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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**



**(Mark One)**

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

**For the quarterly period ended June 30, 2019**

**OR**

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

**For the transition period from \_\_\_\_\_\_\_ to \_\_\_\_\_\_\_**

**Commission File Number: 001-36708**

**Uniti Group Inc.**



**(Exact name of registrant as specified in its charter)**

|  |  |  |
| --- | --- | --- |
| **Maryland** |  | **46-5230630** |
| **(State or other jurisdiction of** |  | **(I.R.S. Employer** |
| **incorporation or organization)** |  | **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** | | |
|  |  |  |
| Securities registered pursuant to Section 12(b) of the Act: | | |
| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
| Common Stock | UNIT | The NASDAQ Global Select Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

|  |  |  |  |
| --- | --- | --- | --- |
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
|  |  | Emerging growth company | ☐ |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒ As of August 2, 2019, the registrant had 193,143,385 shares of common stock, $0.0001 par value per share, outstanding.



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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements as defined under U.S. federal securities law. Forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements regarding: our expectations regarding the effect of Windstream Holdings, Inc.’s (“Windstream Holdings” and together with its subsidiaries, “Windstream”) bankruptcy and Windstream’s performance under its long-term exclusive triple-net lease with us (the “Master Lease”); our expectations with respect to the treatment of the Master Lease in Windstream’s petitions for relief under Chapter 11 of the Bankruptcy Code; our expectations regarding the effect of substantial doubt about our ability to continue as a going concern; our expectations regarding the future growth and demand of the telecommunications industry, future financing plans, business strategies, growth prospects, operating and financial performance, and our future liquidity needs and access to capital; expectations regarding the impact and integration of Information Transport Solutions, Inc. (“ITS”) and M2 Connections, including expectations regarding operational synergies with Uniti Towers and Uniti Fiber; expectations regarding the probability of our obligation to pay contingent consideration upon Tower Cloud, Inc.'s ("Tower Cloud") achievement of certain defined operational and financial milestones; expectations regarding future deployment of fiber strand miles and small cell networks and recognition of revenue related thereto; expectations regarding levels of capital expenditures; expectations regarding the deductibility of goodwill for tax purposes; expectations regarding reclassification of accumulated other comprehensive income (loss) related to derivatives to interest expense; expectations regarding the amortization of intangible assets; expectations regarding the closing of the operating company-property company partnership with Macquarie Infrastructure Partners and related acquisition of Bluebird Network, LLC (“Bluebird”); and expectations regarding the payment of dividends.

Words such as "anticipate(s)," "expect(s)," "intend(s)," "plan(s)," "believe(s)," "may," "will," "would," "could," "should," "seek(s)" and similar expressions, or the negative of these terms, are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

* the future prospects of our largest customer, Windstream Holdings, which, following a finding that it is in default of certain of its debt, on February 25, 2019, and along with all of its subsidiaries, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code;
* our ability to continue as a going concern if Windstream Holdings were to succeed in its recharacterization and fraudulent transfer claims against us, reject the Master Lease or be unable or unwilling to perform its obligations under the Master Lease;
* the ability and willingness of our customers to meet and/or perform their obligations under any contractual arrangements entered into with us, including master lease arrangements;
* the ability of our customers to comply with laws, rules and regulations in the operation of the assets we lease to them;
* the ability and willingness of our customers to renew their leases with us upon their expiration, and the ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we replace an existing tenant;
* our ability to renew, extend or retain our contracts or to obtain new contracts with significant customers (including customers of the businesses that we acquire);
* the availability of and our ability to identify suitable acquisition opportunities and our ability to acquire and lease the respective properties on favorable terms or operate and integrate the acquired businesses;
* our ability to generate sufficient cash flows to service our outstanding indebtedness;
* our ability to access debt and equity capital markets;
* adverse impacts of changes to our business, economic trends or key assumptions regarding our estimates of fair value, including potential impacts of recent developments surrounding Windstream that could result in an impairment charge in the future, which could have a significant impact to our reported earnings;
* the impact on our business or the business of our customers as a result of credit rating downgrades, and fluctuating interest rates;

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* adverse impacts of litigation or disputes involving us or our customers;
* our ability to retain our key management personnel;
* our ability to maintain our status as a real estate investment trust (“REIT”), including as a result of the effects of the recent events with respect to our largest customer, Windstream Holdings;
* changes in the U.S. tax law and other federal, state or local laws, whether or not specific to REITs, including the impact of the 2017 U.S. tax reform legislation;
* covenants in our debt agreements that may limit our operational flexibility;
* the possibility that we may experience equipment failures, natural disasters, cyber attacks or terrorist attacks for which our insurance may not provide adequate coverage;
* the risk that we fail to fully realize the potential benefits of or have difficulty in integrating the companies we acquire;
* other risks inherent in the communications industry and in the ownership of communications distribution systems, including potential liability relating to environmental matters and illiquidity of real estate investments;
* the risk that the agreements regarding the Bluebird acquisition may be modified or terminated prior to expiration or that the conditions to the Bluebird acquisition may not be satisfied; and
* additional factors discussed in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018, as well as those described from time to time in our future reports filed with the U.S. Securities and Exchange Commission (“SEC”).

Forward-looking statements speak only as of the date of this Quarterly Report. Except in the normal course of our public disclosure obligations, we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.

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| **Item 1. Financial Statements.** | | | |  |  |  |  |  |  |  |
|  |  | **Uniti Group Inc.** | |  |  |  |  |  |  |  |
|  |  | **Condensed Consolidated Balance Sheets** | | |  |  |  |  |  |  |
|  |  |  |  |  | **(Unaudited)** | |  |  |  |  |
| (Thousands, except par value) | | | |  | **June 30, 2019** | |  | **December 31, 2018** | |  |
|  | **Assets:** | |  |  |  |  |  |  |  |  |
|  | Property, plant and equipment, net | | | $ | 3,201,436 |  | $ | 3,209,006 |  |  |
|  | Cash and cash equivalents | | |  | 299,394 |  |  | 38,026 |  |  |
|  | Accounts receivable, net | | |  | 77,303 |  |  | 104,063 |  |  |
|  | Goodwill | | |  | 692,833 |  |  | 692,385 |  |  |
|  | Intangible assets, net | | |  | 371,407 |  |  | 432,821 |  |  |
|  | Straight-line revenue receivable | | |  | 391 |  |  | 61,785 |  |  |
|  | Derivative asset | | |  | - |  |  | 31,043 |  |  |
|  | Other assets, net | | |  | 130,901 |  |  | 23,808 |  |  |
|  | Assets held for sale, net | | |  | 16,692 |  |  | - |  |  |
|  | **Total Assets** | | | $ | 4,790,357 |  | $ | 4,592,937 |  |  |
| **Liabilities, Convertible Preferred Stock and Shareholders' Deficit:** | | | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Liabilities:** | | |  |  |  |  |  |  |  |
|  | Accounts payable, accrued expenses and other liabilities, net | | | $ | 206,350 |  | $ | 94,179 |  |  |
|  | Accrued interest payable | | |  | 29,441 |  |  | 28,097 |  |  |
|  | Deferred revenue | | |  | 811,782 |  |  | 726,262 |  |  |
|  | Derivative liability | | |  | 19,117 |  |  | - |  |  |
|  | Dividends payable | | |  | 9,394 |  |  | 113,744 |  |  |
|  | Deferred income taxes | | |  | 34,672 |  |  | 52,434 |  |  |
|  | Finance lease obligations | | |  | 55,444 |  |  | 55,282 |  |  |
|  | Contingent consideration | | |  | 18,522 |  |  | 83,401 |  |  |
|  | Notes and other debt, net | | |  | 5,003,092 |  |  | 4,846,233 |  |  |
|  | Liabilities held for sale | | |  | 4,332 |  |  | - |  |  |
|  | Total liabilities | | |  | 6,192,146 |  |  | 5,999,632 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Commitments and contingencies (Note 14) | | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Convertible preferred stock**, Series A, $0.0001 par value, 88 shares authorized, issued and | | |  |  |  |  |  |  |  |
| outstanding, $87,500 liquidation value | | | |  | 87,500 |  |  | 86,508 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Shareholders' Deficit:** | | |  |  |  |  |  |  |  |
|  | Preferred stock, $0.0001 par value, 50,000 shares authorized, no shares issued and | | |  |  |  |  |  |  |  |
|  | outstanding | | |  | - |  |  | - |  |  |
|  | Common stock, $0.0001 par value, 500,000 shares authorized, issued and outstanding: | | |  |  |  |  |  |  |  |
|  | 183,123 shares at June 30, 2019 and 180,536 at December 31, 2018 | | |  | 18 |  |  | 18 |  |  |
|  | Additional paid-in capital | | |  | 855,425 |  |  | 757,517 |  |  |
|  | Accumulated other comprehensive (loss) income | | |  | (18,960) | |  | 30,105 |  |  |
|  | Distributions in excess of accumulated earnings | | |  | (2,413,326) | |  | (2,373,218) | |  |
|  | Total Uniti shareholders' deficit | | |  | (1,576,843) |  |  | (1,585,578) |  |  |
|  | Noncontrolling interests - operating partnership units | | |  | 87,554 |  |  | 92,375 |  |  |
|  | Total shareholders' deficit | | |  | (1,489,289) |  |  | (1,493,203) |  |  |
|  | **Total Liabilities, Convertible Preferred Stock, and Shareholders' Deficit** | | | $ | 4,790,357 |  | $ | 4,592,937 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

