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October 6, 2011

**Via Overnight Courier**

Julie P. Orchard, Commission Secretary
Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, Utah 84111

**Re: Joint Application of 360networks Corporation, 360networks (USA) Inc. and Zayo Group, LLC for the Transfer of Indirect Control of 360networks(USA) Inc. to Zayo Group, LLC**

Dear Ms. Orchard:

On behalf of 360networks Corporation, 360networks (USA) Inc. and Zayo Group, LLC (collectively, "Applicants"), enclosed for filing are an original and eight (8) copies of the above-referenced Joint Application. Also enclosed is a CD-ROM containing an electronic version of the Joint Application in MSWord and PDF formats.

Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Brett Ferenchak at 202-373-6697.

Respectfully submitted,

Brett P Ferenchak

Jean L. Kiddoo
Tamar E. Finn
Brett P. Ferenchak

Counsel for the Applicants

Enclosures

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Counsel for Applicants

**BEFORE THE**
**PUBLIC SERVICE COMMISSION OF UTAH**

| | |
|---|---|
| Joint Application of<br><br>**360networks Corporation,**<br><br>**360networks (USA) inc.**<br><br>and<br><br>**Zayo Group, LLC**<br><br>for the Transfer of Indirect Control of 360networks(USA) inc. to Zayo Group, LLC | JOINT APPLICATION<br><br>Docket No. _____ |

## JOINT APPLICATION

360networks Corporation ("360-Parent"), 360networks (USA) inc. ("360networks") and Zayo Group, LLC in its sole capacity as the acquiring entity ("Zayo") (collectively, the "Applicants"), by their undersigned counsel and pursuant to Utah Code Ann. §§ 54-4-28 & 54-4-29 and the rules of the Commission, including R746-349-7, respectfully request approval to complete the transaction described herein, including the transfer of indirect control of 360networks to Zayo (the "Transaction"). In order to consummate the Transaction in the fourth quarter of this year, Applicants request that the Commission grant all relief sought herein as

expeditiously as possible, and no later than December 8, 2011, so that Applicants can close the Transaction and meet critical business objectives.

In support of this Joint Application, Applicants provide the following information:

## I. DESCRIPTION OF THE APPLICANTS

### A. 360networks Corporation and 360networks (USA) Inc.

360-Parent is a British Columbia corporation with principal offices located at 2101 4th Avenue, Suite 2000, Seattle, Washington 98121. 360networks holdings (USA) inc. ("360-Holdings") is a Nevada corporation and indirect[1] subsidiary of 360-Parent. 360networks is a Nevada corporation and a wholly owned direct subsidiary of 360-Holdings.

360networks is 360-Holdings' operating subsidiary that provides regulated telecommunications services. 360networks provides Private Line Transport, Ethernet, and IP Transit services to telecommunications providers and end users. 360networks facilities-based fiber optic backbone provides coverage spanning 18,000 route miles covering 22 states and British Columbia.

360networks is authorized to provide local exchange and interexchange services in 36 states. 360networks also provides wholesale Voice over Internet Protocol and switched access services in 17 states, including Utah. In Utah, 360networks is authorized to provide local exchange and interexchange telecommunications services pursuant to a Certificate granted in Docket No. 99-2289-01.

[1] 360-Holdings is currently an indirect subsidiary of 360-Parent. Immediately prior to completion of the transaction that is the subject of this Application, 360-Parent will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent. To the extent necessary, 360networks seeks approval of the amalgamation as part of this Application.

## B. Zayo Group, LLC

Zayo is a Delaware limited liability company with principal offices at 400 Centennial Parkway, Suite 200, Louisville, Colorado 80027. Zayo is a wholly owned subsidiary of Zayo Group Holdings, Inc., a Delaware corporation and wholly owned subsidiary of Communications Infrastructure Investments, LLC ("CII"). CII has no majority owner. Zayo is a provider of bandwidth infrastructure and network neutral colocation and interconnection services over dense regional and metropolitan fiber networks, enabling its customers to manage, operate, and scale their telecommunications and data networks. Zayo's services are primarily used by wireless service providers, national and regional carriers and other communications service providers, media and content companies, and certain bandwidth-intensive enterprises.

Zayo's fiber networks span over 24,000 route miles, serve 153 geographic markets in the District of Columbia and 31 states, including Utah, and connect to over 4,300 buildings, including approximately 1,978 cellular towers. These networks Zayo to provide bandwidth infrastructure services to customers over redundant fiber facilities between key customer locations. The majority of the markets that Zayo serves and buildings to which Zayo connects have few other networks capable of providing similar bandwidth infrastructure services.

In Utah, Zayo holds Certificate No. 2536 to provide local exchange and interexchange telecommunications service granted in Docket No. 11-2536-01. Zayo's subsidiary, American Fiber Systems, Inc. holds Certificate No. 2353 to provide dedicated facilities-based and resold local exchange, facilities-based interexchange and private line services, granted in Docket No. 00-2353-01. Zayo is also authorized by the Federal Communications Commission to provide domestic and international telecommunications services. Additional information concerning Zayo's legal, technical, managerial and financial qualifications to complete the Transaction was

submitted to the Commission with various prior filings with respect to Zayo's certification and various other transactions and is therefore already a matter of public record. Applicants request that the Commission take official notice of these existing descriptions of Zayo's qualifications and incorporate them by reference herein.

## II. DESIGNATED CONTACTS

Questions, correspondence or other communications concerning this Application should be directed to Applicants' counsel of record:

For Applicants:

Jean L. Kiddoo
Tamar E. Finn
Brett P. Ferenchak
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For Zayo:

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General Counsel
Zayo Group, LLC
400 Centennial Parkway, Suite 200
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sbeer@zayo.com

For 360networks:

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Associate General Counsel
360networks
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303-854-5513 (tel)
303-854-5100 (fax)
mnelson@360.net

## III. DESCRIPTION OF THE TRANSACTION

Pursuant to the Stock Purchase Agreement, dated as of October 6, 2011, by and among 360-Parent, 360networks (fiber holdco) ltd., 360networks (fiber subco) ltd. and Zayo (the

"Agreement"), Zayo will acquire all of the outstanding shares of 360-Holdings.[2] As a result of the Transaction, 360-Holdings will become a direct subsidiary of Zayo. 360networks will remain a direct subsidiary of 360-Holdings and therefore, an indirect subsidiary of Zayo. Diagrams depicting the pre- and post-transaction corporate structures of the companies are appended hereto as Exhibit A.

The current customers of 360networks will remain customers of 360networks immediately following the Transaction. Accordingly, the Transaction will be seamless to customers, who will continue to enjoy the same rates, terms and conditions of service as they do prior to closing. The only immediate change resulting from the Transaction will be that 360networks will be ultimately owned by Zayo.

Zayo is managerially, technically, and financially well-qualified to complete the Transaction. As noted above, Zayo currently provides telecommunications services in the District of Columbia and 31 states, including Utah. For additional detail on the financial and managerial qualifications of Zayo, please see www.zayo.com. 360networks will therefore continue to have the managerial, technical and financial qualifications to provide high quality telecommunications services to consumers in Utah supported by experienced Zayo management. 360networks will also be supported by the financial resources of Zayo.

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[2] As stated above, immediately prior to the transaction , the intermediate subsidiaries between 360-Parent and 360-Holdings will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent. Moreover, in order to align the business of 360networks more closely with the business structure of Zayo and its affiliates, following the closing Zayo intends to transfer certain wholesale long distance and local voice and switched facilities and services currently provided by 360networks to Zayo's affiliate, Onvoy, Inc. ("Onvoy"), upon the receipt of the necessary regulatory authorization for Onvoy to provide the services.

## IV. INFORMATION REQUIRED BY R746-394-7

Pursuant to R746-394-7, Applicants provide the following information:

**a. identification that it is not an ILEC,**

Applicants confirm that none of the Applicants or their affiliates is an ILEC in Utah.

**b. identification that it seeks approval of the application pursuant to this rule,**

Applicants confirm that they seek approval of the application pursuant to the informal adjudication process set forth in this rule.

**c. a reasonably detailed description of the transaction for which approval is sought,**

A detailed description of the Transaction is provided in Section III, above.

**d. a copy of any filings required by the Federal Communications Commission or any other state utility regulatory agency in connection with the transaction, and**

Applicants will file Domestic and International Section 214 Applications with the FCC. Copies of the Applications will be filed with this Commission after they are submitted. In connection with this Transaction, Applicants also expect to request approval from the utility regulatory agencies ("PUCs") in the following states in addition to Utah: California, Colorado, Georgia, Indiana, Minnesota, Mississippi, New Jersey, New York, Pennsylvania, Texas and West Virginia. Due to the voluminous nature of these state filings, most of which contain the same basic information, Applicants have only attached as Exhibit B a copy of the Minnesota filing requesting approval. Applicants are also providing pre-closing written or verbal notice to the PUCs in the all other states where 360networks is authorized to provide intrastate telecommunications services (all states except Alabama, Alaska, Arkansas, Hawaii, Kansas, Maryland, Massachusetts, Ohio, Tennessee and Virginia). Due to the voluminous and repetitive nature of the notices to be sent to these PUCs, Applicants have not included copies of the notice filings. Applicants will provide any additional filings at the request of the Commission.

e. **copies of any notices, correspondence or orders from any federal agency or any other state utility regulatory agency reviewing the transaction which is the subject of the application.**

Applicants have not yet received any notices, correspondence or orders from any federal agency or PUC reviewing the Transaction. To the extent requested by the Commission, Applicants will forward any orders or similar actions approving or denying approval of the Transaction.

## VI. PUBLIC INTEREST STATEMENT

Applicants submit that the Transaction described herein will serve the public interest. As part of Zayo Group, 360networks will continue to provide high-quality telecommunications services to consumers, while gaining access to the additional resources and operational expertise of Zayo. 360networks will also benefit by being able to offer services to multi-location business and enterprise customers across a much larger footprint in combination with Zayo. 360networks' network complements Zayo's network and the acquisition will increase Zayo's existing fiber footprint, giving the combined companies greater market depth and breadth as a result of the Transaction. The Transaction will make 360networks and Zayo stronger competitors and thereby benefit consumers.

The Transaction described herein will not result in a change of carrier for any customers or any assignment of existing Commission authorizations. Further, the rates, terms and conditions of services currently provided by 360networks to its customers will not change as a result of the Transaction.

## VI. CONCLUSION

For the foregoing reasons, Applicants submit that the public interest, convenience, and necessity would be furthered by grant of this Application, authorizing Applicants to complete the Transaction described herein.

Respectfully submitted,

By: Brett P Ferenchak

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Counsel for Applicants

Date: October 6, 2011

## LIST OF EXHIBITS

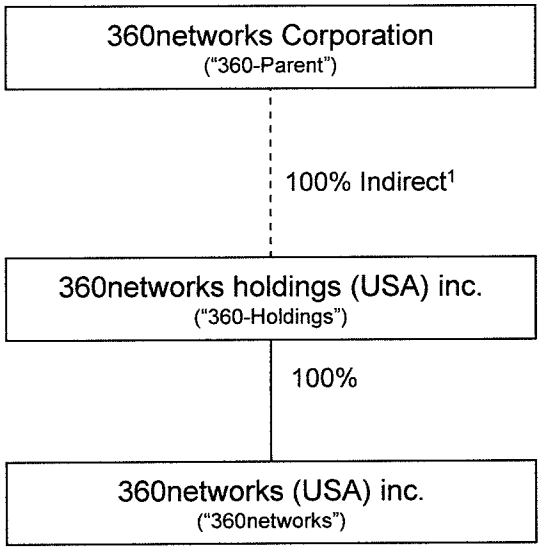
| | |
|---|---|
| Exhibit A | Pre- and Post-Transaction Corporate Organizational Structure |
| Exhibit B | Copy of Minnesota PUC Filing |
| Verifications | |

# EXHIBIT A

## Pre- and Post-Transaction Corporate Organizational Structure

# Pre-Transaction Corporate Structure of 360networks*

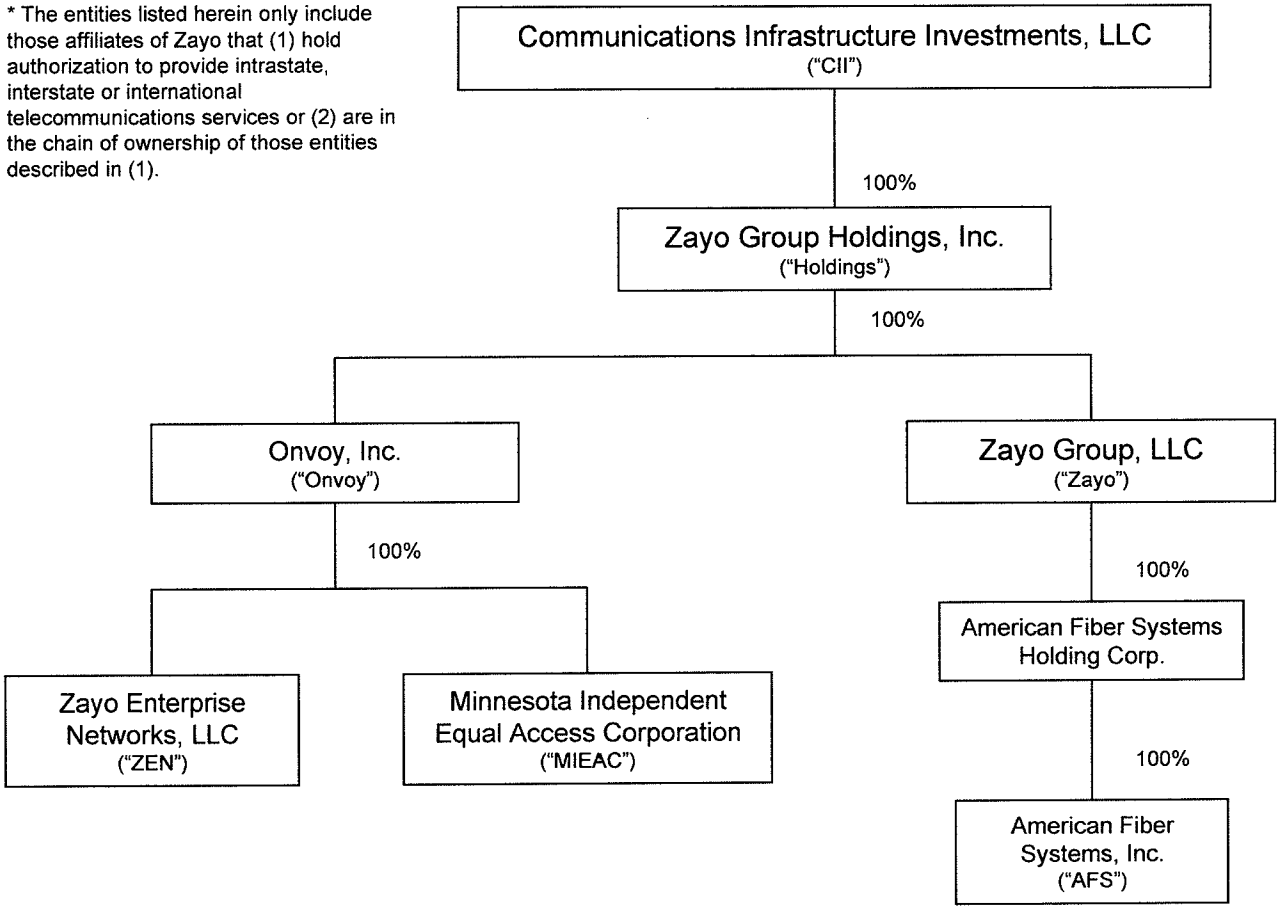
* The entities listed herein only include those affiliates of 360networks that (1) hold authorization to provide telecommunications services in this state or (2) are in the chain of ownership of those entities described in (1).




