for the six months ended December 31, 2018 from \$14.2 million for the six months ended December 31, 2017. The decrease is primarily the result of less acquisition activity than the comparison period.

Stock-Based Compensation. Stock-based compensation expense increased by \$1.6 million, or 3%, to \$52.9 million for the six months ended December 31, 2018 from \$51.3 million for the six months ended December 31, 2017. The increase in stock-based compensation expense was primarily driven by an increase in the number of Part A awards granted as compared to the six months ended December 31, 2017.

Depreciation and Amortization. Depreciation and amortization expense decreased by \$64.8 million, or 17%, to \$314.7 million for the six months ended December 31, 2018 from \$379.5 million for the six months ended December 31, 2017. The decrease was primarily a result of a change in the estimated useful lives of fiber optic network assets from 20 years to 33 years.

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Total Other Expense, Net

The table below sets forth the components of our total other expense, net for the six months ended December 31, 2018 and 2017, respectively.

| | For the six months ended December 31, | | | | |
|--|---------------------------------------|------------|----------------|---------------|---|
| | 2018 | 2017 | \$ Variance | % Variance | |
| | (in millions) | | | | |
| Interest expense | \$ (166.2) | \$ (146.7) | \$ (19.5) | (13) | % |
| Loss on extinguishment of debt | — | (4.9) | 4.9 | | * |
| Foreign currency (loss)/gain on intercompany loans | (12.9) | 13.9 | (26.8) | | * |
| Other income/(expense), net | 6.9 | 1.3 | 5.6 | | * |
| Total other expenses, net | \$ (172.2) | \$ (136.4) | \$ (35.8) | (26) | % |

* not meaningful

Interest expense. Interest expense increased by \$19.5 million, or 13%, to \$166.2 million for the six months ended December 31, 2018 from \$146.7 million for the six months ended December 31, 2017. The increase was primarily a result of an increase in debt from the comparative period resulting from incremental debt raised to fund our acquisitions, borrowings under the Revolver to repurchase our common stock and increasing LIBOR rates.

Loss on extinguishment of debt. Loss on extinguishment of debt was \$4.9 million for the six months ended December 31, 2017. The \$4.9 million loss on extinguishment of debt includes a non-cash expense associated with the write-off of unamortized debt issuance costs and the issuance discounts on the portion of the credit agreement governing the Term Loan Facility (as amended, the “Credit Agreement”) that was deemed to have been extinguished as well as the portion extinguished through early prepayment.

Foreign currency (loss)/gain on intercompany loans. We recorded a foreign currency loss on intercompany loans of \$12.9 million for the six months ended December 31, 2018, compared to a gain of \$13.9 million for the six months ended December 31, 2017. We have intercompany loans between our U.S. and UK and Canadian legal entities, which were established to fund our international acquisitions. As the loans are recorded as an intercompany receivable at our U.S. entities, strengthening of the USD over a foreign currency results in a foreign currency loss on intercompany loans and the weakening of the USD over a foreign currency results in a gain on intercompany loans. This non-cash loss was driven by the strengthening of the USD over the GBP period-over-period and the related impact on intercompany loans entered into by foreign subsidiaries with functional currency in GBP.

Provision for Income Taxes

Our provision for income taxes increased over the same period in the prior year by \$17.2 million to \$43.0 million for the six months ended December 31, 2018 from \$25.8 million for the six months ended December 31, 2017. Our provision for income taxes included both the current provision and a provision for deferred income tax expense

resulting from timing differences between tax and financial reporting accounting bases.

U.S. Tax Reform as well as a provision for uncertain tax positions has a material impact on the comparison of our effective tax rate and the expected income tax expense at the statutory rate for the current quarter and is the significant reason our effective tax rate is higher than the expected tax provision at the statutory rate.

Some U.S. Tax Reform provisions are effective beginning this fiscal year. As of December 31, 2018, the following provisions are not expected to have a material impact on tax expense: global intangible low taxed income, Base Erosion and Anti-abuse Tax, and the interest expense limitations. We anticipate the executive compensation limitations will have an impact. We continue to evaluate the aspects of U.S. Tax Reform as more information and guidance becomes available.