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

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**Uniti Group Inc.**

**Condensed Consolidated Statements of Income**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended June 30,** | | | | |  |  | **Six Months Ended June 30,** | | | | |  |
| (Thousands, except per share data) | | |  | **2019** |  |  | **2018** |  |  |  | **2019** |  |  | **2018** |  |  |
|  | **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Leasing | | $ | 177,042 |  | $ | 173,885 |  | $ | | 353,125 |  | $ | 346,659 |  |  |
|  | Fiber Infrastructure | |  | 81,327 |  |  | 67,389 |  |  |  | 158,160 |  |  | 134,356 |  |  |
|  | Tower | |  | 3,146 |  |  | 2,472 |  |  |  | 8,226 |  |  | 5,842 |  |  |
|  | Consumer CLEC | |  | 2,899 |  |  | 3,583 |  |  |  | 5,934 |  |  | 7,387 |  |  |
|  | Total revenues | |  | 264,414 |  |  | 247,329 |  |  |  | 525,445 |  |  | 494,244 |  |  |
|  | **Costs and Expenses:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense | |  | 97,729 |  |  | 79,385 |  |  |  | 182,187 |  |  | 156,992 |  |  |
|  | Depreciation and amortization | |  | 102,578 |  |  | 114,842 |  |  |  | 206,405 |  |  | 229,563 |  |  |
|  | General and administrative expense | |  | 26,428 |  |  | 20,681 |  |  |  | 50,654 |  |  | 43,201 |  |  |
|  | Operating expense (exclusive of depreciation and amortization) | |  | 40,163 |  |  | 31,522 |  |  |  | 78,581 |  |  | 61,426 |  |  |
|  | Transaction related costs | |  | 7,035 |  |  | 3,789 |  |  |  | 13,704 |  |  | 9,702 |  |  |
|  | Gain on sale of real estate (Note 5) | |  | (28,790) | |  | - |  |  |  | (28,790) | |  | - |  |  |
|  | Other (income) expense | |  | (28,119) | |  | 3,349 |  |  |  | (31,232) | |  | (536) | |  |
|  | Total costs and expenses | |  | 217,024 |  |  | 253,568 |  |  |  | 471,509 |  |  | 500,348 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Income (loss) before income taxes** | |  | 47,390 |  |  | (6,239) | |  |  | 53,936 |  |  | (6,104) | |  |
|  | Income tax expense (benefit) | |  | 7,843 |  |  | (2,646) | |  |  | 11,897 |  |  | (3,742) | |  |
|  | **Net income (loss)** | |  | 39,547 |  |  | (3,593) |  |  |  | 42,039 |  |  | (2,362) |  |  |
|  | Net income (loss) attributable to noncontrolling interests | |  | 830 |  |  | (90) | |  |  | 880 |  |  | (69) | |  |
|  | **Net income (loss) attributable to shareholders** | |  | 38,717 |  |  | (3,503) |  |  |  | 41,159 |  |  | (2,293) |  |  |
|  | Participating securities' share in earnings | |  | (223) | |  | (658) | |  |  | (251) | |  | (1,337) | |  |
|  | Dividends declared on convertible preferred stock | |  | - |  |  | (656) | |  |  | (656) | |  | (1,312) | |  |
|  | Amortization of discount on convertible preferred stock | |  | (248) | |  | (745) | |  |  | (993) | |  | (1,490) | |  |
|  | **Net income (loss) attributable to common shareholders** | | $ | 38,246 |  | $ | (5,562) |  |  | $ | 39,259 |  | $ | (6,432) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Earnings (loss) per common share:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Basic | | $ | 0.21 |  | $ | (0.03) | | $ | | 0.22 |  | $ | (0.04) | |  |
|  | Diluted | | $ | 0.20 |  | $ | (0.03) |  |  | $ | 0.21 |  | $ | (0.04) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Weighted-average number of common shares outstanding:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Basic | |  | 182,971 |  |  | 175,011 |  |  |  | 182,597 |  |  | 174,951 |  |  |
|  | Diluted | |  | 193,105 |  |  | 175,011 |  |  |  | 192,276 |  |  | 174,951 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**Uniti Group Inc.**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | |  |  | **Six Months Ended June 30,** | | | | |
| (Thousands) | |  | **2019** |  |  | **2018** |  |  |  | **2019** |  |  | **2018** |  |
| Net income (loss) |  | $ | 39,547 |  | $ | (3,593) |  |  | $ | 42,039 |  | $ | (2,362) |  |
| Other comprehensive (loss) income: | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unrealized (loss) gain on derivative contracts | |  | (28,363) | |  | 14,605 |  |  |  | (50,049) | |  | 49,873 |  |
| Changes in foreign currency translation | |  | (843) | |  | (4,879) | |  |  | (63) | |  | (314) | |
| Other comprehensive (loss) income: | |  | (29,206) |  |  | 9,726 |  |  |  | (50,112) |  |  | 49,559 |  |
| Comprehensive income (loss) | |  | 10,341 |  |  | 6,133 |  |  |  | (8,073) |  |  | 47,197 |  |
| Comprehensive income (loss) attributable to noncontrolling | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interest | |  | 245 |  |  | 134 |  |  |  | (167) | |  | 1,074 |  |
| **Comprehensive income (loss) attributable to common** | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **shareholders** | | $ | 10,096 |  | $ | 5,999 |  | $ | | (7,906) | | $ | 46,123 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**Uniti Group Inc.**

