
**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 March 31, 2011

OR

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

Commission File Number: 333-169979

Zayo Group, LLC

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

26-2012549
(I.R.S. Employer Identification No.)

**400 Centennial Parkway, Suite 200,
Louisville, CO 80027**
(Address of Principal Executive Offices)

(303) 381-4683
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

ZAYO GROUP, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEX

	<u>Page</u>
<u>Part I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u> <u>As of March 31, 2011 and June 30, 2010</u>	1
<u>Condensed Consolidated Statements of Operations</u> <u>Three and nine month periods ended March 31, 2011 and 2010</u>	2
<u>Condensed Consolidated Statement of Member's Equity</u> <u>Nine month period ended March 31, 2011</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine month periods ended March 31, 2011 and 2010</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	50
<u>Item 4. Controls and Procedures</u>	51
<u>Part II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	52
<u>Item 1A. Risk Factors</u>	52
<u>Item 6. Exhibits</u>	60
<u>Signatures</u>	61

ZAYO GROUP, LLC AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands)

	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 13,137	\$ 89,161
Restricted cash, current	—	809
Trade receivables, net of allowance of \$1,481 and \$1,093 as of March 31, 2011 and June 30, 2010, respectively	18,122	12,721
Due from Onvoy, Inc. — related-party	21	871
Other receivables	30	348
Prepaid expenses	6,621	5,144
Deferred income taxes	2,198	4,060
Total current assets	40,129	113,114
Property and equipment, net of accumulated depreciation of \$93,017 and \$57,425 as of March 31, 2011 and June 30, 2010, respectively	506,775	301,911
Intangible assets, net of accumulated amortization of \$38,290 and \$28,222 as of March 31, 2011 and June 30, 2010, respectively	110,298	59,851
Goodwill	82,962	68,751
Deferred income taxes	5,581	7,050
Debt issuance costs, net	12,022	9,560
Investment in US Carrier	15,075	—
Other assets	5,022	4,144
Total assets	<u>\$ 777,864</u>	<u>\$ 564,381</u>
Liabilities and member's equity		
Current liabilities		
Accounts payable	\$ 8,504	\$ 12,144
Accrued liabilities	24,438	18,349
Accrued interest	1,661	7,794
Capital lease obligations, current portion	1,039	1,673
Due to CII — related-party	4,590	—
Deferred revenue, current portion	16,336	8,146
Customer deposits	3,217	755
Total current liabilities	59,785	48,861
Capital lease obligations, net of current portion	10,468	11,033
Long-term debt	354,378	247,080
Deferred revenue, net of current portion	62,462	22,648
Stock-based compensation liability	49,891	21,623
Other long term liabilities	2,703	—
Total liabilities	539,687	351,245
Member's equity		
Member's interest	257,223	217,129
Accumulated deficit	(19,046)	(3,993)
Total member's equity	<u>238,177</u>	<u>213,136</u>
Total liabilities and member's equity	<u>\$ 777,864</u>	<u>\$ 564,381</u>

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

ZAYO GROUP, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands)

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Revenue	\$ 79,653	\$ 58,912	\$ 226,116	\$ 162,641
Operating costs and expenses				
Operating costs, excluding depreciation and amortization	21,020	19,536	61,602	53,739
Selling, general and administrative expenses	24,937	18,726	72,501	54,496
Stock-based compensation	21,850	11,831	28,877	13,275
Depreciation and amortization	16,774	10,630	45,673	30,257
Total operating costs and expenses	<u>84,581</u>	<u>60,723</u>	<u>208,653</u>	<u>151,767</u>
Operating (loss)/income	<u>(4,928)</u>	<u>(1,811)</u>	<u>17,463</u>	<u>10,874</u>
Other income/(expense)				
Interest expense	(9,005)	(4,449)	(24,294)	(11,260)
Other income/(expense), net	69	1,001	(108)	1,006
Loss on extinguishment of debt	—	(5,881)	—	(5,881)
Total other expense, net	<u>(8,936)</u>	<u>(9,329)</u>	<u>(24,402)</u>	<u>(16,135)</u>
Loss from continuing operations before provision for income taxes	(13,864)	(11,140)	(6,939)	(5,261)
Provision for income taxes	<u>(2,797)</u>	<u>(210)</u>	<u>(8,114)</u>	<u>(3,103)</u>
Loss from continuing operations	(16,661)	(11,350)	(15,053)	(8,364)
Earnings from discontinued operations, net of income taxes	<u>—</u>	<u>565</u>	<u>—</u>	<u>3,231</u>
Net Loss	<u>\$ (16,661)</u>	<u>\$ (10,785)</u>	<u>\$ (15,053)</u>	<u>\$ (5,133)</u>

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

ZAYO GROUP, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF MEMBER'S EQUITY (UNAUDITED)
(in thousands)

	<u>Member's interest</u>	<u>Accumulated Deficit</u>	<u>Total Member's equity</u>
Balance at July 1, 2010	\$ 217,129	\$ (3,993)	\$ 213,136
Capital contributed (cash)	35,500	—	35,500
Non-cash settlements with Parent, net	3,985	—	3,985
Accretion of preferred stock-based compensation	609	—	609
Net loss	<u>—</u>	<u>(15,053)</u>	<u>(15,053)</u>
Balance at March 31, 2011	<u>\$ 257,223</u>	<u>\$ (19,046)</u>	<u>\$ 238,177</u>

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

ZAYO GROUP, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine months ended March 31,	
	2011	2010
Cash flows from operating activities		
Net loss	\$ (15,053)	\$ (5,133)
Earnings from discontinued operations	—	3,231
Loss from continuing operations	(15,053)	(8,364)
<i>Adjustments to reconcile net loss to net cash provided by operating activities</i>		
Depreciation and amortization	45,673	30,257
Loss on extinguishment of debt	—	5,881
Provision for bad debt expense	875	2,611
Amortization of deferred financing costs and discount on debt	2,054	1,206
Accretion of premium on debt	(252)	—
Stock-based compensation	28,877	13,275
Unrealized (gain)/loss on interest rate swap	(566)	817
Deferred income taxes	5,484	2,792
Changes in operating assets and liabilities, net of acquisitions		
Trade receivables	244	(2,102)
Prepaid expenses	(537)	(546)
Other assets	1,020	(709)
Accounts payable and accrued liabilities	(10,377)	(5,168)
Payables to related parties	471	7,006
Deferred revenue	(2,286)	1,505
Other liabilities	1,724	(1,347)
Net cash provided by continuing operating activities	57,351	47,114
Cash flows from investing activities		
Purchases of property and equipment	(88,880)	(38,138)
Broadband stimulus grants received	801	—
Acquisition of American Fiber Systems Holdings Corporation, net of cash acquired	(110,000)	—
Acquisition of AGL Networks, LLC, net of cash acquired	(73,666)	—
Acquisition of FiberNet Telecom Group, Inc., net of cash acquired	—	(96,571)
Net cash used in investing activities	(271,745)	(134,709)
Cash flows from financing activities		
Equity contributions	35,500	37,000
Advance from Communications Infrastructure Investments, LLC	17,616	—
Return of advances from Communications Infrastructure Investments, LLC	(13,026)	—
Proceeds from long-term debt	103,000	246,948
Principal repayments on long-term debt	—	(136,325)
Changes in restricted cash	785	(6,014)
Principal repayments on capital lease obligations	(1,399)	(1,541)
Deferred financing costs	(4,106)	(10,983)
Net cash provided by financing activities	138,370	129,085
Cash flows from discontinued operations		
Operating activities	—	2,083
Investing activities	—	(781)
Net cash provided by discontinued operations	—	1,302
Net (decrease)/increase in cash and cash equivalents	(76,024)	42,792
Cash and cash equivalents, beginning of period	89,161	38,781
Increase in cash and cash equivalents of discontinued operations	—	(62)
Cash and cash equivalents, end of period	\$ 13,137	\$ 81,511

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

(Continued)

ZAYO GROUP, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

Supplemental disclosure of non-cash, investing and financing activities:

	Nine months ended	
	March 31,	
	2011	2010
Cash paid for interest	31,855	11,245
Cash paid for income taxes	2,519	644
Non-cash purchases of equipment through capital leasing	200	324
Increase in accrued expenses for purchases of property and equipment	3,115	1,017

Refer to Note 3 — *Acquisitions*, to the Company's condensed consolidated financial statements for details of the Company's recent acquisitions and Note 4 — *Spin-off of Onvoy Voice Services Segment*, for details of the Company's discontinued operations.

Refer to Note 11 — *Equity*, to the Company's condensed consolidated financial statements for details of the non-cash capital settlements.

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

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED STATEMENTS (UNAUDITED) (in thousands)

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

Zayo Group, LLC, a Delaware Limited Liability Company, formerly CII Holdco, Inc., and, prior to that, Zayo Bandwidth, Inc., was formed on May 4, 2007, and is the operating parent company of a number of subsidiaries engaged in telecommunication and Internet infrastructure services. Zayo Group, LLC and its subsidiaries are collectively referred to as “Zayo Group” or the “Company.” Headquartered in Louisville, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure to offer:

- Dark and lit bandwidth infrastructure services on metro and regional fiber networks.
- Colocation and interconnection services.
- Converged and data services.

Zayo Group, LLC is wholly owned by Zayo Group Holdings, Inc., (“Holdings”) which in turn is wholly-owned by Communications Infrastructure Investments, LLC (“CII”). Zayo Group Holdings, Inc. has no operations and was formed to pledge its equity interest in Zayo Group, LLC, to the Company’s lenders.

(2) BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The accompanying condensed consolidated financial statements include all the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The 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 information and 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, 2010 included in Amendment No. 1 to the Company’s Registration Statement on Form S-4 filed with the SEC on November 8, 2010. In the opinion of management, all adjustments considered necessary for fair presentation of financial position, results of operations and cash flows of the Company have been included. The results of operations for the three and nine month periods ended March 31, 2011 are not necessarily indicative of the operating results for the full year.

Unless otherwise noted, dollar amounts and disclosures throughout the Company’s Notes to the condensed consolidated financial statements relate to the Company’s continuing operations and are presented in thousands of dollars.

b. Spin-off of Business segment

On March 12, 2010, the Company completed a spin-off of one of its operating segments, Onvoy Voice Services (“Onvoy”). The Company distributed all assets and liabilities of Onvoy to Holdings. Consistent with the discontinued operations reporting provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280-20, *Discontinued Operations*, management determined that it had discontinued all significant cash flows and continuing involvement with respect to Onvoy’s operations and therefore consider these to be discontinued operations. For the three and nine month periods ended March 31, 2010, the results of the operations of Onvoy have been aggregated and are presented in a single caption entitled, “Earnings from discontinued operations, net of income taxes” on the accompanying condensed consolidated statements of operations. The Company has not allocated any general corporate overhead to amounts presented in discontinued operations, nor has it elected to allocate interest costs.

c. Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant estimates are used when establishing allowances for doubtful accounts, reserves for disputed line cost billings, determining useful lives for depreciation and amortization, assessing the need for impairment charges (including those related to intangible assets and goodwill), allocating purchase price among the fair values of assets acquired and liabilities assumed, accounting for income taxes, estimating the stock-based compensation liability, and various other items. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates 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.

d. Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash equivalents are stated at cost, which approximates fair value. Restricted cash consists of cash balances held by various financial institutions as collateral for letters of credit and surety bonds. These balances are reclassified to cash and cash equivalents when the underlying obligation is satisfied, or in accordance with the governing agreement. Restricted cash balances expected to become unrestricted during the next twelve months are recorded as current assets.

e. Investments

Investments in which the Company does not have significant influence over the investee, or investments that do not have a readily determinable fair value are recorded using the cost method of accounting for investments. Under this method, the investment is recorded in the balance sheet at historical cost. Subsequently, the Company recognizes as income dividends received that are distributed from earnings since the date of initial investment. Cost method investments are reviewed for impairment if factors indicate that a decrease in value of the investment has occurred.

f. Trade Receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its trade receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the customer's financial condition, the amount of receivables in dispute, and the age of receivables and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company charges late fees on past-due balances, but recognition of revenue associated with late fees is deferred until the cash is collected.

g. Property and Equipment

The Company's property and equipment includes assets in service and under construction or development.

Property and equipment is recorded at historical cost or acquisition date fair value. Costs associated directly with network construction, service installations, and development of business support systems, including employee-related costs, are capitalized. Depreciation is calculated on a straight-line basis over the assets' estimated useful lives from the date placed into service, which are determined based on historical usage with consideration given to technological changes, trends in the industry, and other economic factors that could impact the network architecture and asset utilization. Assets held for sale are stated at the lower of the carrying value or fair market value less costs to sell and are not depreciated.

Equipment acquired under capital leases is recorded at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. Depreciation of equipment held under capital leases is included in depreciation and amortization expense, and is calculated on a straight-line basis over the estimated useful lives of the assets, or the related lease term, whichever is shorter.

Management reviews long-lived assets, including intangibles, for impairment whenever events or changes in circumstances indicate that the carrying value of its assets may not be recoverable. An impairment loss is recognized when the assets' carrying value exceeds both the assets' estimated undiscounted future cash flows and the assets' estimated fair value. Measurement of the impairment loss is then based on the estimated fair value of the assets. Considerable judgment is required to project such future cash flows and, if required, to estimate the fair value of the long-lived assets and the amount of the impairment. No impairment charges were recorded for property and equipment during three and nine month periods ended March 31, 2011 or 2010.

The Company capitalizes interest for all assets that require a period of time to get them ready for their intended use.

h. Goodwill and Purchased Intangibles

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is reviewed for impairment at least annually in April and when a triggering event occurs between impairment test dates. The goodwill impairment test is a two-step test. Under the first step, the estimated fair value of the reporting unit is compared with its carrying value (including goodwill). If the estimated fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. No impairment charges were recorded for goodwill or intangibles during the three and nine month periods ended March 31, 2011 or 2010.

i. Derivative Financial Instruments

The Company from time-to-time utilizes interest rate swaps to mitigate its exposure to interest rate risk. Derivative instruments are recorded in the balance sheet as either assets or liabilities, measured at fair value. Changes in fair value are recognized in earnings. The Company has historically entered into interest rate swaps to convert a portion of its floating-rate debt to fixed-rate debt and did not elect to apply hedge accounting. The interest rate differentials to be paid or received under such derivatives and the changes in the fair value of the instruments are recognized and recorded as adjustments to interest expense. The principal objectives of the derivative instruments are to minimize the interest rate risks associated with financing activities. The Company does not use financial instruments for trading purposes. The Company utilized interest rate swap contracts in connection with obtaining the Company's term loans, which were fully paid-off in March 2010. These swaps expired in September 2010. See Note 9 — *Long-term Debt*, for further discussion of the Company's debt obligations and Note 13 — *Fair Market Measurements*, for a discussion of the fair market value of the interest rate swaps.

j. Revenue Recognition

The Company recognizes revenues derived from leasing fiber optic telecommunications infrastructure and the provision of telecommunications and colocation services when the service has been provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the receivable is reasonably assured. Taxes collected from customers and remitted to governmental authority are reported on a net basis and are excluded from revenue.

Most revenue is billed in advance on a fixed-rate basis. The remainder of revenue is billed in arrears on a transactional basis determined by customer usage. Fees billed in connection with customer installations and other up-front charges are deferred and recognized as revenue ratably over the contract term.

The Company typically records revenues from leases of dark fiber including, indefeasible rights-of-use (“IRU”) agreements, as services are provided. Dark fiber IRU agreements generally require the customer to make a down payment upon execution of the agreement; 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. IRU contract terms are reviewed to determine if the terms would require sales-type accounting treatment, which would result in revenue recognition upon the execution of the contract. Sales-type accounting treatment is required for dark fiber leases when the agreements provide for the transfer of legal title to the dark fiber to the customer at the end of the agreement’s term and the following criteria have been met:

- the sale has been consummated;
- the customer’s initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
- the Company’s receivable is not subject to future subordination; and
- the Company has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

The Company did not enter into any contracts during the periods presented that would have required sales-type accounting treatment.

k. Operating Costs and Accrued Liabilities

The Company leases certain network facilities, primarily circuits, from other local exchange carriers to augment its owned infrastructure for which it is generally billed a fixed monthly fee. The Company also uses the facilities of other carriers for which it is billed on a usage basis.

The Company recognizes the cost of these facilities or services when it is incurred in accordance with contractual requirements. The Company disputes incorrect billings. The most prevalent types of disputes include disputes for circuits that are not disconnected on a timely basis and usage bills with incorrect or inadequate call detail records. Depending on the type and complexity of the issues involved, it may take several quarters to resolve disputes.

In determining the amount of such operating expenses and related accrued liabilities to reflect in its condensed consolidated financial statements, management considers the adequacy of documentation of disconnect notices, compliance with prevailing contractual requirements for submitting such disconnect notices and disputes to the provider of the facilities, and compliance with its interconnection agreements with these carriers. Significant judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation.

l. Stock-Based Compensation

The common units granted by the Company’s ultimate parent company, CII, are considered stock-based compensation with terms that require the awards to be classified as liabilities. As such, the Company accounts for these awards as a liability and re-measures the liability at each reporting date. These awards vest over a period of three or four years and may fully vest subsequent to a liquidation event.

The preferred units granted by the Company’s ultimate parent company, CII, are considered stock-based compensation with terms that require the awards to be classified as equity. As such, the Company accounts for these awards as equity, which requires the cost to be measured at the grant date based on the fair value of the award and which is recognized as expense over the requisite service period.

Determining the fair value of share-based awards at the grant date and subsequent reporting dates requires judgment. If actual results differ significantly from these estimates, stock-based compensation expense and the Company’s results of operations could be materially impacted.

m. Government Grants

The Company receives grant moneys from the National Telecommunications and Information Administrations (“NTIA”) Broadband Technology Opportunity Program. The Company recognizes government grants when it is probable that the Company will comply with the conditions attached to the grant arrangement and the grant will be received. The Company accounts for grant moneys received for reimbursement of capital expenditures as a deduction from the cost of the asset in arriving at its book value. The grant is thus recognized in earnings over the useful life of a depreciable asset by way of a reduced depreciation charge.

n. Income Taxes

The Company recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The interim provision for income taxes is computed based on management's estimate of the Company's annual effective tax rate.

There are various factors that may cause tax assumptions to change in the near term, and the Company may have to record a future valuation allowance against its deferred tax assets. The Company recognizes the benefit of an uncertain tax position taken or expected to be taken on its income tax returns if it is "more likely than not" that such tax position will be sustained based on its technical merits.

The Company records interest related to unrecognized tax benefits and penalties in income tax expense.

o. Fair Value of Financial Instruments

The Company adopted ASC 820-10 *Fair Value Measurements*, for its financial assets and liabilities effective June 30, 2009. This pronouncement defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. ASC 820-10 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost), which are each based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

Fair Value Hierarchy

ASC 820-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company views fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, management considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

p. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash investments and accounts receivable. The Company does not enter into financial instruments for trading or speculative purposes. The Company's cash and cash equivalents are held in commercial bank accounts in the United States of America. Account balances generally exceed federally insured limits; however, the Company limits its cash investments to high-quality financial institutions in order to minimize its credit risk.

The Company's trade receivables, which are unsecured, are geographically dispersed. During the three and nine month periods ended March 31, 2011, the Company had one customer that accounted for 11 and 13 percent of the revenue recognized during those periods, respectively. During the three and nine month periods ended March 31, 2010, the Company had one customer that accounted for 13 and 12 percent of the revenue recognized during those periods, respectively. As of March 31, 2011 and June 30, 2010, the Company did not have a single customer with a trade receivable balance exceeding 10 percent of the Company's consolidated net trade receivable balance.

q. Recently Issued Accounting Standards

From time to time, the FASB or other standards-setting bodies issue new accounting pronouncements. Updates to ASC's are communicated through issuance of an Accounting Standards Update ("ASU").

In December 2010, the FASB issued ASU Number 2010-09, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. This ASU clarifies the disclosure requirements for pro forma presentation of revenue and earnings related to a business combination. The Company elected to early adopt this guidance during the second quarter of Fiscal 2011. See Note 3 — *Acquisitions*, for the required pro forma presentation related to the Company's acquisitions during the periods presented.

(3) ACQUISITIONS

Since the formation of Zayo Group, LLC in May 2007, the Company has consummated 12 business combinations. The consummation of the acquisitions was executed as part of the Company's business strategy of expanding through acquisitions. The acquisition 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 and financial position of the acquired entities from their respective acquisition dates.

Acquisition during the nine months ended March 31, 2011

American Fiber Systems Holding Corporation ("AFS")

On October 1, 2010, the Company completed a merger (the "Merger") with American Fiber Systems Holding Corporation, the parent company of American Fiber Systems, Inc. The Merger was consummated with the exchange of \$110,000 in cash and a \$4,500 non-interest bearing promissory note due in 2012 for all of the interest in AFS. The Company calculated the fair market value of the promissory note to be \$4,141 resulting in an aggregate purchase price of \$114,141. The purchase price was based upon the valuation of both the business and assets directly owned by AFS and their ownership interest in US Carrier Telecom Holdings, LLC ("US Carrier"). There was no contingent consideration associated with the purchase.