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The following table reconciles an expected tax provision based on a statutory federal tax rate applied to our earnings before income tax to our actual provision for income taxes:

| | For the six months ended December 31, | |
|--|--|---------|
| | 2018 | 2017 |
| | (in millions) | |
| Expected provision at the statutory rate | \$ 20.0 | \$ 17.4 |
| Increase/(decrease) due to: | | |
| Non-deductible stock-based compensation | 3.6 | 2.5 |
| State income taxes benefit, net of federal benefit | 4.0 | 1.5 |
| Transaction costs not deductible for tax purposes | 0.4 | 0.2 |
| Change in statutory tax rates outside U.S. | (0.1) | 0.8 |
| Changes in uncertain tax positions | 6.4 | — |
| Foreign tax rate differential | 1.5 | (1.7) |
| U.S. Tax Reform | 7.2 | 44.1 |
| Change in valuation allowance | (0.8) | (31.4) |
| Other, net | 0.8 | (7.6) |
| Provision for income taxes | \$ 43.0 | \$ 25.8 |

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, gains/(losses) on business dispositions 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 and gains/(losses) on business dispositions.

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 accounting principles generally accepted in the United States (“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.

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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.

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

| | For the three months ended December 31, 2018 | | | | | | | Total |
|---|--|-----------|---------------------|----------|-----------|--------|-----------------------|----------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | |
| Segment and consolidated Adjusted EBITDA | \$ 183.1 | \$ 58.0 | \$ 33.4 | \$ 27.9 | \$ 17.6 | \$ 1.2 | \$ — | \$ 321.2 |
| Interest expense | (48.4) | (14.2) | (7.7) | (9.6) | (4.1) | — | — | (84.0) |
| Provision for income taxes | — | — | — | — | (0.6) | — | (21.9) | (22.5) |
| Depreciation and amortization expense | (47.4) | (44.4) | (11.1) | (24.8) | (18.6) | (0.5) | (0.1) | (146.9) |
| Transaction costs | (1.1) | (0.6) | (0.5) | (0.4) | (0.2) | — | — | (2.8) |
| Stock-based compensation | (10.0) | (7.3) | (5.8) | (3.0) | — | (0.1) | — | (26.2) |
| Foreign currency loss on intercompany loans | — | — | — | — | — | — | (8.3) | (8.3) |
| Non-cash loss on investments | (0.4) | — | — | — | — | — | 0.1 | (0.3) |
| Net income/(loss) | \$ 75.8 | \$ (8.5) | \$ 8.3 | \$ (9.9) | \$ (5.9) | \$ 0.6 | \$ (30.2) | \$ 30.2 |

| | For the three months ended December 31, 2017 | | | | | | | Total |
|--------------------------|--|-----------|---------------------|---------|-----------|--------|-----------------------|----------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | |
| Segment and consolidated | \$ 167.7 | \$ 57.1 | \$ 41.1 | \$ 31.0 | \$ 31.2 | \$ 0.9 | \$ (0.1) | \$ 328.9 |

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| | | | | | | | | |
|---|---------|----------|---------|----------|--------|--------|-----------|---------|
| Adjusted EBITDA | | | | | | | | |
| Interest expense | (42.1) | (12.4) | (7.1) | (7.7) | (3.9) | — | 0.1 | (73.1) |
| Provision for income taxes | — | — | — | — | — | — | (20.4) | (20.4) |
| Depreciation and amortization expense | (99.8) | (42.2) | (11.0) | (22.8) | (19.5) | (0.4) | — | (195.7) |
| Transaction costs | (1.4) | (1.0) | (0.7) | (0.5) | (2.2) | — | (0.1) | (5.9) |
| Stock-based compensation | (7.7) | (5.5) | (3.7) | (3.0) | (3.4) | (0.3) | 0.1 | (23.5) |
| Foreign currency gain on intercompany loans | — | — | — | — | — | — | 3.1 | 3.1 |
| Non-cash loss on investments | (0.3) | — | — | — | — | — | 0.1 | (0.2) |
| Net income/(loss) | \$ 16.4 | \$ (4.0) | \$ 18.6 | \$ (3.0) | \$ 2.2 | \$ 0.2 | \$ (17.2) | \$ 13.2 |

