UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 31, 2016

Communications Sales & Leasing, Inc.
(Exact name of registrant as specified in its charter)

Maryland	001-36708	46-5230630
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

10802 Executive Center Drive Benton Building Suite 300 Little Rock, Arkansas	72211
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (501) 850-0820

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets

On August 31, 2016 (the "**Closing Date**"), Communications Sales & Leasing, Inc., a Maryland corporation ("**CS&L**"), consummated the transactions contemplated by that certain Agreement and Plan of Merger, dated as of June 20, 2016 (the "**Merger Agreement**"), as amended, by and among CS&L, CSL Fiber Holdings LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CS&L ("**Purchaser**"), Thor Merger Sub Inc., a Delaware corporation and a direct wholly owned subsidiary of Purchaser ("**Merger Sub**"), Tower Cloud, Inc., a Delaware corporation ("**Tower Cloud**"), and Shareholder Representative Services LLC, in the capacity as representative of the equityholders of Tower Cloud (the "**Equityholders' Representative**").

Pursuant to the Merger Agreement, on the Closing Date, Merger Sub merged with and into Tower Cloud (the "**Merger**"), with Tower Cloud surviving as a wholly owned subsidiary of Purchaser. At the effective time of the Merger, the outstanding equity interests of Tower Cloud were converted into the right to receive a portion of the following aggregate merger consideration: (i) $180,000,000 in cash, (ii) approximately 1.9 million shares of the common stock, par value $0.0001 of CS&L (the "**Common Stock**") and (iii) additional cash consideration (or, at CS&L's election, in shares of Common Stock with respect to up to 50% of the amount payable), which will become payable during the approximately five years following the closing if and when certain performance targets are achieved (together, the "**Merger Consideration**"). The cash portion of the Merger Consideration is subject to adjustment as set forth in the Merger Agreement.

The foregoing description of the Merger Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement and the First Amendment to Agreement and Plan of Merger dated August 11, 2016, copies of which were filed on August 11, 2016 as exhibits to CS&L's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

In connection with the Merger, CS&L borrowed approximately $150 million under its $500 million revolving credit facility ("**Revolving Credit Facility**"), the proceeds of which were used, together with cash on hand, to pay the cash portion of the Merger Consideration payable on the Closing Date and to pay other costs and expenses incurred in connection with the Merger. Following the draw down, CS&L has approximately $258 million of undrawn borrowing capacity under the Revolving Credit Facility. A summary of the material terms of the Revolving Credit Facility and borrowings thereunder is included in CS&L's Current Report on Form 8-K filed with the SEC on April 27, 2015 and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired.

The unaudited consolidated financial statements of Tower Cloud as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 are filed as Exhibit 99.1 hereto.

The audited consolidated financial statements of Tower Cloud as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015 are filed as Exhibit 99.2 hereto.

(b) Pro forma financial information.

CS&L's unaudited pro forma condensed combined financial statements as of and for the six months ended June 30, 2016 and year ended December 31, 2015 giving effect to the acquisition of Tower Cloud are filed as Exhibit 99.3 hereto.

(d) The following exhibits are included with this Current Report:

Exhibit No.	Description
2.1+	Agreement and Plan of Merger, dated as of June 20, 2016, by and among Communications Sales & Leasing, Inc., CSL Fiber Holdings LLC, Thor Merger Sub, Inc., Tower Cloud, Inc. and Shareholder Representative Services LLC, as representative of the equityholders of Tower Cloud, Inc. (incorporated by reference to Exhibit 2.1 to CS&L's Quarterly Report on Form 10-Q dated and filed with the SEC as of August 11, 2016 (File No. 001-36708)).
2.2+	First Amendment, dated as of August 11, 2016, to the Agreement and Plan of Merger, dated as of June 20, 2016, by and among Communications Sales & Leasing, Inc., CSL Fiber Holdings LLC, Thor Merger Sub, Inc., Tower Cloud, Inc. and Shareholder Representative Services LLC, as representative of the equityholders of Tower Cloud, Inc. (incorporated by reference to Exhibit 2.2 to CS&L's Quarterly Report on Form 10-Q dated and filed with the SEC as of August 11, 2016 (File No. 001-36708)).
23.1*	Consent of Independent Registered Public Accounting Firm
99.1*	Tower Cloud, Inc. Unaudited Consolidated Financial Statements as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015.
99.2*	Tower Cloud, Inc. Audited Consolidated Financial Statements as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015.
99.3*	Unaudited Pro Forma Condensed Combined Financial Statements of Communications Sales & Leasing, Inc. as of and for the six months ended June 30, 2016 and year ended December 31, 2015.

* Filed herewith.

\+ Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission. Also, certain exhibits and schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of any such omitted exhibit or schedule to the Securities and Exchange Commission upon request but may request confidential treatment for any exhibit or schedule so furnished.

SIGNATURES

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

Date: September 2, 2016

COMMUNICATIONS SALES & LEASING, INC.

By: /s/ Daniel L. Heard
Name: Daniel L. Heard
Title: Executive Vice President – General Counsel and Secretary

EXHIBIT INDEX

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Exhibit 23.1

Consent of Independent Certified Public Accountants

We have issued our report dated May 12, 2016 with respect to the financial statements of Tower Cloud, Inc. as of December 31, 2015 and 2014 and for the two year period ended December 31, 2015, included in this Current Report on Form 8-K of Communications Sales & Leasing, Inc. We consent to the incorporation by reference of said report in the Registration Statements of Communications Sales & Leasing, Inc. on Form S-3 (No. 333-212046) and Form S-8 (No. 333-203591).

/s/ Grant Thornton LLP
Tampa, Florida
September 2, 2016

Financial Statements

Tower Cloud, Inc.

June 30, 2016 and 2015

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

Balance sheets

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 6,067,157	$ 11,268,760
Trade accounts receivable, net of allowance for doubtful accounts of $75,017 at June 30, 2016 and $88,340 at December 31, 2015	3,706,658	3,381,527
Prepaid expenses and other receivables	3,122,181	4,831,324
Total current assets	12,895,996	19,481,611
Materials and supplies, net	11,079,046	8,460,204
Construction work in progress	15,697,658	4,240,457
Property and equipment, net	122,734,748	119,903,715
Deposits	315,321	323,271
Other assets	1,121,430	1,482,550
Total assets	$ 163,844,199	$ 153,891,808
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 3,254,180	$ 2,337,664
Accrued expenses	5,077,703	3,459,799
Current portion of capital lease obligations	593,862	543,128
Current portion of deferred revenue	489,373	541,142
Current portion of deferred gain	225,758	-
Total current liabilities	9,640,876	6,881,733
Long-term liabilities:		
Deferred revenues, net of current portion	21,542,271	20,636,459
Deferred gain, net of current portion	4,289,411	-
Long-term debt, net of current portion	64,678,196	57,178,196
Obligations under capital leases, net of current portion	6,247,933	6,558,156
Asset retirement obligations	2,373,060	2,219,517
Total long-term liabilities	99,130,871	86,592,328
Redeemable convertible preferred stock, $0.0001 par value, 330,000,000 shares authorized at June 30, 2016 and December 31, 2015:		
Series A, 245,000,000 shares designated and 237,795,858 shares issued at June 30, 2016 and December 31, 2015	108,851,299	106,584,078
Series B, 85,000,000 shares designated and 76,638,875 shares issued at June 30, 2016, and at December 31, 2015	44,457,693	42,606,297
Warrants, 3,170,975 outstanding at June 30, 2016 and at December 31, 2015	860,995	487,388
Stockholders' deficit:		
Common stock, $0.0001 par value, 370,000,000 shares authorized and 2,013,007 shares issued at June 30, 2016, and 370,000,000 shares authorized and 1,987,293 shares issued at December 31, 2015	201	198
Accumulated deficit	(99,097,736)	(89,260,214)
Total stockholders' deficit	(99,097,535)	(89,260,016)
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	$ 163,844,199	$ 153,891,808

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

Statements of operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Service revenues	$ 10,623,506	$ 10,442,234	$ 20,794,163	$ 19,750,305
Cost of service revenues	5,118,658	4,629,328	10,014,182	9,414,338
Depreciation, amortization and accretion-COS	4,896,062	4,493,626	9,679,960	8,827,053
Gross operating margin	608,786	1,319,280	1,100,021	1,508,914
General and administrative expenses	3,052,230	1,563,332	4,967,390	3,849,125
Loss on impairment of assets	-	-	-	1,306,902
Depreciation-SGA	76,312	71,079	150,814	144,107
Loss from operations	(2,519,756)	(315,131)	(4,018,183)	(3,791,220)
Other income (expense):				
Interest income	822	3,485	1,644	8,231
Interest expense	(1,300,170)	(1,061,643)	(2,367,678)	(2,075,093)
Net other income (expense)	(1,299,348)	(1,058,158)	(2,366,034)	(2,066,862)
Net loss before Income tax	$ (3,819,104)	$ (1,373,289)	$ (6,384,217)	$ (5,858,082)
Income tax	-	-	-	-
Net loss	$ (3,819,104)	$ (1,373,289)	$ (6,384,217)	$ (5,858,082)

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

Statement of changes in stockholders' deficit

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders
	Shares	Amount	Capital	Deficit	Deficit
Balance at January 1, 2015	1,942,515	194	-	(72,342,781)	(72,342,587)
Exercise of stock options	44,778	4	4,026	-	4,030
Stock-based compensation charges	-	-	140,811	-	140,811
Dividend accrual on preferred stock	-	-	(144,837)	(6,852,559)	(6,997,396)
Net loss	-	-	-	(10,064,874)	(10,064,874)
Balance at December 31, 2015	1,987,293	$ 198	$ -	$ (89,260,214)	$ (89,260,016)
Exercise of stock options	25,714	$ 3	$ 2,326	$ -	$ 2,329
Stock-based compensation charges	-	-	71,919	-	71,919
Dividend accrual on preferred stock	-	-	(74,245)	(3,453,305)	(3,527,550)
Net loss	-	-	-	(6,384,217)	(6,384,217)
Balance at June 30, 2016 (unaudited)	2,013,007	$ 201	$ -	$ (99,097,736)	$ (99,097,535)