AFS is a provider of lit and dark bandwidth infrastructure services in nine metropolitan markets: Atlanta, Georgia; Boise, Idaho; Cleveland, Ohio; Kansas City, Missouri; Las Vegas, Nevada; Minneapolis, Minnesota; Nashville, Tennessee; Reno, Nevada and Salt Lake City, Utah. AFS owns and operated approximately 1,251 routes miles and over 172,415 fiber miles of fiber networks.

The following table presents the Company's preliminary allocation, which is subject to change, of the purchase price to the assets acquired and liabilities assumed, which is based on their estimated fair values on the acquisition date.

Acquisition date	AFS
	October 1, 2010
Current assets	\$ 3,808
Property and equipment	56,481
Intangibles — customer relationships	57,082
Goodwill	14,041
Investment in US Carrier	15,075
Other assets	336
Total assets acquired	146,823
Current liabilities	3,404
Deferred revenue	23,905
Deferred tax liability	2,246
Other liabilities	3,127
Total liabilities assumed	32,682
Net assets	114,141
Seller Note payable to former AFS Holdings owners	(4,141)
Net cash paid	\$ 110,000

The goodwill of \$14,041 arising from the Merger consists of the synergies and economies-of-scale expected from the Merger. The goodwill associated with the Merger is not deductible for tax purposes. The Company has allocated the goodwill to the business segments that are expected to benefit from the acquired goodwill. The allocation was determined based on the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed that are assigned to the business segments. Goodwill of \$7,483 and \$6,558 was allocated to the Zayo Bandwidth and Zayo Fiber Solutions business segments, respectively.

In connection with the Merger, the Company acquired significant customer relationships. These relationships represent a valuable intangible asset as the Company anticipates continued business from the AFS customer base. The Company valued the AFS customer relationships utilizing the multi-period excess earnings valuation technique which resulted in a fair market value of \$57,082.

In connection with the AFS merger, the previous owners had entered into various agreements, including indefeasible rights-of-use agreements with other telecommunication service providers to lease them fiber and other bandwidth infrastructure. The Company recorded the acquired deferred revenue balance at the acquisition date at fair market value, which was determined based upon management's assessment of the future costs to be incurred in connection with the Company's continued legal obligation associated with the acquired deferred revenue plus a reasonable profit margin. A fair value of \$23,905 was assigned to the acquired deferred revenue balance of AFS. The balance of the deferred revenue with no remaining obligations was not recorded. The acquired deferred revenue is expected to be recognized over the next five to twenty years.

During the nine months ended March 31, 2011 the Company recorded purchase accounting adjustments to various assets and liabilities acquired in the AFS Merger resulting in a net decrease to the acquired goodwill balance of \$9.

AGL Networks, LLC ("AGL Networks")

On July 1, 2010 the Company acquired all of the equity interest in AGL Networks. AGL Networks is a communication service provider focused on providing dark fiber services to its customers who are primarily located in the Atlanta, Georgia, Phoenix, Arizona, and Charlotte, North Carolina markets. AGL Networks operated a network of approximately 786 route miles and over 190,000 fiber miles. The purchase price of this acquisition, after post-close adjustments, was \$73,666. The acquisition was financed with cash on hand. There was no contingent consideration associated with the purchase.

The following table presents the Company's preliminary allocation, which is subject to change, of the purchase price to the assets acquired and liabilities assumed, based on their estimated fair values.

Acquisition date	AGL Networks	
	July 1, 2010	
Current assets	\$	3,714
Property and equipment		93,136
Intangibles — customer relationships		3,433
Goodwill		170
Other assets		680
Total assets acquired		101,133
Current liabilities		956
Deferred revenue		26,511
Total liabilities assumed		27,467
Net assets		73,666
Purchase consideration/Net cash paid	\$	73,666

The goodwill of \$170 arising from the AGL Networks acquisition consists of the synergies and economies-of-scale expected from combining the operations of AGL Networks and the Company. The goodwill associated with the AGL Networks acquisitions is deductible for tax purposes. The full amount of the goodwill recognized in the AGL Networks acquisition has been assigned to the Zayo Fiber Solutions business segment.

In connection with the AGL Networks acquisition, the Company acquired certain customer relationships. These relationships represent a valuable intangible asset as the Company anticipates continued business from the AGL Networks customer base. The Company valued the AGL Networks customer relationships utilizing the multi-period excess earnings valuation technique which resulted in a fair market value of \$3,433.

In connection with the AGL Networks acquisition, the previous owners had entered into various agreements, including indefeasible rights-of-use agreements with other telecommunication service providers to lease them fiber and other bandwidth infrastructure. The Company recorded the acquired deferred revenue balance at the acquisition date at fair market value which was determined based upon management's assessment of the future costs to be incurred in connection with the Company's continued legal obligation associated with the acquired deferred revenue plus a reasonable profit margin. A fair value of \$26,511 was assigned to the acquired deferred revenue balance of AGL Networks. The balance of the deferred revenue with no remaining obligations was not recorded. The acquired deferred revenue is expected to be recognized over the next five to twenty years.

During the nine months ended March 31, 2011, the Company had various purchase accounting adjustments related to various assets and liabilities acquired in the AGL acquisition resulting in a net increase to the acquired goodwill balance of \$103.

The Company incurred acquisition-related costs of \$23 and \$873 which have been charged to selling, general and administrative expenses during the three and nine month periods ended March 31, 2011, respectively, related to acquisitions.

Acquisition during the nine months ended March 31, 2010

FiberNet Networks Telecom Group, Inc. ("FiberNet")

On September 9, 2009, the Company acquired all of the outstanding equity interest in FiberNet. The purchase price of this acquisition, after post-close adjustments, was \$96,571. The acquisition was financed with cash on hand. There was no contingent consideration associated with the purchase.

FiberNet was a communications service provider focused on providing complex interconnection services which enabled the exchange of voice, video, and data traffic between global networks. FiberNet owned and operated integrated colocation facilities and diverse transport routes principally in New York and New Jersey. FiberNet's network infrastructure and facilities were designed to provide comprehensive broadband interconnectivity for the world's largest network operators, including leading domestic and international telecommunications carriers, service providers, and enterprises.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed, and is based on their estimated fair values.

Acquisition date	FiberNet
	September 9, 2009
Current assets	\$ 16,824
Property and equipment	50,734
Intangibles	43,900
Deferred income taxes	19,659
Other assets	838
Total assets acquired	131,955
Current liabilities	11,534
Deferred revenue	7,257
Total liabilities assumed	18,791
Net assets	113,164
Excess of net assets over purchase consideration (bargain purchase)	9,081
Purchase consideration	104,083
Less cash acquired	(7,512)
Net cash paid	\$ 96,571

In connection with the FiberNet acquisition, the Company recognized a gain on bargain purchase. The gain of \$9,081 was a result of recording of deferred income tax assets for the Net Operating Loss carryforwards ("NOLs") of FiberNet, in view of the Company's evaluation that these deferred income tax assets will more likely than not be realized. This determination was made and the Company recorded the gain on bargain purchase in June of 2010. Upon the determination that the Company was going to recognize a gain related to the bargain purchase, the Company reassessed its valuation assumptions utilized as part of the acquisition accounting. No adjustments to the acquisition accounting valuations were identified as a result of management's reassessment.

In connection with the FiberNet acquisition, the Company acquired \$500 in tradenames and \$43,400 in customer relationships. These relationships represent a valuable intangible asset as the Company anticipates continued business from the FiberNet acquired customer base. The company valued the acquired customer relationships utilizing the multi-period excess earnings valuation technique which resulted in a fair market value of \$43,400.

In connection with the FiberNet acquisition, the previous owners had entered into various agreements, including indefeasible rights-of-use agreements with other telecommunication service providers to lease them fiber and other bandwidth infrastructure. The Company recorded the acquired deferred revenue balance at the acquisition date at fair market value, which was determined based upon management's assessment of the future costs to be incurred in connection with the Company's continued legal obligation associated with the acquired deferred revenue plus a reasonable profit margin. A fair value of \$7,257 was assigned to the acquired deferred revenue balance of FiberNet. The balance of the deferred revenue with no remaining obligations was not recorded. The acquired deferred revenue is expected to be recognized over the next five to twenty years.

Acquisition-related costs of \$200 and \$898 have been charged to selling, general and administrative expenses during the three and nine month periods ended March 31, 2010, respectively.

Pro-forma Financial Information

The unaudited pro forma results presented below include the effects of the Company's September 2009 acquisition of FiberNet, the July 2010 acquisition of AGL Networks, and the October 2010 Merger with AFS as if the acquisitions and Merger had been consummated as of July 1, 2009. The pro-forma loss for the three and nine month periods ended March 31, 2011 and 2010 includes the additional depreciation and amortization resulting from the adjustments to the value of property and equipment and intangible assets resulting from purchase accounting and a reduction to revenue as a result of the acquisition date valuation of acquired deferred revenue balances. The pro-forma revenue and loss figures below include a reduction to revenue resulting from purchase accounting adjustments associated with certain acquired deferred revenue balances that did not represent continuing obligations of the Company. The pro-forma results also include interest expense associated with debt used to fund the acquisitions. The pro-forma results for the nine month period ended March 31, 2011 includes a non-recurring adjustment to earnings related to historical compensation expense related to the compensation paid to executives and employees that was directly attributable to the Merger. However, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisitions. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions and Merger been consummated as of July 1, 2009.

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Revenue	\$ 79,653	\$ 72,251	\$ 234,018	\$ 215,859
Loss from continuing operations	\$ (16,661)	\$ (9,755)	\$ (17,219)	\$ (6,754)

(4) SPIN-OFF OF ONVOY VOICE SERVICES SEGMENT

During the third quarter of Fiscal year 2010, management determined that the services provided by one of the Company's operating segments — Onvoy did not fit within the Company's current business model of providing bandwidth infrastructure, colocation and interconnection services, and the Company therefore spun-off Onvoy to Holdings, the parent of the Company.

Consistent with the discontinued operations reporting provisions of ASC 205-20, *Discontinued Operations*, management determined that it has discontinued all significant cash flows and continuing involvement with respect to the Onvoy operations effective March 12, 2010. Therefore, for the three and nine month periods ended March 31, 2010, the results of the Onvoy operations have been aggregated in a single caption entitled, "Earnings from discontinued operations, net of income taxes" on the accompanying condensed consolidated statements of operations. The Company has not allocated any general corporate overhead to amounts presented in discontinued operations, nor has it elected to allocate interest costs.

Earnings from discontinued operations, net of income taxes in the accompanying condensed consolidated statements of operations are comprised of the following:

	Three months ended March 31, 2010	Nine months ended March 31, 2010
	Revenue	\$ 8,941
Earnings before income taxes	\$ 1,350	\$ 5,873
Income tax expense	(785)	(2,642)
Earnings from discontinued operations, net of income taxes	\$ 565	\$ 3,231

The Company continues to have ongoing contractual relationships with Onvoy, which are based on agreements which were entered into at estimated market rates among the relevant Onvoy and Zayo Group parties. The Company has contractual relationships to provide Onvoy with certain data and colocation services and Onvoy has contractual relationships to provide the Company with certain voice services. Prior to March 12, 2010, these transactions were eliminated upon consolidation. Since the spin-off date, transactions with Onvoy have been included in the Company's results of operations. See Note 15 — *Related-Party Transactions*, for a discussion of transactions with Onvoy since the spin-off date.

(5) INVESTMENT

In connection with the Merger, the Company obtained 100% ownership of AFS which owns 100% of AFS, Inc. AFS, Inc. in turn has and continues to maintain an ownership interest in US Carrier. US Carrier is a regional provider of certain telecommunication services to and from cities and rural communities throughout Georgia and other states in the Southeast United States. AFS Inc.'s continued ownership in US Carrier is comprised of 55% of the outstanding Class A membership units and 34% of the outstanding Class B membership units. Subsequent to the Merger, the board of managers of US Carrier has recognized AFS Inc.'s economic interest in US Carrier; however, the board of managers has claimed that the Merger at the American Fiber Systems Holdings Corporation level resulted in an unauthorized transfer of AFS Inc.'s ownership interest under the US Carrier operating agreement which would result in a loss of the AFS Inc.'s voting interest. The Company has requested the financial information which would be required to account for the US Carrier investment utilizing the equity method of accounting but has been denied this information by the board of managers of US Carrier. The Company has also requested that US Carrier recognize AFS Inc.'s continued and uninterrupted representation on the board of managers but such requests have been denied. AFS, Inc. has filed an arbitration proceeding against US Carrier to protect its ownership position in US Carrier, including all of its rights under the US Carrier operating agreement. Although the Company has a significant ownership position in US Carrier, at this time and in light of US Carrier's wrongful actions, AFS Inc. is unable to exercise significant influence over US Carrier's operating and financial policies and as such the Company has accounted for this investment utilizing the cost method of accounting.

At the time of the AFS Merger, management estimated the fair market value of its interest in US Carrier to be \$15,075. In valuing the Company's interest in US Carrier, management used both an income- and market- based approach to estimate the acquisition date fair market value. Since the acquisition, the Company has not received any dividend payments from US Carrier nor has the Company invested additional capital in US Carrier.

(6) PROPERTY AND EQUIPMENT

Property and equipment, including assets held under capital leases, was comprised of the following:

	Estimated useful lives (in years)	As of	
		March 31, 2011	June 30, 2010
Land	N/A	\$ 227	\$ 209
Building improvements and site improvements	8 to 15	11,220	9,003
Furniture, fixtures and office equipment	3 to 7	1,357	1,219
Computer hardware	2 to 5	4,799	3,292
Software	2 to 3	5,071	4,066
Machinery and equipment	3 to 7	5,317	3,568
Fiber optic equipment	4 to 8	297,651	127,379
Circuit switch equipment	10	7,732	7,225
Packet switch equipment	3 to 5	23,949	21,761
Fiber optic network	8 to 20	187,572	141,171
Construction in progress	N/A	54,897	40,443
Total		599,792	359,336
Less accumulated depreciation		(93,017)	(57,425)
Property and equipment, net		\$ 506,775	\$ 301,911

The Company recognized depreciation expense of \$13,219 and \$7,530 during the three months ended March 31, 2011 and 2010, respectively. The Company recognized depreciation expense of \$35,605 and \$20,789 during the nine months ended March 31, 2011 and 2010, respectively.

Included within the Company's property and equipment balance are capital leases with a cost balance of \$12,501 (net of accumulated amortization of \$3,325) and \$14,055 (net of accumulated amortization of \$3,037) as of March 31, 2011 and June 30, 2010, respectively. The Company recognized amortization expense associated with assets under capital leases of \$286 and \$327 during the three months ended March 31, 2011 and 2010, respectively and \$986 and \$965 during the nine months ended March 31, 2011 and 2010, respectively.

As of March 31, 2011, the Company has received a total of \$871 in grant money from the NTIA's Broadband Technology Opportunities Program ("the Program") for reimbursement of property and equipment expenditures of which \$317 and \$801 was received during the three and nine month periods ended March 31, 2011. The Company has accounted for these funds as a reduction of the cost of its fiber optic network. The Company anticipates the receipt of an additional \$37,395 in grant money related to grant agreements entered into under the Broadband Technology Opportunities Program as of March 31, 2011 which will offset capital expenditures in future periods. See Note 14 — *Commitments and Contingencies- Other Commitments*.

During the three and nine months ended March 31, 2011 the Company capitalized interest in the amount of \$952 and \$2,903, respectively. No interest was capitalized during fiscal year 2010. The Company capitalized \$1,671 and \$768 of labor to fixed-asset accounts during the three months ended March 31, 2011 and 2010, respectively. The Company capitalized \$4,306 and \$2,202 of labor to fixed-asset accounts during the nine months ended March 31, 2011 and 2010, respectively.

(7) GOODWILL

The Company's goodwill balance was \$82,962 and \$68,751 as of March 31, 2011 and June 30, 2010, respectively, and was allocated as follows to the Company's business segments:

	As of June 30, 2010	Additions	Transfers	As of March 31, 2011
Zayo Bandwidth	\$ 66,548	\$ 7,483	\$ (2,909)	\$ 71,122
Zayo Enterprise Networks	2,203	—	(1,306)	897
Zayo Fiber Solutions	—	6,728	4,191	10,919
zColo	—	—	24	24
Total	\$ 68,751	\$ 14,211	\$ —	\$ 82,962

As discussed in Note 16 — *Segment Reporting*, the Company established a fourth operating segment — Zayo Fiber Solutions, in connection with the AGL Networks acquisition. As a result of the creation of this business segment, certain assets and liabilities which align with the business goals of the new segment were transferred from the Company's existing segments to the Zayo Fiber Solutions segment. The assets and liabilities that were transferred to Zayo Fiber Solutions represent the Company's assets and liabilities that support the Company's dark fiber infrastructure and customer base. All of the assets and liabilities associated with the Company's acquisition of Columbia Fiber Solutions ("CFS") in September of 2008 align with the business objective of the Zayo Fiber Solutions segment and as such were transferred to this segment on July 1, 2010, including the goodwill of \$4,170, which was recognized as a result of the CFS acquisition.

Effective January 1, 2011, the Company restructured its operating segments to more closely align with its product offerings — See Note 16 — *Segment Reporting*. The restructuring resulted in the Zayo Enterprise Networks ("ZEN") segment transferring its bandwidth infrastructure products to the Zayo Bandwidth ("ZB") segment, its dark fiber assets to the Zayo Fiber Solutions ("ZFS") segment, and its colocation products to the zColo segment. Prior to the restructuring, the ZEN segment had a goodwill balance of \$2,203. This goodwill balance was allocated to the ZB, ZFS and zColo segments based on the relative fair values of the net assets transferred to these segments and the portion of the net assets that were retained in the ZEN segment. The restructuring resulted in \$1,261 of ZEN's historical goodwill balance being allocated to the ZB operating segment, \$21 to the ZFS segment, and \$24 to the zColo segment. The remaining \$897 of the historical ZEN goodwill balance remains with the revised ZEN segment.

(8) INTANGIBLE ASSETS

Identifiable acquisition-related intangible assets as of March 31, 2011 and June 30, 2010 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net
March 31, 2011			
Customer relationships	\$ 139,253	\$ (28,955)	\$ 110,298
Non-compete agreements	8,835	(8,835)	—
Tradenames	500	(500)	—
Total	\$ 148,588	\$ (38,290)	\$ 110,298
June 30, 2010			
Customer relationships	\$ 78,738	\$ (19,182)	\$ 59,556
Non-compete agreements	8,835	(8,623)	212
Tradenames	500	(417)	83
Total	\$ 88,073	\$ (28,222)	\$ 59,851

The amortization of intangible assets for the three months ended March 31, 2011 and 2010 was \$3,555 and \$3,100, respectively. The amortization of intangible assets for the nine month period ended March 31, 2011 and 2010 was \$10,068 and \$9,468, respectively. Estimated future amortization of intangible assets is as follows:

Year ending June 30,

2011 (remaining 3 months)	\$ 3,576
2012	14,306
2013	14,306
2014	11,275
2015	8,521
Thereafter	58,314
Total	\$ 110,298

(9) LONG-TERM DEBT

In March 2010, the Company co-issued, with its 100 percent owned finance subsidiary — Zayo Capital Inc. (at an issue price of 98.779%) \$250 million of Senior Secured Notes (the “Notes”). The Notes bear interest at 10.25% annually and are due on March 15, 2017. The net proceeds from this debt issuance were approximately \$239,050 after deducting the discount on the Notes of \$3,052 and debt issuance costs of approximately \$7,898. The Notes are being accreted to their par value over the term of the Notes as additional interest expense. The effective interest rate of the Notes issued in March is 10.87%. The Company used a portion of the proceeds from the Notes to repay its term loans in March of 2010.

In September 2010, the Company completed an offering of an additional \$100 million in Notes (at an issue price of 103%). These Notes are part of the same series as the \$250 million Senior Secured Notes and also accrue interest at a rate of 10.25% and mature on March 15, 2017. The net proceeds from this debt issuance were approximately \$98,954 after adding the premium on the Notes of \$3,000 and deducting debt issuance costs of approximately \$4,046. The effective interest rate on the Notes issued in September is 10.41%. The Company used a portion of the proceeds from the Notes to fund the AFS acquisition (See Note 3 — *Acquisitions*).

The balance of the Notes was \$350,154 at March 31, 2011, net of unamortized premiums and discounts of \$154.

In October 2010, in connection with the Merger, the former owners of AFS provided the Company with a promissory note in the amount of \$4,500. The note is a non-interest bearing note and is due in full on October 1, 2012. The Company recorded this note at its fair market value on the acquisition date, which was determined to be \$4,141. Management estimates the imputed interest associated with this note on the acquisition date to be \$359, which is recognized over the term of the promissory note. During the three and nine months ended March 31, 2011, the Company recognized interest expense and a corresponding increase to the promissory note obligation of \$42 and \$83.

In September 2009, the Company entered into a \$30 million term loan to finance the FiberNet acquisition. This loan was paid off in March 2010 with the proceeds from the Notes issued in March.