For the six months ended December 31, 2018

| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | Corp/ Eliminations | Total |
|--|----------------------------------|-----------|---------------------|---------|-----------|--------|-----------------------|----------|
| Segment and consolidated Adjusted EBITDA | \$ 361.5 | \$ 115.1 | \$ 67.4 | \$ 55.9 | \$ 38.4 | \$ 2.3 | \$ — | \$ 640.6 |
| Interest expense | (94.3) | (28.1) | (15.3) | (20.4) | (8.1) | — | — | (166.2) |
| Provision for income taxes | — | — | — | — | (7.7) | — | (35.3) | (43.0) |
| Depreciation and amortization expense | (119.1) | (84.2) | (22.3) | (51.0) | (37.0) | (1.0) | (0.1) | (314.7) |
| Transaction Costs | (1.1) | (0.7) | (0.7) | (0.6) | (0.4) | — | — | (3.5) |
| Stock-based compensation | (21.2) | (14.7) | (10.6) | (6.1) | — | (0.3) | — | (52.9) |
| Foreign currency gain on intercompany | — | — | — | — | — | — | (12.9) | (12.9) |

| | | | | | | | | |
|------------------------------------|----------|--------|------|--------|-------|-----|--------|-------|
| loans | | | | | | | | |
| Gain on business disposition | — | — | — | — | 5.5 | — | — | 5.5 |
| Non-cash loss on investments | (0.6) | — | — | — | — | — | — | (0.6) |
| Net income/(loss) | \$ 125.2 | (12.6) | 18.5 | (22.2) | (9.3) | 1.0 | (48.3) | 52.3 |

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| Segment and consolidated | For the six months ended December 31, 2017 | | | | | | | Corp/ Eliminations | Total |
|---|--|-----------|------------------------|---------|-----------|--------|----------|-----------------------|-------|
| | Fiber Solutions (in millions) | Transport | Enterprise Networks | zColo | Allstream | Other | | | |
| Adjusted EBITDA | \$ 327.4 | \$ 117.4 | \$ 74.5 | \$ 59.6 | \$ 64.4 | \$ 2.2 | \$ (0.2) | \$ 645.3 | |
| Interest expense | (82.2) | (24.9) | (14.4) | (17.5) | (7.8) | — | 0.1 | (146.7) | |
| Provision for income taxes | — | — | — | — | — | — | (25.8) | (25.8) | |
| Depreciation and amortization expense | (194.7) | (84.8) | (20.9) | (46.1) | (32.1) | (0.9) | — | (379.5) | |
| Transaction Costs | (3.7) | (2.8) | (2.4) | (0.9) | (4.3) | — | (0.1) | (14.2) | |
| Stock-based compensation | (19.5) | (13.1) | (8.3) | (6.1) | (3.9) | (0.5) | 0.1 | (51.3) | |
| Loss on extinguishment of debt | — | — | — | — | — | — | (4.9) | (4.9) | |
| Foreign currency gain on intercompany loans | — | — | — | — | — | — | 13.9 | 13.9 | |
| Non-cash loss on investments | (0.3) | — | — | — | — | — | — | (0.3) | |
| Net income/(loss) | \$ 27.0 | (8.2) | 28.5 | (11.0) | 16.3 | 0.8 | (16.9) | 36.5 | |

Liquidity and Capital Resources

Our primary sources of liquidity have been cash provided by operations, equity offerings, and incurrence of debt. Our principal uses of cash have been for acquisitions, capital expenditures, working capital, debt service requirements and repurchases of our stock. 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 the 6.00% senior unsecured notes due 2023 (the “2023 Unsecured Notes”), the 6.375% senior unsecured notes due 2025 (the “2025 Unsecured Notes”) and the 5.75% senior unsecured notes due 2027 (the “2027 Unsecured Notes” and collectively with the 2023 and 2025 Unsecured Notes, the “Notes”) and the Credit Agreement that, under certain circumstances, restrict our ability to incur additional indebtedness. The indentures governing the 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 December 31, 2018, we had \$176.4 million in cash and cash equivalents and a working capital deficit of \$82.5 million. Cash and cash equivalents consist of amounts held in bank accounts and highly-liquid U.S. treasury money market funds. We have a current deferred revenue balance of \$167.3 million that we will be recognizing as revenue over the 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 December 31, 2018 current deferred revenue balance. During the three months ended December 31, 2018, we drew \$250.0 million under our Revolver to partially fund our \$402.5 million in common stock repurchases, and paid down \$40.0 million. As of December 31, 2018, we had \$231.8 million available under our Revolver, subject to certain conditions. Accordingly, we believe that we have sufficient resources to fund our obligations and foreseeable liquidity requirements in the near term and for the foreseeable future.

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Our capital expenditures decreased by \$2.1 million, to \$384.7 million during the six months ended December 31, 2018, as compared to \$386.8 million for the six months ended December 31, 2017. As of December 31, 2018, we were contractually committed for \$420.9 million of capital expenditures for construction materials and purchases of property and equipment. A majority of these capital expenditure commitments are expected to be satisfied in the next twelve months. 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 of December 31, 2018, we had \$122.5 million of purchase commitments for telecommunications services over the next three years.