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

Statements of cash flows

	Six Months Ended June 30, 2016	2015
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (6,384,217)	$ (5,858,082)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,830,774	8,971,160
Straight-line rent amortization	(11,563)	(14,128)
Non-cash stock-based compensation expense	662,986	155,135
Loss on impairment or sale of assets	-	1,306,902
Allowance for doubtful accounts	-	2,236
Amortization of debt discount	157,799	146,765
Net changes in operating assets and liabilities:		
Trade accounts receivable	(325,131)	(1,059,097)
Prepaid expenses and other receivables	1,551,344	(1,121,348)
Other assets	302,380	351,035
Accounts payable and accrued expenses	2,542,073	580,281
Deferred revenues	854,044	358,079
Net cash provided by operating activities	9,180,489	3,818,938
Cash flows from investing activities:		
Purchases of property and equipment	(21,391,066)	(7,977,534)
Proceeds from sale of property	2,003,419	-
Purchases of materials and supplies	(2,618,842)	(730,010)
Deposits	7,950	(191,340)
Repayments on note receivable	-	72,559
Net cash used in investing activities	(21,998,539)	(8,826,325)
Cash flows from financing activities:		
Proceeds from long-term debt, net	7,500,000	4,500,000
Stock based compensation	373,607	-
Proceeds from exercise of stock options	2,329	4,030
Repayments of capital lease obligations	(259,489)	(217,544)
Net cash (used in)/provided by financing activities	7,616,447	4,286,486
Change in cash and cash equivalents	(5,201,603)	(720,901)
Cash and cash equivalents, beginning of the period	11,268,760	4,806,051
Cash and cash equivalents, end of the period	$ 6,067,157	$ 4,085,150
Supplemental disclosure:		
Acquisition of property and equipment by capital lease	$ 208,826	$ 115,080
Non-cash acquisition of property and equipment	$ 2,511,751	$ -
Cash paid for interest	$ 1,453,279	$ 1,558,371
Dividend on preferred stock	$ 3,527,551	$ 3,446,886

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

The accompanying unaudited financial statements have been prepared by Tower Cloud, Inc. (the “Company”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes attached hereto should be read in conjunction with the financial statements and notes included in the Company’s 2015 Audited Financial Statements. In the opinion of management of the Company, all adjustments, including normal recurring adjustments necessary to present fairly the financial position of Tower Cloud, Inc. as of June 30, 2016 and the results of its operations for the three month and six months periods then ended, have been included. The results of operations for the three and six months periods ended June 30, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016.

Note 1 – Nature of Business

Tower Cloud, Inc. (the “Company”), a Delaware corporation, is a facilities-based provider of high capacity broadband transport and backhaul services. The Company offers lit broadband and dark fiber services to wireless carriers, large enterprise and wholesale customers. As of June 30, 2016, the Company provided services in major metro and rural markets in Georgia, Florida, Alabama and South Carolina. Tower Cloud is a privately held company that was formed in April 2006.

On June 20, 2016, Communications Sales & Leasing, Inc. entered into a definitive agreement to acquire the Company for $230 million in cash and stock. Under the terms of the agreement, the Company’s shareholders will receive initial consideration of $230 million, subject to customary closing adjustments. In addition, the Company’s shareholders may receive additional consideration with a maximum range of $133-$144 million upon the Company’s achieving certain defined operational and financial milestones. The transaction is subject to regulatory approvals and other customary terms and conditions and is expected to close in the second half of 2016. For the three and six months ended June 30, 2016, $1.0 million of legal and other expenses related to the pending transaction were included in general and administrative expenses.

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (“GAAP”). There have been no changes to the Company’s significant accounting policies described in the audited financial statements for the year ended December 31, 2015.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical accounting estimates include: (i) useful life assignments and impairment evaluations associated with long-lived assets, (ii) asset retirement obligations,
(iii) valuation of stock-based awards, (iv) establishment of valuation allowances associated with deferred tax assets, and (v) valuation of fiber sold and leased back in relation to transaction disclosed in Note 6 – Fiber Sale and Capital Leaseback.

Accounting for Stock-Based Compensation

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award or, in the case of certain awards for which vesting is contingent upon Company performance, compensation expense is recorded over the period required for anticipated achievement of the performance objective. For stock option grants, the Company determined the fair value of each stock option at the grant date

using the Black-Scholes option valuation model. Generally, the Company's stock options vest over a four-year period, with one fourth of the shares vesting on the first anniversary of the grant date, and the remaining three fourths of the shares vesting ratably over the remaining three years. The options have a contractual term of ten years. Expected volatilities are calculated based on the historical volatilities of similar public companies in the telecommunications industry. The expected term of the options is based on management's estimate of the period that the options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. For grants of restricted stock, the Company determined the fair value of the shares granted based upon the expected consideration due pursuant to the terms of the pending transaction with Communications Sales & Leasing discussed in Note 1.

Income Taxes

The Company uses the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. For the three months and six months ended June 30, 2016, there was no change in recognition or measurement of uncertain tax positions, and therefore no recognition of a tax benefit or additional provision. No provision or benefit for income taxes was recorded for the three months or six months ended June 30, 2016 due to the accumulation of net operating losses since the Company's inception and the present inability to recognize the potential benefits of the associated net operating loss (NOL) carryforwards.

Debt Issuance Costs

In connection with the Credit Agreement (and subsequent amendments thereto), and the various Notes offerings, the Company incurred debt issuance costs of $973,523. These costs are being amortized to interest expense over the term of the underlying debt instrument, unless extinguished earlier, at which time the related unamortized costs are to be immediately expensed.

The balance of debt issuance costs as of June 30, 2016 and December 31, 2015 was $488,195 and $604,894, net of accumulated amortization of $485,328 and $327,532, respectively. Interest expense associated with the amortization of debt issuance costs was $78,900 and $157,796 for the three months and six months ended June 30, 2016, respectively and $76,026 and $146,765 for the three months and six months ended June 30, 2015, respectively. The debt issuance costs include the unamortized fair value of warrants issued of $15,681 and $17,919 as of June 30, 2016 and December 31, 2015, respectively.

Trade Accounts Receivable

Trade accounts receivable consist of amounts billed to customers for broadband transport and backhaul services, generally on a monthly basis. Based on a review of the aging of receivables, an allowance for doubtful accounts has been established with respect to those amounts that have been determined to be doubtful of collection based on invoice due dates. Actual collection losses may differ from the estimates. Accounts receivable balances are written off against the allowance for doubtful accounts after all efforts to collect them have been exhausted and the potential for recovery is considered remote. The Company recognized no bad debt expense for the three months and six months ending June 30, 2016. The balance of the allowance for doubtful accounts as of June 30, 2016 was $75,017 compared to the balance on December 31, 2015 of $88,340. The variance of $13,323 represents the write off of a fully reserved customer account due to lack of payment. The customer's service was terminated in early June 2016.

Impairment of Long-Lived Assets

The Company periodically evaluates the fair value and future benefits of its long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. Property, equipment, and intangible assets are analyzed and measured for impairment whenever the estimated undiscounted future net cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less

than the carrying value of the asset. When an impairment loss is identified, the carrying value of the asset is reduced to its fair value. Various factors, including future sales growth and profit margins, are included in this analysis. To the extent these future projections or the Company's strategies change, the conclusion regarding impairment may differ from the Company's current estimates. No impairment loss was recorded for the six months ended June 30, 2016. In the six months ended June 30, 2015, the Company incurred a net impairment loss of $1,306,902 primarily related to engineering and labor costs incurred on a construction project that was abandoned.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB deferred the effective date to annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2018. Early adoption is permitted as of the original effective date or annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The standard is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, it is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company has not yet adopted ASU 2015-03.

In September 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires an entity to present deferred tax liabilities and assets as noncurrent. The ASU will replace the current classification and presentation requirements for deferred tax assets and liabilities. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016. Early adoption is permitted as of the original effective date or annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2016. The Company has not yet adopted ASU 2015-17 and it is not expected to have a material effect on the Company's financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases. The new guidance supersedes existing guidance on accounting for leases in Topic 840 and is intended to increase the transparency and comparability of accounting for lease transactions. ASU 2016-02 requires most leases to be recognized on the balance sheet. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard (ASU 2014-09). The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company

has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes the following aspects of the accounting for share-based payment award transactions: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows;
(3) forfeitures; (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes, (6) a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain criterion; and
(7) a one-time election to switch from measuring all liability-classified awards at fair value to intrinsic value. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company has not yet adopted ASU 2016-09.

Note 3 - Fair Value of Financial Instruments

GAAP defines 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 and disclosures for assets and liabilities required to be recorded at fair value, the Company 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 interest and foreign exchange rates, transfer restrictions, and risk of non-performance.

Fair Value Hierarchy

The Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurement and Disclosures* provides a framework for measuring fair value. It requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value measurement of each class of assets and liabilities is dependent upon its categorization within the fair value hierarchy, based upon the lowest level of input that is significant to the fair value measurement of each class of asset and liability. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2— Unadjusted quoted prices for similar assets or liabilities in active markets, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3— Unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and debt. Based on management's estimates, the carrying value of these instruments approximates fair value due either to the length of maturity or existence of interest rates that approximate prevailing market rates.

Warrants

As of June 30, 2016 and December 31, 2015, the Company had outstanding 2,778,902 warrants exercisable for shares of Series A Preferred Stock and 392,073 warrants exercisable for shares of Series B Preferred Stock. The fair value of the warrants was approximately $861,000 at June 30, 2016 and $488,000 at December 31, 2015. The changes in fair value each reporting period are recorded as debt issuance costs and amortized to interest expense over the term of the associated long-term debt. The fair value at June 30, 2016 was determined based upon the expected consideration due pursuant to the terms of the pending transaction with Communications Sales & Leasing discussed in Note 1. The probability weighting of the expected consideration due in the pending transaction was utilized in the valuation which would be considered a Level 3 input. The fair value at December 31, 2015 was based upon the Black-Scholes valuation model.

Restricted Stock

The fair valuation determination used for the restricted stock on June 30, 2016 was mark to market and based upon the expected consideration due pursuant to the terms of the pending transaction with Communications Sales & Leasing discussed in Note 1. The probability weighting of the expected consideration due in the pending transaction was utilized in the valuation which would be considered a Level 3 input. The fair value determination used for the restricted stock on December 31, 2015 was based upon the most recent issue price of the Company's stock, which would be considered a Level 3, unobservable input. The fair value of the restricted stock was approximately $1,376,640 and $748,160 at June 30, 2016 and December 31, 2015, respectively.

Note 4 – Intangible Assets

Purchased intangible assets consists of the following:

	June 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
FCC License	$ 376,285	$ (151,762)	$ 224,523	$ 376,285	$ (133,049)	$ 243,236

There was no activity related to purchased intangible assets during the six months ended June 30, 2016. The weighted average remaining amortization period is 72 months. The amortization expense for the three months ended and six months ended June 30, 2016 was $9,357 and $18,713, respectively.