In March 2010, the Company also entered into a revolving line-of-credit (the “Revolver”). Concurrent with offering the \$100 million Notes in September 2010, the Company amended the terms of its Revolver to increase the borrowing capacity from \$75 million to \$100 million (adjusted for letter of credit usage). The Company has capitalized \$2,249 in debt acquisition costs associated with the new Revolver.

The Revolver expires on March 1, 2014 and bears interest at the option of the Company as either a base rate or as a Eurodollar rate plus the applicable margin which is based on the following table:

Level	Leverage Ratio	Applicable Margin for LIBOR Advances	Applicable Margin for Base Rate Advances
I	Greater than or equal to 3.25 to 1.00	4.50%	3.50%
II	Greater than or equal to 2.50 to 1.00 but less than 3.25 to 1.00	4.00%	3.00%
III	Greater than or equal to 1.75 to 1.00 but less than 2.50 to 1.00	3.75%	2.75%
IV	Less than 1.75 to 1.00	3.50%	2.50%

The leverage ratio as defined in the credit agreement is determined based on the Company's total outstanding debt (including capital leases) divided by the previous quarters annualized earnings before interest expense, income taxes, depreciation and amortization. In addition to the interest rate on outstanding borrowings, the Company is required to pay an unused line fee of 0.5% on any undrawn portion of the Revolver.

As of March 31, 2011, no amounts were outstanding under the Revolver. Standby letters of credit were outstanding in the amount of \$6,420 resulting in \$93,580 being available on the Revolver as of March 31, 2011. Outstanding letters of credit backed by the Revolver accrue interest at a rate ranging from 3.5 to 4.5 percent per annum based upon the Company's leverage ratio. As of March 31, 2011, the interest rate was 4.0 percent.

Guarantees

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by all of the Company's current and future domestic restricted subsidiaries. The Notes were co-issued with Zayo Group Capital, Inc., which is a 100 percent owned finance subsidiary of the parent and does not have independent assets or operations. Zayo Group, LLC (the parent company) does not have material independent operations or assets.

Debt issuance costs

Debt issuance costs have been capitalized on the accompanying condensed consolidated balance sheets and are being amortized using the effective interest rate method over the term of the borrowing agreements, unless terminated earlier, at which time the unamortized costs are immediately expensed. The balance of debt issuance costs as of March 31, 2011 and June 30, 2010 was \$12,022 (net of accumulated amortization of \$2,171) and \$9,560 (net of accumulated amortization of \$486), respectively. Interest expense associated with the amortization of debt issuance costs was \$593 and \$386 during the three months ended March 31, 2011 and 2010, respectively. Interest expense associated with the amortization of debt issuance costs was \$1,685 and \$1,206 during the nine months ended March 31, 2011 and 2010, respectively.

Debt covenants

The Company's credit agreement associated with the \$100 million Revolver contains two financial covenants: (1) a maximum leverage ratio and (2) a minimum fixed-charge coverage ratio.

Leverage ratio: The Company must not exceed a consolidated leverage ratio, which is defined as funded debt to annualized earnings before interest, taxes, depreciation and amortization, non-cash charges or reserves and certain extraordinary or non-recurring gains or losses ("modified EBITDA") of 4.25x the last quarter's annualized modified EBITDA.

Fixed-charge coverage ratio: The Company must maintain a consolidated fixed-charge coverage ratio, as determined under the credit agreement, of at least 1.1x for the periods ending March 31 and June 30, 2011; 1.15x for the periods ending September 30 and December 31, 2011 and March 31 and June 30, 2012; and 1.25x for the periods ending September 30, 2012 and each fiscal quarter thereafter.

The Company's credit agreement restricts certain dividend payments to the Company's parent. Under the terms of the agreement, if the Company's Revolver availability is in excess of \$32,500 the Company may pay an annual dividend to its parent of up to \$45,000, which is limited based upon the following leverage ratios:

Leverage Ratio	Maximum Annual Dividend Payment	
≥ 3.5x	\$	—
< 3.5x but ≥ 2.5x	\$	25,000
<2.5x but ≥ 1.5x	\$	35,000
<1.5x	\$	45,000

The Company does not have any restrictions on its subsidiaries ability to pay dividends to Zayo Group.

The Company's credit agreement contains customary representations and warranties, affirmative and negative covenants, and 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 indebtedness in excess of \$10.0 million, insolvency or inability to pay debts, bankruptcy, or a change of control.

The Company was in compliance with all covenants associated with its Notes and credit agreement as of March 31, 2011.

Redemption rights

At any time prior to March 15, 2013, the Company may redeem all or part of the Notes at a redemption price equal to the sum of (i) 100 percent of the principal amount thereof, plus (ii) the applicable premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, to the date of redemption, subject to the rights of the holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date. The applicable premium is the greater of (i) 1.0% of the principal amount of the redeemed Notes and (ii) the excess of (A) the present value at the date of redemption of (1) the redemption price of the Notes at March 15, 2013, plus (2) all remaining required interest payments due on such Notes through March 15, 2013 (excluding accrued but unpaid interest to the date of redemption), discounted to present value using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such Notes.

On or after March 15, 2013, the Company may redeem all or part of the Notes, at the redemption prices expressed as percentages of principal amount (set forth below), plus accrued and unpaid interest and additional interest, if any, thereon, to the applicable redemption date, subject to the rights of the holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date, if redeemed during the 12-month period beginning on March 15 of the years indicated below:

Year	Redemption Price
2013	105.125%
2014	102.563%
2015 and thereafter	100.000%

In the event of an equity offering, at any time prior to March 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of the Notes issued under the Company's indenture agreement at a redemption price of 110.25% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date, subject to the rights of the holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more equity offerings, provided that at least (i) 65% of the aggregate principal amount of the Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption and (ii) the redemption must occur within 90 days of the date of the closing of such equity offering.

The Company may purchase the Notes in open-market transactions, tender offers, or otherwise. The Company is not required to make any mandatory redemption or sinking fund payments with respect to the Notes.

Interest rate derivatives

On June 30, 2008, the Company entered into an interest rate swap agreement on a notional value of \$60,000 with a maturity date of September 13, 2010. There was no up-front cost for this agreement. The contract stated that the Company shall pay 3.69% fixed for the term of the agreement. The counterparty either paid to the Company or received from the Company the difference between actual LIBOR and the fixed rate.

On March 23, 2009, the Company entered into another interest rate swap agreement on a notional value of \$40,000 with a maturity date of September 13, 2010. There was no up-front cost for this agreement. The contract stated that the Company shall pay 1.42% fixed for the term of the agreement. The counterparty either paid to the Company or received from the Company the difference between actual LIBOR and the fixed rate.

Any change in fair value of interest rate swaps are recorded as an increase or decrease in interest expense in the condensed consolidated statements of operations for the applicable period. During the three and nine month periods ended March 31, 2010, \$517 and \$817, respectively, were recorded as an increase in interest expense for the change in the fair value of the interest rate swaps.

Upon the expiration of the swaps on September 13, 2010, the Company made a final payment of \$566 on its interest rate swap obligation. No payments were made on the interest rate swaps during the three and nine month periods ended March 31, 2010. The liability associated with the swaps was \$566 as of June 30, 2010.

(10) INCOME TAXES

The Company, a limited liability company, is taxed at its parent level, Holdings. All income tax balances resulting from the operations of Zayo Group are pushed down to the Company.

The Company's provision for income taxes is summarized as follows:

	For the three months ended		For the nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Federal income taxes — current	\$ 409	\$ —	\$ 633	\$ —
Federal income taxes — deferred	582	136	4,739	2,413
Provision for federal income taxes	991	136	5,372	2,413
State income taxes — current	1,566	53	1,997	311
State income taxes — deferred	240	21	745	379
Provision for state income taxes	1,806	74	2,742	690
Provision for income taxes	\$ 2,797	\$ 210	\$ 8,114	\$ 3,103

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The major temporary differences that give rise to the deferred tax assets and liabilities are depreciation and amortization, NOLs and deferred revenue.

The Company's effective income tax rate differs from what would be expected if the federal statutory rate were applied to earnings before income taxes primarily because of certain expenses that represent permanent differences between book and tax expenses/deduction, such as stock-based compensation expenses that are deductible for financial reporting purposes but not deductible for tax purposes.

A reconciliation of the actual income tax provision and the tax computed by applying the U.S. federal rate (34%) to the earnings before income taxes during the three and nine month periods ended March 31, 2011 and 2010 follows:

	For the three months ended		For the nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Expected provision at statutory rate of 34%	\$ (4,714)	\$ (3,788)	\$ (2,358)	\$ (1,789)
Increase due to:				
Non-deductible stock-based compensation	6,618	4,023	8,946	4,514
State income taxes, net of federal benefit	856	35	1,185	205
Transactions costs not deductible	8	68	297	305
Other, net	29	(128)	44	(132)
Provision for income taxes	\$ 2,797	\$ 210	\$ 8,114	\$ 3,103

Each interim period, management estimates the annual effective tax rate and applies that rate to its reported year-to-date earnings. The tax expense or benefit related to significant, unusual, or extraordinary items that will be separately reported, or reported net of their related tax effect, are individually computed and are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary differences, and the likelihood of realizing deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained, or the tax environment changes.

Management believes it is more likely than not that it will utilize its net deferred tax assets to reduce or eliminate tax payments in future periods. The Company's evaluation encompassed (i) a review of its recent history of profitability for the past three years (excluding permanent book versus tax differences) and (ii) a review of internal financial forecasts demonstrating its expected capacity to utilize deferred tax assets.

(11) EQUITY

Zayo Group, LLC was initially formed on May 4, 2007, and is a wholly-owned subsidiary of Holdings, which in turn is wholly owned by CII. CII was organized on November 6, 2006, and subsequently capitalized on May 7, 2007, with capital contributions from various institutional and founder investors. Cash, property, and service proceeds from the capitalization of CII were contributed to the Company and are reflected in the Company's member's equity.

During the nine months ended March 31, 2011 and 2010, CII contributed \$35,500 and \$37,000, respectively in capital to the Company through Holdings. CII funded these amounts from equity contributions from its investors. As of March 31, 2011, the equity commitments from CII's investors have been fulfilled.

CII has issued preferred units to certain executives as compensation. The terms of these preferred unit awards require equity accounting treatment. As such, the Company estimates the fair value of these equity awards on the grant date and recognizes the related expense over the vesting period of the awards.

During fiscal year 2008, CII issued 6,400,000 Class A preferred units in CII to the two founders of the Company. The vesting for these units was completed in September 2010. Management estimated the fair value of the equity awards on the grant date to be \$6,400. Stock-based compensation expense recognized in connection with these Class A units issued for the three month periods ended March 31, 2011 and 2010 was \$0 and \$285, respectively. Stock based compensation expense recognized in connection with these Class A units during the nine month periods ended March 31, 2011 and 2010 was \$240 and \$911, respectively. These Class A Preferred Units were in lieu of any significant cash compensation during the period beginning on May 1, 2007 and ending October 31, 2010.

CII issued 465,000 Class A preferred units to three of the Company's executives in fiscal 2009. The Class A preferred units issued to two of the executives vested during the year ended June 30, 2009 and the remaining units issued to the third executive became fully vested in February 2010. Management estimated the fair value of the equity awards on the grant date to be \$465. Stock-based compensation expense recognized for these grants during the three and nine month periods ended March 31, 2010 was \$11 and \$44, respectively.

In June 2010, CII issued 136,985 Class B preferred units to two of the Company's Board members. The Class B preferred units issued vest over a period of four years. Management estimated the fair value of the equity awards on the grant date to be \$312. In March of 2011, one of these Board members resigned from his position resulting in a forfeiture of the Class B preferred units issued to the Board member. As a result of the forfeiture, during the three months ended March 31, 2011, the Company reversed \$21 in stock compensation expense that had been recognized in previous quarters. Stock-based compensation expense recognized for these grants during the three and nine month periods ended March 31, 2011 was \$(10) and \$35, respectively.

In December 2010, CII issued 390,000 Class B preferred units to a founder of the Company. Management estimated the fair value of the equity awards on the grant date to be \$967 based on a weighted average of various market and income based valuation approaches. The Company will recognize the related expense over the vesting period of three years which began October 31, 2010. In January of 2011, CII issued an additional 580,000 Class B preferred units to the same founder. The Company estimated the fair value of these equity awards on the grant date to be \$1,438 and the Company will recognize the related expense over a vesting period of three years which began October 31, 2010. The preferred units issued to the Company founder are in lieu of any significant cash compensation for the founder during the three year vesting period that started on October 31, 2010. Stock-based compensation expense recognized for these Class B preferred units during the three and nine months ended March 31, 2011 was \$200 and \$334, respectively.

As these awards have been issued by CII to employees and Directors of the Company as compensation, the expense has been recorded by the Company in the accompanying condensed consolidated statements of operations.

Onvoy was spun-off from Zayo Group, LLC on March 12, 2010 to its parent — Holdings (see Note 4 — *Spin-Off of Onvoy Voice Services Segment*). In connection with the spin-off, the Company entered into a tax-sharing agreement with Onvoy and CII, the taxable entity. The agreement allows for the sharing of the CII NOL balance between the Company and Onvoy however, to the extent that either entity utilizes NOLs that were generated by the other, the entities will settle the related-party transfer of deferred tax asset associated with such NOLs and other deferred-tax transfers between the companies via an increase or decrease to the respective entities member's equity. During the nine months ended March 31, 2011, the Company utilized \$17,320 of Onvoy's gross NOLs resulting in a non-cash capital contribution from CII, the taxable entity and parent of the Company, in the amount of \$5,889. Offsetting the utilization of Onvoy's NOLs was an adjustment to the allocation of \$1,524 in deferred tax liabilities of CII from the Company to Onvoy. Additionally, during the period the Company settled net related-party receivable in the amount of \$380 via a non-cash dividend to Holdings resulting in a decrease to the Company's member's interest account.

(12) STOCK COMPENSATION

The Company has been given authorization by CII to issue 125,000,000 of CII's common units as awards to employees and directors. As of June 30, 2010, CII had three classes of common units with different liquidation preferences — Class A, B, and C units. During the three months ended March 31, 2011, CII issued a fourth class of common units: Class D. Common units are issued to employees and to independent directors and are allocated by the Chief Executive Officer and the board of managers on the terms and conditions specified in the employee equity agreement. At March 31, 2011, 105,725,419 of common units were issued and outstanding.

The common units are considered to be stock-based compensation with terms that require the awards to be classified as liabilities. As such, the Company accounts for these awards as a liability and re-measures the liability at each reporting date until the date of settlement.

As of March 31, 2011 and June 30, 2010, the value of the Class A common units was calculated to be \$0.93 and \$0.49 per unit, respectively. As of March 31, 2011 and June 30, 2010 the value of the Class B common units was determined to be \$0.72 and \$.28 per unit, respectively. As of March 31, 2011 and June 30, 2010 the value of Class C common units was determined to be \$0.34 and \$0.03, respectively. As of March 31, 2011 the value of Class D common units was determined to be \$0.34.

The liability associated with the common units was \$49,891 and \$21,623 as of March 31, 2011 and June 30, 2010, respectively. The stock-based compensation expenses associated with the common units was \$21,660 and \$11,535 during the three months ended March 31, 2011 and 2010, respectively. The stock-based compensation expense associated with the common units was \$28,268 and \$12,320 during the nine months ended March 31, 2011 and 2010, respectively.

The holders of common units are not entitled to exercise their units or receive dividends or distributions, except at the discretion of the Board of Directors. Upon a liquidation of CII, or upon a non-liquidating distribution, the holders of common units share in the proceeds after the CII preferred unit holders receive their unreturned capital contributions and their priority return (6% per annum). After the preferred unreturned capital contributions and the priority return are satisfied, the remaining proceeds are allocated on a scale ranging from 85% to the Class A preferred unit holders and 15% to the common unit holders to 80% to the Class A preferred unit holders and 20% to the common unit holders depending upon the return multiple to the Class A preferred unit holders up to the amount of the Class A gain percentage. Once the amount of proceeds related to the Class A percentage gain has been distributed, then proceeds attributable to the Class B gain percentages are distributed in a similar method as the Class A gains.

(13) FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, restricted cash, trade receivable, accounts payable, interest rate swaps, long-term debt and stock-based compensation. The carrying values of cash and cash equivalents, restricted cash, trade receivable, and accounts payable approximated their fair values at March 31, 2011 and June 30, 2010 due to the short maturity of these instruments. Interest rate swaps are recorded in the condensed consolidated balance sheets at fair value. The carrying value of the Company's Notes reflects the original amounts borrowed, net of unamortized discounts or accretion of premiums and was \$350,154 and \$247,080 as of March 31, 2011 and June 30, 2010, respectively. Based on current market interest rates for debt of similar terms and average maturities and based on recent transactions, the fair value of the Notes balance as of March 31, 2011 and June 30, 2010, is estimated to be \$381,500 and \$252,500, respectively, based on the trading price of the Notes. The Company recorded its promissory note with AFS at its fair market value on the acquisition date, which was determined to be \$4,141. Management estimated the imputed interest associated with this note to be \$359, which is being recognized over the term of the promissory note. The fair value of this note is not re-measured each reporting period. The Company records its stock-based compensation liability at its estimated fair value.

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

	<u>Level</u>	<u>March 31, 2011</u>	<u>June 30, 2010</u>
<i>Liabilities Recorded at Fair Value in the Financial Statements:</i>			
Interest rate swap liabilities	Level 2	\$ —	\$ 566
Stock-based compensation liability	Level 3	49,891	21,623
Total liabilities recorded at fair value in the consolidated financial statements		<u>\$ 49,891</u>	<u>\$ 22,189</u>
<i>Liabilities not Recorded at Fair Value in the Financial Statements:</i>			
Senior secured notes		<u>\$ 350,154</u>	<u>\$ 247,080</u>

The interest rate swaps are valued using discounted cash flow techniques that use observable market inputs, such as LIBOR-based yield curves, forward rates, and credit ratings. Changes in the fair market value of the interest rate swaps resulted in an increase of \$716 and \$817 to interest expense during the three and nine month periods ended March 31, 2010.

The stock-based compensation liability is valued using both an income and market based approach. The income based approach is based on an analysis of discounted cash flows. The market based approach is primarily based on an analysis of prices paid by investors and acquirers of interests of comparable companies in the public and private markets. After estimating the stock-based compensation liability from the valuation techniques above, we discount the liability in order to account for the lack of marketability of the units.

Changes in the estimated fair value of common units resulted in an increase of \$21,660 and \$11,535 in the stock-based compensation liability during the three months ended March 31, 2011 and 2010, respectively. Changes in the estimated fair value of common units resulted in an increase of \$28,268 and \$12,320 in the stock-based compensation liability during the nine months ended March 31, 2011 and 2010, respectively.

(14) COMMITMENTS AND CONTINGENCIES

Purchase commitments

At March 31, 2011, the Company was contractually committed for \$22,107 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.

Outstanding letters of credit

As of March 31, 2011, the Company had \$6,420 in outstanding letters of credit, primarily to collateralize surety bonds securing the Company's performance under various contracts.

Other commitments

In February 2010, the Company was awarded an NTIA Broadband Technology Opportunities Program grant for a fiber network project in Indiana (the "Indiana Stimulus Project"). The Indiana Stimulus Project involves approximately \$31,425 of capital expenditures, of which \$25,100 is to be funded by a government grant and approximately \$6,285 is to be funded by the Company. In connection with this project, 626 route miles of fiber are to be constructed and lit. The Company began capitalizing certain preconstruction costs associated with this project in April of 2010 and began receiving grant funds in May 2010. As of March 31, 2011, the Company has been reimbursed for \$96 of expenses and \$731 of capital expenditures related to the Indiana Stimulus Project. As of March 31, 2011, the Company has incurred \$487 of capital expenditures which are pending reimbursement from the Program. The Company also contributed \$4,400 of pre-existing network assets to the project. The Company anticipates this project will be completed within the next two years.

In July 2010, the Company was awarded from the NTIA Broadband Technology Opportunities Program a \$13,383 grant to construct 286 miles of fiber network in Anoka County, Minnesota, outside of Minneapolis (the "Anoka Stimulus Project"). The Anoka Stimulus Project involves approximately \$19,117 of capital expenditures, of which \$13,383 is to be funded by a government grant and approximately \$5,735 is to be funded by the Company. As of March 31, 2011, the Company has been reimbursed for \$121 of expenses and \$140 of capital expenditures related to the Indiana Stimulus Project. As of March 31, 2011, the Company has incurred \$44 of capital expenditures that are pending reimbursement from the Program. The Company anticipates this project will be completed within the next two years.

Contingencies

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

(15) RELATED-PARTY TRANSACTIONS

As of March 31, 2011, the Company had a liability to CII of \$4,590 which is payable on demand. As of March 31, 2011, the Company had a related-party receivable balance of \$21 related to services provided to Onvoy. See Note 4 — *Spin-Off of Onvoy Voice Services Segment*, for a discussion of the types of services Onvoy and the Company continue to provide each other subsequent to the spin-off date.