[1] Immediately prior to the Transaction, the intermediate subsidiaries between 360-Parent and 360-Holdings will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent.

# Pre-Transaction Corporate Structure of Zayo Group, LLC*

* The entities listed herein only include those affiliates of Zayo that (1) hold authorization to provide intrastate, interstate or international telecommunications services or (2) are in the chain of ownership of those entities described in (1).



# Post-Transaction Corporate Structure of Applicants*

* The entities listed herein only include those affiliates of Zayo that post-transaction (1) will hold authorization to provide intrastate, interstate or international telecommunications services or (2) will be in the chain of ownership of those entities described in (1).

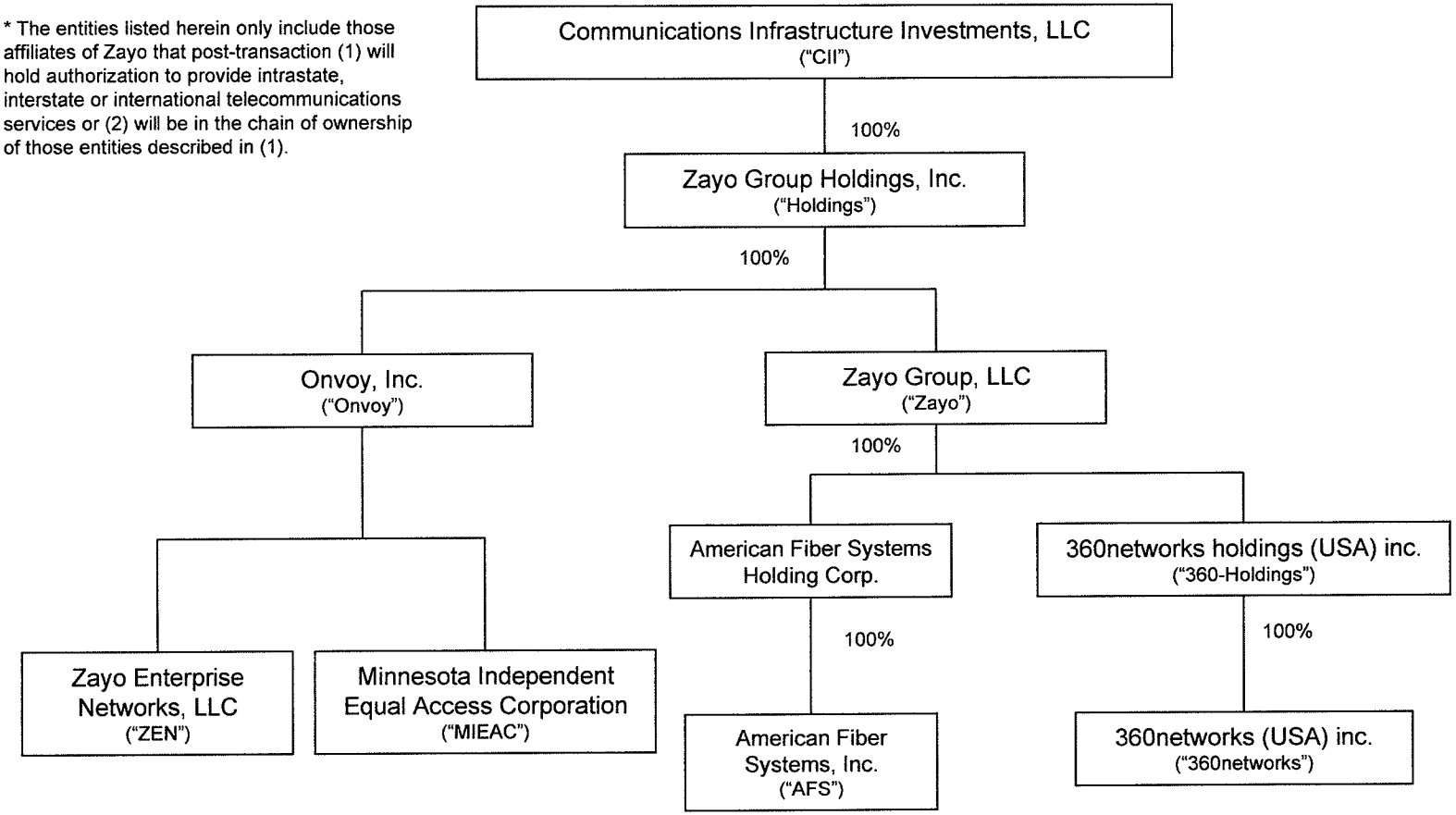


**EXHIBIT B**

**Copy of Minnesota PUC Filing**

Print Close

**Document Upload Confirmation**

**Submission Information**

**Submission Number:** **201110-67078**
**Submission Date/Time:** 10/06/2011 05:36 PM

**Filer Information**

**Filer:** Ferenchak, Brett
**Company:** Bingham McCutchen LLP
**Email:** brett.ferenchak@bingham.com
**Phone Number:** 202-373-6697

**Document Information**

**Document Date:** 10/06/2011
**Document Type:** Initial Filing
**On Behalf Of:** 360networks Corporation, 360networks (USA) inc. and Zayo Group, LLC

**Service List Information**

| Docket # | List Name |
|---|---|

**Uploaded Documents Information**

| Selected Document | Classification | Additional Information |
|---|---|---|
| Zayo-360 MN Application.pdf | Public | Joint Petition |

Print Close

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October 6, 2011

**Via eFiling**

Burl W. Haar, Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East
Suite 350
St. Paul, MN 55101-2147

**Re: Joint Petition of 360networks Corporation, 360networks (USA) inc. and Zayo Group, LLC for Approval of the Transfer of Indirect Control of 360networks(USA) inc. to Zayo Group, LLC**

Dear Mr. Haar:

On behalf of 360networks Corporation, 360networks (USA) inc. and Zayo Group, LLC, enclosed for filing with the Commission is the above-referenced Joint Application.

Please acknowledge receipt and acceptance of this filing. Should you have any questions concerning this filing, please do not hesitate to contact Brett Ferenchak at 202-373-6697.

Respectfully submitted,

Brett P Ferenchak

Jean L. Kiddoo
Tamar E. Finn
Brett P. Ferenchak

Counsel for the Applicants

Enclosures

cc: Linda Chavez (MN DOC)

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**BEFORE THE STATE OF MINNESOTA**
**PUBLIC UTILITIES COMMISSION**

| | |
|---|---|
| David Boyd | Chair |
| J. Dennis O'Brien | Commissioner |
| Thomas Pugh | Commissioner |
| Phyllis Reha | Commissioner |
| Betsy Wergin | Commissioner |

In the Matter of the Joint Petition of 360networks Corporation, 360networks (USA) Inc. and Zayo Group, LLC for Approval of the Transfer of Indirect Control of 360networks(USA) Inc. to Zayo Group, LLC

MPUC Docket No. _____

# JOINT APPLICATION

360networks Corporation ("360-Parent"), 360networks (USA) inc. ("360networks") and Zayo Group, LLC ("Zayo") (collectively, the "Applicants"), by undersigned counsel and pursuant to Minn. Stat. Section 237.74, subd. 12, and the rules of the Commission, hereby request Commission approval to complete the transaction described herein, including the transfer of indirect control of 360networks to Zayo (the "Transaction"). In order to consummate the Transaction in the fourth quarter of this year, Applicants request that the Commission grant all relief sought herein as expeditiously as possible, and no later than December 8, 2011, so that Applicants can close the Transaction and meet critical business objectives.

In support of this Joint Application, Applicants provide the following information:

## I. DESCRIPTION OF THE APPLICANTS

### A. 360networks Corporation and 360networks (USA) inc.

360-Parent is a corporation organized under the laws of British Columbia with principal offices located at 2101 4th Avenue, Suite 2000, Seattle, Washington 98121. 360networks

holdings (USA) inc. ("360-Holdings") is a Nevada corporation and indirect[1] subsidiary of 360-Parent. 360networks is a Nevada corporation and a wholly owned direct subsidiary of 360-Holdings.

360networks is 360-Holdings' operating subsidiary that provides regulated telecommunications services. 360networks provides Private Line Transport, Ethernet, and IP Transit services to telecommunications providers and end users. 360networks facilities-based fiber optic backbone provides coverage spanning 18,000 route miles covering 22 states and British Columbia. 360networks also provides wholesale Voice over Internet Protocol services and switched access services in 17 states, including Minnesota.

360networks is authorized to provide local exchange and interexchange services in 36 states. In Minnesota, 360networks is authorized to provide local exchange and interexchange telecommunications services pursuant to Certificates granted in Docket No. P-5816/NA99-1233.

**B. <u>Zayo Group, LLC</u>**

Zayo is a Delaware limited liability company with principal offices at 400 Centennial Parkway, Suite 200, Louisville, Colorado 80027. Zayo is a wholly owned subsidiary of Zayo Group Holdings, Inc., a Delaware corporation and wholly owned subsidiary of Communications Infrastructure Investments, LLC ("CII"), a Delaware limited liability company. CII has no majority owner. Zayo is a provider of bandwidth infrastructure and network neutral colocation and interconnection services over dense regional and metropolitan fiber networks, enabling its customers to manage, operate, and scale their telecommunications and data networks. Zayo's services are primarily used by wireless service providers, national and regional carriers and other

[1] 360-Holdings is currently an indirect subsidiary of 360-Parent. Immediately prior to completion of the transaction that is the subject of this Application, 360-Parent will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent. To the extent necessary, 360networks seeks approval of the amalgamation as part of this Application.

communications service providers, media and content companies, and certain bandwidth-intensive enterprises.

Zayo's fiber networks span over 24,000 route miles, serve 153 geographic markets in the District of Columbia and 31 states, including Minnesota, and connect to over 4,300 buildings, including approximately 1,978 cellular towers. These networks allow Zayo to provide bandwidth infrastructure services to customers over redundant fiber facilities between key customer locations. The majority of the markets that Zayo serves and buildings to which Zayo connects have few other networks capable of providing similar bandwidth infrastructure services.

In Minnesota, Zayo holds a conditional certificate to provide local exchange and interexchange services and an operational certificate to provide local niche services granted by the Commission in Docket No. P6854/NA-11-103. Zayo is also authorized by the Federal Communications Commission to provide domestic and international telecommunications services. Additional information concerning Zayo's legal, technical, managerial and financial qualifications to complete the Transaction was submitted to the Commission with various prior filings with respect to Zayo's certification and various other transactions and is therefore already a matter of public record. Applicants request that the Commission take official notice of these existing descriptions of Zayo's qualifications and incorporate them by reference herein. In support of its financial qualifications, Zayo provides a copy of its audited financial statements from its most recent SEC Form 10-K as Exhibit A.

## II. DESIGNATED CONTACTS

Questions, correspondence or other communications concerning this Application should be directed to Applicants' counsel of record:

For Applicants:

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Tamar E. Finn
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For 360networks:

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370 Interlocken Blvd., Suite 600
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303-854-5513 (tel)
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mnelson@360.net

## III. DESCRIPTION OF THE TRANSACTION

Pursuant to the Stock Purchase Agreement, dated as of October 6, 2011, by and among 360-Parent, 360networks (fiber holdco) ltd., 360networks (fiber subco) ltd. and Zayo (the "Agreement"),[2] Zayo will acquire all of the outstanding shares of 360-Holdings.[3] As a result of the Transaction, 360-Holdings will become a direct subsidiary of Zayo. 360networks will remain a direct subsidiary of 360-Holdings and therefore, an indirect subsidiary of Zayo.

[2] A Trade Secret copy of the Agreement will be filed separately when it is available.

[3] As stated above, immediately prior to the transaction, the intermediate subsidiaries between 360-Parent and 360-Holdings will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent. Moreover, in order to align the business of 360networks more closely with the business structure of Zayo and its affiliates, following the closing Zayo intends to transfer certain wholesale long distance and local voice and switched access facilities and services currently provided by 360networks to Zayo's affiliate, Onvoy, Inc. ("Onvoy"). Onvoy is authorized to provide (1) competitive local exchange pursuant to a Certificate granted in Docket No. P-3039/EM-98-70 as amended in Docket Nos. P5728,3039/PA-98-1724, P-5728/M-99-1441, P-5728/M-02-1608 and P-5728/M-02-1825 and (2) interexchange telecommunications services pursuant to a Certificate granted in Docket No. P-3039/EM-98-70.

Diagrams depicting the pre- and post-transaction corporate structures of the companies are appended hereto as Exhibit B. The receipt of certain regulatory approvals, including from this Commission, is a condition to closing.[4]

The current customers of 360networks will remain customers of 360networks immediately following the Transaction. Accordingly, the Transaction will be seamless to customers, who will continue to enjoy the same rates, terms and conditions of service as they do prior to closing. The only immediate change resulting from the Transaction will be that 360networks will be ultimately owned by Zayo.

Zayo is managerially, technically, and financially well-qualified to complete the Transaction. As noted above, Zayo currently provides telecommunications services in the District of Columbia and 31 states, including Minnesota. For additional detail on the financial and managerial qualifications of Zayo, please see www.zayo.com. 360networks will therefore continue to have the managerial, technical and financial qualifications to provide high quality telecommunications services to consumers in Minnesota supported by experienced Zayo management. 360networks will also be supported by the financial resources of Zayo.