Total future amortization expense for purchased intangibles, based on their current estimated useful lives as of June 30, 2016, is estimated as follows:

Years Ending December 31:	
Remaining of 2016	$ 18,814
2017	36,955
2018	36,276
2019	36,201
2020	34,876
Thereafter	61,401
Total future amortization expense	$ 224,523

Note 5 – Letters of Credit and Long-Term Debt

Letters of Credit

The Company had an unused standby letter of credit in the amount of $1,435,000 as of June 30, 2016 drawn on a financial institution in favor of an insurance company that provides construction performance bonds for the Company. As of June 30, 2016, there were no amounts drawn on this letter of credit. The unused standby letter of credit as of June 30, 2016 expires in June 2017 but is automatically extended for successive one-year periods.

Long-Term Debt

The Company drew advances of $7,500,000 under the Revolving Loan Agreement for the three and six months ended June 30, 2016. The Company recorded interest expense on long-term debt in the amounts of $858,651 and $1,696,216, for the three and six months ended June 30, 2016, respectively, of which $277,993 and $470,892, respectively, were capitalized to construction projects.

Note 6 – Fiber Sale and Capital Leaseback

The Company entered an agreement with a large fiber provider on June 30, 2016 to sell dark fiber cable, with a net book value of $2,003,419, and lease back a portion of that fiber. The assets were recorded at their fair market values based upon similar transactions. Using the fair market values of assets, along with the cash consideration transferred of $2,428,660, the gain was computed to be $4,515,169. The amount of gain in excess of the amount of assets received through capital lease would be recognized as current income. Because the fair value of the fiber capital lease was determined to be $4,521,000, no gain was recognized for the three month period ending June 30, 2016 and the gain was recorded as a deferred gain. This deferred gain will be amortized to income on a straight-line basis over the 20 year initial lease term.

Note 7 – Commitments and Contingencies

Purchase Commitments

At June 30, 2016, the Company had outstanding commitments in the amount of approximately $3.6 million to purchase construction materials and $19.3 million for the related services in conjunction with network deployments in Georgia and Florida. The projects under construction are expected to be placed in service within 9 months. The commitments will be covered by additional debt financing.

Legal Matters

The Company may from time to time become involved in litigation arising in the ordinary course of business. As of June 30, 2016, there are no such items that management believes will have a material adverse effect on the Company's financial position or results of operations.

Note 8 – Related Party Transactions

Knology, Inc. / WideOpenWest, LLC.

The Company has entered into agreements with Knology, Inc. and its parent company, WideOpenWest, LLC, for the construction and lease of dark fiber routes in Georgia and Alabama. Knology, Inc. is a holder of the Company's Preferred Stock and a designee of Knology, Inc. sits on the Company's Board of Directors. For the three months and six months June 30, 2016, the Company paid Knology, Inc./WideOpenWest, LLC $200,506 and $501,098, respectively, in connection with the construction and lease of dark fiber. In addition the Company made payments of $974,670 for the three months ending June 30, 2016, related to the purchase of fiber with the details of the arrangements listed below. Furthermore, the Company received $10,281 and $12,381 from Knology, Inc./WideOpenWest, LLC related to a dark fiber lease for the three months and six months ending June 30, 2016, respectively.

On February 8, 2016, The Company signed a bill of sale document with Knology, Inc./WideOpenWest, LLC totaling $100,000 to purchase fiber in Augusta, GA. Within the three month period ending June 30, 2016, the fiber was delivered and accepted and payment was made.

On March 30, 2016, The Company signed a lease conversion agreement and bill of sale document with Knology, Inc./WideOpenWest, LLC totaling $874,670 which was closed within the three month period ending June 30, 2016. The agreement provided for the purchase of 222.848 fiber miles in Georgia and Alabama which had previously been leased from WideOpenWest, LLC.

On March 31, 2016, The Company signed a bill of sale document with Knology, Inc./WideOpenWest, LLC totaling $500,000 to purchase 12.9 miles of fiber laterals in the Augusta area from WideOpenWest, LLC. As of June 30, 2016, the fiber laterals have been made available for testing and the Company is awaiting final deliverables before the transaction is closed.

The Company also has long-term commitments to Knology, Inc./WideOpenWest, LLC for operating lease payments in connection with the remaining dark fiber routes in the amount of $1.0 million.

PT Holding Company, LLC / PT Attachment

Certain holders of the Company’s Preferred Stock are also holders of equity interests in PT Holding Company, L.L.C. (“PT Holding”), the parent of PT Attachment Solutions, L.L.C. (“PT Attachment”), a wireless infrastructure construction and leasing company. The Company paid PT Attachment $8,250 for the three and six months ending June 30, 2016 for site lease expenses. The amounts paid to PT Attachment for site lease expenses were charged to cost of service revenues. Additionally, PT Attachment sub-leases office space from the Company, and for the three months and six months ended June 30, 2016, paid the Company $12,096 and $34,130, respectively, for rent and other expenses. The amounts paid for rent and other expenses were offset against the Company’s general and administrative expenses.

Note 9 – Subsequent Events

The Company has evaluated events occurring after the balance sheet date through August 11, 2016, the date on which the financial statements were available to be issued. The Company is not aware of any additional subsequent events that would require recognition or disclosure in the financial statements.

Exhibit 99.2

Financial Statements and Report of Independent Certified Public Accountants

Tower Cloud, Inc.

December 31, 2015 and 2014

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Tower Cloud, Inc.

We have audited the accompanying financial statements of Tower Cloud, Inc., which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2015 and 2014 financial statements referred to above present fairly, in all material respects, the financial position of Tower Cloud, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/S/ Grant Thornton LLP

Tampa, Florida May 12, 2016

Balance sheets

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 11,268,760	$ 4,806,051
Trade accounts receivable, net of allowance for doubtful accounts of $88,340 and $110,664 at December 31, 2015 and 2014, respectively	3,381,527	2,214,752
Prepaid expenses and other receivables	4,831,324	1,525,636
Current portion of Note receivable	-	123,827
Total current assets	19,481,611	8,670,266
Materials and supplies, net	8,460,204	7,648,645
Construction work in progress	4,240,457	13,247,156
Property and equipment, net	119,903,715	114,940,600
Deposits	323,271	572,280
Other assets	1,482,550	2,269,980
Total assets	$ 153,891,808	$ 147,348,927
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 2,337,664	$ 2,246,352
Accrued expenses	3,459,799	2,706,554
Current portion of capital lease obligations	543,128	452,822
Current portion of deferred revenue	541,142	640,197
Total current liabilities	6,881,733	6,045,925
Long-term liabilities:		
Deferred revenues, net of current portion	20,636,459	1,238,640
Long-term debt, net of current portion	57,178,196	60,678,196
Obligations under capital leases, net of current portion	6,558,156	7,103,534
Asset retirement obligations	2,219,517	1,881,891
Total long-term liabilities	86,592,328	70,902,261
Redeemable convertible preferred stock, $0.0001 par value, 330,000,000 shares authorized at December 31, 2015 and 2014:		
Series A, 245,000,000 shares designated and 237,795,858 shares issued at December 31, 2015 and 2014	106,584,078	102,018,397
Series B, 85,000,000 shares designated and 76,638,875 shares issued at December 31, 2015, and 85,000,000 shares designated and 77,173,520 shares issued at December 31, 2014	42,606,297	40,237,543
Warrants, 3,170,975 outstanding at December 31, 2015 and 2014	487,388	487,388
Stockholders' deficit:		
Common stock, $0.0001 par value, 370,000,000 shares authorized and 1,987,293 shares issued at December 31, 2015, and 370,000,000 shares authorized and 1,942,515 shares issued at December 31, 2014	198	194
Accumulated deficit	(89,260,214)	(72,342,781)
Total stockholders' deficit	(89,260,016)	(72,342,587)
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	$ 153,891,808	$ 147,348,927

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

Statements of operations

	2015	2014
Service revenues	$ 41,455,061	$ 33,380,268
Cost of service revenues	19,399,096	18,124,600
Depreciation, amortization and accretion-COS	18,284,655	15,665,978
Gross operating margin	3,771,310	(410,310)
General and administrative expenses	8,110,053	6,734,190
Loss on impairment of assets	982,150	-
Depreciation-SGA	298,974	257,754
Loss from operations	(5,619,867)	(7,402,254)
Other income (expense):		
Interest income	11,398	30,840
Interest expense	(4,456,405)	(3,386,847)
Net other income (expense)	(4,445,007)	(3,356,007)
Net loss before income tax	$ (10,064,874)	$ (10,758,261)
Income tax	-	-
Net loss	$ (10,064,874)	$ (10,758,261)

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

Statement of changes in stockholders' deficit

	Common Stock		Additional Paid-in	Accumulated	Toal Stockholders'
	Shares	Amount	Capital	Deficit	Deficit
Balance at January 1, 2014	720,434	$ 72	$ -	$ (55,031,975)	$ (55,031,903)
Exercise of stock options	1,222,081	122	116,249	-	116,371
Stock-based compensation charges	-	-	196,863	-	196,863
Dividend accrual on preferred stock	-	-	(313,112)	(6,552,544)	(6,865,656)
Net loss	-	-	-	(10,758,262)	(10,758,262)
Balance at December 31, 2014	1,942,515	$ 194	$ -	$ (72,342,781)	$ (72,342,587)
Exercise of stock options	44,778	4	4,026	-	4,030
Stock-based compensation charges	-	-	140,811	-	140,811
Dividend accrual on preferred stock	-	-	(144,837)	(6,852,559)	(6,997,396)
Net loss	-	-	-	(10,064,874)	(10,064,874)
Balance at December 31, 2015	1,987,293	$ 198	$ -	$ (89,260,214)	$ (89,860,016)

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

Statements of cash flows

	2015	2014
Cash flows from operating activities:		
Net loss	$ (10,064,874)	$ (10,758,262)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	18,583,629	15,923,732
Straight-line rent amortization	(21,490)	(27,718)
Non-cash stock-based compensation expense	327,851	383,903
Loss on impairment or sale of assets	982,150	-
Allowance for doubtful accounts	2,237	110,664
Amortization of debt discount	304,564	322,688
Net changes in operating assets and liabilities:		
Trade accounts receivable	(1,169,012)	(2,226,178)
Prepaid expenses and other receivables	(3,610,251)	19,961
Other assets	729,586	647,574
Accounts payable and accrued expenses	886,256	(392,178)
Deferred revenues	19,298,764	(416,775)
Net cash provided by operating activities	26,249,410	3,587,411
Cash flows from investing activities:		
Purchases of property and equipment	(15,146,936)	(32,766,356)
Purchases of materials and supplies	(811,559)	(2,860,059)
Deposits	249,009	(359,006)
Repayments on note receivable	123,827	130,756
Net cash used in investing activities	(15,585,659)	(35,854,665)
Cash flows from financing activities:		
Proceeds from long-term debt, net	4,500,000	32,406,887
Repayments of long-term debt, net	(8,000,000)	(2,292,238)
(Repurchase)/Sale from issuance of preferred stock	(250,000)	250,000
Repayments from exercise of stock options	4,030	116,371
Repayments of capital lease obligations	(455,073)	(382,101)
Net cash (used in)/provided by financing activities	(4,201,043)	30,098,919
Change in cash and cash equivalents	6,462,708	(2,168,335)
Cash and cash equivalents, beginning of the period	4,806,051	6,974,386
Cash and cash equivalents, end of the period	$ 11,268,759	$ 4,806,051
Supplemental disclosure:		
Acquisition of property and equipment by capital lease	$ 1,148,830	$ 190,196
Cash paid for interest	$ 3,411,079	$ 4,268,141
Dividend on preferred stock	$ 6,997,396	$ 6,865,656

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

Notes to financial statements

Note 1 – Nature of Business

Tower Cloud, Inc. (the “Company”), a Delaware corporation, is a facilities-based provider of high capacity broadband transport and backhaul services. The Company offers lit broadband and dark fiber services to wireless carriers, large enterprise and wholesale customers. As of December 31, 2015, the Company provided services in major metro and rural markets in Georgia, Florida, Alabama and South Carolina. Tower Cloud is a privately held company that was formed in April 2006.