Subsequent to the spin-off, the revenue and expenses associated with transactions with Onvoy have been recorded in the results from continuing operations. The Company recognized revenue from Onvoy in the amount of \$1,153 and \$3,519 during the three and nine month periods ended March 31, 2011. The Company incurred \$399 and \$1,587 in expenses related to transactions with Onvoy during the three and nine month periods ended March 31, 2011.

On September 14, 2010, Dan Caruso, the Company's President, Chief Executive Officer and Director of Zayo Group, LLC, purchased \$500 of the Company's Notes in connection with the Company's \$100 million Notes offering in September 2010. The purchase price of the notes acquired by Mr. Caruso was \$516 after considering the premium on the notes and accrued interest.

(16) SEGMENT REPORTING

An operating segment is a component of an entity that has all of the following characteristics:

- It engages in business activities from which it may earn revenues and incur expenses.
- Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
- Its discrete financial information is available.

The Company's operating segments have historically been identified by both the products they offer and the customers they serve. Effective January 1, 2011, management approved a restructuring of the ZEN segment, which resulted in all of the Company's operating segment more closely aligning with their product offerings rather than a combination of product offerings and customer demographics. The restructuring of the ZEN segment has resulted in the ZEN segment transferring its bandwidth infrastructure products to the ZB segment and its colocation products to the zColo segment. The restructured ZEN segment contains only the Company's legacy managed services and CLEC product offerings. The Company has restated the comparative historical segment financial information below to account for the restructuring of the ZEN segment.

Subsequent to the restructuring, the ZB segment offers primarily lit bandwidth infrastructure services, the ZEN segment provides managed telecommunications and competitive local exchange carrier services, and the zColo segment provides colocation services and inter-connection transport services.

In connection with the AGL Networks acquisition (See Note 3 — *Acquisitions*), Zayo established the ZFS segment. ZFS is dedicated to marketing and supporting dark fiber related services. Upon the acquisition of AGL Networks on July 1, 2010, the Company's dark fiber assets and the related revenues and expenses associated with dark fiber customers were allocated between ZB and ZEN based upon the nature and size of the customers receiving the dark fiber services. Upon the restructuring of the business segments, effective January 1, 2011, dark fiber assets of the Company and the related revenues and expense associated with dark fiber customers were allocated to the ZFS business segment.

Prior to the formation of the zColo and the ZFS segments, the Company generated income from colocation and dark fiber products. The historical operating results from these product offerings were primarily reflected in the results of the ZB operating segment. The Company has not restated the historical ZB segment information to carve-out the operating results related to colocation product offerings prior to the September 30, 2009 formation of the zColo segment or dark fiber services prior to the July 1, 2010 formation of the ZFS segment as management has determined it is impractical to do so.

Revenues for all of the Company's products are included in one of these four business segments. The results of operations for each operating segment include an allocation of certain corporate overhead costs. The allocation is based on a percentage that represents management's estimate of the relative burden each segment bears of corporate overhead costs. Identifiable assets for each operating segment are reconciled to total consolidated assets including unallocated corporate assets and intercompany eliminations. Unallocated corporate assets consist primarily of cash, deferred tax assets, and debt issuance costs.

The following tables summarize significant financial information of each of the segments:

As of and for the three months ended March 31, 2011						
	ZB	ZEN	zColo	ZFS	Corporate/ eliminations	Total
Revenue	\$ 54,666	\$ 5,557	\$ 9,136	\$ 11,861	\$ —	\$ 81,220
Intersegment revenue	(448)	(86)	(1,033)	—	—	(1,567)
Revenue from external customers	54,218	5,471	8,103	11,861	—	79,653
Gross profit (revenue less operating costs excluding depreciation and amortization)	40,688	2,416	4,662	11,482	(615)	58,633
Depreciation and amortization	10,962	565	1,354	3,893	—	16,774
Operating income/(loss)	3,704	32	1,324	1,197	(11,185)	(4,928)
Interest expense	203	—	54	5	8,743	9,005
Other expense/(income), net	19	—	—	(2)	(86)	(69)
Total assets	479,031	9,259	54,247	212,230	23,097	777,864
Capital expenditures, net of stimulus grant reimbursements	25,199	113	275	3,597	—	29,184

As of and for the three months ended March 31, 2010						
	ZB	ZEN	zColo	ZFS	Corporate/ eliminations	Total
Revenue	\$ 47,637	\$ 6,319	\$ 7,282	\$ —	\$ —	\$ 61,238
Intersegment revenue	(1,671)	(94)	(561)	—	—	(2,326)
Revenue from external customers	45,966	6,225	6,721	—	—	58,912
Gross profit (revenue less operating costs excluding depreciation and amortization)	33,651	2,825	3,992	—	(1,092)	39,376
Depreciation and amortization	8,522	741	1,367	—	—	10,630
Operating income/(loss)	4,584	23	1,316	—	(7,736)	(1,811)
Interest expense	268	—	18	—	4,163	4,449
Other income, net	(2)	—	—	—	(999)	(1,001)
Loss on extinguishment of debt	—	—	—	—	(5,881)	(5,881)
Capital expenditures	16,441	105	133	—	—	16,679

As of and for the nine months ended March 31, 2011						
	ZB	ZEN	zColo	ZFS	Corporate/ eliminations	Total
Revenue	\$ 158,233	\$ 16,982	\$ 24,444	\$ 31,067	\$ —	\$ 230,726
Intersegment revenue	(2,056)	(261)	(2,293)	—	—	(4,610)
Revenue from external customers	156,177	16,721	22,151	31,067	—	226,116
Gross profit (revenue less operating costs excluding depreciation and amortization)	115,906	7,280	12,884	30,341	(1,897)	164,514
Depreciation and amortization	30,278	1,774	4,037	9,584	—	45,673
Operating income/(loss)	21,640	119	4,050	6,524	(14,870)	17,463
Interest expense	724	—	169	10	23,391	24,294
Other expense/(income), net	36	—	—	(6)	78	108
Capital expenditures, net of stimulus grant Reimbursements	77,974	428	1,302	8,375	—	88,079

As of and for the nine months ended March 31, 2010

	ZB	ZEN	zColo	ZFS	Corporate/ eliminations	Total
Revenue	\$ 134,018	\$ 18,595	\$ 16,538	\$ —	\$ —	\$ 169,151
Intersegment revenue	(4,920)	(266)	(1,324)	—	—	(6,510)
Revenue from external customers	<u>129,098</u>	<u>18,329</u>	<u>15,214</u>	<u>—</u>	<u>—</u>	<u>162,641</u>
Gross profit (revenue less operating costs excluding depreciation and amortization)	95,931	7,731	9,000	—	(3,760)	108,902
Depreciation and amortization	25,173	1,896	3,188	—	—	30,257
Operating income/(loss)	19,213	(273)	2,809	—	(10,875)	10,874
Interest expense	830	—	18	—	10,412	11,260
Other income, net	(3)	—	—	—	(1,003)	(1,006)
Loss on extinguishment of debt	—	—	—	—	(5,881)	(5,881)
Capital expenditures	37,304	674	160	—	—	38,138

(17) SUBSEQUENT EVENTS

On April 1, 2011, the Board of Managers of the Zayo Group, LLC authorized the spin-off of Zayo Enterprise Networks, LLC, a legal subsidiary of the Company, to the Company's parent and sole member, Holdings. The spin-off was completed on that date.

The Zayo Enterprise Networks, LLC subsidiary comprised the ZEN operating segment. All assets and liabilities of the ZEN segment were transferred to the Company's parent on April 1, 2011. The spin-off was a result of management's determination that the services provided by ZEN did not fit within the Company's current business model of providing bandwidth infrastructure, colocation, and interconnection services. Effective April 1, 2011, Zayo Enterprise Networks, LLC will no longer be a subsidiary of the Company and the Company will no longer have significant continued involvement in the operations of ZEN. As such, from the date of the spin-off, the results of ZEN's operations will be classified as discontinued operations in future filings.

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"), in other filings by Zayo Group, LLC ("we" or "us"), with the Securities and Exchange Commission (the "SEC") in press releases and in presentations by us or our management that are not historical by nature constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which 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 the negatives thereof, other variations thereon or comparable terminology, or by discussions of strategy. No assurance can be given that future results expressed or implied by the forward-looking statements will be achieved. Such statements are based on our current expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those relating to our financial and operating prospects, current economic trends, future opportunities, ability to retain existing customers and attract new ones, our acquisition strategy and ability to integrate acquired companies and assets, outlook of customers, reception of new products and technologies, and strength of competition and pricing. Other factors and risks that may affect our business and future financial results are detailed in our SEC filings, including, but not limited to, those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" within this Report. 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.

The following discussion and analysis should be read together with our unaudited condensed consolidated financial statements and the related notes appearing in this Report and in our audited annual financial statements as of and for the year ended June 30, 2010, included in Amendment No. 1 to the Form S-4 filed with the SEC on November 8, 2010.

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

Overview

Introduction

We are a provider of bandwidth infrastructure and network-neutral colocation and interconnection services, which are key components of telecommunications and Internet infrastructure services. These services enable our customers to manage, operate, and scale their telecommunications and data networks and data center related operations. We provide our bandwidth infrastructure services over our dense regional and metropolitan fiber networks, enabling our customers to transport data, voice, video, and Internet traffic, as well as to interconnect their networks. Our bandwidth infrastructure services are primarily used by wireless service providers, carriers and other communications service providers, media and content companies, and other bandwidth-intensive enterprises. We typically provide our lit bandwidth infrastructure services for a fixed-rate monthly recurring fee under long-term contracts, which are usually three to five years in length (and typically seven to ten years for fiber-to-the-tower services). Our dark-fiber contracts are generally longer term in nature, up to 20 years and in a few cases longer. Our network-neutral colocation and interconnection services facilitate the exchange of voice, video, data, and Internet traffic between multiple third-party networks.

Our fiber networks span over 23,000 route miles, serve 153 geographic markets in the United States, and connect to over 4,200 buildings, including approximately 1,826 cellular towers, allowing us to provide our bandwidth infrastructure services to our customers over redundant fiber facilities between key customer locations. The majority of the markets that we serve and buildings to which we connect have few other networks capable of providing similar bandwidth infrastructure services, which we believe provides us with a sustainable competitive advantage in these markets. As a result, we believe that the services we provide our customers would be difficult to replicate in a cost- and time-efficient manner. We provide our network-neutral colocation and interconnection services utilizing our own data centers located within carrier hotels in the important gateway markets of New York and New Jersey. We currently manage over 4,000 interconnections, enabling our customers to directly connect their discrete networks with each other.

We are a wholly-owned subsidiary of Zayo Group Holdings, Inc, a Delaware corporation ("Holdings"), which is in turn wholly owned by Communications Infrastructure Investments, LLC, a Delaware limited liability company ("CI").

Our fiscal year ends June 30 each year and we refer to the fiscal year ended June 30, 2010 as “Fiscal 2010” and the year ended June 30, 2011 as “Fiscal 2011.”

Our Business segments

As of March 31, 2011, we were organized into four autonomous business segments: Zayo Bandwidth, zColo, Zayo Enterprise Networks, and Zayo Fiber Solutions. Each operating segment is structured to provide sales, delivery, and customer support for its specific telecom and Internet infrastructure services.

Our operating segments have historically been identified by both the products they offer and the customers they serve. Effective January 1, 2011, we approved a restructuring of the Zayo Enterprise Networks segment which resulted in our operating segments more closely aligning with their product offerings rather than a combination of product offerings and customer demographics.

Zayo Bandwidth. Through our Zayo Bandwidth (“ZB”) unit, we provide bandwidth infrastructure services over our metropolitan and regional fiber networks. These services are typically lit bandwidth, meaning that we use optronics to “light” the fiber, and consist of private line, wavelength, and Ethernet services. Our target customers within this unit are primarily wireless service providers, telecommunications service providers (including ILECs, IXCs, RLECs, CLECs, and foreign carriers), media and content companies (including cable and satellite video providers), and other Internet-centric businesses that require an aggregate minimum of 10 Gbps of bandwidth across their networks.

zColo. Through our zColo unit, we provide network-neutral colocation and interconnection services in three major carrier hotels in the New York metropolitan area (60 Hudson Street and 111 8th Avenue in New York, New York, and 165 Halsey Street in Newark, New Jersey) and in facilities located in Los Angeles, California and Nashville, Tennessee. As a result of the restructuring of our operating segments, in January 2011, zColo was transferred five facilities from Zayo Enterprise Networks and ZB located in Plymouth, MN; Cincinnati, OH; Cleveland, Ohio; Columbus, Ohio; and Memphis, TN. In addition, we are the exclusive operator of the Meet-Me Room at 60 Hudson Street, which is one of the most important carrier hotels in the United States with approximately 200 global networks interconnecting within this facility. Our zColo data centers house and power Internet and private-network equipment in secure, environmentally-controlled locations that our customers use to aggregate and distribute data, voice, Internet, and video traffic. Throughout two of the three facilities we operate intra-building interconnect networks that, along with the Meet-Me Room at 60 Hudson Street, are utilized by our customers to efficiently and cost-effectively interconnect with other Internet, data, video, voice, and wireless networks. As of March 31, 2011 and June 30, 2010 the zColo segment managed 72,716 and 41,091 square feet of billable colocation space, respectively.

Zayo Enterprise Networks. Through our Zayo Enterprise Networks (“ZEN”) unit, we provide voice and data services to healthcare, financial, education, technology, and media and content companies, as well as schools, hospitals, municipalities and other governmental or semi-governmental entities. The restructuring of the ZEN segment has resulted in the ZEN segment transferring its bandwidth infrastructure products to the ZB segment, its dark fiber products to the Zayo Fiber Solutions segment and its colocation products to the zColo segment. This segment was spun-off to our parent, Holdings on April 1, 2011.

Zayo Fiber Solutions. The Zayo Fiber Solutions (“ZFS”) unit was formally launched on July 1, 2010, after our acquisition of AGL Networks, LLC (“AGL Networks”), a company whose business was comprised solely of dark-fiber-related services. See “—*Recent Developments*”. The assets of AGL Networks complement our existing dark-fiber services, which had previously been provided by ZEN and ZB. After the acquisition, we transferred those existing dark-fiber customer contracts to our ZFS unit, and intend to leverage a portion our pre-existing fiber network to provide dark-fiber solution offerings.

Through our ZFS unit, we provide dark-fiber and related services primarily on our existing fiber footprint. We lease dark-fiber pairs to our customers and, as part of our service offering, we manage and maintain the underlying fiber network for the customer. Our customers light the fiber using their own optronics, and as such, we do not manage the bandwidth that the customer receives. This allows the customer to manage bandwidth on their own metro and long haul networks according to their specific business needs. ZFS’s customers include carriers, ISPs, wireless service providers, major media and content companies, large enterprises, and other companies that have the expertise to run their own fiber optic networks. We market and sell dark-fiber-related services under long-term contracts (up to 20 years and in a few cases longer); our customers generally pay us on a monthly recurring basis for these services.

Recent Developments

Acquisition of AGL Networks

On July 1, 2010, we acquired 100% of the equity of AGL Networks from its parent, AGL Resources Inc., and changed AGL Networks' name to Zayo Fiber Solutions, LLC. We paid the purchase price of approximately \$73.7 million with cash on hand. AGL Networks' assets were comprised of dense, high-fiber-count networks totaling 786 (761 of which are incremental to our existing footprint) route miles and over 190,000 fiber miles, and included 289 (281 incremental) on-net buildings across the metropolitan markets of Atlanta, Georgia, Charlotte, North Carolina, and Phoenix, Arizona. AGL Networks generated all of its revenue from providing dark-fiber related services to both wholesale and enterprise customers.

In connection with the AGL Networks acquisition, we established a fourth operating segment on July 1, 2010: ZFS. The assets of AGL Networks complement our existing dark-fiber services, which had previously been provided by ZEN and ZB. After the acquisition, we transferred those existing dark-fiber customer contracts to our ZFS unit, and intend to leverage a portion our pre-existing fiber network to provide dark-fiber solution offerings.

Merger with American Fiber Systems Holding Corporation ("AFS")

On October 1, 2010, we completed a merger (the "Merger") with AFS, the parent company of American Fiber Systems, Inc. ("AFS Inc."). The Merger was consummated with the exchange of \$110,000 in cash and a \$4,500 non-interest bearing promissory note due in 2012 for all of the interest in AFS. The Company calculated the fair market value of the promissory note to be \$4,141 resulting in an aggregate purchase price of \$114,141. The merger was effected through a merger between AFS and a special purpose vehicle created for the merger. The purchase price was based upon the valuation of both the business and assets directly owned by AFS and the ownership interest in US Carrier Telecom Holdings, LLC ("US Carrier"), held by AFS, Inc., for which we estimated the fair value to be \$15.1 million. AFS is a provider of bandwidth infrastructure services in nine metropolitan markets: Atlanta, Georgia; Boise, Idaho; Cleveland, Ohio; Kansas City, Missouri; Las Vegas, Nevada; Minneapolis, Minnesota; Nashville, Tennessee; Reno, Nevada; and Salt Lake City, Utah. AFS owns and operates over 1,200 route miles (about 1,000 of which are incremental to our existing footprint) and over 160,000 fiber miles of fiber networks and has over 600 incremental on-net buildings in these markets.

Acquisition of Dolphini Assets

On September 20, 2010, our zColo operating segment acquired certain colocation assets in Nashville, Tennessee from Dolphini Corporation for a cash purchase price of \$0.2 million.

Broadband Stimulus Awards

In 2010, we were an active participant in federal broadband stimulus projects created through the American Recovery and Reinvestment Act. To date, we have been awarded, as a direct recipient, federal stimulus funds for two projects by the National Telecommunication and Information Administration. The projects involve the construction, ownership, and operation of fiber networks for the purpose of providing broadband services to governmental and educational institutions, as well as underserved, and usually rural, communities. As part of the award, the federal government funds a large portion of the construction and development costs. On the two projects awarded to us to date, the stimulus funding will cover, on average, approximately 77% of the total expected cost of the projects. Commitments by other third parties will provide additional funding representing approximately 10% of the total cost of the projects. Both of these projects allow for our ownership or use of the network for other commercial purposes, including the sale of our bandwidth infrastructure services to new and existing customers. The details of the two awards are as follows:

- In February 2010, ZB, as the direct recipient, was awarded \$25.1 million in funding to construct 626 miles of fiber network connecting 21 community colleges in Indiana. The total project involves approximately \$31.4 million of capital expenditures of which \$6.3 million is anticipated to be funded by the Company.
- In July 2010, ZB, as the direct recipient, was awarded a \$13.4 million grant to construct 286 miles of fiber network in Anoka County, Minnesota, outside of Minneapolis. The total project involves approximately \$19.2 million of capital expenditures of which \$5.7 million is anticipated to be funded by the Company.

In addition, there is one additional stimulus application, pending review and finalization, in which we may participate as a sub-recipient.

Factors Affecting Our Results of Operations

Business Acquisitions

We were founded in 2007 in order to take advantage of the favorable Internet, data, and wireless growth trends driving the demand for bandwidth infrastructure services. 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 our network and services through 16 acquisitions and asset purchases for an aggregate purchase consideration (including assumed debt) of \$565.1 million (after deducting our acquisition cost for Onvoy Voice Services, a operating segment operated by our subsidiary Onvoy, Inc. (“Onvoy”), which we spun-off during Fiscal 2010).

On September 9, 2009, we completed our acquisition of all of the outstanding shares of common stock of FiberNet Telecom Group, Inc. (“FiberNet”). We accounted for the FiberNet acquisition using the purchase method of accounting, with the assets acquired and liabilities recorded at estimated fair values. In conformity with applicable accounting standards effective for Fiscal 2010 that replaced the prior standards, third-party costs related to the acquisition were expensed rather than capitalized and a gain on bargain purchase was recognized in earnings in June 2010.

We formed our zColo operating segment from a portion of the legacy FiberNet business, and thus that operating segment is only included in our Fiscal 2010 operating results for the period September 10, 2009 through March 31, 2010. The remaining portion of the legacy FiberNet business was added to our existing Zayo Bandwidth business segment.

As discussed in the *Recent Developments* section, above, on July 1, 2010 we completed our acquisition of all of the equity interest in AGL Networks and thus the results of the legacy AGL Networks business are included in the operating results for the three and nine month periods ended March 31, 2011. Additionally, on October 1, 2010 we completed a merger with AFS, and thus the results of the legacy AFS business are included in the operating results for the last six months of the nine month period ended March 31, 2011.

Onvoy Spin-Off

We previously had another business segment, Onvoy Voice Services, which was engaged in the wholesale voice services segment of the telecommunications industry and was operated by one of our subsidiaries, Onvoy. After our acquisition of Onvoy, we transferred the non-Onvoy Voice Services assets and businesses within Onvoy to our ZB and ZEN business segments. During Fiscal 2010, we determined that the services provided by Onvoy Voice Services did not fit within our business model of providing bandwidth infrastructure, colocation, and interconnection services. On March 12, 2010, we distributed all of the shares of common stock of Onvoy to Holdings. Consistent with the discontinued operations reporting provisions of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 280-20, *Discontinued Operations*, we determined that we had discontinued all significant cash flows and continuing involvement with respect to the Onvoy operations effective March 12, 2010. Therefore, for the three and nine month period ended March 31, 2010, the results of the operations of Onvoy have been aggregated and are presented in a single caption entitled, “Earnings from discontinued operations, net of income taxes” on the accompanying condensed consolidated statements of operations. We have not allocated any general corporate overhead to amounts presented in discontinued operations, nor have we elected to allocate interest costs. All discussions contained in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” relate only to our results of operations from our continuing operations.