**Condensed Consolidated Statements of Shareholders’ Deficit**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **For the three months ended June 30,** | | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Accumulated | | | Distributions | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | Additional | | |  |  | Other | | in Excess of | |  |  |  |  | Total | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Paid-in | | Comprehensive | | | | Accumulated | | Noncontrolling | | | Shareholders' | | |
| (Thousands, except share data) |  | Preferred Stock | | |  |  |  | Common Stock | | | |  |  |  | Capital |  |  |  | Income |  | Earnings |  |  | Interest |  |  | Deficit |  |
|  |  | Shares | | Amount | | |  | Shares | |  | Amount | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at March 31, 2018 | - | |  | $ | - |  | 174,969,646 | | | $ | | 17 |  | $ | 645,403 |  | $ | | 46,735 |  | $ (2,063,640) | | $ | 99,868 |  | $ | (1,271,617) | |
| Net loss | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (3,503) | |  | (90) | |  | (3,593) | |
| Amortization of discount of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| convertible preferred stock | - | |  |  | - |  | - | | |  |  | - |  |  | (745) | |  |  | - |  | - |  |  | - |  |  | (745) | |
| Other comprehensive income | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | 9,502 |  | - |  |  | 224 |  |  | 9,726 |  |
| Common stock dividends declared | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (106,417) | |  | - |  |  | (106,417) | |
| Convertible preferred stock dividends | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (656) | |  | - |  |  | (656) | |
| Distributions to noncontrolling interest | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | - |  |  | (2,479) | |  | (2,479) | |
| Net share settlement | - | |  |  | - |  | - | | |  |  | - |  |  | (916) | |  |  | - |  | - |  |  | - |  |  | (916) | |
| Stock-based compensation |  | - |  |  | - |  | 59,189 | | |  |  | - |  |  | 1,885 |  |  |  | - |  | - |  |  | - |  |  | 1,885 |  |
| Balance at June 30, 2018 | - | |  | $ | - |  | 175,028,835 | | | $ | | 17 |  | $ | 645,627 |  | $ | | 56,237 |  | $ (2,174,216) | | $ | 97,523 |  | $ | (1,374,812) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at March 31, 2019 | - | |  | $ | - |  | 182,670,494 | | | $ | | 18 |  | $ | 790,347 |  | $ | | 9,661 |  | $ (2,442,564) | | $ | 91,756 |  | $ | (1,550,782) | |
| Impact of change in accounting |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| standard, net of tax | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (112) | |  | - |  |  | (112) | |
| Net income | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | 38,717 |  |  | 830 |  |  | 39,547 |  |
| Amortization of discount on |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| convertible preferred stock | - | |  |  | - |  | - | | |  |  | - |  |  | (248) | |  |  | - |  | - |  |  | - |  |  | (248) | |
| Other comprehensive loss | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | (28,621) | | - |  |  | (585) | |  | (29,206) | |
| Common stock dividends declared |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ($0.05 per share) | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (9,148) | |  | - |  |  | (9,148) | |
| Distributions to noncontrolling interest | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | - |  |  | (187) | |  | (187) | |
| Exchange of noncontrolling interest | - | |  |  | - |  | 390,788 | | |  |  | - |  |  | 4,260 |  |  |  | - |  | - |  |  | (4,260) | |  | - |  |
| Convertible preferred stock dividends | - | |  |  | - |  | - | | |  |  | - |  |  | - |  |  |  | - |  | (219) | |  | - |  |  | (219) | |
| Net share settlement | - | |  |  | - |  | - | | |  |  | - |  |  | (186) | |  |  | - |  | - |  |  | - |  |  | (186) | |
| Stock-based compensation | - | |  |  | - |  | 61,475 | | |  |  | - |  |  | 3,197 |  |  |  | - |  | - |  |  | - |  |  | 3,197 |  |
| Equity component value of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| exchangeable note issuance, net | - | |  |  | - |  | - | | |  |  | - |  |  | 80,770 |  |  |  | - |  | - |  |  | - |  |  | 80,770 |  |
| Deferred tax liability related to |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| exchangeable note issuance | - | |  |  | - |  | - | | |  |  | - |  |  | (3,499) | |  |  | - |  | - |  |  | - |  |  | (3,499) | |
| Sale of common stock warrant | - | |  |  | - |  | - | | |  |  | - |  |  | 50,819 |  |  |  | - |  | - |  |  | - |  |  | 50,819 |  |
| Payment for bond hedge option |  | - |  |  | - |  | - | | |  |  | - |  |  | (70,035) | |  |  | - |  | - |  |  | - |  |  | (70,035) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2019 |  | - |  | $ | - |  | 183,122,757 | | | $ | | 18 |  | $ | 855,425 |  | $ | | (18,960) | | $ (2,413,326) | | $ | 87,554 |  | $ | (1,489,289) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  | **For the six months ended June 30,** | | | | | | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Accumulated | | | Distributions | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | Additional | | |  | Other | | in Excess of | |  |  |  |  |  |  | Total | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Paid-in | | Comprehensive | | | Accumulated | | Noncontrolling | | | | Shareholders' | | | |
| (Thousands, except share data) |  | Preferred Stock | | |  |  |  | Common Stock | | | |  |  |  | Capital |  |  | Income |  | Earnings |  |  |  | Interest |  |  |  | Deficit |  |
|  |  | Shares | | Amount | | |  | Shares | |  | Amount | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | | - |  | $ | - |  | 174,851,514 | | | $ | | 17 |  | $ | 644,328 |  | $ | 7,821 |  | $ (1,960,715) | | $ | | 101,407 |  | $ | | (1,207,142) | |
| Net loss | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | (2,293) | |  |  | (69) | |  |  | (2,362) | |
| Amortization of discount of | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| convertible preferred stock | | - |  |  | - |  | - | | |  |  | - |  |  | (1,490) | |  | - |  | - |  |  |  | - |  |  |  | (1,490) | |
| Other comprehensive income | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | 48,416 |  | - |  |  |  | 1,143 |  |  |  | 49,559 |  |
| Common stock dividends declared | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | (211,486) | |  |  | - |  |  |  | (211,486) | |
| Convertible preferred stock dividends | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | (1,312) | |  |  | - |  |  |  | (1,312) | |
| Distributions to noncontrolling interest | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | - |  |  |  | (4,958) | |  |  | (4,958) | |
| Net share settlement | | - |  |  | - |  | - | | |  |  | - |  |  | (1,306) | |  | - |  | (269) | |  |  | - |  |  |  | (1,575) | |
| Stock-based compensation | | - |  |  | - |  | 177,321 | | |  |  | - |  |  | 4,095 |  |  | - |  | - |  |  |  | - |  |  |  | 4,095 |  |
| Impact of change in accounting | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| standard | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | 1,859 |  |  |  | - |  |  |  | 1,859 |  |
| Balance at June 30, 2018 | | - |  | $ | - |  | 175,028,835 | | | $ | | 17 |  | $ | 645,627 |  | $ | 56,237 |  | $ (2,174,216) | | $ | | 97,523 |  | $ | | (1,374,812) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2018 | | - |  | $ | - |  | 180,535,971 | | | $ | | 18 |  | $ | 757,517 |  | $ | 30,105 |  | $ (2,373,218) | | $ | | 92,375 |  | $ | | (1,493,203) | |
| Impact of change in accounting | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| standard, net of tax | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | (63,222) | |  |  | - |  |  |  | (63,222) | |
| Net income | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | 41,159 |  |  |  | 880 |  |  |  | 42,039 |  |
| At-the-market issuance of common | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock, net of offering costs | | - |  |  | - |  | 1,176,186 | | |  |  | - |  |  | 21,641 |  |  | - |  | - |  |  |  | - |  |  |  | 21,641 |  |
| Amortization of discount on | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| convertible preferred stock | | - |  |  | - |  | - | | |  |  | - |  |  | (993) | |  | - |  | - |  |  |  | - |  |  |  | (993) | |
| Other comprehensive loss | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | (49,065) | | - |  |  |  | (1,047) | |  |  | (50,112) | |
| Common stock dividends declared | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| ($0.05 per share) | | - |  |  | - |  | - | | |  |  | - |  |  |  |  |  | - |  | (17,170) | |  |  | - |  |  |  | (17,170) | |
| Distributions to noncontrolling interest | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | - |  |  |  | (394) | |  |  | (394) | |
| Exchange of noncontrolling interest | | - |  |  | - |  | 390,788 | | |  |  | - |  |  | 4,260 |  |  | - |  | - |  |  |  | (4,260) | |  |  | - |  |
| Convertible preferred stock dividends | | - |  |  | - |  | - | | |  |  | - |  |  | - |  |  | - |  | (875) | |  |  | - |  |  |  | (875) | |
| Net share settlement | | - |  |  | - |  | - | | |  |  | - |  |  | (1,765) | |  | - |  | - |  |  |  | - |  |  |  | (1,765) | |
| Stock-based compensation | | - |  |  | - |  | 340,627 | | |  |  | - |  |  | 5,085 |  |  | - |  | - |  |  |  | - |  |  |  | 5,085 |  |
| Equity settled contingent consideration | | - |  |  | - |  | 645,385 | | |  |  | - |  |  | 11,178 |  |  | - |  | - |  |  |  | - |  |  |  | 11,178 |  |
| Issuance of common stock - employee | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock purchase plan | | - |  |  | - |  | 33,800 | | |  |  | - |  |  | 447 |  |  | - |  | - |  |  |  | - |  |  |  | 447 |  |
| Equity component value of | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| exchangeable note issuance, net | | - |  |  | - |  | - | | |  |  | - |  |  | 80,770 |  |  | - |  | - |  |  |  | - |  |  |  | 80,770 |  |
| Deferred tax liability related to | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| exchangeable note issuance | | - |  |  | - |  | - | | |  |  | - |  |  | (3,499) | |  | - |  | - |  |  |  | - |  |  |  | (3,499) | |
| Sale of common stock warrant | | - |  |  | - |  | - | | |  |  | - |  |  | 50,819 |  |  | - |  | - |  |  |  | - |  |  |  | 50,819 |  |
| Payment for bond hedge option | | - |  |  | - |  | - | | |  |  | - |  |  | (70,035) | |  | - |  | - |  |  |  | - |  |  |  | (70,035) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2019 | | - |  | $ | - |  | 183,122,757 | | | $ | | 18 |  | $ | 855,425 |  | $ | (18,960) | | $ (2,413,326) | | $ | | 87,554 |  | $ | | (1,489,289) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**Uniti Group Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Six Months Ended June 30,** | | |  |  |
| (Thousands) |  |  | **2019** |  |  | **2018** |  |
| **Cash flow from operating activities** |  |  |  |  |  |  |  |
| Net income (loss) | $ | | 42,039 |  | $ | (2,362) | |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |  |  |  |  |  |  |
| Depreciation and amortization |  |  | 206,405 |  |  | 229,563 |  |
| Amortization of deferred financing costs and debt discount |  |  | 17,659 |  |  | 12,147 |  |
| Deferred income taxes |  |  | (2,712) | |  | (4,257) | |
| Straight-line revenues |  |  | (1,416) | |  | (7,400) | |
| Stock-based compensation |  |  | 5,085 |  |  | 4,095 |  |
| Change in fair value of contingent consideration |  |  | (25,531) | |  | (488) | |
| Gain on sale of real estate |  |  | (28,790) | |  | - |  |
| Other |  |  | 2,252 |  |  | 1,597 |  |
| Changes in assets and liabilities, net of acquisitions: |  |  |  |  |  |  |  |
| Accounts receivable |  |  | 25,169 |  |  | (22,971) | |
| Other assets |  |  | (12,849) | |  | (5,510) | |
| Accounts payable, accrued expenses and other liabilities |  |  | 23,053 |  |  | 26,559 |  |
| Net cash provided by operating activities |  |  | 250,364 |  |  | 230,973 |  |
| **Cash flow from investing activities** |  |  |  |  |  |  |  |
| Acquisition of businesses, net of cash acquired |  |  | (4,210) | |  | - |  |
| NMS asset acquisitions |  |  | - |  |  | (1,154) | |
| Other capital expenditures |  |  | (180,478) | |  | (163,467) | |
| Proceeds from sale of real estate, net of cash |  |  | 127,524 |  |  | - |  |
| Net cash used in investing activities |  |  | (57,164) |  |  | (164,621) |  |
| **Cash flow from financing activities** |  |  |  |  |  |  |  |
| Principal payments on debt |  |  | (10,540) | |  | (10,540) | |
| Dividends paid |  |  | (120,161) | |  | (212,043) | |
| Payments of contingent consideration |  |  | (28,170) | |  | (12,662) | |
| Distributions paid to noncontrolling interest |  |  | (2,686) | |  | (4,958) | |
| Borrowings under revolving credit facility |  |  | 139,000 |  |  | 245,000 |  |
| Payments under revolving credit facility |  |  | (203,981) | |  | (50,000) | |
| Capital lease payments |  |  | (1,896) | |  | (2,738) | |
| Payments for financing costs |  |  | (49,462) | |  | - |  |
| Common stock issuance, net of costs |  |  | 21,641 |  |  | - |  |
| Proceeds from issuance of notes |  |  | 345,000 |  |  | - |  |
| Proceeds from sale of warrants |  |  | 50,819 |  |  | - |  |
| Payment for bond hedge option |  |  | (70,035) | |  | - |  |
| Employee stock purchase program |  |  | 447 |  |  | - |  |
| Net share settlement |  |  | (1,765) | |  | (1,575) | |
| Net cash provided by (used in) financing activities |  |  | 68,211 |  |  | (49,516) |  |
| Effect of exchange rates on cash and cash equivalents |  |  | (43) | |  | (101) | |
| Net increase in cash and cash equivalents |  |  | 261,368 |  |  | 16,735 |  |
| Cash and cash equivalents at beginning of period |  |  | 38,026 |  |  | 59,765 |  |
| Cash and cash equivalents at end of period |  | $ | 299,394 |  | $ | 76,500 |  |
| Non-cash investing and financing activities: |  |  |  |  |  |  |  |
| Property and equipment acquired but not yet paid | $ | | 19,817 |  | $ | 15,191 |  |
| Tenant capital improvements |  |  | 81,137 |  |  | 92,190 |  |
| Settlement of contingent consideration through non-cash consideration |  |  | 11,178 |  |  | - |  |
| Exchange of noncontrolling interest through non-cash consideration |  |  | 4,260 |  |  | - |  |
| The accompanying notes are an integral part of these condensed consolidated financial statements. | | | | |  |  |  |