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (“GAAP”).

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable and debt. The carrying value of these instruments approximates fair value due either to the length of maturity or existence of interest rates that approximate prevailing market rates.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical accounting estimates include: (i) useful life assignments and impairment evaluations associated with long-lived assets, (ii) asset retirement obligations,
(iii) valuation of stock-based awards, and (iv) establishment of valuation allowances associated with deferred tax assets.

Significant Customers and Concentration of Credit Risk

The Company’s two largest customers accounted for 87% and 73% of accounts receivable as of December 31, 2015 and 2014, respectively, and 78% and 84% of revenues for the years ended December 31, 2015 and 2014, respectively.

Sources of Supplies

The Company primarily uses a limited number of suppliers for equipment deployed in its networks. If these vendors were unable to meet the Company’s needs, management believes that the Company could obtain this equipment from other vendors on comparable terms and its operating results would not be materially adversely affected.

Revenue Recognition

The Company recognizes revenues related to its broadband transport and backhaul communications services on an accrual basis when (i) persuasive evidence of an arrangement exists, (ii) the services have been provided to the customer, (iii) the sales price is fixed or determinable, and (iv) the collection of the sales price is reasonably assured. Advance billings or cash received in advance of the services performed are recorded as deferred revenues and amortized to revenues over the term of the related contracts. Termination revenues are recognized when customers are required to make early termination payments to the Company to discontinue services that have been contractually committed for a specific service period.

The Company's customer contracts require the Company to meet certain service level commitments. If the Company does not meet the required service levels, it may be obligated to provide credits, usually in the form of a reduction in the monthly recurring billing amounts. The credits are a reduction to revenue and, to date, have not been material.

Cash and Cash Equivalents

The Company considers all financial instruments purchased with original maturities of three months or less to be cash equivalents.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. These instruments include demand deposits and money market funds held by a domestic financial institution and may from time to time exceed amounts insured by the Federal Deposit Insurance Corporation of $250,000.

Trade Accounts Receivable

Trade accounts receivable consist of amounts billed to customers for broadband transport and backhaul services, generally on a monthly basis. Based on a review of the aging of receivables, an allowance for doubtful accounts has been established with respect to those amounts that have been determined to be doubtful of collection based on invoice due dates. Actual collection losses may differ from the estimates. Accounts receivable balances are written off against the allowance for doubtful accounts after all efforts to collect them have been exhausted and the potential for recovery is considered remote. The Company recognized bad debt expense, net of recoveries of $2,237 and $110,664 in 2015 and 2014, respectively. The balance of the allowance for doubtful accounts was $88,340 and $110,664 at December 31, 2015 and 2014, respectively.

Materials and Supplies

Materials and supplies consist primarily of spare network equipment and other materials that are expected to be installed in the networks, but have not been assigned to a specific project or site. Materials and supplies are evaluated for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Materials and supplies are measured for impairment whenever the estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the assets, if any, are less than the carrying value of the asset. When impairment is identified, the carrying value of the asset is reduced to its fair value. The Company recorded a loss on write-down of materials and supplies of $568,873 and $341,123 in 2015 and 2014, respectively.

Construction Work in Progress

Construction work in progress consists of equipment, materials, and construction costs including capitalized labor related to network deployment projects currently in process. As of December 31, 2015 and 2014, the primary construction projects in progress were additions to the transport networks in Georgia and Florida. The Georgia and Florida projects under construction as of December 31, 2015 are expected to be placed in service in 2016.

Property and Equipment

The Company's property and equipment are recorded at cost, including internal labor costs and capitalized interest associated with the construction and installation of assets. Labor and associated benefit costs capitalized during 2015 and 2014 totaled $1,218,104 and $1,485,390, respectively. Interest costs capitalized during 2015 and 2014 totaled $886,653 and $1,331,159, respectively. Depreciation begins when property and equipment are placed in service. The cost to maintain, repair and replace minor items of property and equipment is charged to cost of service revenues as the expenditure is incurred. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is less. Depreciation of property and equipment is provided using the straight- line method over the following estimated lives:

	Years
Fiber routes	15
Cell site and other network related equipment	6 - 10
Network management hardware/software	3 - 7
Furniture, fixtures, storeroom and office equipment	3 - 7
Other software	3

Impairment of Long-Lived Assets

The Company periodically evaluates the fair value and future benefits of its long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. Property, equipment, and intangible assets are analyzed and measured for impairment whenever the estimated undiscounted future net cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When an impairment loss is identified, the carrying value of the asset is reduced to its fair value. Various factors, including future sales growth and profit margins, are included in this analysis. To the extent these future projections or the Company's strategies change, the conclusion regarding impairment may differ from the Company's current estimates. In 2015, the Company incurred a net impairment loss of $982,150 primarily related to engineering and labor costs incurred on a construction project that was abandoned. No impairment loss was recorded during 2014.

Other Assets

Other assets consist of dark fiber lease prepayments, amounts paid to secure Federal Communications Commission ("FCC") licenses related to the Company's network, and costs incurred in connection with the issuance of long- term debt. The dark fiber lease prepayments and amounts paid to secure the FCC licenses are amortized over the term of the related lease or license using the straight-line method. The debt issuance costs are amortized to interest expense over the term of the long-term debt using the straight-line method, which approximates the effective interest method. See Note 5, Intangible Assets, for more information on the FCC license asset.

Asset Retirement Obligations

The Company recognizes liabilities for asset retirement obligations related to the estimated costs of removing network equipment from its leased co-location sites, as required by the related lease agreements. The asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of the fair value of the estimated costs to retire the asset can be made. Estimated liabilities are accreted over time to reflect changes in present value. The associated asset retirement costs are capitalized as part of the carrying value of the related long-lived assets and depreciated on a straight-line basis over their estimated useful lives. A summary of the asset retirement obligations activity is as follows:

	2015	2014
Asset retirement obligations at beginning of year	$ 1,881,891	$ 1,643,764
Liabilities incurred in the current year	108,158	85,417
Liabilities settled in the current year	(69,285)	(100,842)
Accretion expense	298,753	253,552
Asset retirement obligations at end of year	$ 2,219,517	$ 1,881,891

Accounting for Stock-Based Compensation

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award or, in the case of certain awards for which vesting is contingent upon Company performance, compensation expense is recorded upon anticipated achievement of the performance objective. For stock option grants, the Company determined the fair value of each stock option at the grant date using the Black-Scholes option valuation model. Generally, the Company's stock options vest over a four-year period, with one fourth of the shares vesting on the first anniversary of the grant date, and the remaining three fourths of the shares vesting ratably over the remaining three years. The options have a contractual term of ten years. Expected volatilities are calculated based on the historical volatilities of similar public companies in the telecommunications industry. The expected term of the options is based on management's estimate of the period that the options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. For grants of restricted stock, the Company determined the fair value of the shares granted based upon the most recent issue price of the Company's stock, adjusted as necessary for related restrictions.

Income Taxes

The Company uses the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. We account for uncertainty in income taxes using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Such amounts are subjective, as a determination must be make on the probability of various possible outcomes. We reevaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts and circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition and measurement could result in recognition of a tax benefit or an additional provision. See Note 11 for further discussion of income taxes.

Reclassification in Presentation

Beginning with the Statement of Operations for December 31, 2015, the Company has reclassified the cost of sales portion of depreciation, amortization, and accretion to properly reflect the nature of the expense. This presentation includes a reclassification for the comparative period of December 31, 2014.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB deferred the effective date to annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2018. Early adoption is permitted as of the

original effective date or annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The standard is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, it is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company has not yet adopted ASU 2015-03.

In September 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires an entity to present deferred tax liabilities and assets as noncurrent. The ASU will replace the current classification and presentation requirements for deferred tax assets and liabilities. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016. Early adoption is permitted as of the original effective date or annual reporting periods and interim reporting periods within annual reporting periods beginning after December 15, 2016. The Company has not yet adopted ASU 2015-17 and it is not expected to have a material effect on the Company's financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases. The new guidance supersedes existing guidance on accounting for leases in Topic 840 and is intended to increase the transparency and comparability of accounting for lease transactions. ASU 2016-02 requires most leases to be recognized on the balance sheet. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting remains similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard (ASU 2014-09). The ASU will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes the following aspects of the accounting for share-based payment award transactions: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows;
(3) forfeitures; (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes, (6) a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain criterion; and
(7) a one-time election to switch from measuring all liability-classified awards at fair value to intrinsic value. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company has not yet adopted ASU 2016-09.

Note 3 – Note Receivable

In connection with the sale of its backhaul network in Miami, Florida in October 2012, the Company received a non-interest bearing note receivable in the amount of $475,000 payable in 36 monthly installments of $13,194. The note receivable was recorded at its present value of $385,737 using an imputed interest rate of 15%. The remaining payments were collected in 2015 and the balance of the note receivable at December 31, 2015 was $0.

Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31, 2015 and 2014:

	2015	2014
Fiber routes	$ 76,889,297	$ 62,086,497
Fiber routes under capital lease	12,624,574	11,475,744
Network equipment	80,672,975	73,625,309
Network equipment under capital lease	1,493,356	1,493,356
Computer equipment and software	5,336,486	5,215,480
Office equipment	504,305	490,824
Easements	301,045	249,512
Furniture and fixtures	63,365	63,365
Leasehold improvements	445,667	445,666
	178,331,070	155,145,753
Less accumulated depreciation	58,427,355	40,205,153
Property and equipment, net	$ 119,903,715	$ 114,940,600

See Note 6, Leasing Arrangements regarding the fiber routes and network equipment under capital leases. Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $18,292,541 and $15,670,180, respectively.

Note 5 – Intangible Assets

Purchased intangible assets, included within Other Assets, consists of the following:

	December 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
FCC License	$ 376,285	$ (133,049)	$ 243,236	$ 376,285	$ (95,417)	$ 280,868

There was no activity related to purchased intangible assets during 2015. The weighted average remaining amortization period is 78 months. The amortization expense on the intangible asset was $37,632 and $36,668 for 2015 and 2014, respectively.

Total future amortization expense for purchased intangibles, based on their current estimated useful lives as of December 31, 2015, is estimated as follows:

Years Ending December 31:		
2016	$	37,578
2017		36,954
2018		36,276
2019		36,200
2020		34,870
Thereafter		61,358
Total future amortization expense	$	243,236

Note 6 – Leasing Arrangements

Future minimum lease payments under operating leases with non-cancelable terms in excess of one year and capital leases were as follows at December 31, 2015:

Year Ending December 31,		Operating Leases		Capital Leases
2016	$	9,131,753	$	543,128
2017		7,031,918		649,731
2018		4,982,045		779,240
2019		3,662,913		927,418
2020		1,952,879		611,445
Thereafter		5,450,471		3,590,322
Total minimum lease payments	$	32,211,979		7,101,284
Less: current portion of capital lease obligations				543,128
Obligations under capital leases, net of current portion			$	6,558,156

During 2015 and 2014, the Company entered into agreements with several providers of dark fiber to construct fiber routes in its broadband backhaul markets and to lease such fiber routes to the Company. These leases have terms approximating the estimated economic lives of the dark fiber and are accounted for as capital leases. The carrying amounts of the assets under capital lease are the present value of the minimum lease payments determined using the Company's incremental borrowing rate. The carrying values and accumulated amortization of fiber routes under capital lease at December 31, 2015 and 2014 were $12,624,574 and $2,560,884, and $11,475,744 and $1,913,992, respectively.

During 2011, the Company entered into agreements with a national operator of communications towers to lease tower and ground space at sites in the Atlanta and Augusta, Georgia markets and the Montgomery, Alabama market. Additionally, as part of the agreements, the tower operator agreed to install and lease to the Company certain network related equipment and to provide financing for certain other out-of-pocket costs that the Company incurred to render the site ready for providing backhaul services. The Company agreed to pay the tower operator a monthly license fee for the tower and ground space and for the leased network equipment. The term of each agreement is ten years. The Company accounted for the arrangement as having the components of an operating lease for the use of the tower and ground space and a capital lease for the network equipment.

The carrying amounts of the network equipment under capital lease are the present value of the minimum lease payments determined using the Company's incremental borrowing rate. The carrying value and accumulated amortization of the network equipment under capital lease at December 31, 2015 and 2014, were $1,493,356 and
$884,603, and $1,493,356 and $718,674, respectively.

Note 7 – Letters of Credit

The Company had an unused standby letter of credit in the amount of $800,000 as of December 31, 2015 drawn on a financial institution in favor of an insurance company that provides construction performance bonds for the Company. As of December 31, 2015, there were no amounts drawn on this letter of credit. The unused standby letter of credit as of December 31, 2015 expires in June 2016 but is automatically extended for successive one-year periods. The Company had no letters of credit as of December 31, 2014.

Note 8 – Long-Term Debt

Revolving Loan Agreement

On December 3, 2014, the Company entered into a new revolving credit loan agreement with a syndicate of banks led by the Company's current lender that provided for an aggregate commitment of $82.5 million (the "Revolving Loan Agreement"). Under the Revolving Loan Agreement, the existing loan balance was refinanced. The Revolving Loan Agreement provided that additional advances up to a limit of $82.5 million were available through December 3, 2017 (subject to a borrowing base limitation), at which time the outstanding balance is payable in full. The Revolving Loan Agreement also provided for an additional swing line facility of up to $2.5 million. On May 26, 2015, the Revolving Loan Agreement was amended to provide an additional $10.0 million of borrowing availability (the "Non-Formula Amount") for the temporary period from the amendment date through January 31, 2016 ("the First Amendment"). The aggregate commitment of $82.5 million was unchanged by the First Amendment. The First Amendment further provided that the Non-Formula Amount be reduced dollar-for-dollar by the proceeds, if any, from certain asset sales and by the increase, if any, in borrowing availability due to increases in the Company's contract backlog. Upon the expiration of the Non-Formula Amount on February 1, 2016, the Company was required to meet the borrowing base requirements of the original Revolving Loan Agreement and to effect loan repayments if necessary to ensure compliance. On February 1, 2016, and at all times during the Non- Formula Amount period, the Company was in compliance with the borrowing base limitations of the Revolving Loan Agreement (as amended) and no loan repayments were required.

The Revolving Loan Agreement is secured by substantially all of the Company's assets and includes restrictive covenants, among other matters, requiring the Company to maintain a minimum tangible net worth, a maximum market cash flow leverage ratio, and a minimum of $2 million cash at the banks. Advances under the Revolving Loan Agreement may be drawn under a base rate or LIBOR option, plus an applicable margin based upon the Company's market cash flow leverage. The base rate option is the greatest of (i) the Prime Rate, (ii) the federal funds rate plus 100 basis points, and (iii) the 30-day LIBOR adjusted daily plus 100 basis points. The LIBOR option is LIBOR but no less than 1.0%, plus an applicable margin. All advances in 2015 were drawn under the LIBOR option and bear interest at 5.00% (5.00% at December 31, 2015). At December 31, 2015, approximately $17.7 million was available for advance under the Revolving Loan Agreement.

For the years ended December 31, 2015 and 2014, the Company recorded interest expense on long-term debt in the amounts of $3,973,553 and $3,277,181, respectively, of which $886,653 and $1,331,159, respectively, were capitalized to construction projects. Debt issuance costs are capitalized and amortized to interest expense over the loan term. At December 31, 2015 and 2014, unamortized debt issuance costs were $604,896 and $803,802, respectively.

At December 31, 2015 and 2014, the following debt amounts were outstanding:

	2015	2014
Revolving loan	$ 57,178,196	$ 60,678,196
Total long-term debt	57,178,196	60,678,196
Less unamortized discounts	-	-
Less current portion of long-term debt	-	-
Total long-term debt, net of current portion	$ 57,178,196	$ 60,678,196

The balance of long-term debt at December 31, 2015 is payable in full in 2017.

Note 9 – Redeemable Convertible Preferred Stock

2015 and 2014 Series B Transactions

During 2014, the Company sold 534,645 shares of Series B Preferred Stock to a Company executive for a price of $250,000. The shares were repurchased in 2015 for $250,000 when the executive left the Company. There were no other Series B transactions in 2014 or 2015. Significant terms of the Series A and B Preferred Stock are as follows:

Conversion – Holders of Series A and B Preferred Stock may convert their shares at any time into shares of Common Stock on a one-to-one basis. The conversion rate is subject to adjustment for certain dilutive events. The Series A and B Preferred Stock shall automatically convert into Common Stock upon the closing of a firmly-underwritten public offering of Common Stock provided proceeds are at least $20 million (after underwriters' discounts and expenses) or upon the vote or written consent of the holders of at least 62% of the then outstanding shares of Series A Preferred Stock and/or Series B Preferred Stock, respectively.

Dividends – Holders of Series B Preferred Stock shall be entitled to receive cumulative and compounding dividends in preference to any dividend on either the Series A Preferred Stock or the Common Stock at a rate of 6% of the original issue price per annum, when and as declared by the Board of Directors. The holders of the Series B Preferred Stock shall also be entitled to participate pro rata in any dividends paid on the Common Stock on an as- if-converted basis. Commencing on issuance, the Series B Preferred Stock accrues dividends at the rate of 6% per annum, payable only when and if declared by the Board, and upon certain events. During 2015, the Company recognized accrued dividends on Series B Preferred Stock in the amount of $2,431,716.

Holders of Series A Preferred Stock shall be entitled to receive noncumulative dividends in preference to any dividend of the Common Stock at the rate of 6% of the original issue price per annum, when and as declared by the Board of Directors. The holders of the Series A Preferred Stock shall also be entitled to participate pro rata in any dividends paid on the Common Stock on an as-if-converted basis. Commencing on September 30, 2011, the Series A Preferred Stock accrues dividends at the rate of 6% per annum, payable only when and if declared by the Board, and upon certain events. During 2015, the Company recognized accrued dividends on Series A Preferred Stock in the amount of $4,565,680.

Liquidation Preference – In the event of a merger, consolidation, dissolution, winding up or sale of all or substantially all of the assets unless the Company is the surviving entity or the holders of 62% of the Preferred Stock waive this preference, the holders of the Series B Preferred Stock are entitled to receive, prior and in preference to all other shareholders an amount equal to $0.4676 per share (subject to adjustment) of Series B Preferred stock plus any accrued but unpaid dividends. Thereafter, the holders of the Series A Preferred Stock are entitled to receive, prior and in preference to the holders of the Common Stock, an amount equal to $0.32 per share (subject to adjustment) of Series A Preferred Stock plus any accrued but unpaid dividends. Any remaining proceeds shall be allocated pro rata among the holders of Common Stock and the Series A and B Preferred Stock, treating the holders of the Series A Preferred Stock and Series B Preferred Stock on an as-converted basis.

Redemption – After the later of May 24, 2017 or the date when there are no shares of Series B Preferred Stock outstanding, the holders of a majority of the Series A Preferred Stock may cause the Company to redeem the Preferred Stock at a price equal to the issue price per share (as may be adjusted) plus any accrued but unpaid dividends. At any time after May 24, 2017, the holders of at least 62% of the shares of Series B Preferred Stock may cause the Company to redeem the Series B Preferred Stock at a price equal to the original issue price per share (as may be adjusted) plus any accrued but unpaid dividends.

Note 10 – Stockholders' Deficit and Stock-Based Compensation

Common Stock

At December 31, 2015 and 2014, the Company had 370,000,000 Common shares authorized and 1,987,293 and 1,942,515 shares issued, respectively.

Stock-Based Compensation

The Company has an equity incentive plan which authorizes the issuance of shares of Common Stock for the grant of stock options to employees, directors and consultants of the Company (the "Equity Plan"). The Company has authorized the issuance of up to 35,000,000 stock options under the Equity Plan.