Formation of the Zayo Fiber Solutions Operating Segment

We created the ZFS operating segment on July 1, 2010 to separately monitor the performance of our dark fiber business. Effective July 1, 2010, we transferred our existing dark-fiber assets which had previously been accounted for by our ZEN and ZB segments to the ZFS segment. The historical segment information throughout this Report have not been restated to reflect the dark fiber assets transferred from ZEN and ZB to ZFS on July 1, 2010 as management has concluded it is impractical to do so. As such, the current period results throughout this Report of our operating segments are not comparative to prior period financial results.

Substantial Capital Expenditures

During the nine months ended March 31, 2011 and 2010, we invested \$88.1 million (net of stimulus grant reimbursements) and \$38.1 million, respectively, in capital expenditures related to property and equipment to expand our fiber network, principally in connection with new customer contracts. We expect to continue to make significant capital expenditures in future periods.

As a result of the growth of our business from the acquisitions described above, as well as from such capital expenditures, our results of operations for the respective periods presented and discussed herein are not comparable.

Substantial Indebtedness

We had total indebtedness (excluding capital leases) of \$354.4 million and \$247.1 million as of March 31, 2011 and June 30, 2010, respectively, reflecting principally our borrowings to fund our acquisitions and for other working capital purposes. The nominal interest rate on our \$350 million Senior Secured Notes (“Notes”) as of March 31, 2011 and June 30, 2010 was 10.25 percent.

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates on historical results which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

We have accounting policies that involve estimates such as the allowance for doubtful accounts, revenue reserves, useful lives of long-lived assets, fair value of our common and preferred units issued as compensation, accruals for estimated tax and legal liabilities, accruals for disputes and valuation allowance for deferred tax assets. We have identified the policies below, which require the most significant judgments and estimates to be made in the preparation of our condensed consolidated financial statements, as critical to our business operations and an understanding of our results of operations.

Revenue and trade receivables

We recognize revenue derived from leasing fiber optic telecommunications infrastructure and the provision of telecommunications and colocation services when the service has been provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is reasonably assured. Taxes collected from customers and remitted to government authorities are excluded from revenue.

Most revenue is billed in advance on a fixed-rate basis. The remainder of revenue is billed in arrears on a transaction basis determined by customer usage. Fees billed in connection with customer installations and other up-front charges are deferred and recognized as revenue ratably over the contract life.

Revenue attributable to leases of dark fiber pursuant to indefeasible rights-of-use agreements (“IRUs”) are accounted for in the same manner as the accounting treatment around the sales of real estate with property improvements or integral equipment. This accounting treatment typically results in the deferral of revenue for the cash that has been received and the recognition of revenue ratably over the term of the agreement (generally up to 20 years). However, ASC 360-20 *Property Plant and Equipment: Real Estate Sales*, allows for full profit recognition on IRU contracts when the following conditions have been met: 1) the sale has been consummated, 2) the buyer’s initial and continuing investments are adequate to demonstrate a commitment to pay for the property, 3) the seller’s receivable is not subject to future subordination, and 4) the seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property. During the three and nine month periods ended March 31, 2011 and 2010, we did not enter into any IRU contracts with customers that were accounted for using full-profit revenue recognition.

Revenue is recognized at the amount expected to be realized, which includes billing and service adjustments. During each reporting period, we make estimates for potential future sales credits to be issued in respect of current revenue, related to service interruptions and customer disputes, which are recorded as a reduction in revenue. We analyze historical credit activity when evaluating our credit reserve requirements. We reserve for known service interruptions as incurred. We review customer disputes and reserve against those we believe to be valid claims. The determination of the customer dispute credit reserve involves significant estimations and assumptions.

We defer recognition of revenue until cash is collected on certain components of revenue, such as contract termination charges and late fees.

We estimate the ability to collect our receivables by performing ongoing credit evaluations of our customers’ financial condition, and provide an allowance for doubtful accounts based on expected collection of our receivables. Our estimates are based on assumptions and other considerations, including payment history, credit ratings, customer financial performance, industry financial performance and aging analysis.

Network Expenses and Accrued Liabilities

We lease certain network facilities, primarily infrastructure assets such as circuits, dark fiber, and colocation assets, to augment our owned infrastructure for which we are generally billed a fixed monthly fee. We also use the facilities of other carriers for which we are billed on a usage basis.

We recognize the cost of these facilities or services when it is incurred in accordance with contractual requirements. We dispute incorrect billings. The most prevalent types of disputes include disputes for circuits that are not disconnected on a timely basis and usage bills with incorrect or inadequate call detail records. Depending on the type and complexity of the issues involved, it may take several quarters to resolve disputes.

In determining the amount of such operating expenses and related accrued liabilities to reflect in our financial statements, we consider the adequacy of documentation of disconnect notices, compliance with prevailing contractual requirements for submitting such disconnect notices and disputes to the provider of the facilities, and compliance with our interconnection agreements with these carriers. Significant judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation.

Stock-Based Compensation

We account for our stock-based compensation in accordance with the provisions of ASC 718 — *Compensation: Stock Compensation*, which requires stock compensation to be recorded as either liability or equity awards based on the terms of the grant agreement. The common units granted to employees are considered to be stock-based compensation with terms that require the awards to be classified as liabilities. As such, we account for these awards as a liability and re-measure the liability at each reporting date until the date of settlement. Each reporting period we adjust the value of the vested portion of our liability awards to their fair value. The preferred units granted to certain employees and directors are considered to be stock-based compensation with terms that require the awards to be classified as equity. As such, we account for these awards as equity, which requires us to determine the fair market value of the award on the grant date and amortize the expense over the vesting period of the award.

We use a third party to assist in the valuation of our common units each reporting period and preferred units when granted. In developing a value for these units, we utilize a two-step valuation approach. In the first step we estimate the value of our equity instruments through an analysis of valuations associated with various future potential liquidity scenarios for our shareholders. A composite valuation is developed based upon the probability-weighted present values of each of the scenarios. The second step involves allocating this value across our capital structure. The valuation is conducted in consideration of the guidance provided in the American Institute of Certified Public Accountant (“AICPA”) Practice Aid “Valuation of Privately-Held Company Equity Securities Issued as Compensation” and with adherence to the Uniform Standards of Professional Appraisal Practice (“USPAP”) set forth by the Appraisal Foundation.

In estimating our fair value we have historically evaluated both market and income based valuation techniques. The income approach was based on our projected free cash flows. In our market based approach, the valuation was estimated based on the prices paid by investors and acquirers of interest of comparable companies in the public and private markets. The valuation was based on a weighted average of the market and income valuation techniques. As a result of our expansion since inception and due to the fact that the committed capital from our ultimate investors has been fully funded, the potential of a liquidation event for our shareholders in the future has increased. As such, we have revised the market based approach utilized in our valuation to account for potential liquidation events.

During the quarter ended March 31, 2011, we employed a probability-weighted estimated return method to value our common units. The method estimates the value of the units based on an analysis of values of the enterprise assuming various future outcomes. The unit value was based on a probability-weighted present value of expected future proceeds to our shareholders, considering each potential liquidity scenario available to us as well as preferential rights of each security. This approach utilizes a variety of assumptions regarding the likelihood of a certain scenario occurring, if the event involves a transaction, the potential timing of such an event, and the potential valuation that each scenario might yield. The potential future outcomes that we considered were remaining a private company with the same ownership, a sale or merger, an initial public offering (“IPO”), and a partial recapitalization.

We most heavily weighted the valuation estimate associated with remaining a private entity with the same ownership. In this assumption, we assessed our value using a discounted cash flow approach, which involves developing a projected free cash flow, estimating an appropriate risk adjusted present value discount rate, calculating the present value of our projected free cash flows, and calculating a terminal value. In estimating our fair value, we utilized the following discounted cash flow valuation techniques: Total Enterprise Value to Terminal Revenue and Total Enterprise to Terminal EBITDA. There are several inputs that are required to develop an estimate of the enterprise value when utilizing these income approaches including, forecasted earnings, discount rate, and the terminal multiple. We have developed a forecast of our revenues and EBITDA through December 31, 2015. Our forecasted revenues and EBITDA are based on our composition as of the balance sheet date, not adjusted for potential acquisitions. The next step in the income approach is to estimate a discount rate which most appropriately reflects our cost of capital. In our analysis, we utilized a weighted average cost of capital ("WACC") utilizing the Capital Asset Pricing Model ("CAPM") build-up method. This method derives the cost of equity in part from the volatility (risk) statistics suggested by the Guideline Public Companies in the form of their five year historical betas. We included certain incremental risk premiums specific to us to account for the fact that we have historically depended on outside investment to operate, are significantly smaller than the Guideline Public Companies and have a history of substantial volatility in earnings and cash flows. Based on our projections and discount rate we estimate the present value of our future cash flows. In order to estimate the enterprise value we add to the estimated discounted cash flows an estimated terminal value. The terminal value is estimated utilizing the "Observed Market Multiple" method. This method requires us to observe prevailing valuations associated with the Guideline Public Companies and the acquisitions of guideline Companies. This terminal value is converted to a present value through the use of an appropriate present value factor.

For purposes of the probability-weighted expected return method valuation, management also considered various liquidation possibilities including an IPO, a sale or merger, and a partial recapitalization. In each of these scenarios a distribution is established around the estimated dates and valuations of each scenario. Future valuation figures are based upon corresponding market data for comparable companies in comparable scenarios. These include public traded valuations statistics and acquisition valuation statistics for comparable companies in the IPO scenario and sale/merger scenario, respectively. Valuation statistics are combined with expectations regarding our future economic performance to produce future valuation estimates. Estimates are then translated to present value figures through the use of appropriate discount rates.

We also considered the likelihood of a near term recapitalization. In this scenario, we would complete a partial recapitalization of our equity and to facilitate the ultimate liquidity for all investors, we would pursue a future sale via an initial public offering or a sale to a financial or strategic buyer.

The third scenario that we reviewed in determining our enterprise value was a dual track exit in which we engage in a formal process with an investment banker to achieve liquidity for existing shareholders. In this scenario, we would simultaneously evaluate both an IPO and a sale of the Company. As part of the sale process, we would engage in discussions with both financial and strategic buyers. The probability of each specific liquidity event occurring was estimated at 33.3 percent for each of an IPO, a sale to a financial buyer, and a sale to a strategic buyer.

Based on these three scenarios, management calculated the probability-weighted expected return to all of the equity holders. The resulting enterprise valuation is then allocated across our capital structure. Upon a liquidation of CII, or upon a non-liquidating distribution, the holders of common units would share in the proceeds after the CII preferred unit holders received their unreturned capital contributions and their priority return (6% per annum). After the preferred unreturned capital contributions and the priority return are satisfied, the remaining proceeds are allocated on a scale ranging from 85% to the Class A preferred unit holders and 15% to the common unit holders to 80% to the Class A preferred unit holders and 20% to the common unit holders depending upon the return multiple to the Class A preferred unit holders up to the amount of the Class A gain percentage. Once the amount of proceeds related to the Class A percentage gain has been distributed, then proceeds attributable to the Class B gain percentages are distributed in a similar method as the Class A gains.

The value attributable to each class of shares is then discounted in order to account for the lack of marketability of the units. In quantifying the magnitude of the discount we rely upon a method known as the protective-put method, which estimates a discount to be applied by calculating the cost of purchasing a put when the underlying asset value and strike price are equal.

As of March 31, 2011, we estimate the value of the Class A, B, C, and D common units to be \$0.93, \$0.72, \$0.34, and \$0.34, respectively.

Property and Equipment

We record property and equipment acquired in connections with a business combination at their estimated fair values — See “— *Critical Account Policies and Estimates: Acquisitions — Purchase Price Allocation*”, on the acquisition date. Purchases of property and equipment are stated at cost, net of depreciation. Major improvements are capitalized, while expenditures for repairs and maintenance are expensed when incurred. Costs incurred prior to a capital project’s completion are reflected as construction-in-progress and are part of network infrastructure assets. Depreciation begins once the property and equipment is available and ready for use. Certain internal direct labor costs of constructing or installing property and equipment are capitalized. Capitalized direct labor reflects a portion of the salary and benefits of certain field engineers that is directly related to the construction and installation of network infrastructure assets. Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of the assets, with the exception of leasehold improvements, which are amortized over the lesser of the estimated useful lives or the term of the lease.

Estimated useful lives of our property and equipment are as follows:

Land	N/A
Buildings improvements and site improvements	8 to 15
Furniture, fixtures and office equipment	3 to 7
Computer hardware	2 to 5
Software	2 to 3
Machinery and equipment	3 to 7
Fiber optic equipment	4 to 8
Circuit switch equipment	10
Packet switch equipment	3 to 5
Fiber optic network	8 to 20
Construction in progress	N/A

We perform periodic internal reviews to estimate useful lives of our property, plant and equipment. Due to rapid changes in technology and the competitive environment, selecting the estimated economic life of telecommunications property, plant, and equipment requires a significant amount of judgment. Our internal reviews take into account input from our network services personnel regarding actual usage, physical wear and tear, replacement history, and assumptions regarding the benefits and costs of implementing new technology that factor in the need to meet our financial objectives.

When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts, and resulting gains or losses are reflected in operating income.

From time to time, we are required to replace or re-route existing fiber due to structural changes such as construction and highway expansions, which is defined as a “relocation.” In such instances, we fully depreciate the remaining carrying value of network infrastructure removed or rendered unusable and capitalize the new fiber and associated construction costs of the relocation placed into service, which is reduced by any reimbursements received for such costs. To the extent that the relocation does not require the replacement of components of our network and only involves the act of moving our existing network infrastructure, as-is, to another location, the related costs are expensed as incurred.

Interest costs are capitalized for all assets that require a period of time to get them ready for their intended use. This policy is based on the premise that the historical cost of acquiring an asset should include all costs necessarily incurred to bring it to the condition and location necessary for its intended use, in principle, the cost incurred in financing expenditures for an asset during a required construction or development period is itself a part of the asset’s historical acquisition cost. The amount of interest costs capitalized for qualifying assets is determined based on the portion of the interest cost incurred during the assets’ acquisition periods that theoretically could have been avoided if expenditures for the assets had not been made. The amount of interest capitalized in an accounting period is calculated by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used to determine the value of interest capitalized in an accounting period is based on our weighted average effective interest rate for outstanding debt obligations during the respective accounting period.

We periodically evaluate the recoverability of our long-lived assets and evaluate such assets for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Impairment is determined to exist if the estimated future undiscounted cash flows are less than the carrying value of such assets. We consider various factors to determine if an impairment test is necessary. The factors include: consideration of the overall economic climate, technological advances with respect to equipment, our strategy, and capital planning. Since our inception, no event has occurred nor has there been a change in the business environment that would trigger an impairment test for our property and equipment assets.

Deferred Tax Accounting

Deferred tax assets arise from a variety of sources, the most significant being: a) tax losses that can be carried forward to be utilized against profits in future years; and b) expenses recognized in our income statement but disallowed in our tax return until the associated cash flow occurs.

We record a valuation allowance to reduce our deferred tax assets to the amount that is expected to be recognized. The level of deferred tax asset recognition is influenced by management's assessment of our future profitability with regard to relevant business plan forecasts. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. In a situation where recent losses have been incurred, the relevant accounting standards require convincing evidence that there will be sufficient future profitability.

In connection with several of our acquisitions, we have acquired significant net operating loss carryforwards ("NOLs"). The Tax Reform Act of 1986 contains provisions that limit the utilization of NOLs if there has been an "ownership change" as described in Section 382 of the Internal Revenue Code.

Upon acquiring a company that has NOLs, we prepare an assessment to determine if we have a legal right to use the acquired NOL balance. In performing this assessment we follow the regulations within the Internal Revenue Code Section 382: *Net Operating Loss Carryovers Following Changes in Ownership*. Any disallowed NOLs acquired are written-off in purchase accounting.

A valuation allowance is required for deferred tax assets if, based on available evidence, it is more-likely-than-not that all or some portion of the asset will not be realized due to the inability to generate sufficient taxable income in the period and/or of the character necessary to utilize the benefit of the deferred tax asset. When evaluating whether it is more-likely-than-not that all or some portion of the deferred tax asset will not be realized, all available evidence, both positive and negative, that may affect the realizability of deferred tax assets is identified and considered in determining the appropriate amount of the valuation allowance. We continue to monitor our cumulative net loss position and other evidence each quarter to determine the appropriateness of our valuation allowance. If we are unable to meet our taxable income forecasts in future periods we may change our conclusion about the appropriateness of the valuation allowance which could create a substantial income tax expense in our consolidated statement of operations in the period such change occurred.

As of March 31, 2011, we have a cumulative NOL carryforward balance of \$150.5 million of which we expect to utilize all but \$1.0 million. During the nine months ended March 31, 2011, we added an additional \$40.9 million to our NOL carryforward balance as a result of NOLs acquired from the Merger. These NOL carryforwards, if not utilized to reduce taxable income in future periods, will expire in various amounts beginning in 2020 and ending in 2029. We utilized NOLs to offset income tax obligations in each of the years ended June 30, 2010 and 2009. As a result of Internal Revenue Service regulations, we are currently limited to utilizing a maximum of \$12.5 million NOLs during Fiscal 2011; however to the extent that we do not utilize \$12.5 million NOLs during the current year, the difference between the \$12.5 maximum usage and the actual NOLs usage is carried over to the next calendar year. During the year ended June 30, 2010 we offset our taxable income with \$5.7 million in NOLs. The deferred tax assets recognized at March 31, 2011 have been based on future profitability assumptions over a five-year horizon.

As a result of the annual limitations placed on us and the expiration dates of our NOLs, we have estimated that \$1 million of the NOL balance will expire unused and as such, we have recorded a valuation allowance of \$0.4 million against the gross deferred tax asset as of March 31, 2011.

The analysis of our ability to utilize our NOL balance is based on our forecasted taxable income. The forecasted assumptions approximate our best estimates, including market growth rates, future pricing, market acceptance of our products and services, future expected capital investments, and discount rates. Although our forecasted income includes increased taxable earnings in future periods, flat earnings over the period in which our NOLs are available would result in full utilization of our current unreserved NOL carryforwards.

Goodwill and Purchased Intangibles

We perform an assessment of goodwill for impairment annually in April each year or more frequently if we determine that indicators of impairment exist. Our impairment review process compares the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 16 — *Segment Reporting*, to our condensed consolidated financial statements.

In performing the annual goodwill impairment test, if the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a second step must be performed, and the implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded.

We consider the use of multiple valuation techniques in accordance with fair value measurements and disclosures guidance to estimate the fair value of its reporting segments and have consistently applied an income and market based approach to measure fair value.

Under the income approach, we estimate the reportable segments fair market value using the discounted cash flow method. The discounted cash flow method involves the following key steps:

- the development of projected free cash flows;
- the estimation of an appropriate risk adjusted present value discount rate;
- the calculation of the present value of projected free cash flow; and
- the calculation of a terminal value.

In developing the projected free cash flows, we utilize expected growth rates implied by the financial projections that have been developed by senior management. The cash flow forecasts are based upon upside, midpoint, and downside scenarios. Using the projected cash flow and discount rate inputs, we calculate the present value of our projected cash flows. In calculating the terminal value, we estimate a long-term growth rate that we believe appropriately reflects the expected long-term growth in nominal U.S. gross domestic product. The terminal value is converted to a present value through the use of the appropriate present value factor. This figure is then summed with the present value of projected free cash flow for the projection period to render a valuation estimate for each reporting segment.

Under the market approach, we estimate the reportable segments fair market value using the Analysis of Guideline Public Companies method. The use of this method involves the following:

- identification and selection of a group of acceptable and relevant guideline companies;
- selection of financial ratios and time period most appropriate for the analysis;
- financial adjustments made to both or either of the guideline and/or subject companies to make the underlying financial figures comparable. Examples of adjustments include add-backs for non-recurring expenses and calculations to make the figure related to the same time period.
- subjective discounts or premiums to implied ratios to account for observations relating to substantial differences that would be perceived as having an impact on value between the collective guideline companies and us; and
- selection of a statistical midpoint or range within the dataset most appropriate for the analysis.

In identifying and selecting the guideline companies that could be deemed appropriate for our reporting units, we screened potential companies using a research tool with parameters including constraints regarding geographic location, primary industry classification, and market capitalization. We selected the Enterprise Value to Revenue and EBITDA ratios as the most appropriate market based valuation technique for us. With the assistance of a third-party vendor, we estimated the 2010 revenue trading multiples based on Guideline Public Companies. Utilizing third-party market studies, we estimated a control premium as part of the market based calculations, which is in-line with historical control premiums offered for comparable transaction in the communications industry, the availability of financing, and number of potential buyers.