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 six months ended December 31, 2018 and 2017.

| | Six Months Ended December 31, | |
|---|----------------------------------|------------|
| | 2018 | 2017 |
| | (in millions) | |
| Net cash provided by operating activities | \$ 472.4 | \$ 456.7 |
| Net cash used in investing activities | \$ (345.7) | \$ (387.0) |
| Net cash used in financing activities | \$ (203.6) | \$ (10.4) |

Net Cash Flows provided by Operating Activities

Net cash flows provided by operating activities increased by \$15.7 million, or 3%, to \$472.4 million during the six months ended December 31, 2018 from \$456.7 million during the six months ended December 31, 2017. Net cash flows provided by operating activities during the six months ended December 31, 2018 include our net income of \$52.3 million, plus the add backs of non-cash items deducted in the determination of net income, principally depreciation and amortization of \$314.7 million, stock-based compensation expense of \$52.9 million, deferred income taxes of \$32.4 million, and foreign currency loss on intercompany loans of \$12.9 million. Additions to deferred revenue of \$81.1 million during the period were partially offset by amortization of deferred revenue of \$74.3 million. Cash flow during the period was decreased by the net change in other working capital components of \$3.8 million.

Net cash flows provided by operating activities during the six months ended December 31, 2017 include our net income of \$36.5 million, plus the add backs of non-cash items deducted in the determination of net income, principally depreciation and amortization of \$379.5 million, stock-based compensation expense of \$51.3 million and deferred income taxes of \$17.2 million, partially offset by foreign currency gain on intercompany loans of \$13.9 million. Additions to deferred revenue of \$61.9 million during the period were offset by amortization of deferred revenue of \$65.6 million. Cash flow during the period was decreased by the net change in other working capital components of \$22.5 million.

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The increase in net cash flows from operating activities during the six months ended December 31, 2018 as compared to the six months ended December 31, 2017 is primarily due to a lower net decrease in working capital components.

Cash Flows used in Investing Activities

We used cash in investing activities of \$345.7 million and \$387.0 million during the six months ended December 31, 2018 and 2017, respectively. During the six months ended December 31, 2018, our principal use of cash for investing activities was for \$384.7 million of additions to property and equipment partially offset by proceeds from the sale of SRT of \$39.0 million.

During the six months ended December 31, 2017, our principal use of cash for investing activities was for additions to property and equipment.

Cash Flows used in Financing Activities

Our net cash used in financing activities was \$203.6 million and \$10.4 million during the six months ended December 31, 2018 and 2017, respectively. Cash used in financing activities was primarily comprised of \$402.5 million in purchases of our common stock, \$40.0 million in payments on the Revolver, \$4.0 million in capital lease payments, \$2.6 million in payments on the Santa Clara acquisition financing agreement, \$2.5 million in principal payments on our long-term debt and \$2.0 million for other financing outflows. These movements were offset by \$250.0 million in borrowings under the Revolver.

Our cash flows used in financing activities during the six months ended December 31, 2017 were primarily comprised of \$313.2 million in principal payments on long-term debt, \$4.0 million in principal payments on capital lease obligations, \$3.4 million in payments of debt issuance costs and \$2.6 million in payments on the Santa Clara acquisition financing agreement, partially offset by \$312.8 million in debt proceeds.

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 12 – 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 December 31, 2018, we had outstanding \$1,430.0 million of 2023 Unsecured Notes, \$900.0 million of 2025 Unsecured Notes, \$1,650.0 million of 2027 Unsecured Notes, a balance of \$491.3 million on our Term Loan Facility due 2021, a balance of \$1,269.3 million on our Term Loan Facility due 2024, \$210.0 million on our Revolver and

\$181.9 million of capital lease obligations. As of December 31, 2018, we had \$231.8 million available for borrowing under our Revolver, subject to certain conditions.

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 \$4,002.2 million as of December 31, 2018. Our 2023 Unsecured Notes, 2025 Unsecured Notes, and 2027 Unsecured Notes accrue interest at fixed rates of 6.00%, 6.375%, and 5.75%, respectively.