Compensation expense related to stock options was $140,811 and $196,863 for 2015 and 2014, respectively. As of December 31, 2015, there was unrecognized compensation cost related to stock options of approximately $237,000. This compensation cost is expected to be recognized over a period of approximately three years.

A summary of the option transactions during the two years ended December 31, 2015 is as follows:

	No. of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Fair Value	Aggregate Intrinsic Value
Outstanding and exercisable at January 1, 2014	23,484,712	$ 0.10	7.6	$ 1,002,717	$ 234,847
Granted	5,572,265	0.11			
Exercised	1,222,081	0.10			
Forfeited or expired	2,019,390	0.11			
Outstanding and exercisable at December 31, 2014	25,815,506	$ 0.10	7.1	$ 1,130,373	$ 258,155
Granted	2,252,070	0.11			
Exercised	44,778	0.09			
Forfeited or expired	3,315,964	0.11			
Outstanding and exercisable at December 31, 2015	24,706,834	$ 0.10	6.2	$ 1,065,044	$ 741,205

The number and weighted average grant date fair values of non-vested options at the beginning and end of 2015, as well as options vesting during the year were as follows:

	No. of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	8,753,592	$ 0.04
Granted	2,252,070	0.06
Vested	3,374,227	0.04
Forfeited or expired	2,490,670	0.04
Non-vested at December 31, 2015	5,140,765	$ 0.05

The fair values of the option awards made in 2015 were estimated on the date of grant using the Black-Scholes valuation model and assuming the following: a term of ten years, time to maturity of five years, risk-free rate of 1.5%, volatility of 63%, and a dividend yield of zero. During the years ended December 31, 2015 and 2014, the weighted-average grant date fair value per share of options awarded to employees was $0.06 and $0.04, respectively. The total fair value of stock options that vested for the year ended December 31, 2015 was $202,453. The total intrinsic value of options exercised during 2015 and 2014 was $1,791 and $12,221, respectively. No tax benefit was recognized in 2015 or 2014 for the exercise of stock options during the year. Upon exercise of stock options, new shares of the Company's stock are issued.

During 2013, the Company granted 1,600,000 shares of restricted Series B Preferred Stock that vest over a four year period in conjunction with the provision of professional services. The fair value of the restricted stock awarded totaled approximately $746,000. The fair value of the award was calculated at the time of grant using the most recent issue price of the Company's Series B Preferred Stock and is being amortized over the contractual term. Compensation expense related to restricted stock was $187,040 for 2015 and 2014. As of December 31, 2015, unamortized compensation expense related to nonvested restricted stock was $0.2 million.

Warrants

The following table summarizes information about outstanding warrants to purchase Preferred Stock at December 31, 2015:

Warrants Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share
3,170,975	3.0	$0.43

Note 11 – Income Taxes

No provision or benefit for income taxes was recorded in 2015 or 2014 due to the accumulation of net operating losses since the Company's inception and the present inability to recognize the potential benefits of the associated net operating loss (NOL) carryforwards.

Deferred income taxes reflect the net 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.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	$ 31,211,562	$ 26,716,982
Accrued expenses	641,094	538,742
Asset retirement obligation	588,500	421,704
Deferred revenue	427,256	674,957
Inventory reserve	432,914	208,215
Other	117,828	119,541
Total net deferred tax assets	33,419,154	28,680,141
Valuation allowance	24,257,990	20,319,625
Net deferred tax assets	$ 9,161,164	$ 8,360,516
Deferred tax liabilities:		
Property, plant and equipment	$ 8,916,209	$ 8,074,422
Other	244,955	286,094
Deferred tax liabilities	$ 9,161,164	$ 8,360,516

The items accounting for differences between the income tax provision computed at the federal statutory rate and the provision for income taxes for the years ended December 31, 2015 and 2014, were as follows:

U.S. federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	(2.4)	(2.3)
Valuation allowance	(32.0)	(32.0)
Permanent items	(0.6)	(0.7)
Effective income tax rate	0.0%	0.0%

Realization of deferred tax assets is dependent upon generating sufficient taxable income prior to their expiration. As of December 31, 2015 and 2014, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized through future taxable earnings.

Accordingly, the Company's deferred tax assets have been offset by a valuation allowance at December 31, 2015 and 2014.

As of December 31, 2015, the Company had approximately $79 million in tax NOL carryforwards expiring through 2035 available to offset future taxable income. The Company's ability to offset these net operating loss carryforwards against future taxable income may be limited under Internal Revenue Code Section 382. This limitation generally applies when there is a change in ownership of 50 percent or more during certain testing periods, and generally places an annual limit on the amount of "pre-change" net operating loss available for each subsequent period to offset the taxable income of such subsequent periods. The impact of any limitation under Internal Revenue Code Section 382 did not have a material impact on the financial statements, due to the established balance of the deferred tax valuation allowance.

The Company has adopted Accounting Standards Codification Topic 740, *Income Taxes*. A component of this standard prescribes a recognition and measurement threshold of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There was no material impact on the Company's financial position or changes in net assets as a result of the adoption of this standard. The Company's policy is to recognize interest and penalties associated with tax positions under this standard as a component of tax expense, however none were recognized in 2015 or 2014. With limited exceptions, the Company's 2013 federal and 2012 state tax returns, and all subsequent year returns, are open to examination by taxing authorities.

Note 12 - Fair Value of Financial Instruments

GAAP defines 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 and disclosures for assets and liabilities required to be recorded at fair value, the Company 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 interest and foreign exchange rates, transfer restrictions, and risk of non-performance.

Fair Value Hierarchy

The Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurement and Disclosures* provides a framework for measuring fair value. It requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value measurement of each class of assets and liabilities is dependent upon its categorization within the fair value hierarchy, based upon the lowest level of input that is significant to the fair value measurement of each class of asset and liability. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2— Unadjusted quoted prices for similar assets or liabilities in active markets, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3— Unobservable inputs for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As stated in Note 2, based on management's estimates, the carrying value of the Company's assets and liabilities, with the exception of warrants, approximates fair value due either to the length of maturity or existence of interest rates that approximate prevailing market rates.

Warrants

When determining the fair value measurements, management considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when determining the price, such as inherent risk, transfer restrictions, and risk of nonperformance. The fair value of the warrants was approximately $488,000 at December 31, 2015 and December 31, 2014, based on the Black- Scholes valuation model which largely utilized unobservable, Level 3 inputs.

Restricted Stock

The fair valuation determination used for the restricted stock was based upon the most recent issue price of the Company's stock, which would be considered a Level 3, unobservable input. The fair value of the restricted stock was $748,160 at December 31, 2015 and December 31, 2014.

Note 13 – Commitments and Contingencies

Revenue Commitments

The Company has entered into agreements to provide broadband telecommunication services to customers in markets in Florida, Georgia, Alabama, and South Carolina for initial terms of five to ten years. Future annual service revenues to be received under the initial term of the agreements for sites in service as of December 31, 2015 are as follows:

Year Ending December 31,	Cash Service Payments From Customers
2016	$ 31,274,245
2017	25,464,831
2018	20,372,291
2019	15,914,871
2020	8,958,824
Thereafter	11,546,436
Total	$ 113,531,498

Purchase Commitments

At December 31, 2015, the Company had outstanding commitments in the amount of approximately $5.9 million to purchase construction materials and services in conjunction with its network deployments in Georgia and Florida.

Legal Matters

The Company may from time to time become involved in litigation arising in the ordinary course of business. As of December 31, 2015 and 2014, there are no such items that management believes will have a material adverse effect on the Company's financial position or results of operations.

Note 14 – Employee Benefit Plans

Employees of the Company may participate in the Company's 401(k) retirement savings plan (the "Savings Plan"). Each participant in the Savings Plan may elect to contribute a percentage of his or her annual compensation to the Savings Plan, up to a specified maximum amount per year. The Company, at its discretion, may also make contributions to the Savings Plan. The Company made contributions to the Savings Plan of $194,104 and $-0- during 2015 or 2014, respectively.

Note 15 – Related Party Transactions

The Company has entered into agreements with Knology, Inc. and its parent company, WideOpenWest, LLC, for the construction and lease of dark fiber routes in Georgia and Alabama. Knology, Inc. is a holder of the Company's Preferred Stock and a designee of Knology, Inc. sits on the Company's Board of Directors. During 2015 and 2014, the Company paid Knology, Inc./WideOpenWest, LLC $1.0 million and $0.9 million, respectively, in connection with the construction and lease of dark fiber. The Company also has long-term commitments to Knology, Inc./WideOpenWest, LLC for operating lease payments in connection with the dark fiber routes in the amount of $2.1 million (see Note 6, Leasing Arrangements).

Certain holders of the Company's Preferred Stock are also holders of equity interests in PT Holding Company, L.L.C. ("PT Holding"), the parent of PT Attachment Solutions, L.L.C. ("PT Attachment"), a wireless infrastructure construction and leasing company. Additionally, during a portion of 2014, two members of the Company's executive management were also holders of equity interests in PT Holding. During 2015 and 2014, the Company paid PT Attachment $20,250 and $24,300, respectively, for site lease expenses. The amounts paid to PT Attachment for site lease expenses were charged to cost of service revenues. Additionally, PT Attachment sub-leases office space from the Company, and during 2015 and 2014, paid the Company $56,933 and $60,763, respectively, for rent and other expenses. The amounts paid for rent and other expenses were offset against the Company's general and administrative expenses.

Note 16 – Subsequent Events

The Company has evaluated events occurring after the balance sheet date through May 12, 2016, the date on which the financial statements were available to be issued. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Communications Sales & Leasing, Inc.'s
Unaudited Pro Forma Combined Financial Data

The following unaudited pro forma consolidated financial statements present Communications Sales & Leasing, Inc.'s ("CS&L" or the "Company") unaudited pro forma combined balance sheet as of June 30, 2016 and the unaudited pro forma combined statements of income for the six months ended June 30, 2016 and the year ended December 31, 2015. These statements have been derived from (a)(i) the historical financial statements of CS&L for the period from April 24, 2015 to December 31, 2015; (ii) the historical financial statements of CS&L for the period from January 1, 2016 to June 30, 2016, which includes the results of PEG Bandwidth, LLC ("PEG") from the May 2, 2016 acquisition date to June 30, 2016; and (iii) the historical financial statement of the Consumer Competitive Local Exchange Carrier Business (the "Consumer CLEC Business") for the period from January 1, 2015 to April 24, 2015, all of which were previously filed with the Securities and Exchange Commission ("SEC"); (b) the historical financial statements of PEG, for the period from January 1, 2015 to May 1, 2016; and (c) the historical audited financial statements of Tower Cloud, LLC ("Tower Cloud"), which are included elsewhere in this Form 8-K.