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 1. Organization and Description of Business**

Uniti Group Inc. (the “Company,” “Uniti,” “we,” “us,” or “our”) was incorporated in the state of Maryland on September 4, 2014. We are an internally managed real estate investment trust (“REIT”) engaged in the acquisition and construction of mission critical infrastructure in the communications industry. We are principally focused on acquiring and constructing fiber optic broadband networks, wireless communications towers, copper and coaxial broadband networks and data centers. We manage our operations in four separate lines of business: Uniti Fiber, Uniti Towers, Uniti Leasing, and the Consumer CLEC Business.

The Company operates through a customary “up-REIT” structure, pursuant to which we hold substantially all of our assets through a partnership, Uniti Group LP, a Delaware limited partnership (the “Operating Partnership”), that we control as general partner, with the only significant difference between the financial position and results of operations of the Operating Partnership and its subsidiaries compared to the consolidated financial position and consolidated results of operations of Uniti is that the results for the Operating Partnership and its subsidiaries do not include Uniti’s Consumer CLEC segment, which consists of Talk America Services. The up-REIT structure is intended to facilitate future acquisition opportunities by providing the Company with the ability to use common units of the Operating Partnership as a tax-efficient acquisition currency. As of June 30, 2019, we are the sole general partner of the Operating Partnership and own approximately 98.0% of the partnership interests in the Operating Partnership.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying Condensed Consolidated Financial Statements include all accounts of the Company and its wholly owned and/or controlled subsidiaries, which consist of the Operating Partnership. Under the Accounting Standards Codification 810, *Consolidation* (“ASC 810”), the Operating Partnership is considered a variable interest entity and is consolidated in the Condensed Consolidated Financial Statements of Uniti Group Inc. because the Company is the primary beneficiary. All material intercompany balances and transactions have been eliminated.

ASC 810 provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise, if any, should consolidate the VIEs. Generally, the consideration of whether an entity is a VIE applies when either: (1) the equity investors (if any) lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; (2) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and substantially all of the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined as the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the VIE’s performance; and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information set forth in the Accounting Standards Codification (“ASC”), as published by the Financial Accounting Standards Board (“FASB”), and with the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim period have been included. Operating results from any interim period are not necessarily indicative of the results that may be expected for the full fiscal year. The accompanying Condensed Consolidated Financial Statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 (“Annual Report”), filed with the SEC on March 18, 2019. Accordingly, significant accounting policies and other disclosures normally provided have been omitted from the accompanying Condensed Consolidated Financial Statements and related notes since such items are disclosed in our Annual Report.

Going Concern—In accordance with Accounting Standards Update ("ASU") 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a* *Going Concern (Subtopic 205-40)*, the Company’s management has evaluated whether there are conditions and events, considered in the aggregate, that raisesubstantial doubt about the Company’s ability to continue as a going concern within one year after the date the accompanying Condensed Consolidated Financial Statements are issued.

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

We are party to a master lease agreement (the “Master Lease”) with Windstream Holdings, Inc. (“Windstream Holdings” and together with its consolidated subsidiaries “Windstream”), from which 68.2% of our revenue for the year ended December 31, 2018 was derived. Windstream was involved in litigation with an entity who acquired certain Windstream debt securities and thereafter issued a notice of default as to such securities related to our spin-off from Windstream (the “Spin-Off”). Windstream challenged the matter in federal court and a trial was held in July 2018. On February 15, 2019, the federal court judge issued a ruling against Windstream, finding that Windstream’s attempts to waive such default were not valid, that an “event of default” occurred with respect to such debt securities, and that the holder’s acceleration of such debt in December 2017 was effective. In response to the adverse outcome, on February 25, 2019, Windstream filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York.

In bankruptcy, Windstream has the option to assume or reject the Master Lease. Because the Master Lease is a single indivisible Master Lease with a single rent payment, it must be assumed or rejected in whole and cannot be sub-divided by facility or market. A significant amount of Windstream’s revenue is generated from the use of our network included in the Master Lease, and we believe that the Master Lease is essential to Windstream’s

operations. Furthermore, Windstream is designated as a “carrier of last resort” in certain markets where it utilizes the Master Lease to provide service to its customers, and Windstream would require approval from the Public Utility Commissions and the Federal Communications Commission to cease providing service in those markets. As a result, we believe the probability of Windstream rejecting the Master Lease in bankruptcy to be remote. Windstream has filed claims that allege, among other things, that the Master Lease should be recharacterized as a financing transaction, which would impact its treatment in Windstream’s bankruptcy (including potentially through changing our status to that of a creditor that would share in creditor recoveries from the estate rather than receive rent payments) and could affect our status as a REIT, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. A mediation of these claims is ongoing in Windstream’s bankruptcy. In connection with the mediation, Uniti has agreed to an extension of the assumption deadline for the Master Lease to December 7, 2019. In exchange, Windstream has provided certain assurances regarding the continued payment of rent pursuant to the Master Lease during the extension period and following the expiration of the extension period, Windstream will continue to make payments under the Master Lease as they come due, unless and until Windstream obtains an order from the bankruptcy court permitting cessation of such payments. A rejection of the Master Lease, an adverse determination by a judge on Windstream’s claims, or even a temporary disruption in payments to us, may require us to fund certain expenses and obligations (e.g., real estate taxes, insurance and maintenance expenses) to preserve the value of our properties, and could materially adversely affect our consolidated results of operations, liquidity and financial condition, including our ability to service debt, comply with debt covenants and maintain our status as a REIT. As a result, conditions or events have been identified that raise substantial doubt about the Company’s ability to continue as a going concern.

The Company has considered the mitigating effects of management’s plans to alleviate the substantial doubt about the ability to continue as going concern in the event there is a disruption in the payments due to us under the Master Lease prior to Windstream’s assumption or rejection of the lease or any adverse determinations in respect of Windstream’s claims. Those plans include deferring, reducing or delaying cash dividends and capital expenditures, if necessary, paying one or more dividends that are required to maintain our REIT status in shares to the extent allowed under the IRS REIT rules, curtailing acquisition activities, accessing the capital markets and identifying alternative sources of liquidity. Based on our analysis, including consideration of the timing of petitioners’ requirements to make post-petition lease payments under U.S. bankruptcy law, we believe that we have adequate liquidity to continue to fund our operations for twelve months after the issuance of the accompanying Condensed Consolidated Financial Statements absent any adverse determination in respect to Windstream’s claims or disruptions in rent payments under the Master Lease.