## IV. PUBLIC INTEREST CONSIDERATIONS

Applicants submit that the Transaction described herein will serve the public interest. As part of Zayo Group, 360networks will continue to provide high-quality telecommunications services to consumers, while gaining access to the additional resources and operational expertise of Zayo. 360networks will also benefit by being able to offer services to multi-location business and enterprise customers across a much larger footprint in combination with Zayo. 360networks' network complements Zayo's network and the acquisition will increase Zayo's

[4] *See* Sections 5.1(f)(iv) and 5.2(e)(iii) of the Agreement.

existing fiber footprint, giving the combined companies greater market depth and breadth as a result of the Transaction. The Transaction will make 360networks and Zayo stronger competitors and thereby benefit consumers.

The Transaction described herein will not result in a change of carrier for any customers or any assignment of existing Commission authorizations. Further, the rates, terms and conditions of services currently provided by 360networks to its customers will not change as a result of the Transaction.

## V. CONCLUSION

For the foregoing reasons, Applicants submit that the public interest, convenience, and necessity would be furthered by grant of this Application, authorizing Applicants to complete the Transaction described herein.

Respectfully submitted,

Brett P Ferenchak

Jean L. Kiddoo
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brett.ferenchak@bingham.com

Counsel for Applicants

Dated: October 6, 2011

## LIST OF EXHIBITS

| | |
|---|---|
| Exhibit A | Financial Statements |
| Exhibit B | Diagrams of the Pre- and Post-Transaction Corporate Structure of the Applicants |
| Verifications | |

# EXHIBIT A

## Financial Statements

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
## WASHINGTON, D.C. 20549

# FORM 10-K

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

**For the fiscal year ended June 30, 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**<br>**(State or other jurisdiction of incorporation or organization)** | **26-2012549**<br>**(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)**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☑ No ☐

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 ☑ The registrant is no longer subject to the filing requirements of the Exchange Act, but filed all Exchange Act reports when it was required to do so.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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 ☑<br>(Do not check if a small reporting company) | Smaller reporting company ☐ |

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

On August 31, 2011, 1,000 membership interest units were outstanding, none of which are held by non-affiliates of the registrant.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Members
Zayo Group, LLC and Subsidiaries

We have audited the accompanying consolidated balance sheets of Zayo Group, LLC (a Delaware limited liability corporation) and subsidiaries (collectively, the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of operations, member's equity, and cash flows for each of the three years in the period ended June 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zayo Group, LLC and subsidiaries as of June 30, 2011 and 2010, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Denver, Colorado
September 9, 2011

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
(in thousands)

| | June 30, 2011 | June 30, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 25,394 | $ 87,864 |
| Trade receivables, net of allowance of $799 and $498 as of June 30, 2011 and 2010, respectively | 13,983 | 11,551 |
| Due from related-parties | 187 | 626 |
| Prepaid expenses | 6,388 | 4,810 |
| Deferred income taxes | 3,343 | 4,060 |
| Other assets, current | 645 | 334 |
| Assets of discontinued operations, current | — | 3,061 |
| **Total current assets** | **49,940** | **112,306** |
| Property and equipment, net of accumulated depreciation of $101,941 and $54,077 as of June 30, 2011 and 2010, respectively | 518,513 | 297,889 |
| Intangible assets, net of accumulated amortization of $37,980 and $25,421 as of June 30, 2011 and 2010, respectively | 104,672 | 56,714 |
| Goodwill | 83,820 | 67,854 |
| Deferred income taxes | — | 8,508 |
| Debt issuance costs, net | 11,446 | 9,560 |
| Investment in US Carrier | 15,075 | — |
| Other assets, non-current | 5,795 | 4,866 |
| Assets of discontinued operations, non-current | — | 8,143 |
| **Total assets** | **$ 789,261** | **$ 565,840** |
| **Liabilities and member's equity** | | |
| Current liabilities | | |
| Accounts payable | $ 12,988 | $ 10,015 |
| Accrued liabilities | 22,453 | 17,152 |
| Accrued interest | 10,627 | 7,794 |
| Capital lease obligations, current | 950 | 1,673 |
| Due to related-parties | 4,590 | — |
| Deferred revenue, current | 15,664 | 8,091 |
| Liabilities of discontinued operations, current | — | 1,740 |
| **Total current liabilities** | **67,272** | **46,465** |
| Capital lease obligations, non-current | 10,224 | 11,033 |
| Long-term debt | 354,414 | 247,080 |
| Deferred revenue, non-current | 63,893 | 22,605 |
| Stock-based compensation liability | 45,067 | 21,556 |
| Deferred tax liability | 8,322 | — |
| Other long term liabilities | 2,724 | 2,397 |
| Liabilities of discontinued operations, non-current | — | 1,568 |
| **Total liabilities** | **551,916** | **352,704** |
| Commitments and contingencies (Note 15) | | |
| **Member's equity** | | |
| Member's interest | 245,433 | 217,129 |
| Accumulated deficit | (8,088) | (3,993) |
| **Total member's equity** | 237,345 | 213,136 |
| **Total liabilities and member's equity** | **$ 789,261** | **$ 565,840** |

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

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

| | Year Ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| **Revenue** | $ 287,235 | $ 199,330 | $ 125,339 |
| **Operating costs and expenses** | | | |
| Operating costs, excluding depreciation and amortization | 71,528 | 62,688 | 37,792 |
| Selling, general and administrative expenses | 89,846 | 65,911 | 51,493 |
| Stock-based compensation | 24,310 | 18,168 | 6,412 |
| Depreciation and amortization | 60,463 | 38,738 | 26,554 |
| **Total operating costs and expenses** | 246,147 | 185,505 | 122,251 |
| **Operating income** | 41,088 | 13,825 | 3,088 |
| **Other income/(expense)** | | | |
| Interest expense | (33,414) | (18,692) | (15,245) |
| Other (expense)/income, net | (126) | 1,526 | 234 |
| Gain on bargain purchase | — | 9,081 | — |
| Loss on extinguishment of debt | — | (5,881) | — |
| Total other expense, net | (33,540) | (13,966) | (15,011) |
| **Earnings/(loss) from continuing operations before provision for income taxes** | 7,548 | (141) | (11,923) |
| **Provision/(benefit) for income taxes** | 12,542 | 4,823 | (2,321) |
| **Loss from continuing operations** | (4,994) | (4,964) | (9,602) |
| **Earnings from discontinued operations, net of income taxes** | 899 | 5,425 | 7,355 |
| **Net (loss)/earnings** | $ (4,095) | $ 461 | $ (2,247) |

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

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF MEMBER'S EQUITY
(in thousands)

| | Member's interest | Accumulated Deficit | Total Member's equity |
|---|---|---|---|
| **Balance at July 1, 2008** | **$ 179,878** | **$ (2,207)** | **$ 177,671** |
| Capital contributed (cash) | 35,546 | — | 35,546 |
| Preferred stock-based compensation | 2,049 | — | 2,049 |
| Net loss | — | (2,247) | (2,247) |
| **Balance at June 30, 2009** | **217,473** | **(4,454)** | **213,019** |
| Capital contributed (cash) | 39,800 | — | 39,800 |
| Non-cash settlements with Parent, net | 1,200 | — | 1,200 |
| Preferred stock-based compensation | 1,195 | — | 1,195 |
| Spin-off of Onvoy Voice Services, Inc. | (42,539) | — | (42,539) |
| Net earnings | — | 461 | 461 |
| **Balance at June 30, 2010** | **217,129** | **(3,993)** | **213,136** |
| Capital contributed (cash) | 36,450 | — | 36,450 |
| Non-cash settlements with Parent, net | (2,598) | — | (2,598) |
| Preferred stock-based compensation | 820 | — | 820 |
| Spin-off of Zayo Enterprise Networks, LLC | (6,368) | — | (6,368) |
| Net loss | — | (4,095) | (4,095) |
| **Balance at June 30, 2011** | **$ 245,433** | **$ (8,088)** | **$ 237,345** |

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

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Year ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| **Cash flows from operating activities** | | | |
| Net (loss)/earnings | $ (4,095) | $ 461 | $ (2,247) |
| Earnings from discontinued operations | 899 | 5,425 | 7,355 |
| **Loss from continuing operations** | **(4,994)** | **(4,964)** | **(9,602)** |
| *Adjustments to reconcile net loss to net cash provided by operating activities* | | | |
| Depreciation and amortization | 60,463 | 38,738 | 26,554 |
| Loss on extinguishment of debt | — | 5,881 | — |
| Loss on disposal of property and equipment | 84 | — | 66 |
| Provision for bad debts | 794 | 168 | 209 |
| Amortization of deferred financing costs and discount on debt | 2,781 | 1,624 | 1,114 |
| Accretion of premium on debt | (368) | — | — |
| Stock-based compensation | 24,310 | 18,168 | 6,412 |
| Unrealized loss on interest rate swap | — | 744 | 3,143 |
| Gain on bargain purchase | — | (9,081) | — |
| Amortization of deferred revenue | (8,976) | (3,500) | (2,011) |
| Deferred income taxes | 11,093 | 4,068 | (2,074) |
| **Changes in operating assets and liabilities, net of acquisitions** | | | |
| Trade receivables | 2,449 | 801 | 2,494 |
| Interest rate swap | (566) | (2,462) | (859) |
| Prepaid expenses | (638) | (271) | (895) |
| Other assets | 2,440 | 21 | (1,024) |
| Accounts payable and accrued liabilities | 1,409 | 6,429 | (4,249) |
| Payables to related-parties | 4,944 | (422) | 872 |
| Customer prepayments | 4,629 | 2,243 | 4,839 |
| Other liabilities | (2,800) | 15 | (322) |
| **Net cash provided by continuing operating activities** | **97,054** | **58,200** | **24,667** |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | (116,068) | (58,821) | (61,614) |
| Broadband stimulus grants received | 3,544 | 70 | — |
| Proceeds from sale of property and equipment | 28 | — | — |
| Merger with 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) | — |
| Acquisition of Citynet Fiber network, LLC, net of cash acquired | — | — | (35) |
| Acquisition of Northwest Telephone, Inc., net of cash acquired | — | — | 618 |
| Acquisition of Columbia Fiber Solutions, LLC, net of cash acquired | — | — | (12,091) |
| **Net cash used in investing activities** | **(296,162)** | **(155,322)** | **(73,122)** |

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

**(Continued)**

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(in thousands)**

| | Year ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| **Cash flows from financing activities** | | | |
| Equity contributions | $ 36,450 | $ 39,800 | $ 35,546 |
| Proceeds from long-term debt | 103,000 | 276,948 | 47,000 |
| Principal repayments on long-term debt | — | (166,193) | (10,677) |
| Changes in restricted cash | 578 | (564) | — |
| Principal repayments on capital lease obligations | (1,732) | (2,192) | (2,267) |
| Deferred financing costs | (4,106) | (12,353) | (1,681) |
| **Net cash provided by financing activities** | **134,190** | **135,446** | **67,921** |
| **Cash flows from discontinued operations** | | | |
| Operating activities | 2,622 | 13,923 | 15,673 |
| Investing activities | (382) | (1,809) | (1,556) |
| **Net cash provided by discontinued operations** | **2,240** | **12,114** | **14,117** |
| Net (decrease)/increase in cash and cash equivalents | (62,678) | 50,438 | 33,583 |
| Cash and cash equivalents, beginning of period | 87,864 | 38,019 | 4,388 |
| Increase/(decrease) in cash and cash equivalents of discontinued operations | 208 | (593) | 48 |
| **Cash and cash equivalents, end of period** | **$ 25,394** | **$ 87,864** | **$ 38,019** |
| **Supplemental disclosure of non-cash, investing and financing activities:** | | | |
| Cash paid for interest | $ 31,938 | $ 6,215 | $ 10,845 |
| Cash paid for income taxes | 2,974 | 257 | 326 |
| Non-cash additions to property and equipment from capital leases | 200 | 324 | 1,650 |
| Increase/(decrease) in accounts payable and accrued expenses for purchases of property and equipment | 5,911 | 3,357 | (1,415) |
| Promissory Note issued as consideration for American Fibers Systems Holding Corporation merger | 4,500 | — | — |

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

Refer to Note 12 — *Equity*, to the Company's consolidated financial statements for details of the non-cash capital transactions.

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

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(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.

Zayo Group, LLC is wholly owned by Zayo Group Holdings, Inc., ("Holdings") which in turn is wholly-owned by Communications Infrastructure Investments, LLC ("CII").

## (2) BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Presentation

The accompanying 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 consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

### b. Spin-off of Business Units

On April 1, 2011, the Company completed a spin-off of its Zayo Enterprise Networks ("ZEN") business unit. Additionally, on March 12, 2010, the Company spun-off of its Onvoy Voice Services ("Onvoy") business unit. The Company distributed all of the assets and liabilities of ZEN and Onvoy to Holdings on the respective spin-off dates.

Management determined that it had discontinued all significant cash flows and continuing involvement with respect to ZEN and Onvoy's operations and therefore considers these to be discontinued operations. During the years ended June 30, 2011, 2010 and 2009, the results of the operations of ZEN and Onvoy have been aggregated and are presented in a single caption entitled, "Earnings from discontinued operations, net of income taxes" on the accompanying consolidated statements of operations. Management 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 consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant estimates are used when establishing allowances for doubtful accounts, 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 and related valuation allowance against deferred tax assets, estimating the stock-based compensation liability, and various other items. Management evaluates these estimates and judgments on an ongoing basis and makes estimates based on historical experience, current conditions, and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions.

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

**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. Restricted cash balances which are not expected to become unrestricted during the next twelve months are recorded as other assets, non-current.

**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. Under this method, the investment is recorded in the balance sheet at historical cost. Subsequently, the Company recognizes as income any dividends received that are distributed from earnings since the date of initial investment. Dividends received that are distributed from earnings prior to the date of acquisition are recorded as a reduction of the cost of the 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.

**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. Management estimates the useful life of property and equipment by reviewing 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.

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 property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of its property and equipment 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 property and equipment and the resulting amount of the impairment. No impairment charges were recorded for property and equipment during the years ended June 30, 2011, 2010 or 2009.

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

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

**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 definite 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 years ended June 30, 2011, 2010 or 2009.