The following unaudited pro forma combined financial statements give effect to the acquisition of Tower Cloud and the related transactions, including: (i) revolving credit facility borrowings and related interest expense to fund the cash portion of the purchase consideration and (ii) issuance of 1.9 million shares of the Company's common stock, $0.0001 par value ("Common Stock"), for purchase consideration. Additionally, the unaudited pro forma combined financial statements give effect to the acquisition of PEG and the related transactions, including: (i) revolving credit facility borrowings and related interest expense to fund the cash portion of the purchase consideration, (ii) issuance of 1 million shares of the Company's common stock, $0.0001 par value, for purchase consideration, and (iii) issuance of 87,500 shares of the Company's 3% Series A Convertible Preferred Stock (the "Convertible Preferred Stock") for purchase consideration. The unaudited pro forma combined financial statements also give effect to our spin-off from Windstream and the related transactions for the period prior to the spin-off from Windstream Holdings, Inc. ("Windstream Holdings" and together with its consolidated subsidiaries "Windstream") on April 24, 2015, including: (iv) the transfer of the Distribution Systems (as defined below) from Windstream to CS&L, (v) rental income associated with the Master Lease between CS&L and Windstream, (vi) transport, provisioning and repair services with the Wholesale Agreement between CS&L and Windstream, (vii) billing and collection services with the Master Services Agreement between CS&L and Windstream, and (viii) the issuance of $3.65 billion of long-term debt. The unaudited pro forma combined statement of income assumes the spin-off from Windstream, the purchase of PEG and the purchase of Tower Cloud occurred on January 1, 2015, and the unaudited pro forma combined balance sheet assumes the purchase of Tower Cloud occurred on June 30, 2016.

The pro forma adjustments are based on currently available information and assumptions we believe are reasonable, factually supportable, directly attributable to the spin-off from Windstream, and the acquisition of PEG and Tower Cloud, and for the purposes of the pro forma combined statement of income, are expected to have a continuing impact on us.

Our unaudited pro forma combined financial statements were prepared in accordance with Article 11 of Regulation S-X, using the assumptions set forth in the notes to our unaudited pro forma combined financial statements. The following unaudited pro forma combined financial statements are presented for illustrative purposes only and do not purport to reflect the results we may achieve in future periods or the historical results that would have been obtained had the spin off from Windstream or acquisitions of PEG and Tower Cloud occurred on January 1, 2015 or the acquisition of Tower Cloud as of June 30, 2016, as

the case may be. Our unaudited pro forma combined financial statements also do not give effect to the potential impact of final purchase accounting adjustments, current financial conditions, any anticipated synergies, operating efficiencies, costs savings, or integration costs that may result from the transactions described above.

Our unaudited pro forma combined financial statements are derived from, and should be read in conjunction with the historical financial statements of CS&L, the Consumer CLEC Business, PEG and Tower Cloud and accompanying notes previously filed with the SEC or included elsewhere in this Form 8-K.

Communications Sales & Leasing, Inc.
Unaudited Pro Forma Combined Balance Sheet
As of June 30, 2016

(Thousands, except par value)	Historical CS&L	Historical Tower Cloud, Inc.		Pro Forma Adjustments		Pro Forma Combined
Assets:						
Property, plant and equipment, net	$ 2,569,402	$ 149,512		$ 3,829	(A)	$ 2,722,743
Cash and cash equivalents	48,813	6,067		(30,000)	(C)	24,880
Accounts receivable, net	8,458	3,707		-		12,165
Goodwill	146,590	-		69,643	(A)	216,233
Intangible assets, net	47,920	225		137,500	(A)	185,645
Straight-line rent receivable	20,422	-		-		20,422
Other assets	10,070	3,845	(1)	-		13,915
Total Assets	$ 2,851,675	$ 163,356		$ 180,972		$ 3,196,003
Liabilities, Convertible Preferred Stock and Shareholders' Deficit:						
Liabilities:						
Accounts payable, accrued expenses and other liabilities	$ 20,206	$ 15,071		$ -		$ 35,277
Accrued interest payable	26,384	149		(149)	(B)	26,384
Deferred revenue	148,346	22,031		(1,531)	(A)	168,846
Derivative liability	66,888	-		-		66,888
Dividends payable	93,208	-		-		93,208
Deferred income taxes	5,115	-		31,400	(A)	36,515
Contingent consideration	-	-		62,000	(A)	62,000
Capital lease obligations	48,980	6,842		-		55,822
Notes and other debt, net	3,690,186	64,190	(1)	85,810	(C)	3,840,186
Total liabilities	4,099,313	108,283		177,530		4,385,126
Convertible preferred stock, Series A, $0.0001 par value, 88 shares authorized, issued and outstanding, $87,500 liquidation value	79,063	-		-		79,063
Redeemable equity	-	153,309		(153,309)	(D)	-
Warrants	-	861		(861)	(D)	-
Shareholders' Deficit:						
Preferred stock	-	-		-		-
Common stock	15	-		-		15
Additional paid-in capital	81,881	-		58,515	(E)	140,396
Accumulated other comprehensive loss	(66,967)	-		-		(66,967)
Distributions in excess of accumulated earnings	(1,341,630)	(99,097)		99,097	(F)	(1,341,630)
Total shareholders' deficit	(1,326,701)	(99,097)		157,612		(1,268,186)
Total Liabilities, Convertible Preferred Stock, and Shareholders' Deficit	$ 2,851,675	$ 163,356		$ 180,972		$ 3,196,003

(1)In order to align with CS&L's accounting policy, approximately $488k of historical Tower Cloud deferred financing costs were reclassified from other assets to notes and other debt, net.

See accompanying Notes to the Unaudited Pro Forma Combined Financial Data

Communications Sales & Leasing, Inc.
Unaudited Pro Forma Statement of Income
Six Months Ended June 30, 2016

(Thousands, except per share data)	Historical CS&L	Historical PEG Bandwidth, LLC January 1 - May 1, 2016	Pro Forma PEG Adjustments		Pro Forma CS&L and PEG Combined	Historical Tower Cloud, Inc.	Pro Forma Tower Cloud Adjustments		Pro Forma Combined
Revenues:									
Leasing	$ 337,691	$ -	$ -		$ 337,691	$ -	$ -		$ 337,691
Fiber Infrastructure	13,776	27,302	(73)	(G)	41,005	20,794	-		61,799
Consumer CLEC	11,781	-	-		11,781	-	-		11,781
Total revenues	363,248	27,302	(73)		390,477	20,794	-		411,271
Costs and Expenses:									
Interest expense	134,085	3,250	1,318	(H)	138,653	2,366	445	(P)	141,464
Depreciation and amortization	178,725	11,113	583	(I)	190,421	9,831	3,533	(Q)	203,785
General and administrative expense	13,428	6,042	(214)	(J)	19,256	4,967	(663)	(R)	23,560
Operating expenses	14,618	10,246	(11)	(J)	24,853	10,014	-		34,867
Other expenses, net	-	29	-		29	-	-		29
Transaction related costs	15,120	2,820	(12,174)	(K)	5,766	-	(3,427)	(S)	2,339
Total costs and expenses	355,976	33,500	(10,498)		378,978	27,178	(112)		406,044
Income before income taxes	7,272	(6,198)	10,425		11,499	(6,384)	112		5,227
Income tax expense	771	-	-		771	-	-		771
Net income	6,501	(6,198)	10,425		10,728	(6,384)	112		4,456
Participating securities' share in earnings	(757)	-	-		(757)	-	-		(757)
Accretion of preferred units to redemption value	-	(3,677)	3,677	(L)	-	-	-		-
Dividends declared on convertible preferred stock	(438)	-	(875)	(M)	(1,313)	-	-		(1,313)
Amortization of discount on convertible preferred stock	(496)	-	(992)	(N)	(1,488)	-	-		(1,488)
Net income applicable to common shareholders	$ 4,810	$ (9,875)	$ 12,235		$ 7,170	$ (6,384)	$ 112		$ 898
Earnings per common share:									
Basic	$ 0.03								$ 0.01
Diluted	$ 0.03								$ 0.01
Weighted-average number of common shares outstanding									
Basic	150,416		1,000	(O)			1,875	(T)	153,291
Diluted	150,661		1,000	(O)			1,875	(T)	153,536

See accompanying Notes to the Unaudited Pro Forma Combined Financial Data

Communications Sales & Leasing, Inc.
Unaudited Pro Forma Statement of Income
Year Ended December 31, 2015

(Thousands, except per share data)	Historical					Historical			Historical			
	CS&L April 24 - December 31, 2015	Consumer CLEC January 1 - April 24, 2015	Pro Forma CS&L Adjustments		Pro Forma Adjusted CS&L	PEG Bandwidth LLC	Pro Forma PEG Adjustments		Tower Cloud, Inc.	Pro Forma Tower Cloud Adjustments		Pro Forma Combined
Revenues:												
Leasing	$ 458,614	$ -	$ 209,424	(U)	$ 668,038	$ -	$ -		$ -	$ -		$ 668,038
Fiber Infrastructure	-	-	-		-	76,143	(231)	(G)	41,455	-		117,367
Consumer CLEC	17,700	10,149	-		27,849	-	-		-	-		27,849
Total revenues	476,314	10,149	209,424		695,887	76,143	(231)		41,455	-		813,254
Costs and Expenses:												
Interest expense	181,797	-	82,548	(V)	264,345	22,414	(11,083)	(H)	4,445	34	(P)	280,155
Depreciation and amortization	238,748	1,283	108,400	(W)	348,431	30,888	1,846	(I)	18,584	7,066	(Q)	406,815
General and administrative expense	11,208	22	5,026	(X)	16,256	14,415	(758)	(J)	8,110	(328)	(R)	37,695
Operating expenses	13,743	5,552	2,328	(Y)	21,623	31,128	(36)	(J)	19,399	-		72,114
Other expenses, net	-	-	-		-	619	-		982	-		1,601
Transaction related costs	5,210	-	-		5,210	-	(3,137)	(K)	-	-	(S)	2,073
Total costs and expenses	450,706	6,857	198,302		655,865	99,464	(13,168)		51,520	6,772		800,453
Income before income taxes	25,608	3,292	11,122		40,022	(23,321)	12,937		(10,065)	(6,772)		12,801
Income tax expense	738	-	463	(Z)	1,201	-	-		-	-		1,201
Net income	24,870	3,292	10,659		38,821	(23,321)	12,937		(10,065)	(6,772)		11,600
Participating securities' share in earnings	(1,152)	-	-		(1,152)	-	-		-			(1,152)
Accretion of preferred units to redemption value	-	-	-		-	(10,508)	10,508	(L)	-	-		-
Dividends declared on convertible preferred stock	-	-	-		-	-	(2,625)	(M)	-	-		(2,625)
Amortization of discount on convertible preferred stock	-	-	-		-	-	(2,872)	(N)	-	-		(2,872)
Net income applicable to common shareholders	$ 23,718	$ 3,292	$ 10,659		$ 37,669	$ (33,829)	$ 17,948		$ (10,065)	$ (6,772)		$ 4,951
Earnings per common share:												
Basic	$ 0.16											$ 0.03
Diluted	$ 0.16											$ 0.03
Weighted-average number of common shares outstanding												
Basic	149,835						1,000	(O)		1,875	(T)	152,710
Diluted	149,835						1,000	(O)		1,875	(T)	152,710

See accompanying Notes to the Unaudited Pro Forma Combined Financial Data

Basis of Presentation

On April 24, 2015, in connection with the separation and spin-off of CS&L from Windstream Holdings, Inc. (“Windstream Holdings” and together with its consolidated subsidiaries “Windstream”), Windstream contributed certain telecommunications network assets, including fiber and copper networks and other real estate (the “Distribution Systems”) and the Consumer CLEC Business, a small consumer competitive local exchange carrier business to CS&L in exchange for cash, shares of common stock of CS&L and certain indebtedness of CS&L (the “Spin-Off”).