Although management has concluded the probability of a rejection of the Master Lease to be remote, and has noted the absence of any provision in the Master Lease that contemplates renegotiation of the lease and the lack of any ability of the bankruptcy court to unilaterally reset the rent or terms of the lease, it is difficult to predict what could occur in Windstream’s bankruptcy restructuring, including any judicial decisions in respect of claims against us by Windstream or its creditors. The Company has evaluated its ability to continue as a going concern in light of the possibility of a consensual renegotiation of the Master Lease, and the impact of any renegotiated lease on our compliance with our debt covenants. We note that our Credit Agreement prohibits the Company from amending the Master Lease that, among other provisions, pro forma for any such amendment, would result in a consolidated secured leverage ratio that exceeds 5.0 to 1.0. Furthermore, management has no intention to enter into a lease amendment that would violate our debt covenants.

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

However, there can be no certainty as to the outcome of judicial decisions or Windstream’s decision to assume or reject the Master Lease, and uncertainties exist as to the outcome or impacts of any potential consensual renegotiation of the Master Lease. Therefore, substantial doubt exists about our ability to continue as a going concern within one year after the issuance of the financial statements.

The accompanying Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. The accompanying Condensed Consolidated Financial Statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Concentration of Credit Risks—Revenue under the Master Lease provided 65.2% and 70.0% of our revenue for the six months ended June 30, 2019 and 2018, respectively. Because a substantial portion of our revenue and cash flows are derived from lease payments by Windstream pursuant to the Master Lease, there could be a material adverse impact on our consolidated results of operations, liquidity, financial condition and/or ability to pay dividends and service debt if Windstream were to default under the Master Lease or otherwise experiences operating or liquidity difficulties and becomes unable to generate sufficient cash to make payments to us.

Windstream is a publicly traded company and is subject to the periodic filing requirements of the Securities Exchange Act of 1934, as amended. Windstream filings can be found at www.sec.gov. Windstream filings are not incorporated by reference in this Quarterly Report on Form 10-Q.

Straight-Line Revenue Receivable—As discussed in “Recently Issued Accounting Standards” in this Note 2, we have adopted ASU No. 2016-02, *Leases* (“ASC 842”) effective January 1, 2019. This standard supersedes prior guidance regarding the evaluation of collectability of lease receivables, including straight-line revenue receivables. We have evaluated the collectability of our straight-line revenue receivable associated with the Master Lease in accordance with ASC 842, and in light of Windstream’s pending bankruptcy, we concluded that the receivable should be written-off. As a result, effective January 1, 2019, the Master Lease will be accounted for on a cash basis in accordance with ASC 842, until a time at which there is more certainty regarding Windstream’s decision to assume or reject the Master Lease. At the adoption of ASC 842, we reflected the write off as a $61.5 million adjustment to equity resulting from the change in accounting standard.

Exchangeable Notes and Related Transactions—On June 28, 2019, Uniti Fiber Holdings, Inc. (“Uniti Fiber”), a subsidiary of the Company, issued $345 million aggregate principal amount of 4.00% Exchangeable Senior Notes due June 15, 2024 (the “Exchangeable Notes”). The Exchangeable Notes bear interest at a fixed rate of 4.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2019. The Exchangeable Notes are exchangeable into cash, shares of the Company’s common stock, or a combination thereof, at Uniti Fiber’s election. In accordance with ASC 470-20, *Debt – Debt with Conversion and Other Options*, because the conversion feature in the Exchangeable Notes is not bifurcated pursuant to ASC 815, *Derivatives and Hedging*, and because the conversion can be settled in cash, shares, or a combination thereof, the Exchangeable Notes was separated into a liability component and an equity component in a manner that reflects Uniti Fiber’s non-convertible debt borrowing rate. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated conversion feature. See Note 11.

In connection with the offering of the Exchangeable Notes, Uniti Fiber entered into exchangeable note hedge transactions with respect to the Company’s common stock (the “Note Hedge Transactions”) with certain of the Initial Purchasers (as defined in Note 11) or their respective affiliates (collectively, the “Counterparties”). In addition, the Company entered into warrant transactions to sell to the Counterparties warrants (the “Warrants”) to acquire, subject to anti-dilution adjustments, up to approximately 27.8 million shares of the Company’s common stock in the aggregate at an exercise price of $16.42 per share. The warrant transactions may have a dilutive effect with respect to the Company’s common stock to the extent the market price per share of the Company’s common stock exceeds the strike price of the Warrants. While the Note Hedge Transactions and the Warrants meet the definition of a derivative in ASC 815-10-15-83, they each meet the equity scope exception specified in ASC 815-10-15-74(a); as such, the Warrants and the Notes Hedge Transactions are not accounted for as derivatives that are remeasured each reporting period and instead, are recorded in stockholders’ equity. See Note 9.

Reclassifications—Certain prior year asset categories and related amounts in Note 8 have been reclassified to conform with current year presentation.

Recently Issued Accounting Standards

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

Leases—Effective January 1, 2019, we account for leases in accordance with ASC 842. The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is comprised of amortization on the right-of-use asset (“ROU”) and interest expense recognized based on an effective interest method, or as a single lease cost recognized on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The accounting for lessors remains largely unchanged. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

We determine if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (i) there is an identified asset in the contract that is land or a depreciable asset (i.e., property, plant, and equipment), and (ii) the customer has the right to control the use of the identified asset.

We enter into lease contracts including ground, towers, equipment, office, colocation and fiber lease arrangements, in which we are the lessee, and service contracts that may include embedded leases. Operating leases where we are the lessor are included in Leasing, Fiber Infrastructure and Tower revenues on our Condensed Consolidated Statements of Income.

From time to time we enter into direct financing lease arrangements that include (i) a lessee obligation to purchase the leased equipment at the end of the lease term, (ii) a bargain purchase option, (iii) a lease term having a duration that is for the major part of the remaining economic life of the leased equipment or

1. provides for minimum lease payments with a present value amounting to substantially all of the fair value of the leased asset at the date of lease inception.

ROU assets and lease liabilities related to operating leases where we are the lessee are included in other assets and accounts payable, accrued expenses and other liabilities, respectively, on our Condensed Consolidated Balance Sheets. The lease liabilities are initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

ROU assets and lease liabilities related to finance leases where we are the lessee are included in property, plant and equipment, net and finance lease obligations, respectively, on our Condensed Consolidated Balance Sheets. The lease liabilities are initially measured in the same manner as operating leases and are subsequently measured at amortized cost using the effective interest method. ROU assets for finance leases are amortized on a straight-line basis over the remaining lease term.

Key estimates and judgments include how we determined (i) the discount rate we use to discount the unpaid lease payments to present value, (ii) lease term and (iii) lease payments.

1. ASC 842 requires a lessor to discount its unpaid lease payments using the interest rate implicit in the lease and a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As we generally do not know the implicit rate for our leases where we are the lessee, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate for a lease is the rate of interest we would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.
2. The lease term for all of our leases includes the noncancellable period of the lease plus any additional periods covered by either a lessee option to extend (or not to terminate) the lease that the lessee is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
3. Lease payments included in the measurement of the lease asset or liability comprise the following: (i) fixed payments (including in-substance fixed payments), (ii) variable payments that depend on index or rate based on the index or rate at lease commencement, and (iii) the exercise price of a lessee option to purchase the underlying asset if the lessee is reasonably certain to exercise.

For operating leases where we are the lessor, we continue recognizing the underlying asset and depreciating it over its estimated useful life. Lease income is recognized on a straight-line basis over the lease term. Leasing revenue is not recognized when collection of all

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

contractual rents over the term of the agreement is not probable. When collection is not probable, the lessee is placed on non-accrual status and Leasing revenue is recognized when cash payments are received.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to us, or we are reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with our leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented within Leasing, Fiber Infrastructure and Tower revenues and general and administrative expense and operating expense in our Condensed Consolidated Statements of Income in the same line item as revenue arising from fixed lease payments (operating leases where we are the lessor) and expense arising from fixed lease payments (operating leases where we are the lessee) or amortization of the ROU asset (finance leases), respectively.

We monitor for events or changes in circumstances that require a reassessment of a lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

We have lease agreements which include lease and nonlease components. For both leases where we are a lessor and leases where we are a lessee, we have elected to combine lease and nonlease components for all lease contracts. Nonlease components that are combined with lease components are primarily maintenance services related to the leased asset. Where we are the lessor, we determine whether the lease or nonlease component is the predominant component on a case-by-case basis. For all existing leases where we are the lessor, ASC Topic 842 has been applied to all combined components.