**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 14 — *Fair Value Measurements*, for a discussion of the fair 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 a governmental authority are reported on a net basis and are excluded from revenue.

Most revenue is billed in advance on a fixed-rate basis. 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.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

During the year ended June 30, 2011, the Company recognized revenue in the amount of $1,100 related to a fiber sale. The Company did not enter into any contracts during the years ended June 30, 2010 or 2009 that 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 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 Administration ("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 reduction 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.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

**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.

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.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

*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 primarily 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 year ended June 30, 2011 and 2010, the Company had one customer that accounted for 12 percent of the total revenue recognized during each period. No customers represented greater than 10 percent of total revenue during the year ended June 30, 2009. As of June 30, 2011 the Company had one customer with a trade receivable balance of 12 percent of total receivables. No other customers trade receivable balance as of June 30, 2011 or 2010 exceeded 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 2010-29, *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 consolidated financial statements include the operations and financial position of the acquired entities from their respective acquisition dates.

**Acquisitions during the year ended June 30, 2011**

*American Fiber Systems Holding Corporation ("AFS")*

On October 1, 2010, the Company completed a merger with American Fiber Systems Holding Corporation, the parent company of American Fiber Systems, Inc. The AFS 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 its ownership interest in US Carrier Telecom Holdings, LLC ("US Carrier"). There was no contingent consideration associated with the purchase. The acquisition was financed with cash on hand and proceeds from the issuance of the Company's $100,000 note issuance — See Note 9, *Long-Term Debt.*

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 operates approximately 1,251 routes miles and over 172,415 fiber miles of fiber networks.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

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 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 | 15,746 |
| Investment in US Carrier | 15,075 |
| Other assets | 335 |
| Total assets acquired | 148,527 |
| Current liabilities | 3,396 |
| Deferred revenue | 23,905 |
| Deferred tax liability | 3,958 |
| Other liabilities | 3,127 |
| Total liabilities assumed | 34,386 |
| Net assets acquired | 114,141 |
| Seller Note payable to former AFS Holdings owners | (4,141) |
| Net cash paid | $ 110,000 |

The goodwill of $15,746 arising from the AFS merger consists of the synergies and economies-of-scale expected from the AFS merger. The goodwill associated with the AFS merger is not deductible for tax purposes. The Company has allocated the goodwill to the business units 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 units. Goodwill of $8,076 and $7,670 was allocated to the Zayo Bandwidth and Zayo Fiber Solutions business units, respectively.

In connection with the AFS 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 year ended June 30, 2011 the Company recorded purchase accounting adjustments to various assets and liabilities acquired in the AFS Merger resulting in a net increase to the acquired goodwill balance of $1,703 which is reflected in the table above.

*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.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
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The following table presents the Company's allocation 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 | 220 |
| Other assets | 680 |
| Total assets acquired | 101,183 |
| Current liabilities | 1,006 |
| Deferred revenue | 26,511 |
| Total liabilities assumed | 27,517 |
| Net assets acquired | $ 73,666 |
| Purchase consideration/Net cash paid | $ 73,666 |

The goodwill of $220 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 unit.

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 year ended June 30, 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 $153 which is reflected in the table above.

*Acquisition costs*

The Company incurred acquisition-related costs of $865 which have been charged to selling, general and administrative expenses during the year ended June 30, 2011.

**Acquisition during the year ended June 30, 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.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
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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 are 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 acquired | 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 costs*

The Company incurred acquisition-related costs of $1,299 which have been charged to selling, general and administrative expenses during the year ended June 30, 2010.

**Acquisition during the year ended June 30, 2009**

*Columbia Fiber Solutions ("CFS")*

On September 30, 2008 the Company acquired all of the outstanding equity interests in CFS. CFS is a provider of leased dark fiber services and fiber-based Ethernet services over a transparent LAN (TLS) infrastructure in the Inland Northwest.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

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

| Acquisition date | CFS September 30, 2008 |
|---|---|
| Current assets | $ 461 |
| Property and equipment | 4,772 |
| Intangibles | 3,412 |
| Goodwill | 4,170 |
| Total assets acquired | 12,815 |
| Current liabilities | 500 |
| Deferred revenue | 154 |
| Total liabilities assumed | 654 |
| Purchase consideration | 12,161 |
| Less cash acquired | 70 |
| Net cash paid | $ 12,091 |

The full amount of the goodwill associated with the CFS acquisition was allocated to the Zayo Bandwidth business unit and is deductible for tax purposes. The goodwill consists of the synergies and economies-of-scale expected from combining the operations of CFS and the Company.

During the year ended June 30, 2009, an addition of $35 to the purchase price of the February 2008 acquisition of Citynet Fiber Networks, LLC was recorded due to additional acquisition related expenses incurred. The purchase price of the Company's May 2008 acquisition of Northwest Telephone, Inc. was reduced by $618 due to the seller not being able to fulfill some of the closing conditions resulting in the Company receiving additional purchase consideration from escrow in the amount of $618 during the year ended June 30, 2009.

*Acquisition costs*

The Company incurred acquisition-related costs of $719 which have been charged to selling, general and administrative expenses during the year ended June 30, 2009.

**Pro-forma Financial Information (unaudited)**

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 years ended June 30, 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 year ended June 30, 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 AFS 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.

| | Year ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Revenue | $ 295,137 | $ 266,865 |
| Loss from continuing operations | $ (7,719) | $ (1,231) |

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

## (4) SPIN-OFF OF BUSINESS UNITS

During the year ended June 30, 2010, management determined that the services provided by one of the Company's business units —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.

Effective January 1, 2011, the Company finalized a restructuring of its business units which resulted in the segments more closely aligning with their product offerings rather than a combination of product offerings and customer demographics. See Note 16 — *Segment Reporting*, for discussion of the restructuring. Prior to the restructuring, the ZEN unit held a mix of bandwidth infrastructure, colocation, interconnection, competitive local exchange carrier ("CLEC") and enterprise product offerings. Subsequent to the restructuring, the remaining ZEN unit consisted of only CLEC and enterprise product offerings. As the product offerings provided by the restructured ZEN unit fall outside of the Company's business model, the segment was spun-off to Holdings on April 1, 2011.

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 and ZEN operations effective March 12, 2010 and April 1, 2011, respectively. Therefore, for the years ended June 30, 2011, 2010 and 2009, the results of the operations of Onvoy and ZEN, prior to their spin-off dates, have been aggregated in a single caption entitled, "Earnings from discontinued operations, net of income taxes" on the accompanying 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 consolidated statements of operations are comprised of the following:

| | Year ended June 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2009 | | |
| | OVS | ZEN | Total | OVS | ZEN | Total | OVS | ZEN | Total |
| Revenue | $ — | $16,722 | $16,722 | $28,489 | $24,715 | $53,204 | $38,721 | $25,465 | $64,186 |
| Earnings before income taxes | — | $ 1,537 | $ 1,537 | $ 6,037 | $ 3,500 | $ 9,537 | $11,687 | $ 527 | $12,214 |
| Income tax expense | — | 638 | 638 | 2,642 | 1,470 | 4,112 | 4,644 | 215 | 4,859 |
| Earnings from discontinued operations, net of income taxes | $ — | $ 899 | $ 899 | $ 3,395 | $ 2,030 | $ 5,425 | $ 7,043 | $ 312 | $ 7,355 |

The following is a detail of the assets and liabilities associated with ZEN classified as assets and liabilities of discontinued operations on the accompanying consolidated balance sheet as of June 30, 2010:

| | As of June 30, 2010 |
|---|---|
| **Assets of discontinued operations** | |
| Current assets | $ 3,061 |
| Property and equipment, net | 4,022 |
| Intangible assets, net | 3,137 |
| Goodwill | 897 |
| Other assets | 87 |
| **Total assets** | **$ 11,204** |
| **Liabilities of discontinued operations** | |
| Current liabilities | $ 1,740 |
| Deferred tax liability | 1,458 |
| Other liabilities | 110 |
| **Total liabilities** | **$ 3,308** |

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The Company continues to have ongoing contractual relationships with ZEN and Onvoy, which are based on agreements which were entered into at estimated market rates. The Company has contractual relationships to provide ZEN and Onvoy with certain data and colocation services and ZEN and Onvoy have contractual relationships to provide the Company with certain voice and enterprise services. Prior to March 12, 2010 and April 1, 2011, transactions with OVS and ZEN, respectively, were eliminated upon consolidation. Since their respective spin-off dates, transactions with ZEN and Onvoy have been included in the Company's results of operations. See Note 16 — *Related-Party Transactions*, for a discussion of transactions with ZEN and Onvoy subsequent to their spin-off dates.

**(5) INVESTMENT**

In connection with the AFS merger, the Company acquired 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 AFS 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 AFS 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 necessary 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 any 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 June 30 | |
|---|---|---|---|
| | | 2011 | 2010 |
| Land | N/A | $ 228 | $ 209 |
| Building improvements and site improvements | 8 to15 | 11,692 | 8,999 |
| Furniture, fixtures and office equipment | 3 to7 | 1,295 | 1,124 |
| Computer hardware | 2 to 5 | 3,461 | 2,595 |
| Software | 2 to 3 | 4,243 | 3,095 |
| Machinery and equipment | 3 to 7 | 6,469 | 3,568 |
| Fiber optic equipment | 4 to 8 | 326,163 | 127,379 |
| Circuit switch equipment | 10 | 7,378 | 6,938 |
| Packet switch equipment | 3 to 5 | 20,727 | 17,786 |
| Fiber optic network | 8 to 20 | 192,926 | 140,098 |
| Construction in progress | N/A | 45,872 | 40,175 |
| Total | | 620,454 | 351,966 |
| Less accumulated depreciation | | (101,941) | (54,077) |
| Property and equipment, net | | $ 518,513 | $ 297,889 |

Total depreciation expense, including depreciation of assets held under capital leases, for the years ended June 30, 2011, 2010 and 2009 was $47,905, $27,703 and $17,737, respectively.

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Included within the Company's property and equipment balance are capital leases with a cost of $12,215 (net of accumulated depreciation of $3,611) and $14,055 (net of accumulated depreciation of $3,037) as of June 30, 2011 and 2010, respectively. The Company recognized depreciation expense associated with assets under capital leases of $1,272, $1,293 and $1,253 for the years ended June 30, 2011, 2010 and 2009, respectively.

During the years ended June 30, 2011 and 2010, the Company received a total of $3,544 and $70, respectively, in grant money from the NTIA's Broadband Technology Opportunities Program ("the Program") for reimbursement of property and equipment expenditures. 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 $34,979 in grant money related to grant agreements entered into under the Broadband Technology Opportunities Program as of June 30, 2011 which will offset capital expenditures in future periods. See Note 15 — *Commitments and Contingencies- Other Commitments.*

During the year ended June 30, 2011, the Company capitalized interest in the amount of $3,691. No interest was capitalized during the years ended June 30, 2010 or 2009. The Company capitalized $6,230, $3,278 and $2,524 of labor to fixed-asset accounts during the years ended June 30, 2011, 2010 and 2009, respectively.

**(7) GOODWILL**

The changes in the carrying amount of goodwill during the years ended June 30, 2011 and 2010 are as follows:

| | Zayo Bandwidth | Zayo Fiber Solution | zColo | Total |
|---|---|---|---|---|
| **As of July 1, 2009** | **67,854** | — | — | **67,854** |
| Additions | — | — | — | — |
| Transfers | (24) | — | 24 | — |
| **As of June 30, 2010** | **67,830** | — | **24** | **67,854** |
| Additions | 8,076 | 7,890 | — | 15,966 |
| Transfers | (4,192) | 4,192 | — | — |
| **As of June 30, 2011** | **$ 71,714** | **$ 12,082** | **$ 24** | **$ 83,820** |

As discussed in Note 17 — *Segment Reporting*, the Company established a new business unit — Zayo Fiber Solutions, in connection with the AGL Networks acquisition. As a result of the creation of this business unit, 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 business units to more closely align with its product offerings — See Note 17 — *Segment Reporting*. The restructuring resulted in the ZEN unit transferring its bandwidth infrastructure products to the Zayo Bandwidth ("ZB") unit, its dark fiber assets to the Zayo Fiber Solutions ("ZFS") unit, and its colocation products the zColo unit. Prior to the restructuring, the ZEN unit had a goodwill balance of $2,203. This goodwill balance was allocated to the ZB, ZFS and zColo units 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 unit. The restructuring resulted in $1,261 of ZEN's historical goodwill balance being allocated to the ZB business unit, $22 to the ZFS unit, and $24 to the zColo unit. The remaining $896 of the historical ZEN goodwill balance remains with the spun-off ZEN unit. The allocation of ZEN's historical goodwill balance, is reflected in the June 30, 2010 goodwill balance with the exception of the $22 allocated to ZFS which was transferred from the ZB unit to ZFS upon ZFS's formation on July 1, 2010.

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(in thousands)

## (8) INTANGIBLE ASSETS

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

| | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| **June 30, 2011** | | | |
| Customer relationships | $ 133,317 | $ (28,645) | $ 104,672 |
| Non-compete agreements | 8,835 | (8,835) | — |
| Tradenames | 500 | (500) | — |
| **Total** | $ 142,652 | $ (37,980) | $ 104,672 |
| **June 30, 2010** | | | |
| Customer relationships | $ 72,800 | $ (16,381) | $ 56,419 |
| Non-compete agreements | 8,835 | (8,623) | 212 |
| Tradenames | 500 | (417) | 83 |
| **Total** | $ 82,135 | $ (25,421) | $ 56,714 |

The amortization of intangible assets for the years ended June 30, 2011, 2010 and 2009 was $12,558, $11,035 and $8,817, respectively. Estimated future amortization of intangible assets is as follows:

| Year ending June 30, | |
|---|---|
| 2012 | $ 13,289 |
| 2013 | 13,289 |
| 2014 | 11,073 |
| 2015 | 8,693 |
| 2016 | 8,598 |
| Thereafter | 49,730 |
| **Total** | **$ 104,672** |

## (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%), $250,000 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 this issuance of the Notes to repay its term loans in March of 2010.

In September 2010, the Company completed an offering of an additional $100,000 in Notes (at an issue price of 103%). These Notes are part of the same series as the $250,000 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 this issuance of the Notes to fund the merger with AFS (See Note 3 — *Acquisitions)*.

The balance of the Notes was $350,147 and $247,080 at June 30, 2011 and 2010, net of unamortized premiums and discounts of $147 and ($2,920), respectively.