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Both our Revolver and our Term Loan Facility accrue interest at floating rates subject to certain conditions. The Company's Term Loan Facility accrues interest at variable rates based upon the one month, three month or six month LIBOR plus i) a spread of 2.0% on the Company's \$500.0 million tranche (which has a LIBOR floor of 0.0%) and ii) a spread of 2.25% on its B-2 Term Loan tranche (which has a LIBOR floor of 1.00%). Our Revolver accrues interest at variable rates based upon LIBOR plus a spread of 1.00% to 1.75% depending on our leverage ratio. As of December 31, 2018, the weighted average interest rates (including margin) on the Term Loan Facility and our Revolver were approximately 4.7% and 4.3%, respectively. A hypothetical increase in the applicable interest rate on our Term Loan Facility and Revolver of one percentage point would increase our annualized interest expense on the Term Loan Facility and Revolver by approximately 20.7% or \$19.7 million, based on the applicable interest rate as of December 31, 2018. Historically, this impact was limited as a result of the applicable interest rate being below the minimum 1.0% LIBOR floor on our Term Loan Facility tranche that matures on January 19, 2024.

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 and six months ended December 31, 2018, our foreign activities accounted for approximately 21% of our consolidated revenue. We monitor foreign markets and our commitments in such markets to assess currency and other risks. A one percent change in foreign exchange rates would change consolidated revenue by approximately \$1.4 million for the quarter ended December 31, 2018. To date, we have not entered into any hedging arrangement designed to limit exposure to foreign currencies. To the extent our level of foreign activities is expected to increase, through further acquisition and/or organic growth, 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

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.

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 of December 31, 2018, our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

Beginning July 1, 2018, we adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASC 606”). We implemented internal controls to ensure we adequately evaluated our contracts, trained

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applicable personnel and properly assessed the new accounting standard related to revenue recognition in our condensed consolidated financial statements.

Other than the internal controls related to the adoption of ASC 606 referenced above there were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2018 and Item 1A of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 set 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 December 31, 2018. There have been no material changes in our risk factors from those disclosed in our Annual Report and Quarterly Report discussed above.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents our purchase of equity securities reportable during the three months ended December 31, 2018.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Remaining Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) |
|--------|----------------------------------|------------------------------|--|--|
| | | | | |

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| | | | | |
|-----------------------------------|------------|----------|------------|---------|
| October 1 - October 31, 2018 | 11,405,802 | \$ 31.17 | 14,161,110 | \$ 50.8 |
| November 1 - November 30, 2018 | 1,561,861 | 29.98 | 15,722,971 | — |
| December 1 - December 31, 2018 | — | — | — | — |
| Total | 12,967,663 | \$ 31.02 | 15,722,971 | \$ — |

(1) On May 7, 2018, our Board of Directors authorized a six-month share repurchase program for up to \$500 million of our common stock from time to time using a variety of methods, including open market purchases, privately negotiated transactions and other means in accordance with federal securities laws. The authorization expired on November 7, 2018.

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ITEM 6. EXHIBITS

| Exhibit No. | Description of Exhibit |
|-------------|--|
| 3.1* | <u>Restated Certificate of Incorporation of Zayo Group Holdings, Inc.</u> |
| 3.2* | <u>Second Amended and Restated Bylaws of Zayo Group Holdings, Inc.</u> |
| 4.1** | <u>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)</u> |
| 4.2** | <u>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)</u> |
| 4.3** | <u>Indenture, dated as of January 27, 2017, 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 April 11, 2017, File No. 001-36690)</u> |
| 10.1**+ | <u>Amended and Restated Employment Agreement by and between Zayo Group, LLC and Matt Steinfort (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on October 23, 2018)</u> |
| 10.2**+ | <u>First Amendment to Amended and Restated Employment Agreement by and between Zayo Group, LLC and Matt Steinfort (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on December 7, 2018)</u> |
| 10.3*+ | <u>Revised Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Part A Awards)</u> |
| 10.4*+ | <u>Revised Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Part B Awards)</u> |
| 10.5*+ | <u>Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Part B Awards – CEO and CFO)</u> |
| 10.6*+ | <u>Revised Grant Notice for 2014 Stock Incentive Plan – Restricted Stock Unit Award (Non-Employee Director Awards)</u> |

- 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

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| Exhibit No. | Description of Exhibit |
|-------------|--|
| 101* | Financial Statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income/(Loss), (iv) Consolidated Statement of Stockholders' 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

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SIGNATURES

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

Zayo Group Holdings, Inc.

Date: February 7, 2019 By: /s/ Dan Caruso
Dan Caruso
Chief Executive Officer

Date: February 7, 2019 By: /s/ Matt Steinfort
Matt Steinfort
Chief Financial Officer