We have elected not to recognize ROU assets and lease liabilities for all short-term leases that have a lease term of 12 months or less. We recognize the lease payments associated with our short-term leases as an expense on a straight-line basis over the lease term.

We have elected to exclude sales taxes from lease payments in arrangements where we are a lessor.

We adopted ASC 842 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU 2018-11, *Leases* *(Topic 842): Target Improvements*, which provides an alternative modified retrospective transition method. As a result, we were not required to adjust ourcomparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e. January 1, 2019). We have elected to adopt the package of transition practical expedients and, therefore, have not reassessed (i) whether existing or expired contracts contain a lease, (ii) lease classification for existing or expired leases or (iii) the accounting for initial direct costs that were previously capitalized. We elected the practical expedient to use hindsight for leases existing at the adoption date. Further, we elected to adopt the amendments in ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, which permits an entity to elect an optional transaction practical expedient to not evaluateland easements that exist or expire before the Company’s adoption of ASC 842 and that were not previously accounted for as leases under ASC 840, *Leases* (“ASC 840”).

In connection with the adoption of ASC 842, we have recorded an adjustment to equity of $63.2 million, net of tax for the cumulative effect from a change in accounting standard. Of this amount, $61.5 million related to the write-off of the Master Lease straight-line revenue receivable, and $1.7 million relates to the establishment of the ROU assets and lease liabilities.

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

**Note 3. Revenues**

The following is a description of principal activities, separated by reportable segments (see Note 13), from which the Company generates its revenues.

*Leasing*

Leasing revenue represents the results from our leasing business, Uniti Leasing, which is engaged in the acquisition of mission-critical communications assets and leasing them back to anchor customers on either an exclusive or shared-tenant basis. Due to the nature of these activities, they are outside the scope of the guidance of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“Topic 606”), and are recognized under other applicable guidance, including ASC 842 and ASC 840 for periods prior to January 1, 2019. [See Note 4](#page18).



*Fiber Infrastructure*

The Fiber Infrastructure segment represents the operations of our fiber business, Uniti Fiber, which provides (i) consumer, enterprise, wholesale and backhaul lit fiber, (ii) E-rate, (iii) small cell, (iv) construction services, (v) dark fiber and (vi) other revenue generating activities.

1. Consumer, enterprise, wholesale, and backhaul lit fiber fall under the guidance of Topic 606. Revenue is recognized over the life of the contracts in a pattern that reflects the satisfaction of Uniti’s stand-ready obligation to provide lit fiber services. The transaction price is equal to the monthly-recurring charge multiplied by the contract term, plus any non-recurring or variable charges. For each contract, the customer is invoiced monthly.
2. E-rate contracts involve providing lit fiber services to schools and libraries, and is governed by Topic 606. Revenue is recognized over the life of the contract in a pattern that reflects the satisfaction of Uniti’s stand-ready obligation to provide lit fiber services. The transaction price is equal to the monthly-recurring charge multiplied by the contract term, plus any non-recurring or variable charges. For each contract, the customer is invoiced monthly.
3. Small cell contracts provide improved network connection to areas that may not require or accommodate a tower. Small cell arrangements typically contain five streams of revenue: site development, radio frequency (“RF”) design, dark fiber lease, construction services, and maintenance services. Site development, RF design and construction are each separate services and are considered distinct performance obligations under Topic 606. Dark fiber and associated maintenance services constitute a lease, and as such, they are outside the scope of Topic 606 and are governed by other applicable guidance.
4. Construction revenue is generated from contracts to provide various construction services such as equipment installation or the laying of fiber. Construction revenue is recognized over time as construction activities occur as we are either enhancing a customer’s owned asset or constructing an asset with no alternative use to us and we would be entitled to our costs plus a reasonable profit margin if the contract was terminated early by the customer. We are utilizing our costs incurred as the measure of progress of satisfying our performance obligation.
5. Dark fiber arrangements represent operating leases under ASC 842 and are outside the scope of Topic 606. When (i) a customer makes an advance payment or (ii) a customer is contractually obligated to pay any amounts in advance, which is not deemed a separate performance obligation, deferred leasing revenue is recorded. This leasing revenue is recognized ratably over the expected term of the contract, unless the pattern of service suggests otherwise.
6. The Company generates revenues from other services, such as consultation services and equipment sales. Revenue from the sale of customer premise equipment and modems that are not provided as an essential part of the telecommunications services, including broadband, long distance, and enhanced services is recognized when products are delivered to and accepted by the customer. Revenue from customer premise equipment and modems provided as an essential part of the telecommunications services, including broadband, long distance, and enhanced services are recognized over time in a pattern that reflects the satisfaction of the service performance obligation.

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

*Towers*

The Towers segment represents the operations of our towers business, Uniti Towers, through which we acquire and construct tower and tower-related real estate, which we then lease to our customers in the United States. Revenue from our towers business qualifies as a lease under ASC 842, and ASC 840 for periods prior to January 1, 2019, and is outside the scope of Topic 606.

*Consumer CLEC*

The Consumer CLEC segment represents the operations of Talk America Services (“Talk America”) through which we operate the Consumer CLEC Business, which provides local telephone, high-speed internet and long-distance services to customers in the eastern and central United States. Customers are billed monthly for services rendered based on actual usage or contracted amounts. The transaction price is equal to the monthly-recurring charge multiplied by the initial contract term (typically 12 months), plus any non-recurring or variable charges.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Disaggregation of Revenue |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The following table presents our revenues disaggregated by revenue stream. | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | | | |
| (Thousands) | |  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  |  | **2018** |  |
| *Revenue disaggregated by revenue stream* | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenue from contracts with customers | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiber Infrastructure | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Lit backhaul | | $ | | 33,401 | $ | | 33,474 |  | $ | 65,606 |  | $ | | 66,820 |  |
| Enterprise and wholesale | |  |  | 19,241 |  |  | 15,562 |  |  | 35,970 |  |  |  | 30,980 |  |
| E-Rate and government | |  |  | 22,533 |  |  | 14,157 |  |  | 44,528 |  |  |  | 28,387 |  |
| Other | |  |  | 674 |  |  | 878 |  |  | 1,683 |  |  |  | 1,868 |  |
| Fiber Infrastructure | |  | $ | 75,849 |  | $ | 64,071 |  | $ | 147,787 |  |  | $ | 128,055 |  |
| Consumer CLEC | |  |  | 2,899 |  |  | 3,583 |  |  | 5,934 |  |  |  | 7,387 |  |
| Total revenue from contracts with customers | |  |  | 78,748 |  |  | 67,654 |  |  | 153,721 |  |  |  | 135,442 |  |
| Revenue accounted for under other applicable guidance | |  |  | 185,666 |  |  | 179,675 |  |  | 371,724 |  |  |  | 358,802 |  |
| Total revenue | |  | $ | 264,414 |  | $ | 247,329 |  | $ | 525,445 |  |  | $ | 494,244 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

At June 30, 2019, and December 31, 2018, lease receivables were $13.3 million and $45.5 million, respectively, and receivables from contracts with customers were $55.8 million and $57.1 million, respectively.

Contract Assets (Unbilled Revenue) and Liabilities (Deferred Revenue)

Contract assets primarily consist of unbilled construction revenue where we are utilizing our costs incurred as the measure of progress of satisfying our performance obligation. When the contract price is invoiced, the related unbilled receivable is reclassified to trade accounts receivable, where the balance will be settled upon the collection of the invoiced amount. Contract liabilities are generally comprised of upfront fees charged to the customer for the cost of establishing the necessary components of the Company’s network prior to the commencement of use by the customer. Fees charged to customers for the recurring use of the Company’s network are recognized during the related periods of service. Upfront fees that are billed in advance of providing services are deferred until such time the customer accepts the Company’s network and then are recognized as service revenues ratably over a period in which substantive services required under the revenue arrangement are expected to be performed, which is the initial term of the arrangement. During the three and six months ended June 30, 2019, we recognized revenues of $1.1 million and $2.5 million, respectively, that was included in the December 31, 2018 contract liabilities balance.

The following table provides information about contract assets and contract liabilities accounted for under Topic 606.

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|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  | **Uniti Group Inc.** | | |  |  |  |  |  |
|  |  | **Notes to the Condensed Consolidated Financial Statements – Continued** | | | | |  |  |  |
|  |  | **(unaudited)** | | |  |  |  |  |  |
| (Thousands) | |  |  |  | **Contract Assets** | |  | **Contract Liabilities** | |
| Balance at December 31, 2018 | |  |  | $ | 5,540 |  | $ | 15,473 |  |
| Balance at June 30, 2019 | | $ | | | 10,092 |  | $ | 12,859 |  |
|  |  |  |  |  |  |  |  |  |  |

Transaction Price Allocated to Remaining Performance Obligations

Performance obligations within contracts to stand ready to provide services are typically satisfied over time or as those services are provided. Contract liabilities primarily relate to deferred revenue from upfront customer payments. The deferred revenue is recognized, and the liability reduced, over the contract term as the Company completes the performance obligation. As of June 30, 2019, our future revenues (i.e., transaction price related to remaining performance obligations) under contract accounted for under Topic 606 totaled $588.0 million, of which $513.2 million is related to contracts that are currently being invoiced and have an average remaining contract term of 2.3 years, while $74.8 million represents our backlog for sales bookings which have yet to be installed and have an average remaining contract term of 4.2 years.