In estimating the fair market value of each of our reportable segments, we averaged the valuations from each of the approaches above. The resulting valuations are significantly higher than the current carrying value of these segments. Although we estimate the fair value of our segments utilizing the average of various valuation techniques, none of the valuation techniques on a stand-alone basis indicated an impairment of any of our segments.

Acquisitions — Purchase Price Allocation

We apply the purchase method of accounting to account for acquisitions of businesses. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. Identifiable assets, liabilities, and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date. The excess of the cost of the acquisition over our interest in the fair value of the identifiable net assets acquired is recorded as goodwill. If our interest in the fair value of the identifiable net assets acquired in a business combination exceeds the cost of the acquisition, a gain is recognized in earnings on the acquisition date only after we have reassessed whether we have correctly identified all of the assets acquired and all of the liabilities assumed.

For most acquisitions, we engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets such as customer relationships, tradenames, property and equipment and any other significant assets or liabilities. We adjust the preliminary purchase price allocation, as necessary, after the acquisition closing date through the end of the measurement period of one year or less as we finalize valuations for the assets acquired and liabilities assumed.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. We determine which discount rates to use based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Background for Review of Our Results of Operations

Operating Costs

Our operating costs consist primarily of third-party network service costs, colocation facility costs and colocation facility utilities costs. Third-party network service costs result from our leasing of certain network facilities, primarily circuits, from other local exchange carriers to augment our owned infrastructure for which we are generally billed a fixed monthly fee. Our colocation facility costs comprise rent and license fees paid to the landlords of the buildings in which our zColo business operates. The colocation facility utilities cost is the cost of power used in those facilities.

Recurring transport costs are the largest component of our operating costs and primarily include monthly service charges from telecommunication carriers related to the circuits utilized by us to interconnect our customers. While increases in demand will drive additional operating costs in our business, we expect to primarily utilize our existing network infrastructure and augment, when necessary, with additional circuits or services from third-party providers. Non-recurring transport costs primarily include the cost of the initial installation of such circuits.

Selling, General and Administrative Expenses

Our selling, general and administrative ("SG&A") expenses include personnel costs, costs associated with the operation of our network (network operations), and other related expenses, including sales commissions, marketing programs, office rent, professional fees, travel, software maintenance costs and other expenses.

After compensation and benefits, network operations costs are the largest component of our SG&A expenses. Network operations costs include all of the non-personnel related expenses of maintaining our network infrastructure, including contracted maintenance fees, right-of-way costs, rent for locations where fiber is located (including cellular towers), pole attachment fees, and relocation expenses.

Stock-Based Compensation

We compensate certain members of our management and independent directors through grants of common units of CII, which vest over varying periods of time, depending on the terms of employment of each such member of management or directors. In addition, certain of our senior executives and independent directors have been granted preferred units of CII.

For the common units granted to members of management and directors, we recognize an expense equal to the fair value of all of those common units vested during the period, and record a liability in respect of that amount. Subsequently, we recognize changes in the fair value of those common units through increases or decreases in stock-based compensation expense and related adjustments to the related stock-based compensation liability.

When the preferred units are initially granted, we recognize no expense. We use the straight line method, over the vesting period, to amortize the fair value of those units, as determined on the date of grant. Subsequent changes in the fair value of the preferred units granted to those executive officers and directors are not taken into consideration as we amortize that expense.

Results of Operations

Statement of Operations Data	Three months ended March 31,				Nine months ended March 31,			
	2011		2010		2011		2010	
	(amounts in thousands)							
Revenue:								
Zayo Bandwidth	\$ 54,218	68%	\$ 45,966	78%	\$ 156,177	69%	\$ 129,098	80%
Zayo Fiber Solutions	11,861	15	—	—	31,067	14	—	—
Zayo Enterprise Networks	5,471	7	6,225	11	16,721	7	18,329	11
zColo	8,103	10	6,721	11	22,151	10	15,214	9
Total Revenue	<u>79,653</u>	<u>100%</u>	<u>58,912</u>	<u>100%</u>	<u>226,116</u>	<u>100%</u>	<u>162,641</u>	<u>100%</u>
Costs and expenses								
Operating costs, excluding depreciation and amortization	21,020	25%	19,536	32%	61,602	30%	53,739	35%
Selling, general and administrative expenses	24,937	29	18,726	31	72,501	35	54,496	36
Stock based compensation	21,850	26	11,831	19	28,877	14	13,275	9
Depreciation and amortization	<u>16,774</u>	<u>20</u>	<u>10,630</u>	<u>18</u>	<u>45,673</u>	<u>22</u>	<u>30,257</u>	<u>20</u>
Total operating costs and expenses	<u>84,581</u>	<u>75%</u>	<u>60,723</u>	<u>68%</u>	<u>208,653</u>	<u>71%</u>	<u>151,767</u>	<u>65%</u>
Operating income	(4,928)	(6)	(1,811)	(3)	17,463	8	10,874	7
Interest expense	(9,005)	(11)	(4,449)	(8)	(24,294)	(11)	(11,260)	(7)
Other income/(expense)	69	0	1,001	2	(108)	(0)	1,006	1
Loss on extinguishment of debt	—	—	(5,881)	(10)	—	—	(5,881)	(4)
Earnings from continuing operations before income taxes	(13,864)	(17)	(11,140)	(19)	(6,939)	(3)	(5,261)	(3)
Provision for income taxes	<u>2,797</u>	<u>4</u>	<u>210</u>	<u>0</u>	<u>8,114</u>	<u>4</u>	<u>3,103</u>	<u>2</u>
Loss from continuing operations before provision for income taxes	<u>\$ (16,661)</u>	<u>-21%</u>	<u>\$ (11,350)</u>	<u>-19%</u>	<u>\$ (15,053)</u>	<u>-7%</u>	<u>\$ (8,364)</u>	<u>-5%</u>
EBITDA (add backs)								
Interest expense	9,005		4,449		24,294		11,260	
Income taxes	2,797		210		8,114		3,103	
Depreciation and amortization	<u>16,774</u>		<u>10,630</u>		<u>45,673</u>		<u>30,257</u>	
EBITDA	\$ 11,915	15%	\$ 3,939	7%	\$ 63,028	28%	\$ 36,256	22%
Adjusted EBITDA (add backs)								
Stock-based compensation	21,850		11,831		28,877		13,275	
Loss on extinguishment of debt	—		5,881		—		5,881	
Transaction costs	23		200		873		898	
Adjusted EBITDA	<u>\$ 33,788</u>	<u>42%</u>	<u>\$ 21,851</u>	<u>37%</u>	<u>\$ 92,778</u>	<u>41%</u>	<u>\$ 56,310</u>	<u>35%</u>

Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

Revenue

Our total revenue for the three months ended March 31, 2011 increased by \$20.7 million, or 35%, from \$58.9 million to \$79.7 million during the three months ended March 31, 2011 and 2010, respectively. The increase is principally a result of the AGL Networks acquisition and the Merger, which occurred on the first day of the first and second quarter of Fiscal 2011, respectively. Also contributing to the increase is growth in revenues resulting from the addition of new customers. As a result of internal sales efforts since March 31, 2010 we have entered into \$377.2 million of gross new sales contracts, which will represent an additional \$6.4 million in monthly revenue once installation on those contracts is accepted. Since March 31, 2010, we have received acceptance on gross installations that have resulted in additional monthly revenue of \$5.9 million as of March 31, 2011, as compared to March 31, 2010. This increase in revenue related to our organic growth is offset by total customer churn of \$3.4 million in monthly revenue since March 31, 2010.

The stratification of our revenue during the three months ended March 31, 2011 and 2010 was consistent with a majority of the revenue recognized during the periods presented resulting from usage and monthly recurring revenue streams. The following table reflects the stratification of our revenues during these periods:

	Three months ended			
	March 31,			
	2011		2010	
	(in thousands)			
Usage and Monthly Recurring Revenue	\$ 76,947	97%	\$ 57,864	98%
Monthly Amortized Revenue	2,413	3	987	2
Other Revenue	293	—	61	—
Total	<u>\$ 79,653</u>	<u>100%</u>	<u>\$ 58,912</u>	<u>100%</u>

zColo. Our revenues from our zColo operating segment increased by \$1.4 million or 21% from \$6.7 million to \$8.1 million during the three months ended March 31, 2010 and 2011, respectively. The increase is primarily a result of revenues from intra-building and colocation services which were migrated from the ZB to the zColo segment effective January 1, 2011. This customer allocation from Zayo Bandwidth resulted in an additional \$1.1 million in revenue being recognized at the zColo segment during the three months ended March 31, 2011.

Zayo Bandwidth. Our revenues from our Zayo Bandwidth operating segment increased by \$8.3 million, or 18%, from \$46.0 million to \$54.2 million during the three months ended March 31, 2010 and 2011, respectively. This increase is primarily a result of additional revenue associated with the AFS merger during Fiscal 2011 and organic growth related to our sales efforts and expansion of our network. Partially offsetting this increase is the impact of Zayo Bandwidth transferring to Zayo Fiber Solutions its dark fiber assets and customers as of July 1, 2010. Additionally, as of January 1, 2011 Zayo Bandwidth transferred certain intra-building and colocation assets and the related customer revenues to the zColo segment.

Zayo Enterprise Networks. Our revenues from our Zayo Enterprise Networks operating segment decreased by \$0.8 million, or 12%, from \$6.2 to \$5.5 million during the three months ended March 31, 2010 and 2011, respectively. The decrease is primarily a result of two of ZEN's largest customers disconnecting their service during Fiscal 2011. These two disconnected services accounted for \$0.5 million of the \$0.8 million decline in revenues during the period.

Zayo Fiber Solutions. The Zayo Fiber Solutions operating segment was established on July 1, 2010. The revenue recognized by Zayo Fiber Solutions during the three months ended March 31, 2011 includes dark fiber revenue acquired via our AGL Networks acquisition and our merger with AFS. The revenue also includes dark fiber revenue from customers that were transferred from the Zayo Bandwidth and Zayo Enterprise Networks business segments upon the formation of the Zayo Fiber Solutions operating segment on July 1, 2010. We have not restated the corresponding items of the segment information included within this Report related to the re-allocation of dark fiber products from ZB to the ZFS on July 1, 2010, as we have determined that it is impractical to do so.

Operating Costs, Excluding Depreciation and Amortization

Our operating costs, excluding depreciation and amortization, increased by \$1.5 million, or 8%, from \$19.5 million to \$21.0 million during the three months ended March 31, 2011 and 2010, respectively. The increase in operating costs, excluding depreciation and amortization, primarily relates to the increased costs associated with our acquisition of AGL Networks and merger with AFS during Fiscal 2010 and our organic network expansion efforts. The 8% increase in operating costs, excluding depreciation and amortization, occurred during the same period in which our revenues increased by 35%. The lower ratio of operating costs as compared to revenues is primarily a result of gross installed revenues having a lower component of associated operating costs than the prior periods revenue base and churned revenue. The ratio also benefited from synergies realized related to our previous acquisitions.

Selling, General and Administrative Expenses:

The table below sets forth the components of our SG&A expenses during the three months ended March 31, 2011 and 2010, respectively.

	Three months ended	
	March 31,	
	2011	2010
	(In thousands)	
Compensation and benefits expenses	\$ 11,792	\$ 9,153
Network operating expenses	7,249	5,486
Other SG&A expenses	5,873	3,887
Transaction costs	23	200
Total SG&A expenses	\$ 24,937	\$ 18,726

Compensation and Benefits Expenses. Compensation and benefits expenses increased by \$2.6 million, or 29%, from \$9.2 million to \$11.8 million during the three months ended March 31, 2010 and 2011, respectively. The increase reflects the increased number of employees as our business grew during this period, principally as a result of our acquisition of AGL Networks and merger with AFS in Fiscal 2011. At March 31, 2011 we had 441 full time employees compared to 339 at March 31, 2010.

Network Operations Expenses. Network operations expenses increased by \$1.7 million, or 32%, from \$5.5 million to \$7.2 million during the three months ended March 31, 2010 and 2011, respectively. The increase in such expenses principally reflects the growth of our network assets and the related expenses of operating that expanded network following our acquisition of AGL Networks and the AFS merger during Fiscal 2011. The ratio of network operating expenses as compared to revenues was consistent during the three months ended March 31, 2011 and 2010 at 9%.

Other SG&A. Other SG&A expenses, which includes expenses such as property tax, travel, office expense, and maintenance expense on colocation facilities, increased by \$2.0 million, or 51%, from \$3.9 million to \$5.9 million during the three months ended March 31, 2010 and 2011, respectively. The increase is principally from our acquisition of AGL Networks and merger with AFS in Fiscal 2011 and our organic network expansion efforts.

Stock-Based Compensation

Stock-based compensation expenses increased by \$10.0 million, or 85%, from \$11.8 million to \$21.8 million during the three months ended March 31, 2010 and 2011, respectively. The increase is primarily a result of an adjustment in the estimated value of the Company's common units. As of March 31, 2011, management estimates the value of the Company's Class A, B, C, and D common units to be \$0.93, \$0.72, \$0.34 and \$0.34, respectively compared to a valuation of \$0.42, \$0.23, \$0.0, and \$0.0, respectively, as of March 31, 2010. Adding to the increase in the stock-based compensation liability during the period was an additional 18.2 million common units vesting subsequent to March 31, 2010.

Depreciation and Amortization

Depreciation and amortization expense increased by \$6.1 million, or 58%, from \$10.6 million to \$16.8 million during the three months ended March 31, 2010 and 2011, respectively. The increase is a result of the substantial increase in our capital assets and intangible assets, principally from the AGL Networks acquisition and merger with AFS in Fiscal 2011, and the resulting depreciation and amortization of such capitalized amounts.

Interest Expense

Interest expense increased by \$4.6 million, or 102%, from \$4.4 million to \$9.0 million during the three months ended March 31, 2010 and 2011, respectively. The increase is primarily a result of our increased indebtedness associated with our Notes. As of March 31, 2011 we had Notes with a principal amount of \$350.0 million, which accrue interest at 10.25%. During the period January 1, 2010 through March 12, 2010, the Company's average debt balance, which consisted of term loans and a revolving line of credit was \$177.5 million. These term loans accrued interest at a lower rate ranging from 5.9% to 6.4%. On March 12, 2010, the Company issued \$250 million in Notes which accrued interest at 10.25%. With a portion of the proceeds of the Notes, the Company repaid its term loans and revolver. The increased average outstanding debt balance during the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was the primary cause of the increased interest expense during the period. Partially offsetting the increase in interest expense was \$1.0 million of interest which was capitalized during the three months ended March 31, 2011 related to our construction projects.

Provision for Income Taxes

Income tax expense increased during the period by \$2.6 million from \$0.2 million to \$2.8 million during the three month periods ended March 31, 2010 and 2011, respectively. Our provision for income taxes includes both the current provision and a provision for deferred income tax expense resulting from timing differences between tax and financial reporting accounting bases. We are unable to combine our NOLs for application to the income of our subsidiaries in some states and thus our state income tax expense is higher than the expected combined rate. In addition, as noted above, we are subject to limits on the amount of carry forward NOLs that we may use each year for federal and state purposes. See “— *Factors Affecting Our Results of Operations — Net Operating Losses.*” The following table reconciles an expected tax provision based on a statutory federal tax rate of 34 percent applied to our book net income.

	For the three months ended	
	March 31,	
	2011	2010
	(in thousands)	
Expected provision at statutory rate of 34%	\$ (4,714)	\$ (3,788)
Increase due to:		
Non-deductible stock-based compensation	6,618	4,023
State income taxes, net of federal benefit	856	35
Transactions costs not deductible	8	68
Other, net	29	(128)
Provision for income taxes	\$ 2,797	\$ 210

Nine Months Ended March 31, 2011 Compared to the Nine Months Ended March 31, 2010

Revenue

Our total revenue for the nine months ended March 31, 2011 increased by \$63.5 million, or 39%, from \$162.6 million to \$226.1 million during the nine months ended March 31, 2010 and 2011, respectively. The increase is principally a result of the AGL Networks acquisition and AFS Merger which occurred on the first day of the first and second quarter of Fiscal 2011, respectively, and as a result of organic growth.

The stratification of our revenue during the nine months ended March 31, 2011 and 2010 was consistent with a majority of the revenue recognized during the periods presented resulting from usage and monthly recurring revenue streams. The following table reflects the stratification of our revenues during these periods:

	Nine months ended			
	March 31,			
	2011		2010	
	(in thousands)			
Usage and Monthly Recurring Revenue	\$ 218,244	96%	\$ 159,466	98%
Monthly Amortized Revenue	6,557	3	2,511	2
Other Revenue	1,315	1	664	—
Total	\$ 226,116	100%	\$ 162,641	100%

zColo. Our revenues from our *zColo* operating segment increased \$6.9 million, or 46%, from \$15.2 million to \$22.1 million during the nine month periods ended March 31, 2010 and 2011, respectively. A majority of the net assets and related revenues associated with the FiberNet acquisition were allocated to the *zColo* operating segment which was established on the acquisition date of FiberNet — September 9, 2009. The increase in revenues of the *zColo* operating segment is primarily a result of a full nine months of revenues of the acquired FiberNet business included in the nine month period ended March 31, 2011 as compared to approximately six months in the nine month period ended March 31, 2010, as the acquisition was consummated in September of 2009. Also contributing to the increase was the transfer of certain intra-building and colocation services which were migrated from the Zayo Bandwidth to the *zColo* segment effective January 1, 2011. This customer allocation from ZB resulted in an additional \$1.1 million in revenue being recognized at the *zColo* segment during the three months ended March 31, 2011.

Zayo Bandwidth. Our revenues from our Zayo Bandwidth operating segment increased by \$27.1 million, or 21%, from \$129.1 million to \$156.2 million during the nine month periods ended March 31, 2010 and 2011, respectively. This increase is primarily a result of additional revenue associated with the AFS Merger during Fiscal 2011 and the acquisition of FiberNet in September of 2009. Also contributing to the increase in revenue at Zayo Bandwidth during the period is organic growth related to our sales efforts and expansion of our network. Partially offsetting these increases is the impact of Zayo Bandwidth transferring to Zayo Fiber Solutions its dark fiber customers as of July 1, 2010. Additionally, as of January 1, 2011, Zayo Bandwidth transferred certain intra-building and colocation assets and the related customer revenues to the zColo segment.

Zayo Enterprise Networks. Our revenues from our Zayo Enterprise Networks operating segment decreased by \$1.6 million, or 9%, from \$18.3 million to \$16.7 million during the nine month periods ended March 31, 2010 and 2011, respectively. The decrease is primarily a result of two of ZEN's largest customers disconnecting their service during Fiscal 2011. These two disconnected services accounted for \$1.3 million of the \$1.6 million decline in revenues during the period.

Zayo Fiber Solutions. The Zayo Fiber Solutions operating segment was established on July 1, 2010. The revenue recognized by Zayo Fiber Solutions during the nine months ended March 31, 2011 includes dark fiber revenue acquired via our AGL Networks acquisition and our merger with AFS. The revenue also includes dark fiber revenue from customer that were transferred from the Zayo Bandwidth and Zayo Enterprise Networks business segments upon the formation of the Zayo Fiber Solutions operating segment on July 1, 2010. We have not restated the corresponding items of the segment information included within this Report related to the re-allocation of dark fiber products from ZB to the ZFS on July 1, 2010, as we have determined it is impractical to do so.

Operating Costs, Excluding Depreciation and Amortization

Operating Costs, Excluding Depreciation and Amortization. Our operating costs, excluding depreciation and amortization, increased by \$7.9 million, or 15%, from \$53.7 million to \$61.6 million during the nine months ended March 31, 2010 and 2011, respectively. The increase in operating costs, excluding depreciation and amortization, primarily relates to the increased costs associated with our acquisition of AGL Networks and the AFS Merger during Fiscal 2010, our acquisition of FiberNet in September 2009 as well as our organic network expansion efforts. The increase in operating costs, excluding depreciation and amortization, of 15% occurred during the same period in which our revenues increased by 39%. The lower ratio of operating costs as compared to revenues is primarily a result of gross installed revenues having a lower component of associated operating costs than the prior periods revenue base and churned revenue. The ratio also benefited from synergies realized related to our previous acquisitions.

Selling, General and Administrative Expenses

The table below sets forth the components of our SG&A expenses during the nine months ended March 31, 2011 and 2010, respectively.

	Nine months ended March 31,	
	2011	2010
	(In thousands)	
Compensation and benefits expenses	\$ 33,691	\$ 26,739
Network operating expenses	20,691	15,438
Other SG&A expenses	17,246	11,421
Transaction costs	873	898
Total SG&A expenses	\$ 72,501	\$ 54,496

Compensation and Benefits Expenses. Compensation and benefits expenses increased by \$7.0 million, or 26%, from \$26.7 million to \$33.7 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase reflects the increased number of employees as our business grew during this period, principally as a result of our acquisition of AGL Networks and the AFS merger in Fiscal 2011, and our acquisition of FiberNet in September of Fiscal 2010. At March 31, 2011, we had 441 full time employees compared to 339 at March 31, 2010.