On May 2, 2016, CS&L completed its previously announced acquisition of PEG Bandwidth, LLC. As a result of the acquisition, PEG Bandwidth, LLC is a wholly-owned subsidiary of CS&L. On August 31, 2016, CS&L completed its previously announced acquisition of Tower Cloud, LLC. As a result of the acquisition, Tower Cloud, LLC is a wholly-owned subsidiary of CS&L. The unaudited pro forma combined financial statements give effect to the Spin-Off, the acquisition of PEG, the acquisition of Tower Cloud, and the related transactions discussed above.

Consideration Transferred

The acquisitions of PEG and Tower Cloud have been accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification 805, Business Combinations (“ASC 805”), which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values, with any excess of the purchase price over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Additionally, ASC 805 establishes that the common stock issued to effect the acquisition be measured at the closing date of the transaction at the then-current market price.

PEG Bandwidth, LLC

The fair value of the consideration transferred is as follows:

(Thousands)		
Cash transferred(1)	$	323,248
Fair value of CS&L Series A Convertible Preferred Stock Issued(2)		78,566
Fair value of CS&L common stock issued(3)		23,230
Total value of consideration transferred	$	425,044

(1) The cash transferred was funded through cash on hand and borrowings on CS&L’s revolving credit facility.
(2) The liquidation value of our Series A Convertible Preferred Stock is $87.5 million. The fair value was estimated using an income approach framework, including valuing the conversion feature using a Black-Scholes model.
(3) The fair value of the CS&L common shares of $23.2 million was calculated by multiplying the 1 million CS&L common shares by $23.23, the closing trading price of CS&L common stock on April 29, 2016.

Preliminary Purchase Price Allocation

The following is a summary of the preliminary estimated fair values of the net assets acquired:

(Thousands)		
Property, plant and equipment	$	292,008
Cash and cash equivalents		7,003
Accounts receivable		6,804
Other assets		5,161
Intangible assets		37,500
Accounts payable, accrued expenses and other liabilities		(8,122)
Deferred revenue		(12,700)
Capital lease obligations		(49,200)
Net assets acquired	$	278,454
Goodwill	$	146,590

Tower Cloud, Inc.

The fair value of the consideration transferred is as follows:

(Thousands)		
Cash transferred(1)	$	180,000
Fair value of contingent consideration		62,000
Fair value of CS&L common stock issued(2)		58,515
Total value of consideration transferred	$	300,515

(1) The cash transferred was funded through cash on hand and borrowings on CS&L's revolving credit facility.
(2) Per the merger agreement, Tower Cloud received 1.9 million common shares of CS&L common stock. The acquisition date fair value of the CS&L common stock was calculated by multiplying 1.9 million CS&L common shares by $31.20, the closing trading price of CS&L common stock on August 31, 2016.

Preliminary Purchase Price Allocation

The following is a summary of the preliminary estimated fair values of the net assets acquired:

(Thousands)		
Property, plant and equipment	$	153,341
Cash and cash equivalents		6,067
Accounts receivable		3,707
Other assets		3,845
Intangible assets		137,725
Accounts payable, accrued expenses and other liabilities		(15,071)
Deferred revenue		(20,500)
Deferred income taxes		(31,400)
Capital lease obligations		(6,842)
Net assets acquired	$	230,872
Goodwill	$	69,643

The purchase price allocation is considered preliminary and is subject to revision when the valuations of property, plant and equipment, and intangible assets are finalized upon receipt of the final valuation report from a third party valuation expert for these assets.

Pro Forma Adjustments

(A) To reflect preliminary purchase accounting adjustments as noted in the schedule above.

(B) To reflect removal of accrued interest payable under Tower Cloud's revolving loan agreement.

(C) To reflect the borrowings under CS&L's revolving credit facility to fund the cash portion of the purchase consideration, offset by the retirement of Tower Cloud's revolving loan agreement and removal of related deferred financing costs, computed as follows:

(Thousands)	
CS&L revolving credit facility	$ 150,000
Tower Cloud's revolving loan agreement, net	(64,190)
Net increase in notes and other debt	$ 85,810

The difference in the amount borrowed on the facility and cash consideration paid in partial consideration for the acquisition of Tower Cloud is reflected as a decrease to cash on the balance sheet.

(D) To reflect the removal of Tower Cloud's redeemable equity and warrants.

(E) The adjustment to additional paid-in capital includes the impact of the issuance of 1.9 million shares of CS&L common stock, which had a closing price of $31.20 as of August 31, 2016.

(F) To reflect the removal of Tower Cloud's distributions in excess of accumulated earnings.

(G) To reflect the adjustment to deferred revenue related to estimated purchase accounting adjustments.

(H) To reflect the adjustment to interest expense related to the draw on the revolving credit facility, offset by removal of interest expense related to PEG's loan from parent, calculated as follows:

(Thousands)	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Revolving credit facility (LIBOR + 2.25%)	$ 4,317	$ 7,865
Remove PEG interest expense on loan from parent	(2,466)	(17,428)
Remove PEG amortization of deferred financing costs and debt discount	(533)	(1,520)
Net adjustment to interest expense	$ 1,318	$ (11,083)

For the purposes of the unaudited pro forma combined financial statements, we have assumed LIBOR as the average monthly 1-month LIBOR rate during the periods presented. For the six months ended June 30, 2016, the average 1-month LIBOR rate was 0.44%, and for the year ended December 31, 2015 was 0.20%.

(I) To reflect impact on depreciation and amortization of step-up in net assets acquired.

(J) To reflect removal of PEG stock-based compensation expense, as all PEG stock-based awards were cancelled at closing in accordance with the purchase agreement.

(K) To remove acquisition and transaction costs directly attributable to the acquisition of PEG.

(L) To remove the impact of the accretion of PEG preferred units to their redemption value, as CS&L acquired 100% of the interests in PEG.

(M) To reflect preferred stock dividends related to the issuance of 87,500 shares of Convertible Preferred Stock, with a liquidation preference of $87.5 million.

(N) To reflect accretion of the estimated fair value of the Convertible Preferred Stock issued in partial consideration for the acquisition of PEG to its liquidation value. The difference is amortized, using the effective interest rate method, over the expected term of the Convertible Preferred Stock, which is estimated at 3 years. Based on the estimated fair value of the Convertible Preferred stock, the accretion was calculated assuming a 3.66% effective interest rate.

(O) To reflect the issuance of 1 million shares of CS&L common stock in partial consideration for the acquisition of PEG.

(P) To reflect the adjustment to interest expense related to the draw on the revolving credit facility, offset by removal of interest expense related to Tower Cloud's revolving loan agreement, calculated as follow:

(Thousands)	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Revolving credit facility (LIBOR + 2.25%)	$ 1,828	$ 3,320
Remove Tower Cloud interest expense on revolving loan agreement	(1,225)	(3,087)
Remove Tower Cloud amortization of deferred financing costs and debt discount	(158)	(199)
Net adjustment to interest expense	$ 445	$ 34

For the purposes of the unaudited pro forma combined financial statements, we have assumed LIBOR as the average monthly 1-month LIBOR rate during the periods presented. For the six months ended June 30, 2016, the average 1-month LIBOR rate was 0.44%, and for the year ended December 31, 2015 was 0.20%.

(Q) To reflect impact on depreciation and amortization of step-up in net assets acquired.

(R) To reflect removal of Tower Cloud stock-based compensation expense, as all Tower Cloud stock-based awards were cancelled at closing in accordance with the purchase agreement.

(S) To remove acquisition and transaction costs directly attributable to the acquisition of Tower Cloud.

(T) To reflect the issuance of 1.9 million shares of CS&L common stock in partial consideration for the acquisition of Tower Cloud.

(U) To reflect rental income associated with the Master Lease with Windstream Holdings for the period from January 1, 2015 to the Spin-Off, recognized on a straight-line basis to include the effects of base rent escalations over the initial term of the Master Lease.

(V) To reflect interest expense for the period January 1, 2015 to the Spin-Off on the $3.65 billion of long-term debt issued in connection with the Spin-Off. Interest expense for the period was computed as follows:

(Thousands)		
Senior secured term loan B – variable rate	$	41,372
Senior secured notes – 6.00%		7,600
Senior unsecured notes – 8.25%		28,999
Amortization of debt discounts and debt costs		4,577
Net increase in interest expense	$	82,548

All of CS&L's variable rate debt has been fixed through interest rate swaps, with a weighted-average fixed rate of 6.105%. The interest expense on the senior secured term loan B takes into account the impact of these interest rate swaps.

(W) To reflect depreciation expense for the period January 1, 2015 to the Spin-Off, related to the Distribution System assets transferred to CS&L by Windstream.

(X) To reflect general and administrative expense of CS&L from January 1, 2015 to the Spin-Off.

(Y) To adjust CLEC operating expense to reflect the removal of interconnection costs incurred by the Consumer CLEC business for the period January 1, 2015 to the Spin-Off, offset by costs incurred under the Wholesale Master Services Agreement between CS&L and Windstream Holdings, pursuant to which Windstream Holdings and its affiliates provide CS&L network transport services for the Consumer CLEC business.

(Z) To reflect federal and state income tax expense related to the operations of our leasing business and Consumer CLEC business for the period January 1 to the Spin-Off.