In October 2010, in connection with the AFS 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 estimated the imputed interest associated with this note on the acquisition date to be $359, which is being recognized over the term of the promissory note. During the year ended June 30, 2011, the Company recognized interest expense and a corresponding increase to the promissory note obligation of $126.

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In September 2009, the Company entered into a $30,000 term loan to finance the FiberNet acquisition. This loan was paid off in March 2010 with the proceeds from the Notes issued in March, 2010.

In March 2010, the Company also entered into a revolving line-of-credit (the "Revolver"). Concurrent with offering the $100,000 Notes in September 2010, the Company amended the terms of its Revolver to increase the borrowing capacity from $75,000 to $100,000 (adjusted for letter of credit usage). The Company has capitalized $2,248 in debt issuance costs associated with the new Revolver.

The Revolver expires on March 1, 2014 and bears interest at the option of the Company at 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 quarter's 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 June 30, 2011 and 2010, 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 June 30, 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 June 30, 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.

*Debt issuance costs*

Debt issuance costs have been capitalized on the accompanying 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 unamortized debt issuance costs of $5,881 associated with the term loans (Tranche A through D) and the Revolver maturing in 2013 were expensed in March 2010 upon the settlement of those credit agreements. The balance of debt issuance costs as of June 30, 2011 and 2010 was $11,446 (net of accumulated amortization of $2,746) and $9,560 (net of accumulated amortization of $526), respectively. Interest expense associated with the amortization of debt issuance costs was $2,220, $1,624 and $1,114 during the years ended June 30, 2011, 2010 and 2009, respectively.

*Debt covenants*

The Company's credit agreement associated with the $100,000 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.

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*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 $10,000, 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 June 30, 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 and 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 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.

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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 changes in fair value of interest rate swaps are recorded as an increase or decrease in interest expense in the consolidated statements of operations for the applicable period. During the years ended June 30, 2011, 2010 and 2009, $0, $744 and $3,143, respectively were recorded as an increase in interest expense for the change in the fair value of the interest rate swaps.

The Company made payments on the swaps of $566, $2,462 and $859 during the years ended June 30, 2011, 2010 and 2009, respectively. The liability associated with the swaps was $566 as of June 30, 2010 and is classified as an accrued expense on the consolidated balance sheets.

**(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:

| | Year Ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Federal income taxes — current | $ — | $ — | $ — |
| Federal income taxes — deferred | 10,140 | 3,556 | (1,806) |
| Provision for federal income taxes | 10,140 | 3,556 | (1,806) |
| State income taxes — current | 1,449 | 755 | (247) |
| State income taxes — deferred | 953 | 512 | (268) |
| Provision for state income taxes | 2,402 | 1,267 | (515) |
| Provision/(benefit) for income taxes | $ 12,542 | $ 4,823 | $ (2,321) |

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.

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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 for each of the years in the three-year period ended June 30, 2011 follows:

| | Year Ended June 30, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Expected provision at statutory rate of 34% | $ 2,566 | $ (48) | $ (4,053) |
| Increase due to: | | | |
| Non-deductible stock-based compensation | 7,824 | 6,177 | 2,158 |
| State income taxes, net of federal benefit | 1,564 | 786 | (248) |
| Transactions costs not deductible for tax purposes | 294 | 385 | — |
| Non-taxable gain on bargain purchase | — | (3,078) | — |
| Other, net | 294 | 601 | (178) |
| Provision/(benefit) for income taxes | $ 12,542 | $ 4,823 | $ (2,321) |

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 tax effect of temporary differences that give rise to significant portions of the deferred taxes assets and deferred tax liabilities are as follows:

| | Year Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Deferred income tax assets | | |
| Net operating loss carry forwards | $ 48,545 | $ 37,907 |
| Alternate minimum tax credit carryforwards | 78 | 78 |
| Deferred revenue | 13,655 | 8,752 |
| Unrealized loss on interest rate swaps | — | 223 |
| Accrued expenses | 3,030 | 676 |
| Other liabilities | 1,775 | 354 |
| Allowance for doubtful accounts | 826 | 1,168 |
| Other | 2 | 1 |
| Total deferred income tax assets | 67,911 | 49,159 |
| Deferred income tax liabilities | | |
| Property and equipment | 33,804 | 23,942 |
| Intangible assets | 34,515 | 12,649 |
| Investment in unconsolidated subsidiary | 4,164 | — |
| Total deferred income tax liabilities | 72,483 | 36,591 |
| Less: Valuation allowance | (407) | — |
| Net deferred income tax (liability)/assets | $ (4,979) | $ 12,568 |

As of June 30, 2011 and June 30, 2010, the Company had $127,368 and $101,551 of net operating loss ("NOLs") carry forwards, respectively. The Company acquired $5,060 of NOLs in the Northwest Telephone acquisition, $94,655 of NOLs in the FiberNet acquisition and $41,261 of NOLs in the AFS acquisition. Each of these acquisitions, however, was a "change in ownership" within the meaning of Section 382 of the Internal Revenue Code and, as a result, such NOL's are subject to an annual limitation, and thus the Company is limited in its ability to use such NOLs to reduce its income tax liabilities. The current annual NOL usage limitation related to the Company's acquired NOLs is $11,206. Additionally the Company generated $2,321 of NOLs for the years ended June 30, 2009 and 2008 which are also available to offset future taxable income.

For the year ended June 30, 2011, the Company estimated that is will utilize $27,962 of its acquired NOL carryforwards including $10,990 of Onvoy's NOL carryforwards to offset taxable income — See Note 12 *Equity*, for a discussion of the tax sharing agreement between the Company and Onvoy. During the period from the spin-off date of Onvoy, March 12, 2010, through June 30, 2010, the Company estimated that it would utilize $3,011 of Onvoy's NOL carryforwards to offset fiscal year 2010 taxable income. The tax effected benefit resulting from the expected utilization of Onvoy NOL carryforwards of $3,737 and $1,200 during the years ended June 30, 2011 and 2010, respectively, have been reflected on the statement of member's equity.

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The Company's NOLs, if not utilized to reduce taxable income in future periods, will expire in various amounts beginning in 2015 and ending in 2029. As of June 30, 2011 management believes it is more-likely-than-not that the Company will not be able to utilize $1,044 of the NOLs acquired from the FiberNet acquisition; as such the Company has recorded a $407 valuation allowance against such NOLs to reflect the portion of NOLs that the Company does not expect to use.

The Company is subject to audit by various taxing authorities, and these audits may result in proposed assessments where the ultimate resolution results in the Company owing additional income taxes. The statute of limitations is open with respect to tax years 2007 to 2010 however, to the extent that the Company has an NOL balance which was generated in a tax year outside of this statute of limitations period, such tax years will remain open until such NOLs are utilized by the Company. The Company establishes reserves, when the management believes there is uncertainty with respect to certain positions and the Company may not succeed in realizing the tax benefits. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. The application of income tax law is inherently complex, as such; it requires many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time; as such, changes in these subjective assumptions and judgments can materially affect amounts recognized in the balance sheets and statements of operations. At June 30, 2011 and June 30, 2010, there were no unrecognized tax benefits. As of June 30, 2011 and June 30, 2010, there was no accrued interest or penalties related to uncertain tax positions.

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) ACCRUED LIABILITIES**

Accrued liabilities included in current liabilities consisted of the following:

| | Year Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Accrued compensation and benefits | $ 3,451 | $ 3,488 |
| Accrued property and equipment purchases | 4,592 | 2,419 |
| Network expense accruals | 1,375 | 349 |
| Accrued income taxes | 834 | 535 |
| Other accrued taxes | 3,000 | 3,216 |
| Deferred lease obligations | 1,822 | 425 |
| Other accruals | 7,379 | 6,720 |
| **Total** | **$ 22,453** | **$ 17,152** |

**(12) 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 the contributions are reflected in the Company's member's equity.

During the years ended June 30, 2011, 2010 and 2009, CII contributed $36,450, $39,800 and $35,546, respectively in capital to the Company through Holdings. CII funded these amounts from equity contributions from its investors. As of June 30, 2011, the equity commitments from CII's investors have been fulfilled.

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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 years ended June 30, 2011, 2010 and 2009 was $240, $1,150 and $1,628, respectively. These Class A Preferred Units were in lieu of any significant cash compensation to the founders 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 years ended June 30, 2010 and 2009 was $45 and $421, 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 63,926 Class B preferred units issued to the Board member. The grant date fair market value of the 73,059 class B preferred units issued to the remaining Board member was determined to be $167. Stock-based compensation expense recognized for this grant during the years ended June 30, 2011 and 2010 was $42 and $3, 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 recognizes 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 recognizes 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 year ended June 30, 2011 was $535.

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

ZEN was spun-off from the Company on April 1, 2011 to its parent — Holdings (see Note 4 — *Spin-Off of Business Units*). As a result of the spin-off the Company's member's interest account was reduced by the book value of ZEN of $6,368, during the year ended June 30, 2011.

On March 12, 2010, Onvoy was spun-off from the Company to Holdings (see Note 4 — *Spin-Off of Business Units*). As a result of the spin-off the Company's member's interest account was reduced by the book value of Onvoy of $42,539, during the year ended June 30, 2010.

In connection with the spin-offs, the Company entered into a tax-sharing agreement with ZEN, OVS and Holdings, the taxable entity. The agreement allows for the sharing of the Holdings NOL carryforward balance between the Company and Onvoy however, to the extent that any entity utilizes NOLs that were generated by another entity, 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 years ended June 30, 2011 and 2010, the Company utilized $10,990 and $3,001, respectively, of gross NOLs of Onvoy resulting in a non-cash capital contribution from Holdings in the amount of $3,737 and $1,200 during the respective periods. The increase in the Company's member's interest account resulting from the utilizations of Onvoy's NOL's is reflected in the Statement of Members Equity. Offsetting this increase to member's equity during the year ended June 30, 2011 was a $5,955 adjustment to the allocation of the deferred tax liabilities of Holdings from Onvoy to the Company subsequent to the spin-off. Additionally, during the year ended June 30, 2011, the Company settled a 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.

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## (13) STOCK COMPENSATION

The Company has been given authorization by CII to issue 125,000,000 of CII's common units as profits interest 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 year ended June 30, 2011, CII issued two additional classes of common units: Class D and E. 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 June 30, 2011, 109,812,741 common units were issued and outstanding to employees and directors of the Company and 15,187,259 common units were available to be issued.

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 June 30, 2011 and 2010, the estimated fair value of the common units was as follows:

| Common Unit Class | As of June 30, 2011 | As of June 30, 2010 |
|---|---|---|
| | (estimated per share value) | |
| Class A | $ 0.81 | $ 0.49 |
| Class B | $ 0.58 | $ 0.28 |
| Class C | $ 0.33 | $ 0.03 |
| Class D | $ 0.31 | n/a |
| Class E | $ 0.23 | n/a |

The estimated fair value of the common units was obtained from a valuation report prepared by an independent valuation firm as of the respective dates.

The liability associated with the common units was $45,067 and $21,556 as of June 30, 2011 and 2010, respectively. The stock-based compensation expenses associated with the common units was $23,490, $16,973 and $4,366 during the years ended June 30, 2011, 2010 and 2009, respectively.

The holders of common units are not entitled to transfer 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 capital contributions of the CII preferred unit holders plus their priority return of 6% per annum has been reimbursed. The remaining proceeds from a liquidation event are distributed between the preferred and common unit holders on a scale ranging from 85% to the preferred unit holders and 15% to the common unit holders to 80% to the preferred unit holders and 20% to the common unit holders. The percentage allocated to the common unit holders is dependent upon the return multiple realized by the Class A preferred unit holders. The maximum incremental allocation of proceeds from a liquidation event to common unit holders, of 20 percent, occurs if the return multiple realized by the Class A preferred unit holders reaches 3.5 times the Class A preferred holder's combined capital contributions. As discussed above, the Class A common unit holders receive proceeds from a liquidation event once the preferred shareholders capital contributions and accrued dividends are returned. The Class B common unit holders begin sharing in the proceeds of a liquidation event once the Class A common unit holders have been distributed a total of $15,000 of the liquidation proceeds. The Class C common unit holders begin sharing in the proceeds of a liquidation event once the earlier common unit classes have been distributed a combined $40,000 in proceeds. The Class D common unit holders begin sharing in the proceeds of a liquidation event once the earlier common unit classes have been distributed a combined $45,000 in proceeds. Lastly, the Class E common unit holders begin sharing in the proceeds of a liquidation event once the earlier common unit classes have been distributed a combined $75,000 in proceeds.

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The following table represents the activity as it relates to common unit issuances and forfeitures during the years ended June 30, 2011, 2010 and 2009.

| | Class AC | lass B | Class C | Class D | Class E | Totals |
|---|---|---|---|---|---|---|
| **Balance at June 30, 2008** | **44,530,655** | — | — | — | — | **44,530,655** |
| Common units issued | 5,494,665 | — | — | — | — | 5,494,665 |
| Common units forfeited | (2,162,262) | — | — | — | — | (2,162,262) |
| **Balance at June 20, 2009** | **47,863,058** | — | — | — | — | **47,863,058** |
| Common units issued | — | 18,964,500 | 3,330,218 | — | — | 22,294,718 |
| Common units forfeited | (424,271) | (710,000) | — | — | — | (1,134,271) |
| **Balance at June 30, 2010** | **47,438,787** | **18,254,500** | **3,330,218** | — | — | **69,023,505** |
| Common units issued | — | 500,000 | — | 32,499,173 | 10,445,905 | 43,445,078 |
| Common units forfeited | (341,659) | (1,506,980) | (505,000) | (147,203) | (155,000) | (2,655,842) |
| **Balance at June 20, 2011** | **47,097,128** | **17,247,520** | **2,825,218** | **32,351,970** | **10,290,905** | **109,812,741** |

The following table represents the activity as it relates to common units vested since the Company's inception:

| | Year ended June 30, | | | | | Un-vested and |
|---|---|---|---|---|---|---|
| **Common Units Vested** | **2008** | **2009** | **2010** | **2011** | **Total Vested** | **Outstanding** |
| Class A | 14,602,642 | 12,968,534 | 12,573,357 | 6,523,678 | 46,668,211 | 428,917 |
| Class B | — | — | 5,523,680 | 4,868,342 | 10,392,022 | 6,855,498 |
| Class C | — | — | 239,583 | 750,267 | 989,850 | 1,835,368 |
| Class D | — | — | — | — | — | 32,351,970 |
| Class E | — | — | — | — | — | 10,290,905 |
| **Total Vested** | **14,602,642** | **12,968,534** | **18,336,620** | **12,142,287** | **58,050,083** | **51,762,658** |

In estimating the fair value of share-based awards, the Company has historically evaluated both market and income based valuation techniques. The income approach was based on managements' projected free cash flows. The market based approach, estimates the fair value 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 the Company's expansion since inception and due to the fact that the committed capital from the Company's ultimate investors has been fully funded, the potential of a liquidation event for the Company's shareholders in the future has increased. As such, management revised the market based approach utilized in the valuation of the common units to account for potential liquidation events.