Practical Expedients and Exemptions

We do not disclose the value of unsatisfied performance obligations for contracts that have an original expected duration of one year or less.

We exclude from the transaction price any amounts collected from customers for sales taxes and therefore, such amounts are not included in revenue.

**Note 4. Leases**

*Lessor Accounting*

We lease communications towers, ground, communications equipment, office and dark fiber lease arrangements to tenants under operating leases. Our leases have initial lease terms ranging from five to 20 years, most of which includes options to extend or renew the leases for five to 80 years (based on the satisfaction of certain conditions as defined in the lease agreements), and some of which may include options to terminate the leases within one to six months. Certain lease agreements contain provisions for future rent increases. Payments due under the lease contracts include fixed payments plus, for some of our leases, variable payments.

The components of lease income for the three and six months ended June 30, 2019 are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** | |  | **Six Months Ended** | |
| (Thousands) | |  | **June 30, 2019** | |  | **June 30, 2019** | |
| Lease income - operating leases |  | $ | 185,666 |  | $ | 371,724 |  |

Lease payments to be received under non-cancellable operating leases where we are the lessor for the remainder of the lease terms are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  |  | **June 30, 2019 (1)** |  |  | **December 31, 2018 (2)** | |
| 2019 |  | $ | 351,179 |  | $ | 724,269 |  |
| 2020 |  |  | 705,063 |  |  | 693,596 |  |
| 2021 |  |  | 708,110 |  |  | 696,713 |  |
| 2022 |  |  | 710,922 |  |  | 699,561 |  |
| 2023 |  |  | 713,902 |  |  | 702,663 |  |
| Thereafter |  |  | 4,761,525 |  |  | 4,706,951 |  |
| Total lease receivables |  | $ | 7,950,701 |  | $ | 8,223,753 |  |
|  |  |  |  |  |  |  |  |

1. Total future minimum lease payments to be received include $7.3 billion relating to the Master Lease with Windstream.
2. Prior period amounts have not been adjusted under the modified retrospective transition approach.

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| **Uniti Group Inc.** | |  |  |  |  |
| **Notes to the Condensed Consolidated Financial Statements – Continued** | |  |  |  |  |
| **(unaudited)** | |  |  |  |  |
| The underlying assets under operating leases where we are the lessor as of June 30, 2019 are summarized as follows: | |  |  |  |  |
| (Thousands) | |  |  | **June 30, 2019** | |
| Land |  |  | $ | 26,672 |  |
| Building and improvements | |  |  | 332,158 |  |
| Real property interest | |  |  | - |  |
| Poles | |  |  | 255,103 |  |
| Fiber | |  |  | 2,594,530 |  |
| Equipment | |  |  | 202 |  |
| Copper | |  |  | 3,756,760 |  |
| Conduit | |  |  | 89,768 |  |
| Tower assets | |  |  | 127,289 |  |
| Capital lease assets | |  |  | 10,276 |  |
| Other assets | |  |  | 26,581 |  |
|  |  |  |  | 7,219,339 |  |
| Less: accumulated depreciation | |  |  | (4,889,425) | |
| Underlying assets under operating leases, net | |  | $ | 2,329,914 |  |
|  |  |  |  |  |  |

Depreciation expense for the underlying assets under operating leases where we are the lessor for the three and six months ended June 30, 2019 is summarized as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** | |  | **Six Months Ended** | |
| (Thousands) | |  | **June 30, 2019** | |  | **June 30, 2019** | |
| Depreciation expense for underlying assets under operating leases |  | $ | 75,093 |  | $ | 151,367 |  |

*Lessee Accounting*

We have commitments under operating leases for communications towers, ground, colocation and dark fiber lease arrangements. We also have finance leases for dark fiber lease arrangements and other communications equipment. Our leases have initial lease terms ranging from less than one year to 30 years, most of which includes options to extend or renew the leases for less than one year to 85 years, and some of which may include options to terminate the leases within one to six months. Certain lease agreements contain provisions for future rent increases. Payments due under the lease contracts include fixed payments plus, for some of our leases, variable payments.

As of June 30, 2019, we have short term lease commitments amounting to approximately $1.8 million, for colocation and dark fiber arrangements.

The components of lease cost for the three and six months ended June 30, 2019 are as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended** | |  | **Six Months Ended** | |  |
| (Thousands) |  |  |  | **June 30, 2019** | |  | **June 30, 2019** | |  |
| *Finance lease cost* |  |  |  |  |  |  |  |  |  |
| Amortization of ROU assets | $ | | | 890 |  | $ | 1,896 |  |  |
| Interest on lease liabilities |  |  |  | 552 |  |  | 1,621 |  |  |
| Total finance lease cost |  |  |  | 1,442 |  |  | 3,517 |  |  |
| Operating lease cost |  |  |  | 6,667 |  |  | 13,254 |  |  |
| Short-term lease cost |  |  |  | 467 |  |  | 929 |  |  |
| Variable lease cost |  |  |  | 138 |  |  | 257 |  |  |
| Less sublease income |  |  |  | (2,633) | |  | (5,378) | |  |
| Total lease cost |  |  | $ | 6,081 |  | $ | 12,579 |  |  |
|  | 19 |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |



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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

Amounts reported in the Condensed Consolidated Balance Sheets for leases where we are the lessee as of June 30, 2019 were as follows:

(Thousands) **Location on Condensed Consolidated Balance Sheets** **June 30, 2019**



|  |  |  |
| --- | --- | --- |
| *Operating leases* |  |  |
| ROU asset | Other assets, net | |
| ROU liability | Accounts payable, accrued expenses and other | |
|  | liabilities, net | |
| *Finance leases* |  |  |
| ROU asset | Property, plant and equipment, net | |
| ROU liability | Finance lease obligations | |
| *Weighted-average remaining lease term* |  |  |
| Operating leases |  |  |
| Finance leases |  |  |
| *Weighted-average discount rate* |  |  |
| Operating leases |  |  |
| Finance leases |  |  |
| Other information related to leases as of June 30, 2019 are as follows: |  |  |



(Thousands)

* 100,227

107,199

* 128,530

55,444

10.0 years

14.1 years

9.5%

8.1%

**Six Months Ended**

**June 30, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash paid for amounts included in the measurement of lease liabilities | |  |  |  |  |  |  |  |  |  |  |
|  | Operating cash flows from finance leases | |  | $ | | |  |  | 1,621 |  |  |  |
|  | Operating cash flows from operating leases | |  |  |  |  |  |  | 13,426 |  |  |  |
|  | Financing cash flows from finance leases | |  |  |  |  |  |  | 1,896 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Non-cash items: | |  |  |  |  |  |  |  |  |  |  |
|  | New operating leases | |  | $ | | |  |  | 12,621 |  |  |  |
|  | New finance leases | |  |  |  |  |  |  | 2,683 |  |  |  |
| Future lease payments under non-cancellable leases as of June 30, 2019 are as follows: | | |  |  |  |  |  |  |  |  |  |  |
| (Thousands) | | |  | **Operating Leases (1)** | | | |  | **Finance Leases (1)** | | |  |
|  | 2019 |  | $ | 11,890 | | |  | $ | 4,211 | |  |  |
|  | 2020 |  |  | 22,922 | | |  |  | 7,588 |  |  |  |
|  | 2021 |  |  | 20,983 | | |  |  | 6,829 |  |  |  |
|  | 2022 |  |  | 18,538 | | |  |  | 6,697 |  |  |  |
|  | 2023 |  |  | 16,333 | | |  |  | 6,681 |  |  |  |
|  | Thereafter | |  | 86,345 | | |  |  | 57,330 | |  |  |
|  | Total undiscounted lease payments | | $ | 177,011 | | |  | $ | 89,336 | |  |  |
|  | Less: imputed interest | |  | (69,812) | | | |  | (33,892) | | |  |
|  | Total lease liabilities | | $ | 107,199 | | |  | $ | 55,444 | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Amounts are exclusive of lease arrangements that are classified in Liabilities Held for Sale.