Network Operations Expenses. Network operations expenses increased by \$5.3 million, or 34%, from \$15.4 million to \$20.7 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase in such expenses principally reflected the growth of our network assets and the related expenses of operating that expanded network following our acquisition of AGL Networks and the AFS merger during Fiscal 2011. The ratio of network operating expenses as compared to revenues was consistent during the nine months ended March 31, 2011 and 2010 at 9%.

Other SG&A. Other SG&A expenses, which includes expenses such as property tax, travel, office expense, and maintenance expense on colocation facilities, increased by \$5.8 million, or 51%, from \$11.4 million to \$17.2 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase is a result of our acquisition of AGL Networks and the AFS merger in Fiscal 2011 and FiberNet in September Fiscal 2010 as well as our organic network expansion efforts.

Transaction Costs. Transaction costs, which principally include expenses incurred in connection with potential and closed acquisitions, remained constant at \$0.9 million during the nine month periods ended March 31, 2010 and 2011. The transaction cost incurred in the first three quarters of Fiscal 2010 primarily relate to the acquisition of FiberNet and the transaction costs incurred during the same period of Fiscal 2011 primarily relate to the acquisition of AGL Networks and the AFS merger.

Stock-Based Compensation

Stock-based compensation expenses increased by \$15.6 million, or 118%, from \$13.3 million to \$28.9 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase is primarily a result of an adjustment in the estimated value of the Company's common units. As of March 31, 2011, management estimates the value of the Company's Class A, B, C, and D common units to be \$0.93, \$0.72, \$0.34, and \$0.34, respectively, compared to a valuation of \$0.42, \$0.23, \$0.0, and \$0.0, respectively, as of March 31, 2010. Adding to the increase in the stock-based compensation liability during the period was an additional 18.2 million common units vesting subsequent to March 31, 2010.

Depreciation and Amortization

Depreciation and amortization expense increased by \$15.4 million, or 51%, from \$30.3 million to \$45.7 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase is a result of the substantial increase in our capital assets and intangible assets, principally from the AGL Networks acquisition and the AFS merger in Fiscal 2011, and FiberNet acquisition in September Fiscal 2010, and the resulting depreciation and amortization of such capitalized amounts.

Interest Expense

Interest expense increased by \$13.0 million, or 161%, from \$11.3 million to \$24.3 million during the nine month periods ended March 31, 2010 and 2011, respectively. The increase is primarily a result of our increased indebtedness associated with our Notes. Offsetting the increase to interest expense was \$2.9 million of interest which was capitalized during the nine month period ended March 31, 2011 related to our construction projects.

Provision for Income Taxes

Income tax expense increased by \$5.0 million, or 161% from \$3.1 to \$8.1 million during the nine month periods ended March 31, 2010 and 2011, respectively. Our provision for income taxes includes both the current provision and a provision for deferred income tax expense resulting from timing differences between tax and financial reporting accounting bases. We are unable to combine our NOLs for application to the income of our subsidiaries in some states and thus our state income tax expense is higher than the expected combined rate. In addition, as noted above, we are subject to limits on the amount of carry forward NOLs that we may use each year for federal and state purposes. See "— *Factors Affecting Our Results of Operations — Net Operating Losses.*" The following table reconciles an expected tax provision based on a statutory federal tax rate of 34 percent applied to our book net income.

	For the nine months ended	
	March 31,	
	2011	2010
	(in thousands)	
Expected provision at statutory rate of 34%	\$ (2,358)	\$ (1,789)
Increase due to:		
Non-deductible stock-based compensation	8,946	4,514
State income taxes, net of federal benefit	1,185	205
Transactions costs not deductible	297	305
Other, net	44	(132)
Provision for income taxes	<u>\$ 8,114</u>	<u>\$ 3,103</u>

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation and amortization (“EBITDA”) adjusted to exclude transaction costs, stock-based compensation, and certain non-cash and non-recurring items. We use EBITDA and Adjusted EBITDA to evaluate operating performance and liquidity, and these financial measures are among the primary measures used by management for planning and forecasting of future periods. We believe Adjusted EBITDA is especially important in a capital-intensive industry such as telecommunications. We further believe that the presentation of EBITDA and 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 makes it easier to compare our results with the results of other companies that have different financing and capital structures.

We also monitor EBITDA as we have debt covenants that restrict our borrowing capacity that are based on a leverage ratio which utilizes EBITDA. We must not exceed a consolidated leverage ratio (funded debt to annualized EBITDA), as determined under the credit agreement, of 4.25x the last quarter’s annualized EBITDA. 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.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation from, or as substitutes for, analysis of our results as reported under GAAP. For example, Adjusted EBITDA:

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

Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate Adjusted EBITDA in the same fashion. A reconciliation from net earnings from continuing operations to Adjusted EBITDA is as follows:

Three months ended March 31, 2011						
(\$ in millions)	Zayo		zColo	ZFS	Corporate	Zayo Group
	Zayo Bandwidth	Enterprise Networks				
Earnings/(loss) from continuing operations	\$ 3.5	\$ —	\$ 1.3	\$ 1.2	\$ (22.6)	\$ (16.6)
Interest expense	0.2	—	—	—	8.8	9.0
Income tax expense	—	—	—	—	2.8	2.8
Depreciation and amortization expense	11.0	0.6	1.3	3.9	—	16.8
EBITDA	14.7	0.6	2.6	5.1	(11.0)	12.0
Transaction costs	—	—	—	—	—	—
Stock-based compensation	8.4	—	0.6	1.6	11.2	21.8
Adjusted EBITDA	\$ 23.1	\$ 0.6	\$ 3.2	\$ 6.7	\$ 0.2	\$ 33.8

Three months ended March 31, 2010						
(\$ in millions)	Zayo		zColo	ZFS	Corporate	Zayo Group
	Zayo Bandwidth	Enterprise Networks				
Earnings/(loss) from continuing operations	\$ 4.3	\$ —	\$ 1.3	\$ —	\$ (17.0)	\$ (11.4)
Interest expense	0.3	—	—	—	4.2	4.5
Income tax expense	—	—	—	—	0.2	0.2
Depreciation and amortization expense	8.5	0.8	1.4	—	—	10.7
EBITDA	13.1	0.8	2.7	—	(12.6)	4.0
Transaction costs	0.2	—	—	—	—	0.2
Loss on extinguishment of debt	—	—	—	—	5.9	5.9
Stock-based compensation	4.6	—	—	—	7.2	11.8
Adjusted EBITDA	\$ 17.9	\$ 0.8	\$ 2.7	\$ —	\$ 0.5	\$ 21.9

Nine months ended March 31, 2011

(\$ in millions)	Zayo					
	Zayo Bandwidth	Enterprise Networks	zColo	ZFS	Corporate	Zayo Group
Earnings/(loss) from continuing operations	\$ 20.9	\$ 0.1	\$ 3.9	\$ 6.5	\$ (46.5)	\$ (15.1)
Interest expense	0.7	—	0.2	—	23.4	24.3
Income tax expense	—	—	—	—	8.1	8.1
Depreciation and amortization expense	30.3	1.8	4.0	9.6	—	45.7
EBITDA	51.9	1.9	8.1	16.1	(14.9)	63.0
Transaction costs	0.6	—	—	0.2	—	0.9
Stock-based compensation	11.3	0.1	0.6	2.1	14.9	28.9
Adjusted EBITDA	\$ 63.8	\$ 2.0	\$ 8.7	\$ 18.4	\$ (0.1)	\$ 92.8

Nine months ended March 31, 2010

(\$ in millions)	Zayo					
	Zayo Bandwidth	Enterprise Networks	zColo	ZFS	Corporate	Zayo Group
Earnings/(loss) from continuing operations	\$ 18.4	\$ (0.3)	\$ 2.8	\$ —	\$ (29.3)	\$ (8.4)
Interest expense	0.8	—	—	—	10.5	11.3
Income tax expense	—	—	—	—	3.1	3.1
Depreciation and amortization expense	25.2	1.9	3.2	—	—	30.3
EBITDA	44.4	1.6	6.0	—	(15.7)	36.3
Transaction costs	0.9	—	—	—	—	0.9
Loss on extinguishment of debt	—	—	—	—	5.9	5.9
Stock-based compensation	4.7	—	—	—	8.5	13.2
Adjusted EBITDA	\$ 50.0	\$ 1.6	\$ 6.0	\$ —	\$ (1.3)	\$ 56.3

Liquidity and Capital Resources

Our primary sources of liquidity have been cash provided by operations, equity contributions, and borrowings. Our principal uses of cash have been for acquisitions, capital expenditures, and debt-service requirements. See “— *Cash flows.*” We anticipate that our principal uses of cash in the future will be for acquisitions, capital expenditures, working capital and debt service.

We have debt covenants under both the indenture governing our Notes and our credit facility that, under certain circumstances, restrict our ability to incur additional indebtedness. The credit facility covenants prohibit us from increasing our total indebtedness above 4.25 of our previous quarter’s annualized EBITDA. Under the indenture governing our Notes, any increase in secured indebtedness would be subject to a pro-forma senior secured leverage test not to exceed 3.5 times our previous quarter’s annualized EBITDA, and the incurrence of total indebtedness is restricted not to exceed 4.25 times our previous quarter’s annualized EBITDA.

As of March 31, 2011, we had \$13.1 million in cash and cash equivalents and \$0.6 million in non-current restricted cash (included within other long-term assets on the March 31, 2011 condensed consolidated balance sheet). Cash and cash equivalents consist of amounts held in bank accounts and highly-liquid U.S. treasury money market funds. The restricted cash balance is pledged as collateral for certain commercial letters of credit. Working capital (current assets less current liabilities) at March 31, 2011 was a deficit of \$19.6 million. Although we have a working capital deficit as of March 31, 2011, a majority of the deficit is a result of a current deferred revenue balance of \$16.3 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 March 31, 2011 current deferred revenue balance. Additionally, as of March 31, 2011, we had \$94.0 million available on our line-of-credit, which can be used to satisfy any short term obligations.

Our net capital expenditures increased by \$50.1 million, or 131%, during the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010, from \$38.1 million to \$88.1 million. Our capital expenditures primarily relate to success-based contracts. The increase is a result of meeting the needs of our increased customer base resulting from our Fiscal 2011 acquisitions and organic growth. We expect to continue to invest in our network (in part driven by fiber-to-the-tower activities) for the foreseeable future. Over the next two fiscal years, we expect that the level of our investment will be closely correlated to the amount of Adjusted EBITDA we generate. Adjusted EBITDA is a performance, rather than cash flow measure. Correlating our capital expenditures to our Adjusted EBITDA does not imply that we will be able to fund such capital expenditures solely with cash from operations. We expect to fund such capital expenditures with cash from operations, available borrowings under our credit agreement, and available cash on hand. These capital expenditures will, however, 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 a result, the amount we invest in such capital expenditures will be based on contracts that are executed and may at times be above or below our actual adjusted EBITDA generation.

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 (including available borrowings under our revolving credit facility), equity contributions, and available cash on hand.

Cash Flows

We believe that our cash flow from operating activities, in addition to cash and cash equivalents currently on-hand, will be sufficient to fund our operating activities 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 review 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 nine months ended March 31, 2011 and 2010.

	Nine months ended	
	March 31,	
	2011	2010
	(In thousands)	
Net cash provided by operating activities	\$ 57,351	\$ 47,114
Net cash used in investing activities	(271,745)	(134,709)
Net cash provided by financing activities	138,370	129,085

Net Cash Flows from Operating Activities

Net cash flows from operating activities increased by \$10.2 million, or 21%, from \$47.1 million to \$57.3 million during the nine month periods ended March 31, 2010 and 2011, respectively. Net cash flows from operating activities during the nine months ended March 31, 2011 represents our net loss of \$15.0 million, plus the add back to our net loss of non-cash items deducted in the determination of net loss, principally depreciation and amortization of \$45.7 million, the deferred tax provision of \$5.5 million and non-cash stock-based compensation expense of \$28.9 million, plus the change in working capital components. Net cash flows from operating activities during the nine months ended March 31, 2010 represents our net loss of \$8.4 million, plus the add back to our net loss of non-cash items deducted in the determination of net income, principally depreciation and amortization of \$30.3 million, the deferred tax provision of \$2.8 million, non-cash stock-based compensation expense of \$13.2 million and our loss on extinguishment of debt of \$5.9 million, plus the change in working capital components.

The increase in net cash flows from operating activities is primarily due to an increase in earnings recognized associated with our acquisitions during the nine months ended March 31, 2011, after adjustment for non-cash activities (depreciation and amortization, deferred tax provision and non-cash stock-based compensation expense) offset by the difference in the changes in working capital components.

Cash Flows Used for Investing Activities

We used cash in investing activities of \$271.7 million and \$134.7 million during the nine months ended March 31, 2011 and 2010, respectively. During the nine months ended March 31, 2011, our principal uses of cash in investing activities was our \$73.7 million purchase of AGL Networks, our \$110.0 merger with AFS and \$88.1 million in additions to network-related equipment, net of stimulus grant reimbursements. During the nine months ended March 31, 2010, our principal uses of cash in investing activities was our \$96.6 million purchase of FiberNet and \$38.1 million in additions to network-related equipment.

Cash Flows from Financing Activities

Our net cash provided by financing activities was \$138.4 million and \$129.1 million during the nine months ended March 31, 2011 and 2010, respectively. Our cash flows from financing activities during the nine months ended March 31, 2011 primarily comprise \$103.0 million in cash proceeds from our September 2010 Notes offering and \$35.5 million in equity contributions from CII. These cash inflows were offset by \$4.1 million in deferred financing costs and \$1.4 million in principal payments on capital leases during the period. Our cash flows from financing activities during the nine month period ended March 31, 2010 primarily consisted of \$37 million from equity contributions and \$246.9 million in net proceeds from our March 2010 Note offering. These financing inflows were offset by the repayment of our outstanding term loans totaling \$136.3 million, debt issuance costs incurred during the period of \$11.0 million, \$1.5 million in capital lease principal payments, and \$6.0 million in transfers of cash to restricted cash accounts.

Contractual Cash Obligations

The following table represents a summary of our estimated future payments under contractual cash obligations as of March 31, 2011. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from these estimates. We cannot provide certainty regarding the timing and amounts of payments.

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>2-3 Years</u> <u>(in thousands)</u>	<u>4-5 Years</u>	<u>More Than 5 Years</u>
Long-term debt (principal and interest)	\$ 568,255	\$ 35,875	\$ 76,250	\$ 71,750	\$ 384,380
Operating leases	171,343	22,761	38,375	31,844	78,363
Purchase obligations	22,107	21,410	697	—	—
Capital leases (principal and interest)	16,267	1,878	3,490	3,253	7,646
Total	<u>\$ 777,972</u>	<u>\$ 81,924</u>	<u>\$ 118,812</u>	<u>\$ 106,847</u>	<u>\$ 470,389</u>

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

New Accounting Pronouncements

We have reviewed all new accounting pronouncements and have concluded that none of the recently issued pronouncements will have a material impact on our consolidated results of operations, financial condition, or financial disclosure.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure in the financial markets consists of changes in interest rates from time to time.

As of March 31, 2011, we had outstanding approximately \$350.2 million of fixed-rate Notes, approximately \$11.5 million of capital lease obligations, and \$94.0 million available for borrowing under our \$100.0 million revolving credit facility, at floating rates, 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 as of March 31, 2011 to be \$381.5 million compared to the carrying value of \$350.2 million.

As of June 30, 2010, we had outstanding approximately \$247.1 million of fixed-rate Notes, approximately \$12.7 million of capital lease obligations, and \$69.1 million available for borrowing under a \$75.0 million revolving credit facility, at floating rates, 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 as of June 30, 2010 to be \$252.5 million compared to the carrying value of \$247.1 million.

We are exposed to the risk of changes in interest rates if it is necessary to acquire 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 do not have any material foreign currency or commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-15. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that our disclosure controls and procedures are effective as of March 31, 2011 and are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information has been accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There have been no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below as well as the other information contained in this report. The risks described in this report are not the only ones we may face. There may be additional risks and uncertainties not currently known to us or that we may currently deem immaterial in addition to those outlined below, which could impair our financial position and results of operations. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected.

We have a Limited Operating History as a Consolidated Entity.

We were formed in 2007 and have primarily built our operations through the consolidation of 16 acquisitions and asset purchases, the first of which closed in July 2007 and the most recent of which, American Fiber Solutions, closed on October 1, 2010.

Prior to our first acquisition, our activities were exclusively related to start-up and corporate development. Our history as a consolidated entity is brief and has been subject to ongoing and substantial change since our inception, consequently there is a limited amount of information upon which you can make an investment decision. Other issuers could have longer histories, which may have greater predictive value.

Future Acquisitions are a Component of Our Strategic Plan, and will Include Integration and Other Risks That could Harm Our Business.

We intend to continue to acquire complementary businesses and assets, and some of these acquisitions may be large. This exposes us to the risk that when we evaluate a potential acquisition target we over-estimate the target's value and, as a result, pay too much for it. We also cannot be certain that we will be able to successfully integrate acquired assets or the operations of the acquired entity with our existing operations. We paid \$114.1 million for the largest acquisition we have integrated to date. We may engage in significantly larger acquisitions, which could be much more difficult to integrate. Difficulties with integration could cause material customer disruption and dissatisfaction, which could in turn increase disconnects and reduce new sales.

We may incur additional debt and issue additional units to assist in the funding of these potential transactions, which may increase our leverage and/or dilute our existing equity holders at CII, our ultimate parent. Further, additional transactions (including acquisitions by our parent or affiliates) could cause disruption of our ongoing business and divert management's attention from the management of daily operations to the closing and integration of the acquired operations. Additional acquisitions also involve other operational and financial risks such as:

- increased demand on our existing employees and management related to the increase in the size of the business and the possible distraction from our existing business due to the acquisition, particularly with respect to businesses acquired by our sister companies or parent;
- loss of key employees and sales people of the acquired business;
- liabilities of the acquired business, both unknown and known at the time of the consummation of the acquisition;
- we may agree to buy a business before we have obtained its audited financial statements and subsequently discover that the unaudited financial statements we relied on were incorrect;
- expenses associated with the integration of the operations of the acquired business;
- the possibility of future impairment, write-downs of goodwill and other intangibles associated with the acquired business;
- that the services and operations of the acquired business do not meet the level of quality of those of our existing services and operations; and
- that the internal controls of the acquired business are inadequate.

Our Debt Level could Negatively Impact Our Financial Condition, Results of Operations and Business Prospects and Prevent us From Fulfilling Our Debt Obligations. In the Future, We may Incur Substantially More Indebtedness, Which could Further Increase the Risks Associated With Our Leverage.

As of March 31, 2011, (i) our total debt and capital leases were \$365.9 million and (ii) we had \$94.0 million available for borrowing under our credit agreement, subject to certain conditions. Subject to the limitations set forth in the indenture and our credit agreement, we may incur additional indebtedness (including additional first lien obligations) in the future. If new indebtedness is added to our current levels of indebtedness, the related risks that we now face in light of our current debt level, including our possible inability to service our debt could intensify.

Specifically, our level of debt could have important consequences to the holders of our notes, including the following:

- making it more difficult for us to satisfy our obligations under our debt agreements;
- requiring us to dedicate a substantial portion of our cash flow from operations to required payments on debt, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate and other activities;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increasing our vulnerability to both general and industry-specific adverse economic conditions;
- placing us at a competitive disadvantage relative to less leveraged competitors; and
- preventing us from raising the funds necessary to repurchase the notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indenture governing our notes.

We may not be Able to Generate Enough Cash Flow to Meet Our Debt Obligations.

Our future cash flow may be insufficient to meet our debt obligations and commitments. Any insufficiency could negatively impact our business. A range of economic, competitive, business, regulatory and industry factors will affect our future financial performance, and, as a result, our ability to generate cash flow from operations and to pay our debt. Many of these factors, such as economic and financial conditions in our industry and the global economy or competitive initiatives of our competitors, are beyond our control.

Our Adjusted EBITDA and capital expenditures were \$92.8 million and \$88.1 million (net of stimulus grant reimbursements), respectively during the nine month period ended March 31, 2011. Our internal projections indicate that, even if we do not consummate any acquisitions, our interest expense plus capital expenditures will exceed our cash flow from operations in our fiscal year ending June 30, 2011 ("Fiscal 2011"). In the several quarters thereafter, we do not expect our existing business to generate cash flow from operations that exceeds interest expense and capital expenditures by a significant ratio. Our credit agreement allows for this cash flow deficit by permitting a consolidated fixed charge ratio below 1:1 during Fiscal 2011. Under our credit agreement, fixed charges exclude, in all periods, capital expenditures on fiber-to-the-tower builds, which has historically been a material portion of our capital expenditures.

If we do not generate enough cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- reducing or delaying capital investments;
- raising additional capital;
- refinancing or restructuring our debt; and
- selling assets.