During the year ended June 30, 2011, the Company employed a probability-weighted estimated return method to value the common units. The method estimates the value of the units based on an analysis of values of the enterprise assuming various future outcomes. The estimated fair value of the common units is based on a probability-weighted present value of expected future proceeds to the Company's shareholders, considering each potential liquidity scenario available to the Company's investors 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 were considered by management were remaining a private company with the same ownership, a sale or merger, an initial public offering ("IPO"), and a partial recapitalization.

**(14) 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 June 30, 2011 and 2010 due to the short maturity of these instruments. Interest rate swaps are recorded in the 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 $350,147 and $247,080 as of June 30, 2011 and 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 June 30, 2011 and 2010, is estimated to be $385,875 and $252,500, respectively. The Company recorded its promissory note with the previous owners of AFS at its fair 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 through March 2017. The fair value of this note is not re-measured each reporting period; however, based on current interest rates for debt instruments with similar maturity dates, the June 30, 2011 book value of the AFS promissory note approximates fair value. The Company records its stock-based compensation liability at its estimated fair value.

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

| | Level | June 30, 2011 | June 30, 2010 |
|---|---|---|---|
| *Liabilities Recorded at Fair Value in the Financial Statements:* | | | |
| Interest rate swap liabilities | Level 2 | $ — | $ 566 |
| Stock-based compensation liability | Level 3 | 45,067 | 21,556 |
| Total liabilities recorded at fair value in the consolidated financial statements | | $ 45,067 | $ 22,122 |

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 $744 and $3,143 to interest expense during the years ended June 30, 2010 and 2009, respectively.

We use a third party valuation firm 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.

## (15) COMMITMENTS AND CONTINGENCIES

*Capital Leases*

Future contractual payments under the terms of the Company's capital lease obligations were as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2012 | $ 1,769 |
| 2013 | 1,754 |
| 2014 | 1,721 |
| 2015 | 1,681 |
| 2016 | 1,494 |
| Thereafter | 7,298 |
| Total minimum lease payments | 15,717 |
| Less amounts representing interest | (4,543) |
| Less current portion | (950) |
| Capital lease obligations, less current portion | $ 10,224 |

The weighted average interest rate on capital lease obligations was 10.37% and 12.1% as of June 30, 2011 and 2010, respectively.

*Operating Leases*

The Company leases office space, warehouse space, network assets, switching and transport sites, points of presence and equipment under non-cancelable operating leases. Lease expense was $38,375, $29,634 and $14,981 for the years ended June 30, 2011, 2010 and 2009, respectively.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases. When the straight-line expense recorded exceeds the cash outflows during the respective period, the Company records a deferred rent liability on the consolidated balance sheets and amortizes the deferred rent over the terms of the leases.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

Minimum contractual lease payments due under the Company's long-term operating leases are as follows:

| Year ending June 30, | |
|---|---|
| 2012 | $ 23,353 |
| 2013 | 21,241 |
| 2014 | 19,270 |
| 2015 | 18,042 |
| 2016 | 15,834 |
| Thereafter | 81,059 |
| | $ 178,799 |

*Purchase commitments*

At June 30, 2011, the Company was contractually committed for $22,822 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 June 30, 2011, the Company had $6,420 in outstanding letters of credit, which were primarily entered into in connection with various lease agreements.

*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 June 30, 2011, the Company has been reimbursed for $96 of expenses and $3,339 of capital expenditures related to the Indiana Stimulus Project. As of June 30, 2011, the Company has incurred $1,021 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 June 30, 2011, the Company has been reimbursed for $121 of expenses and $275 of capital expenditures related to the Indiana Stimulus Project. As of June 30, 2011, the Company has incurred $32 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.

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

## (16) RELATED-PARTY TRANSACTIONS

As of June 30, 2011, the Company had a due to related-party balance with CII of $4,590 which is payable on demand. The liability with CII relates to an interest payment made by CII on the Company's Notes.

As of June 30, 2011 and 2010, the Company had a receivable balance due from Onvoy in the amount of $187 and $626, respectively, related to services the Company provided to OVS and/or ZEN. See Note 4 — *Spin-Off of Business Units,* for a discussion of the types of services ZEN, Onvoy and the Company continue to provide each other subsequent to their spin-off dates.

Subsequent to the April 1, 2011 spin-off of ZEN and the March 12, 2010 spin-off of Onvoy, the revenue and expenses associated with transactions with ZEN and Onvoy have been recorded in the results from continuing operations. The following table represents the revenue and expense transactions recognized with these related-parties subsequent to their spin-off dates:

| | Year ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | OVS | ZEN | Total | OVS | ZEN | Total |
| Revenue | $ 4,475 | $ 508 | $ 4,983 | $ 1,436 | $ — | $ 1,436 |
| Operating costs | 404 | — | 404 | — | — | — |
| Selling, general and administrative expenses | 161 | 99 | 260 | 564 | — | 564 |
| Net | $ 3,910 | $ 409 | $ 4,319 | $ 872 | $ — | $ 872 |

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 $100,000 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.

## (17) SEGMENT REPORTING

A business unit 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 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 business units 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 unit, which resulted in all of the Company's business units more closely aligning with their product offerings rather than a combination of product offerings and customer demographics. The restructuring of the ZEN unit resulted in the ZEN unit transferring its bandwidth infrastructure products to the ZB unit and its colocation products to the zColo unit. The restructured ZEN unit, which contained only the Company's legacy managed services and CLEC product offerings, was spun-off to Holdings on April 1, 2011.

Subsequent to the restructuring, the ZB unit offers primarily lit bandwidth infrastructure services and the zColo unit provides colocation and inter-connection transport services. The Company has restated the comparative historical segment financial information below to account for the restructuring of the business units.

In connection with the AGL Networks acquisition (See Note 3 — *Acquisitions*), Zayo established the ZFS unit. ZFS is dedicated to marketing and supporting dark fiber related services. Prior to the formation of the ZFS unit, 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 formation of the ZFS business units, effective July 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 unit.

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

Prior to the formation of the zColo and the ZFS units, 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 business unit. The Company has not restated the historical ZB unit information to carve-out the operating results related to colocation product offerings prior to the September 30, 2009 formation of the zColo unit or dark fiber services prior to the July 1, 2010 formation of the ZFS unit as management has determined it is impractical to do so.

Revenues for all of the Company's products are included in one of these three business units. The results of operations for each business unit 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 business unit 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 year ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| | ZB | zColo | ZFS | Corporate/ eliminations | Total |
| Revenue | $ 214,110 | $ 33,899 | $ 44,549 | $ — | $ 292,558 |
| Intersegment revenue | (2,056) | (3,267) | — | — | (5,323) |
| Revenue from external customers | 212,054 | 30,632 | 44,549 | — | 287,235 |
| Gross profit (revenue less operating costs excluding depreciation and amortization) | 158,461 | 17,700 | 43,152 | (3,606) | 215,707 |
| Depreciation and amortization | 41,521 | 5,393 | 13,549 | — | 60,463 |
| Operating income/(loss) | 38,264 | 6,120 | 10,796 | (14,092) | 41,088 |
| Interest expense | (960) | (225) | (15) | (32,214) | (33,414) |
| Other (expense)/income, net | (54) | — | 7 | (79) | (126) |
| Earnings from continuing operations before provision for income taxes | 37,249 | 5,895 | 10,788 | (46,384) | 7,548 |
| Total assets | 491,337 | 52,161 | 211,315 | 34,448 | 789,261 |
| Capital expenditures, net of stimulus grant reimbursements | 99,062 | 1,543 | 11,919 | — | 112,524 |

| | As of and for the year ended June 30, 2010 | | | | |
|---|---|---|---|---|---|
| | ZB | zColo | ZFS | Corporate/ eliminations | Total |
| Revenue | $ 183,085 | $ 23,993 | $ — | $ — | $ 207,078 |
| Intersegment revenue | (5,833) | (1,915) | — | — | (7,748) |
| Revenue from external customers | 177,252 | 22,078 | — | — | 199,330 |
| Gross profit (revenue less operating costs excluding depreciation and amortization) | 131,331 | 13,025 | — | (7,714) | 136,642 |
| Depreciation and amortization | 34,225 | 4,513 | — | — | 38,738 |
| Operating income/(loss) | 27,336 | 4,409 | — | (17,920) | 13,825 |
| Interest expense | (1,130) | (164) | — | (17,398) | (18,692) |
| Loss on extinguishment of debt | — | — | — | (5,881) | (5,881) |
| Gain on bargain purchase | — | — | — | 9,081 | 9,081 |
| Other income, net | 382 | — | — | 1,144 | 1,526 |
| Earnings from continuing operations before provision for income taxes | 26,588 | 4,245 | — | (30,974) | (141) |
| Total assets | 397,150 | 56,774 | — | 111,916 | 565,840 |
| Capital expenditures, net of stimulus grant reimbursements | 58,117 | 634 | — | — | 58,751 |

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

| | As of and for the year ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | ZB | zColo | ZFS | Corporate/ eliminations | Total |
| Revenue | $ 129,282 | $ — | $ — | $ — | $ 129,282 |
| Intersegment revenue | (3,943) | — | — | — | (3,943) |
| Revenue from external customers | 125,339 | — | — | — | 125,339 |
| Gross profit (revenue less operating costs excluding depreciation and amortization) | 95,712 | — | — | (8,165) | 87,547 |
| Depreciation and amortization | 26,554 | — | — | — | 26,554 |
| Operating income/(loss) | 16,407 | — | — | (13,319) | 3,088 |
| Interest expense | (1,182) | — | — | (14,063) | (15,245) |
| Other income, net | 54 | — | — | 180 | 234 |
| Earnings from continuing operations before provision for income taxes | 15,279 | — | — | (27,202) | (11,923) |
| Total assets | 316,511 | — | — | 105,651 | 422,162 |
| Capital expenditures, net of stimulus grant reimbursements | 61,614 | — | — | — | 61,614 |

## (18) CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On June 30, 2011, the Company completed a rollup of certain legal subsidiaries into Zayo Group, LLC. The rollup included the merger of the following legal subsidiaries up and into Zayo Group, LLC: (i) Zayo Bandwidth, LLC; (ii) Zayo Fiber Solutions, LLC; (iii) Zayo Bandwidth Tennessee, LLC; and (iv) Adesta Communications, Inc. In connection with the rollup, the assets, liabilities and operating results of these legacy subsidiaries were consolidated with and into the Zayo Group, LLC entity. Prior to the rollup, Zayo Group, LLC did not have significant independent assets or operations. Subsequent to the rollup, Zayo Colocation , Inc. (and its subsidiaries), American Fiber Systems Holding Corp (and its subsidiary American Fiber Systems, Inc.), and Zayo Capital, Inc. remain the only wholly owned legal subsidiaries of the Company.

In March 2010, the Company co-issued, with its 100 percent owned finance subsidiary — Zayo Capital, Inc. (at an issue price of 98.779%) $250,000 of Senior Secured Notes. The notes bear interest at 10.25% annually and are due on March 15, 2017.

In September 2010, the Company completed an offering of an additional $100,000 in notes (at an issue price of 103%). These notes are part of the same series as the $250,000 Senior Secured Notes and also accrue interest at a rate of 10.25% and mature on March 15, 2017.

Both note issuances 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. Zayo Capital, Inc., the co-issuer of both Note issuances, does not have independent assets or operations.

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 "Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered."

The operating activities of the separate legal entities included in the Company's consolidated financial statements are interdependent. The accompanying condensed consolidating financial information presents the results of operations, financial position and cash flows of each legal entity. Zayo Group, LLC and Zayo Colocation, Inc. provide services to each other during the normal course of business. These transactions are eliminated in the consolidated results of the Company. Zayo Colocation, Inc. was formed in September of 2009; as such, the financial information presented below is included for only the years ended June 30, 2011 and 2010.

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

Condensed Consolidating Balance Sheets
June 30, 2011

| | Zayo Group, LLC | Zayo Colocation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 24,213 | $ 1,181 | $ — | $ 25,394 |
| Trade receivables, net | 11,856 | 2,127 | — | 13,983 |
| Due from related parties | 2,182 | — | (1,995) | 187 |
| Prepaid expenses | 5,517 | 871 | — | 6,388 |
| Deferred income taxes | 3,343 | — | — | 3,343 |
| Other current assets | 640 | 5 | — | 645 |
| **Total current assets** | **47,751** | **4,184** | **(1,995)** | **49,940** |
| Property and equipment, net | 486,847 | 31,666 | — | 518,513 |
| Intangible assets, net | 89,117 | 15,555 | — | 104,672 |
| Goodwill | 83,796 | 24 | — | 83,820 |
| Debt issuance costs, net | 11,446 | — | — | 11,446 |
| Investment in US Carrier | 15,075 | — | — | 15,075 |
| Other assets, non-current | 5,060 | 735 | — | 5,795 |
| Investment in subsidiary | 45,594 | — | (45,594) | — |
| **Total assets** | **$ 784,686** | **$ 52,164** | **$ (47,589)** | **$ 789,261** |
| **Liabilities and member's equity:** | | | | |
| Current liabilities | | | | |
| Accounts payable | $ 12,287 | $ 701 | $ — | $ 12,988 |
| Accrued liabilities | 19,122 | 3,331 | — | 22,453 |
| Accrued interest | 10,627 | — | — | 10,627 |
| Capital lease obligation, current | 950 | — | — | 950 |
| Due to related parties | 6,364 | 221 | (1,995) | 4,590 |
| Deferred revenue, current | 15,341 | 323 | — | 15,664 |
| **Total current liabilities** | **64,691** | **4,576** | **(1,995)** | **67,272** |
| Capital lease obligations, non-current | 10,224 | — | — | 10,224 |
| Long-term debt | 354,414 | — | — | 354,414 |
| Deferred revenue, non-current | 62,704 | 1,189 | — | 63,893 |
| Stock-based compensation liability | 44,263 | 804 | — | 45,067 |
| Deferred tax liability | 8,322 | — | — | 8,322 |
| Other long term liabilities | 2,724 | — | — | 2,724 |
| **Total liabilities** | **547,342** | **6,569** | **(1,995)** | **551,916** |
| **Member's equity:** | | | | |
| Member's interest | 255,572 | 35,455 | (45,594) | 245,433 |
| (Accumulated deficit)/retained earnings | (18,228) | 10,140 | — | (8,088) |
| **Total member's equity** | **237,344** | **45,595** | **(45,594)** | **237,345** |
| **Total liabilities and member's equity** | **$ 784,686** | **$ 52,164** | **$ (47,589)** | **$ 789,261** |

## ZAYO GROUP, LLC AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

### Condensed Consolidating Balance Sheets
June 30, 2010

| | Zayo Group, LLC | Zayo Colocation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 84,967 | $ 2,897 | $ — | $ 87,864 |
| Trade receivables, net | 9,998 | 1,553 | — | 11,551 |
| Due from related parties | 1,426 | 138 | (938) | 626 |
| Prepaid expenses | 4,083 | 727 | — | 4,810 |
| Deferred income taxes | 4,060 | — | — | 4,060 |
| Other current assets | 332 | 2 | — | 334 |
| Assets of discontinued operations, current | 3,061 | — | — | 3,061 |
| **Total current assets** | **107,927** | **5,317** | **(938)** | **112,306** |
| Property and equipment, net | 264,791 | 33,098 | — | 297,889 |
| Intangible assets, net | 39,217 | 17,497 | — | 56,714 |
| Goodwill | 67,830 | 24 | — | 67,854 |
| Deferred income taxes | 8,508 | — | — | 8,508 |
| Debt issuance costs, net | 9,560 | — | — | 9,560 |
| Other assets | 4,027 | 839 | — | 4,866 |
| Investment in subsidiary | 53,708 | | (53,708) | — |
| Assets of discontinued operations, non-current | 8,143 | — | — | 8,143 |
| **Total assets** | **$ 563,711** | **$ 56,775** | **$ (54,646)** | **$ 565,840** |
| **Liabilities and member's equity:** | | | | |
| Current liabilities | | | | |
| Accounts payable | $ 9,442 | $ 573 | $ — | $ 10,015 |
| Accrued liabilities | 16,284 | 868 | — | 17,152 |
| Accrued interest | 7,794 | — | — | 7,794 |
| Capital lease obligations, current | 1,673 | — | — | 1,673 |
| Due to related parties | 811 | 127 | (938) | — |
| Deferred revenue, current portion | 7,845 | 246 | — | 8,091 |
| Liabilities of discontinued operations, current | 1,740 | — | — | 1,740 |
| **Total current liabilities** | **45,589** | **1,814** | **(938)** | **46,465** |
| Capital lease obligations, non-current | 11,033 | — | — | 11,033 |
| Long-term debt | 247,080 | — | — | 247,080 |
| Deferred revenue, non-current | 21,391 | 1,214 | — | 22,605 |
| Stock-based compensation liability | 21,517 | 39 | — | 21,556 |
| Other long term liabilities | 2,397 | — | — | 2,397 |
| Liabilities of discontinued operations, non-current | 1,568 | — | — | 1,568 |
| **Total liabilities** | **350,575** | **3,067** | **(938)** | **352,704** |
| **Member's equity:** | | | | |
| Member's interest | 221,374 | 49,463 | (53,708) | 217,129 |
| (Accumulated deficit)/retained earnings | (8,238) | 4,245 | — | (3,993) |
| **Total member's equity** | **213,136** | **53,708** | **(53,708)** | **213,136** |
| **Total liabilities and member's equity** | **$ 563,711** | **$ 56,775** | **$ (54,646)** | **$ 565,840** |

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

**Condensed Consolidating Statements of Operations**
**June 30, 2011**

| | Zayo Group, LLC | Zayo Colocation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| Revenue | $ 258,659 | $ 33,899 | $ (5,323) | $ 287,235 |
| Operating costs and expenses | | | | |
| Operating costs, excluding depreciation and amortization | 57,047 | 16,199 | (1,718) | 71,528 |
| Selling, general and administrative expenses | 86,686 | 5,594 | (2,434) | 89,846 |
| Stock-based compensation | 23,717 | 593 | — | 24,310 |
| Depreciation and amortization | 55,071 | 5,392 | — | 60,463 |
| Total operating costs and expenses | 222,521 | 27,778 | (4,152) | 246,147 |
| Operating income | 36,138 | 6,121 | (1,171) | 41,088 |
| Other income expense | | | | |
| Interest expense | (33,189) | (225) | — | (33,414) |
| Other expense | (126) | — | — | (126) |
| Total other expense, net | (33,315) | (225) | — | (33,540) |
| Earnings/(loss) from continuing operations before income taxes | 2,823 | 5,896 | (1,171) | 7,548 |
| Provision for income taxes | 12,542 | — | — | 12,542 |
| (Loss)/earnings from continuing operations | (9,719) | 5,896 | (1,171) | (4,994) |
| Earnings from discontinued operations, net of income taxes | 899 | — | — | 899 |
| **Net (loss)/earnings** | **$ (8,820)** | **$ 5,896** | **$ (1,171)** | **$ (4,095)** |

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

**Condensed Consolidating Statements of Operations**
**June 30, 2010**

| | Zayo Group, LLC | Zayo Colocation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| Revenue | $ 183,085 | $ 23,993 | $ (7,748) | $ 199,330 |
| Operating costs and expenses | | | | |
| Operating costs, excluding depreciation and amortization | 51,754 | 10,968 | (34) | 62,688 |
| Selling, general and administrative expenses | 64,266 | 4,065 | (2,420) | 65,911 |
| Stock-based compensation | 18,129 | 39 | — | 18,168 |
| Depreciation and amortization | 34,225 | 4,513 | — | 38,738 |
| Total operating costs and expenses | 168,374 | 19,585 | (2,454) | 185,505 |
| Operating income | 14,711 | 4,408 | (5,294) | 13,825 |
| Other expense | | | | |
| Interest expense | (18,529) | (163) | — | (18,692) |
| Other income | 10,607 | — | — | 10,607 |
| Loss on extinguishment of debt | (5,881) | — | — | (5,881) |
| Total other expense, net | (13,803) | (163) | — | (13,966) |
| Earnings/(loss) from continuing operations before income taxes | 908 | 4,245 | (5,294) | (141) |
| Provision for income taxes | 4,823 | — | — | 4,823 |
| (Loss)/earnings from continuing operations | (3,915) | 4,245 | (5,294) | (4,964) |
| Earnings from discontinued operations, net of income taxes | 5,425 | — | — | 5,425 |
| **Net earnings/(loss)** | **$ 1,510** | **$ 4,245** | **$ (5,294)** | **$ 461** |

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

Condensed Consolidating Statements of Cash Flows
June 30, 2011

| | Zayo Group, LLC | Zayo Colocation, Inc. | Total |
|---|---|---|---|
| **Net cash provided by continuing operating activities** | **$ 83,860** | **$ 13,194** | **$ 97,054** |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (110,981) | (1,543) | (112,524) |
| Proceeds from sale of equipment | 28 | — | 28 |
| Acquisitions, net of cash acquired | (183,666) | — | (183,666) |
| **Net cash used in investing activities** | **(294,619)** | **(1,543)** | **(296,162)** |
| **Cash flows from financing activities:** | | | |
| Equity contributions | 36,450 | — | 36,450 |
| Dividend received/(paid) | 13,320 | (13,320) | — |
| Proceeds from borrowings | 103,000 | — | 103,000 |
| Principal repayments on capital lease obligations | (1,732) | — | (1,732) |
| Changes in restricted cash | 578 | — | 578 |
| Deferred financing costs | (4,106) | — | (4,106) |
| **Net cash provided/(used) by financing activities** | **147,510** | **(13,320)** | **134,190** |
| **Cash flows from discontinued operations:** | | | |
| Operating activities | 2,622 | — | 2,622 |
| Investing activities | (382) | — | (382) |
| **Net cash provided by discontinued operations** | **2,240** | **—** | **2,240** |
| Net decrease in cash and cash equivalents | (61,009) | (1,669) | (62,678) |
| Cash and cash equivalents, beginning of year | 84,967 | 2,897 | 87,864 |
| (Increase)/ decrease in cash and cash equivalents of discontinued operations | (973) | 1,181 | 208 |
| **Cash and cash equivalents, end of year** | **$ 22,985** | **$ 2,409** | **$ 25,394** |

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

June 30, 2010

| | Zayo Group, LLC | Zayo Colocation, Inc. | Total |
|---|---|---|---|
| **Net cash provided by continuing operating activities** | **$ 49,310** | **$ 8,890** | **$ 58,200** |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (58,117) | (634) | (58,751) |
| Acquisitions, net of cash acquired | (45,576) | (50,995) | (96,571) |
| **Net cash used in investing activities** | **(103,693)** | **(51,629)** | **(155,322)** |
| **Cash flows from financing activities:** | | | |
| Equity contributions | (11,195) | 50,995 | 39,800 |
| Dividend received/(paid) | 5,359 | (5,359) | — |
| Proceeds from borrowings | 276,948 | — | 276,948 |
| Principal repayments on debt obligations | (166,193) | — | (166,193) |
| Principal repayments on capital lease obligations | (2,192) | — | (2,192) |
| Change in restricted cash | (564) | — | (564) |
| Deferred financing costs | (12,353) | — | (12,353) |
| **Net cash provided by financing activities** | **89,810** | **45,636** | **135,446** |
| **Cash flows from discontinued operations:** | | | |
| Operating activities | 13,923 | — | 13,923 |
| Investing activities | (1,809) | — | (1,809) |
| **Net cash provided/(used) by discontinued operations** | **12,114** | **—** | **12,114** |
| Net increase in cash and cash equivalents | 47,541 | 2,897 | 50,438 |
| Cash and cash equivalents, beginning of year | 38,019 | — | 38,019 |
| (Increase)/ decrease in cash and cash equivalents of discontinued operations | (593) | — | (593) |
| **Cash and cash equivalents, end of year** | **$ 84,967** | **$ 2,897** | **$ 87,864** |

ZAYO GROUP, LLC AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS
(in thousands)

## (19) QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents the unaudited quarterly results for the year-ended June 30, 2011:

| | 2011 Quarter Ended | | | | |
|---|---|---|---|---|---|
| | September 30 | December 31 | March 31 | June 30 | Total |
| Revenue | $ 62,926(1) | $ 72,287(2) | $ 74,182 | $ 77,840 | $ 287,235 |
| Operating costs and expenses: | | | | | |
| Operating costs, excluding depreciation and amortization | 17,038(1) | 17,904(2) | 18,389 | 18,197 | 71,528 |
| Selling, general and administrative expenses | 20,284(1) | 23,938(2) | 23,201 | 22,423 | 89,846 |
| Stock-based compensation | 5,131 | 1,859 | 21,826(3) | (4,506) (4) | 24,310 |
| Depreciation and amortization | 11,809 | 15,881 | 16,209 | 16,564 | 60,463 |
| Total operating costs and expenses | 54,262 | 59,582 | 79,625 | 52,678 | 246,147 |
| Operating income/(loss) | 8,664 | 12,705 | (5,443) | 25,162 | 41,088 |
| Other income (expense): | | | | | |
| Interest expense | (6,257) | (9,032) | (9,004) | (9,121) | (33,414) |
| Other (expense)/ income, net | (161) | (16) | 69 | (18) | (126) |
| Total other expense, net | (6,418) | (9,048) | (8,935) | (9,139) | (33,540) |
| Earnings/(loss) from continuing operations before income taxes | 2,246 | 3,657 | (14,378) | 16,023 | 7,548 |
| (Provision) for income taxes | (2,800) | (2,094) | (2,583) | (5,065) | (12,542) |
| (Loss)/earnings from continuing operations | $ (554) | $ 1,563 | $ (16,961) | $ 10,958 | $ (4,994) |
| Earnings/(loss) from discontinued operations, net of income taxes | 281 | 317 | 301 | — | 899 |
| Net earnings/(loss) | $ (273) | $ 1,880 | $ (16,660) | $ 10,958 | $ (4,095) |

(1) The Company realized an increase in revenue beginning July 1, 2010 as a result of the acquisition of AGL. As a result of the acquisition the Company incurred additional operating and selling, general and administrative expenses attributed to the additional revenues associated with the acquisition.

(2) The Company realized an increase in revenue beginning October 1, 2010 as a result of the merger with AFS. As a result of the merger the Company incurred additional operating and selling, general and administrative expenses attributed to the additional revenues associated with the acquisition.

(3) Stock-based compensation expense increased significantly during the quarter ended March 31, 2011 as a result of an increase in the estimated value of the common units granted to the Company's employees and additional units vesting during the quarters. See Note 13 — *Stock Compensation.*

(4) The Company recorded a reduction to stock-based compensation expense during the quarter ended June 30, 2011 as a result of the issuance of Class E common units during the quarter which diluted the value of earlier common unit issuances. See Note 13 — *Stock Compensation.*

**ZAYO GROUP, LLC AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED STATEMENTS**
**(in thousands)**

The following table presents the unaudited quarterly results for the year-ended June 30, 2010:

| | 2010 Quarter Ended | | | | |
|---|---|---|---|---|---|
| | September 30 | December 31 | March 31 | June 30 | Total |
| Revenue | $ 39,469 | $ 52,156(1) | $ 52,687 | $ 55,018 | $ 199,330 |
| Operating costs and expenses: | | | | | |
| Operating costs, excluding depreciation and amortization | 11,825 | 17,150(1) | 16,941 | 16,772 | 62,688 |
| Selling, general and administrative expenses | 14,873 | 17,039(1) | 16,794 | 17,205 | 65,911 |
| Stock-based compensation | 845 | 588 | 11,799(2) | 4,936(2) | 18,168 |
| Depreciation and amortization | 8,384 | 10,088 | 9,889 | 10,377 | 38,738 |
| Total operating costs and expenses | 35,927 | 44,865 | 55,423 | 49,290 | 185,505 |
| Operating income/(loss) | 3,542 | 7,291 | (2,736) | 5,728 | 13,825 |
| Other income (expense): | | | | | |
| Interest expense | (3,570) | (3,241) | (4,449) | (7,432)(3) | (18,692) |
| Other income | 5 | — | 1,001 | 9,601(4) | 10,607 |
| Loss on extinguishment of debt | — | — | (5,881)(3) | — | (5,881) |
| Total other (expense)/income, net | (3,565) | (3,241) | (9,329) | 2,169 | (13,966) |
| (Loss)/earnings from continuing operations before income taxes | (22) | 4,051 | (12,065) | 7,895 | (141) |
| Provision for income taxes | 651 | 1,127 | 210 | 2,835 | 4,823 |
| (Loss)/earnings from continuing operations | $ (673) | $ 2,924 | $ (12,275) | $ 5,060 | $ (4,964) |
| Earnings from discontinued operations, net of income taxes | 2,271 | 1,130 | 1,490 | 534 | 5,425 |
| Net earnings/(loss) | $ 1,598 | $ 4,054 | $ (10,785) | $ 5,594 | $ 461 |

(1) The Company realized an increase in revenue beginning September 9, 2009 as a result of the acquisition of Fibernet. As a result of the acquisition the Company incurred additional operating and selling, general and administrative expenses attributed to the additional revenues associated with the acquisition.