We cannot assure you that we would be able to implement alternative financing plans, if necessary, on commercially reasonable terms, or at all, or that implementing any such alternative financing plans would allow us to meet our debt obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations or to obtain alternative financings, could materially and adversely affect our business, financial condition, results of operations and prospects.

If for any reason we are unable to meet our debt service obligations, we would be in default under the terms of the agreements governing our outstanding debt. If such a default were to occur, the lenders under our credit agreement could elect to declare all amounts outstanding under our credit agreement immediately due and payable, and the lenders would not be obligated to continue to advance funds under our credit agreement. If the amounts outstanding are accelerated, we cannot assure you that our assets will be sufficient to repay in full the money owed to the lenders or to our debt holders, including holders of notes.

Since Our Inception We have Used More Cash Than We have Generated From Operations and We Expect to Continue to do so in the Next Several Quarters.

Since our inception, we have consistently consumed our entire positive cash flow generated from operating activities with our investing activities. To date, our investing activities have consisted principally of the acquisition of businesses as well as material additions of property, plant and equipment. We have funded the excess of cash used in investing activities over cash provided by operating activities with proceeds from equity contributions, bank debt, the existing notes and capital leases.

Our near-term expectation is to continue to invest success-based capital in incremental property, plant and equipment at an amount equal to or probably greater than the amount of capital available from operations after debt service requirements. We also intend to continue to opportunistically pursue acquisitions, some of which may be quite large. In addition to our cash flow from operations, we plan to rely on proceeds from our note offerings, cash on hand, and availability under our credit agreement. We cannot assure you, however, that we will have access to sufficient cash to successfully operate or grow our business.

We Incurred Net Losses in the Current and Prior Periods and We Cannot Guarantee That We will Generate Net Income in the Future.

We incurred net losses from continuing operations in two of our three fiscal years since our inception. Our business plan is to continue to expand our network on a success basis, meaning that we attempt primarily to invest capital only when the terms of a customer contract provide an attractive return on our investment. If we continue to expand our network we might continue to incur losses in future periods. However, we cannot assure you that we will be successful in implementing our business plan or that we will not change our business plan. Furthermore, if a material number of circuits are disconnected or customers disconnect or terminate their service with us, we may not be able to generate positive net income in future periods.

We are Experiencing Rapid Growth of Our Business and Operations and We may not be Able to Efficiently Manage Our Growth.

We have rapidly grown our company through acquisitions of companies and assets as well as expansion of our own network and the acquisition of new customers through our own sales efforts. We intend to continue to rapidly grow our company, including through acquisitions, some of which may be large. Our expansion places strains on our management and our operational and financial infrastructure. Our ability to manage our growth will be particularly dependent upon our ability to:

- expand, develop and retain an effective sales force and other qualified personnel;
- maintain the quality of our operations and our service offerings;
- maintain and enhance our system of internal controls to ensure timely and accurate reporting; and
- expand our operational information systems in order to support our growth.

If we fail to implement these or other necessary measures, our ability to manage our growth and our results of operations will be impaired.

Our Back Office Infrastructure, Including the Operational Support Systems, Processes and People, is a Key Component to Providing a Good Experience to Our Customers, the Failure of Which could Impair Our Ability to Retain Customers or Attract New Customers.

Our ability to provide ongoing high-quality service to customers is fundamental to our success. The material failure of one or more of our operational support systems, including the systems for sales tracking, billing, order entry, provisioning and trouble ticketing, may inhibit us from performing critical aspects of our services for an extended period. We may incur additional expenses, delays and a degradation of customer experience associated with system failures, and may not be able to efficiently and accurately install new orders for services on a timely basis. Further, the impact of a prolonged failure of these systems could negatively impact our reputation and ability to retain existing customers and to win new business.

Our Ability to Provide Services would be Hindered if Any of Our Franchises, Licenses, Permits, Rights-of-Way, Conduit Leases, Fiber Agreements, or Property Leases are Canceled or Not Renewed.

We must maintain rights-of-way, franchises and other permits from railroads, utilities, state highway authorities, local governments, transit authorities and others to operate our owned fiber network. We cannot be certain that we will be successful in maintaining these rights-of-way agreements or obtaining future agreements on acceptable terms. Some of these agreements are short-term or revocable at-will, and we cannot assure you that we will continue to have access to existing rights-of-way after they have expired or terminated. If a material portion of these agreements are terminated or are not renewed we might be forced to abandon our networks, which could have a material adverse effect on our business, financial condition and results of operations. In order to operate our networks, we must also maintain fiber leases and Indefeasible Rights of Use (“IRU”) agreements that we have with public and private entities. A small percentage of these agreements expire prior to 2020. There is no assurance that we will be able to renew those fiber routes on favorable terms. If we are unable to renew those fiber routes on favorable terms, we might experience the following:

- increased costs as a result of renewing the IRU under less favorable terms;
- significant capital expenditures in order to build replacement fiber;
- increased costs as a result of entering into short-term leases for lit services; and
- lost revenue resulting from our inability to provide certain services.

In order to expand our network to new locations, we often need to obtain additional rights-of-way, franchises and other permits. Our failure to obtain these rights in a prompt and cost-effective manner may prevent us from expanding our network, which may be necessary to meet our contractual obligations to our customers and could expose us to liabilities and have an adverse effect on our business, financial condition and results of operations.

If we lose or are unable to renew key real property leases where we have located our POPs, it could adversely affect our services and increase our costs as we would be required to restructure our network and move our POPs.

If Our Contracts With Our Customers are Not Renewed or are Terminated, Our Business could be Substantially Harmed.

Our customer contracts have terms of one to twenty years. Our customers may elect to not renew these contracts. Furthermore, our customer contracts are terminable for cause if we breach a material provision of the contract. We may face increased competition and pricing pressure as our customer contracts become subject to renewal. Our customers may negotiate renewal of their contracts at lower rates, for fewer services or for shorter terms. If we are unable to successfully renew our customer contracts on commercially acceptable terms, or if our customer contracts are terminated, our business could suffer.

We have numerous customer orders for connections, including contracts with multiple national wireless carriers to build out more additional towers. If we are unable to satisfy new orders or build our network according to contractually specified deadlines, we may incur penalties or suffer the loss of revenue.

Our Revenue is Relatively Concentrated Among a Small Number of Customers and the Loss of any of These Customers could Significantly Harm Our Business, Financial Condition and Results of Operations.

Our largest single customer accounted for approximately 13% of our monthly recurring revenue for the three months ended March 31, 2011, and total revenues from our top ten customers accounted for approximately 47% of our monthly recurring revenue during the same period. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our revenue. If any of our key customers experience a general decline in demand due to economic or other forces, if the demand for bandwidth does not continue to grow, or if any such customer is not satisfied with our services, such key customer may reduce the number of service orders it has with us, terminate its relationship with us (subject to certain early termination fees), or fail to renew its contractual relationship with us upon expiration.

Service Level Agreements in Our Customer Agreements could Subject us to Liability or the Loss of Revenue.

Our contracts with customers typically contain service guarantees (including network availability) and service delivery date targets, which if not met by us, enable customers to claim credits against their payments to us and, under certain conditions, terminate their agreements. Our inability to meet our service level guarantees could adversely affect our revenue and cash flow. While we typically have carve-outs for force majeure events, many events, such as fiber cuts, equipment failure and third-party vendors being unable to meet their underlying commitments or service level agreements with us, could impact our ability to meet our service level agreements and are potentially out of our control.

We are Required to Maintain, Repair, Upgrade and Replace Our Network and Our Facilities, and Our Failure to do so could Harm Our Business.

Our business requires that we maintain, repair, upgrade and periodically replace our facilities and networks. This requires and will continue to require management time and the periodic expenditure of capital. In the event that we fail to maintain, repair, upgrade or replace essential portions of our network or facilities, it could lead to a material degradation in the level of service that we provide to our customers, which would adversely affect our business. Our networks can be damaged in a number of ways, including by other parties engaged in construction close to our network facilities. In the event of such damage, we will be required to incur expenses to repair the network in order to maintain services to customers. We could be subject to significant network repair and replacement expenses in the event of a terrorist attack or if natural disaster damages our network. Further, the operation of our network requires the coordination and integration of sophisticated and highly specialized hardware and software technologies. Our failure to maintain or properly operate this hardware and software can lead to degradations or interruptions in customer service. Our failure to provide proper customer service can result in claims from our customers for credits or damages, can lead to early termination of contracts, and can damage our reputation for service, thereby limiting future sales opportunities.

Any Failure of Our Physical Infrastructure or Services could Lead to Significant Costs and Disruptions That could Reduce Our Revenues, Harm Our Business Reputation, and have a Material Adverse Effect on Our Financial Results.

Our business depends on providing customers with highly reliable service. The services we provide are subject to failure resulting from numerous factors, including:

- human error;
- power loss;
- improper building maintenance by the landlords of the buildings in which our data centers are located;
- physical or electronic security breaches;
- fire, earthquake, hurricane, flood, and other natural disasters;
- water damage;
- the effect of war, terrorism, and any related conflicts or similar events worldwide; and
- sabotage and vandalism.

Problems within our network or at one or more of our data centers, whether or not within our control, could result in service interruptions or equipment damage. In the past we have at times experienced instability in our network attributed to equipment failure and power outages. Although such disruptions have been remedied and the network has been stabilized, there can be no assurance that similar disruptions will not occur in the future. We have service level commitment obligations with substantially all of our customers. As a result, service interruptions or equipment damage in our network or at our data centers could result in credits for service interruptions to these customers. We have at times in the past given credits to our customers as a result of service interruptions due to equipment failures. We cannot assume that our customers will accept these credits as compensation in the future. Also, service interruptions and equipment failures may expose us to additional legal liability. We depend on our landlords and other third-party providers to properly maintain the buildings in which our data centers are located. Improper maintenance by such landlords and third parties increase the risk of service interruptions and equipment damage.

We do not Own the Buildings in Which Our Data Centers are Located. Instead, We Lease Our Data Center Space, and the non-Renewal of Leases could be a Significant Risk to Our Ongoing Operations.

We would incur significant costs if we were forced to vacate one of our data centers due to the high costs of relocating the equipment in our data centers and installing the necessary infrastructure in a new data center. In addition, if we were forced to vacate a data center, we could lose customers that chose our services based on our location. Our landlords could attempt to evict us for reasons beyond our control. Further, we may be unable to maintain good working relationships with our landlords, which would adversely affect our customer service and could result in the loss of customers.

We may be Unable to Expand Our Existing Data Centers or Locate and Secure Suitable Sites for Additional Data Centers.

Our data centers may reach high rates of utilization in our key locations. Our ability to meet the growing needs of our existing customers and to attract new customers in these key markets depends on our ability to add additional capacity by incrementally expanding our existing data centers or by locating and securing additional data centers in these markets. Such additional data centers must meet specific infrastructure requirements, such as access to multiple telecommunications carriers, a significant supply of electrical power, and the ability to sustain heavy floor loading. In many markets, the supply of space with these characteristics is limited and subject to high demand.

We may not be Able to Obtain or Construct Additional Laterals to Connect New Buildings to Our Network.

In order to connect a new building to our network, we need to obtain or construct a lateral from our metropolitan network to the building. We may not be able to obtain fiber in an existing lateral at an attractive price or may not be able to construct our own lateral due to the cost of construction or municipal regulatory restrictions. Failure to obtain fiber in an existing lateral or to construct a new lateral could keep us from adding new buildings to our network.

Our Services have a Long Sales Cycle, Which May Have a Material Adverse Effect on Our Business, Financial Condition, and Results of Operations.

A customer's decision to purchase bandwidth infrastructure services typically involves a commitment of our time and resources. As a result, we experience a long sales cycle for some of our services. Furthermore, we may expend significant time and resources in pursuing a particular sale or customer that does not generate revenue. Delays due to the length of our sales cycle or costs incurred that do not result in sales may have a material adverse effect on our business, financial condition, and results of operations.

We are Highly Dependent on Our Management Team and Other Key Employees.

We expect that our continued success will largely depend upon the efforts and abilities of members of our management team and other key employees. Our success also depends upon our ability to identify, attract, develop, and retain qualified employees. None of Daniel Caruso, Kenneth desGarenes, Glenn S. Russo, David Howson, or Matthew Erickson is bound by an employment agreement with us. A portion of Daniel Caruso's professional time is spent on his service as Executive Chairman of Envysion, Inc., of which he is a significant investor. John Scarano terminated his employment with the Company effective December 1, 2010. The loss of one or more further members of our management team or other key employees is likely to have a material adverse effect on our business. See "—Executive Officers and Directors" and "—Principal Equity Holders." In addition, our management team's equity interests are at CII, our ultimate parent. Accordingly, if CII's other subsidiaries acquire assets, our management could have, indirectly, a significant portion of their equity in another enterprise and could devote substantial attention to it.

Our Future Tax Liabilities are not Predictable or Controllable. If We Become Subject to Increased Levels of Taxation, Our Financial Condition and Operations could be Negatively Impacted.

We provide telecommunication and other services in multiple jurisdictions across the United States and are therefore subject to multiple sets of complex and varying tax laws and rules. We cannot predict the amount of future tax liabilities to which we may become subject. Any increase in the amount of taxation incurred as a result of our operations or due to legislative or regulatory changes could result in a material adverse effect on our sales, financial condition and results of operations. While we believe that our current provisions for taxes are reasonable and appropriate, we cannot assure you that these items will be settled for the amounts accrued or that we will not identify additional exposures in the future.

Risks Relating to Our Industry

The Telecommunications Industry is Highly Competitive, and Contains Competitors That have Significantly Greater Resources and a More Diversified Base of Existing Customers Than We do.

In the telecommunications industry, we compete against ILECs, which have historically provided local telephone services and currently occupy significant market positions in their local telecommunications markets. In addition to these carriers, several other competitors, such as facilities-based communications service providers, including CLECs, cable television companies, electric utilities and large end-users with private networks, offer services similar to those offered by us. Many of our competitors have greater financial, managerial, sales and marketing and research and development resources than we do and are able to promote their brands with significantly larger budgets. Additionally, some of our brands are relatively new and as such have limited tenure in the market. Many of these competitors have the added advantage of a larger, more diversified customer base. If we fail to develop and maintain brand recognition through sales and marketing efforts and a reputation for high-quality service, we may be unable to attract new customers and risk losing existing customers to competitors with better known brands.

In addition, significant new competition could arise as a result of:

- a competitor building new fiber networks;
- consolidation in the industry, leading to larger competitors with more expansive networks;
- the creation of new competitive technology for transport services;
- further technological advances; and
- further deregulation and other regulatory initiatives.

If we are unable to compete successfully, our business will be significantly affected.

If We do not Adapt to Swift Changes in the Telecommunications Industry, We could Lose Customers or Market Share.

The telecommunications industry is characterized by rapidly changing technology, evolving industry standards, frequent new service introductions, shifting distribution channels, and changing customer demands. We may not be able to adequately adapt our services or acquire new services that can compete successfully. Our failure to obtain and integrate new technologies and applications could impact the breadth of our service portfolio resulting in service gaps, a less differentiated service suite and a less compelling offering to customers. We risk losing customers to our competitors if we are unable to adapt to this rapidly evolving marketplace.

In addition, the introduction of new services or technologies, as well as the further development of existing services and technologies, may reduce the cost or increase the supply of certain services similar to those that we provide. As a result, our most significant competitors in the future may be new entrants to the telecommunications industry. These new entrants may not be burdened by an installed base of outdated equipment or obsolete technology. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. Failure to do so could have a material adverse effect on our business.

We are Subject to Significant Regulation that could Change or Otherwise Impact us in an Adverse Manner.

Telecommunications services are subject to significant regulation at the federal, state, and local levels. These regulations affect our business and our existing and potential competitors. In addition, both the Federal Communications Commission (“FCC”) and the state public utility commissions or similar regulatory authorities (the “State PUCs”) typically require us to file periodic reports, pay various regulatory fees and assessments, and to comply with their regulations, and such compliance can be costly and burdensome and may affect the way we conduct our business. Delays in receiving required regulatory approvals (including approvals relating to acquisitions or financing activities or for interconnection agreements with other carriers), the enactment of new and adverse legislation or regulations (including those pertaining to broadband initiatives and net-neutrality), or the denial, modification or termination by a regulator of any approval or authorization, could have a material adverse effect on our business. Further, the current regulatory landscape is subject to change through judicial review of current legislation and rulemaking by the FCC. The FCC regularly considers changes to its regulatory framework and fee obligations. Changes in current regulation may make it more difficult to obtain the approvals necessary to operate our business, significantly increase the regulatory fees to which we are subject, or have other adverse effects on our future operations.

Unfavorable General Economic Conditions in the United States could Negatively Impact Our Operating Results and Financial Condition.

Unfavorable general economic conditions negatively affect our business. Although it is difficult to predict the impact of general economic conditions on our business, these conditions could adversely affect the affordability of, and customer demand for our services, and could cause customers to delay or forgo purchases of our services. One or more of these circumstances could cause our revenue to decline. Also, our customers may not be able to obtain adequate access to credit, which could affect their ability to purchase our services or make timely payments to us. The current economic conditions, the federal stimulus package, and other proposed spending measures may lead to inflationary conditions in our cost base, particularly in our lease and personnel related expenses. This could harm our margins and profitability if we are unable to increase prices or reduce costs sufficiently to offset the effects of inflation in our cost base. For these reasons, among others, if challenging economic conditions persist or worsen, our operating results and financial condition could be adversely affected.

Disruptions in the Financial Markets could Affect Our Ability to Obtain Debt or Equity Financing or to Refinance Our Existing Indebtedness on Reasonable Terms (or at All).

Disruptions in the financial markets could impact our ability obtain debt or equity financing or lines of credit in the future or be able to refinance our existing indebtedness on reasonable terms (or at all), which could affect our strategic operations and our financial performance and force modifications to our operations.

Terrorism and Natural Disasters could Adversely Impact Our Business.

The ongoing threat of terrorist activity and other acts of war or hostility have had, and may continue to have, an adverse effect on business, financial and general economic conditions. Effects from these events and any future terrorist activity, including cyber terrorism, may, in turn, increase our costs due to the need to provide enhanced security, which would adversely affect our business and results of operations. Terrorist activity could damage or destroy our Internet infrastructure and may adversely affect our ability to attract and retain customers, raise capital, and operate and maintain our network access points. We are particularly vulnerable to acts of terrorism because of our large data center presence in New York. We are also susceptible to other catastrophic events such as major natural disasters, extreme weather, fires or similar events that could affect our headquarters, other offices, our network, infrastructure or equipment, all of which could adversely affect our business.

Changes in Regulations Affecting Commercial Power Providers may Increase Our Costs.

In the normal course of business, we need to enter into agreements with many providers of commercial power for our office, network and hotel carriers. Costs of obtaining commercial power can comprise a significant component of our operating expenses. Changes in regulations that affect commercial power providers, particularly regulations related to the control of greenhouse gas emissions or other climate change related matters, could adversely affect the costs of commercial power, which may increase the costs of providing our services and may adversely affect our operating results and financial condition.

Consolidation Among Companies in the Telecommunications Industry could Adversely Impact our Business

The telecommunications industry is intensely competitive and has undergone significant consolidation over the past few years. Many of the CLECs and other facilities-based telecommunications providers in the industry are able to deploy their own fiber assets to their customers and only lease fiber in areas in which they do not have their own fiber deployed. There are many reasons for consolidation in the industry, including the desire for telecommunication companies to acquire network assets in regions where they currently have no or insufficient amounts of owned network infrastructure. The consolidation within the industry may decrease the demand for leased fiber infrastructure assets.

ITEM 6. EXHIBITS —

Exhibit No.	Description of Exhibit
3.1	Certificate of Formation of Zayo Group, LLC (incorporated by reference to Exhibit 3.1 of our Registration Statement on Form S-4 filed with the SEC on October 18, 2010).
3.2	Operating Agreement of Zayo Group, LLC (incorporated by reference to Exhibit 3.2 of our Registration Statement on Form S-4 filed with the SEC on October 18, 2010).
10.1	Vesting Agreement between Communications Infrastructure Investments, LLC; Daniel P. Caruso; and Bear Equity, LLC, dated December 29, 2010 (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on January 13, 2011).
10.2	Vesting Agreement between Communications Infrastructure Investments, LLC; Daniel P. Caruso; and Bear Equity, LLC, dated January 5, 2011 (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed with the SEC on January 13, 2011).
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.
32.1	Certification of Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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, LLC

Date: May 13, 2011

By: /s/ Dan Caruso
Dan Caruso
Chief Executive Officer

Date: May 13, 2011

By: /s/ Ken desGarennes
Ken desGarennes
Chief Financial Officer

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Dan Caruso Chief Executive Officer of Zayo Group LLC, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zayo Group, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2011

By: /s/ Dan Caruso
Dan Caruso
Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Ken desGarenes, Chief Financial Officer of Zayo Group, LLC, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zayo Group, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2011

By: /s/ Ken desGarenes
Ken desGarenes
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Zayo Group, LLC (the "Company") on Form 10-Q for the three months ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan Caruso, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2011

By: /s/ Dan Caruso
Dan Caruso
Chief Executive Officer