(2) Stock-based compensation expense increased significantly during the quarters ended March 31, 2010 and June 30, 2010 as a result of an increase in the value of the common units granted to the Company's employees and additional units vesting during these quarters. See Note 13 — *Stock Compensation*.

(3) Interest expense increased during the quarter ended June 30, 2010 primarily as a result of the notes offering which closed on March 12, 2010. Interest expense increased as a result of the higher interest rates on the notes as compared to the senior debt which was repaid on March 12, 2010 and as a result of the larger debt balance during the quarter. As a result of paying off the senior notes with the proceeds from the notes offering, the Company wrote off $5,881 in unamortized debt issuance costs during the quarter ended March 31, 2010. See Note 9 — *Long Term Debt*.

(4) During the year ended June 30, 2010 the Company recognized a gain on bargain purchase of $9,081 associated with the Fibernet acquisition. See Note 3 — *Acquisitions*.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 9th day of September, 2011.

ZAYO GROUP, LLC

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

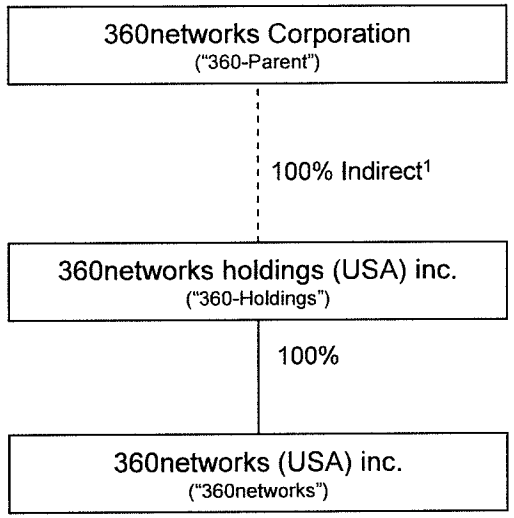
| Signature | Title | Date |
|---|---|---|
| /s/ Dan Caruso<br>Dan Caruso | Chief Executive Officer, Director | September 9, 2011 |
| /s/ Gillis Cashman<br>Gillis Cashman | Director | September 9, 2011 |
| /s/ Michael Choe<br>Michael Choe | Director | September 9, 2011 |
| /s/ Rick Connor<br>Rick Connor | Director | September 9, 2011 |
| /s/ John Downer<br>John Downer | Director | September 9, 2011 |
| /s/ John Siegel<br>John Siegel | Director | September 9, 2011 |

# EXHIBIT B

## Diagrams of the Pre- and Post-Transaction Corporate Structure of the Applicants

# Pre-Transaction Corporate Structure of 360networks*

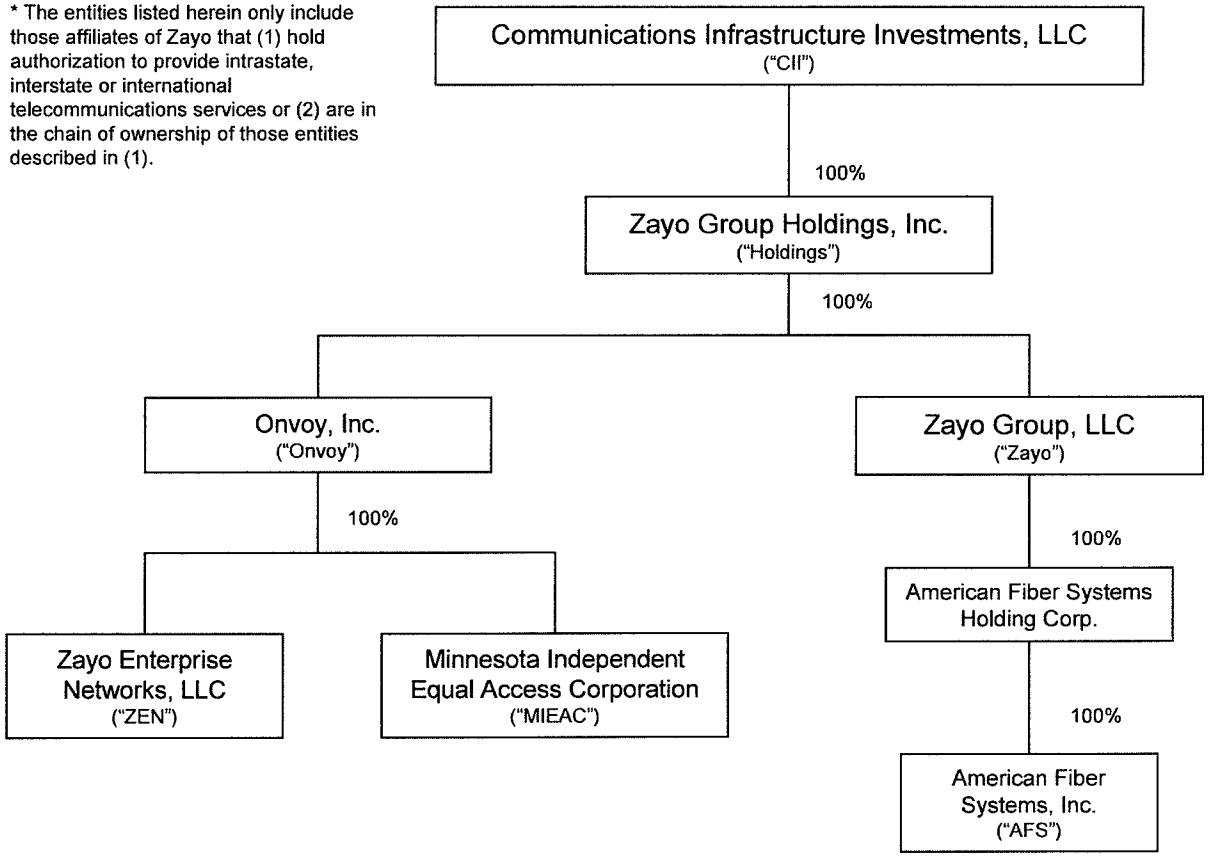
* The entities listed herein only include those affiliates of 360networks that (1) hold authorization to provide telecommunications services in this state or (2) are in the chain of ownership of those entities described in (1).




[1] Immediately prior to the Transaction, the intermediate subsidiaries between 360-Parent and 360-Holdings will undergo a *pro forma* amalgamation resulting in 360-Holdings becoming a direct subsidiary of 360-Parent.

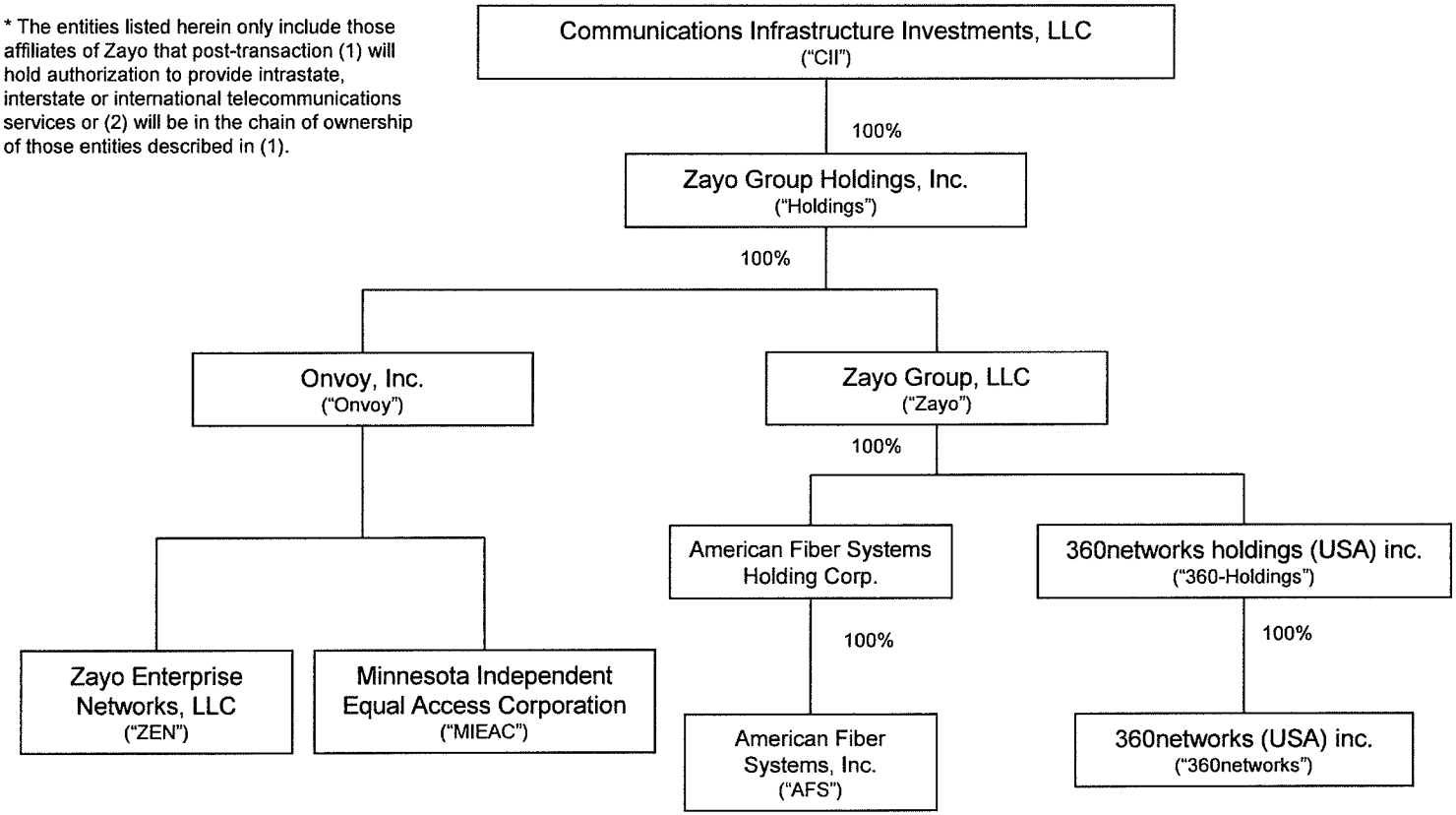
# Pre-Transaction Corporate Structure of Zayo Group, LLC*

* The entities listed herein only include those affiliates of Zayo that (1) hold authorization to provide intrastate, interstate or international telecommunications services or (2) are in the chain of ownership of those entities described in (1).



# Post-Transaction Corporate Structure of Applicants*

* The entities listed herein only include those affiliates of Zayo that post-transaction (1) will hold authorization to provide intrastate, interstate or international telecommunications services or (2) will be in the chain of ownership of those entities described in (1).



# Verifications

STATE OF COLORADO §
§
COUNTY OF BOULDER §

**VERIFICATION**

I, Peter Chevalier, state that I am Associate General Counsel of Zayo Group, LLC (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Peter Chevalier
Associate General Counsel
Zayo Group, LLC

Sworn and subscribed before me this 4th day of October, 2011.

Notary Public

My Commission Expires
08/24/2014

My commission expires _____

A/74536613.1

STATE OF ~~MINNESOTA~~ Rhode Island §
COUNTY OF ~~HENNEPIN~~ Bristol § Barrington, RI
§

**VERIFICATION**

I, Scott Sawyer, state that I am General Counsel of Onvoy, Inc. (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Scott Sawyer
General Counsel
Onvoy, Inc.

Sworn and subscribed before me this 5th day of October, 2011.

Notary Public

My commission expires 9/10/12

A/74536636.1

STATE OF COLORADO §
§
COUNTY OF BROOMFIELD §

**VERIFICATION**

I, Gary Ray, state that I am Vice President and General Counsel of 360networks Corporation and 360networks (USA) inc. (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Gary Ray
Vice President and General Counsel

Sworn and subscribed before me this 4th day of October, 2011.

Notary Public

My commission expires 5/13/2013

NOTARY PUBLIC STATE OF COLORADO

MN

A/74536664.1

# Verifications

STATE OF COLORADO §
§
COUNTY OF BOULDER §

**VERIFICATION**

I, Peter Chevalier, state that I am Associate General Counsel of Zayo Group, LLC (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Peter Chevalier
Associate General Counsel
Zayo Group, LLC

Sworn and subscribed before me this 4th day of October, 2011.

Notary Public

My commission expires My Commission Expires 08/24/2014

UT

A/74536613.1

STATE OF ~~MINNESOTA~~ Rhode Island §
COUNTY OF ~~HENNEPHIN~~ Bristol § Barrington, RI
§

**VERIFICATION**

I, Scott Sawyer, state that I am General Counsel of Onvoy, Inc. (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Scott Sawyer
General Counsel
Onvoy, Inc.

Sworn and subscribed before me this 5th day of October, 2011.

Notary Public

My commission expires 9/10/12

A/74536636.1

STATE OF COLORADO §
§
COUNTY OF BROOMFIELD §

**VERIFICATION**

I, Gary Ray, state that I am Vice President and General Counsel of 360networks Corporation and 360networks (USA) inc. (the "Company"); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents with respect to the Company are true and correct to the best of my knowledge, information, and belief.

Gary Ray
Vice President and General Counsel

Sworn and subscribed before me this 4th day of October, 2011.

Notary Public

CHARLES T. ORST NOTARY PUBLIC STATE OF COLORADO

My commission expires 5/13/2013

UT

A/74536664.1