Future minimum rental payments under non-cancellable operating leases as of December 31, 2018(1) were as follows:

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| **Uniti Group Inc.** |  |  |  |  |  |  |  |
| **Notes to the Condensed Consolidated Financial Statements – Continued** |  |  |  |  |  |  |  |
| **(unaudited)** |  |  |  |  |  |  |  |
| (Thousands) |  |  |  |  |  |  |  |
| 2019 | $ | | | | 10,585 |  |  |
| 2020 |  |  |  |  | 7,543 |  |  |
| 2021 |  |  |  |  | 4,815 |  |  |
| 2022 |  |  |  |  | 3,186 |  |  |
| 2023 |  |  |  |  | 2,382 |  |  |
| Thereafter |  |  |  |  | 15,269 |  |  |
| Total |  |  | $ | | 43,780 |  |  |
| (1) Prior period amounts have not been adjusted under the modified retrospective transition approach. |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Future minimum rental payments under capital leases in effect as of December 31, 2018(1) were as follows: |  |  |  |  |  |  |  |
| (Thousands) |  |  |  |  |  |  |  |
| 2019 | $ | | | | 8,683 |  |  |
| 2020 |  |  |  |  | 7,357 |  |  |
| 2021 |  |  |  |  | 6,638 |  |  |
| 2022 |  |  |  |  | 6,484 |  |  |
| 2023 |  |  |  |  | 6,457 |  |  |
| Thereafter |  |  |  |  | 52,533 |  |  |
| Total minimum payments |  |  |  |  | 88,152 |  |  |
| Less amount representing interest |  |  |  |  | (32,870) | |  |
| Total |  |  | $ | | 55,282 |  |  |
| (1) Prior period amounts have not been adjusted under the modified retrospective transition approach. |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Future sublease rentals as of June 30, 2019 are as follows: |  |  |  |  |  |  |  |
| (Thousands) |  |  |  |  | **Sublease Rentals** | |  |
| 2019 |  |  | | $ | 4,158 |  |  |
| 2020 |  |  |  |  | 8,966 |  |  |
| 2021 |  |  |  |  | 8,992 |  |  |
| 2022 |  |  |  |  | 9,019 |  |  |
| 2023 |  |  |  |  | 9,046 |  |  |
| Thereafter |  |  |  |  | 95,785 |  |  |
| Total |  |  | | $ | 135,966 |  |  |
|  |  |  |  |  |  |  |  |

**Note 5. Business Combinations, Asset Acquisitions and Dispositions**

2019 Transactions

*Sale of Ground Lease Portfolio*

On May 23, 2019, the Company completed the sale of substantially all of its U.S. ground lease business. During second quarter, we received cash consideration of $30.7 million resulting in a pre-tax gain of $5.0 million.

*Sale of Latin American Tower Portfolio*

On April 2, 2019, the Company completed the sale of the Uniti Towers’ Latin America business (“LATAM”) to an entity controlled by Phoenix Towers International for cash consideration of $101.6 million resulting in a pre-tax gain of $23.8 million.

*JKM Consulting Inc. (M2 Connections)*

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

On March 25, 2019, we acquired 100% of the outstanding equity of JKM Consulting Inc. d/b/a M2 Connections (“M2”) for cash consideration of $5.5 million. M2 is a dark fiber and internet access provider primarily to educational institutions in Alabama. This acquisition strengthens Uniti Fiber’s relationships with new E-Rate customers. The acquisition was recorded by allocating the costs of the assets acquired based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the assets acquired is recorded as goodwill of $1.7 million within our Fiber Infrastructure segment. See Note 13. For federal income tax purposes, the transaction was treated as a taxable acquisition. Thus, all of the goodwill is



expected to be deductible for tax purposes. The financial results of M2 are included in the Fiber Infrastructure segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations and therefore, pro forma financial information has not been presented.

2018 Transactions

*Information Transport Solutions, Inc.*

On October 19, 2018, we acquired 100% of the outstanding equity of Information Transport Solutions, Inc. (“ITS”) for cash consideration of $58.3 million. ITS is a full-service managed services provider of technology solutions, primarily to educational institutions in Alabama and Florida. This acquisition expands Uniti Fiber’s product offerings and strengthens relationships with new and existing E-Rate customers. The acquisition was recorded by allocating the costs of the assets acquired based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the assets acquired is recorded as goodwill within our Fiber Infrastructure segment. See Note 13. During the first quarter of 2019, certain contractual working capital adjustments resulted in a $1.3 million reduction of the purchase price and goodwill. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed:



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **(thousands)** |  |
| Property, plant and equipment | $ | | 4,270 |  |
| Cash and cash equivalents |  |  | 5,931 |  |
| Accounts receivable |  |  | 3,909 |  |
| Other assets |  |  | 7,238 |  |
| Goodwill |  |  | 9,941 |  |
| Intangible assets |  |  | 30,254 |  |
| Accounts payable, accrued expenses and other liabilities |  |  | (2,645) | |
| Deferred revenue |  |  | (567) | |
| Total purchase consideration |  | $ | 58,331 |  |
|  |  |  |  |  |

The goodwill arising from the transaction is primarily attributable to strategic opportunities that arose from the acquisition of ITS, including strengthening relationships with new and existing E-Rate customers and anticipated incremental sales and cost savings. For federal income tax purposes, the transaction was treated as a taxable acquisition. Thus, all of the goodwill is expected to be deductible for tax purposes.

We acquired an intangible asset that was assigned to customer relationships of $30.3 million (14 year life). The Company determined the useful life for the customer relationship by applying an income approach (using the multi-period excess earnings method with a discount rate commensurate to the risk of the asset) and resulted from two key considerations: attrition rate and cumulative present value of cash flows, including assessing the period over which the asset is expected to contribute to the Company’s future cash flows.

**Note 6. Assets and Liabilities Held for Sale**

[On May 23, 2019, the Company completed the sale of substantially of its U.S. ground lease business. See Note 5. As of June 30, 2019, the sale of the](#page21) [remaining ground lease is expected to close during the third quarter and has met the criteria to be classified as held for sale. As a result, the Company](#page21) [classified $2.8 million of net property, plant and equipment to assets held for sale on the Condensed Consolidated Balance Sheet.](#page21)



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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

On January 15, 2019, the Company entered into an operating company/property company (“OpCo-PropCo”) transaction with Macquarie Infrastructure Partners (“MIP”) to acquire Bluebird Network, LLC (“Bluebird”). MIP operates within the Macquarie Infrastructure and Real Assets division of Macquarie Group. In the transaction, Uniti has agreed to purchase the Bluebird fiber network and MIP has agreed to purchase the Bluebird operations. In addition, Uniti has agreed to sell Uniti Fiber’s Midwest operations to MIP, while Uniti will retain its existing Midwest fiber network. As of June 30, 2019, the sale of the Midwest operations met the criteria to be classified as held for sale. As a result, the Company classified $13.9 million of net property, plant and equipment to assets held for sale and $4.3 million of other accrued liabilities to liabilities held for sale on the Condensed Consolidated Balance Sheet as of June 30,

2019. The Midwest operations that will be sold to MIP are currently reported in our Fiber Infrastructure segment. The sale does not represent a strategic shift that will have a major effect on operations and financial results and, therefore, did not qualify for presentation as a discontinued operation. These transactions are subject to regulatory and other closing conditions and are expected to close by the end of the third quarter of 2019.

The Company had no assets or liabilities classified as held for sale as of December 31, 2018.

**Note 7. Fair Value of Financial Instruments**

FASB ASC 820, *Fair Value Measurements*, establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring assets and liabilities at fair values. This hierarchy establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are as follows:

***Level 1*** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the assessment date; ***Level 2*** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and ***Level 3*** – Unobservable inputs for the asset or liability.

Our financial instruments consist of cash and cash equivalents, accounts and other receivables, a derivative asset and liability, our outstanding notes and other debt, contingent consideration and accounts, interest and dividends payable.

The following table summarizes the fair value of our financial instruments at June 30, 2019 and December 31, 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Quoted Prices in** | | | **Prices with Other** | | |  | **Prices with** | |  |
|  |  |  |  |  |  | **Observable** | |  |  |
|  |  |  | **Total** | | **Active Markets** |  |  |  | **Inputs** | |  | **Unobservable** | |  |
| (Thousands) |  |  | **(Level 1)** |  |  |  | **(Level 2)** | | **Inputs (Level 3)** | | |  |
| At June 30, 2019 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior secured term loan B - variable rate, due October 24, 2022 | $ | | 1,998,748 |  | $ | - |  | $ | 1,998,748 |  | $ | - |  |  |
| Senior secured notes - 6.00%, due April 15, 2023 |  |  | 521,125 |  |  | - |  |  | 521,125 |  |  | - |  |  |
| Senior unsecured notes - 8.25%, due October 15, 2023 |  |  | 1,026,750 |  |  | - |  |  | 1,026,750 |  |  | - |  |  |
| Senior unsecured notes - 7.125%, due December 15, 2024 |  |  | 535,500 |  |  | - |  |  | 535,500 |  |  | - |  |  |
| Exchangeable senior notes - 4.00%, due June 15, 2024 |  |  | 355,523 |  |  | - |  |  | 355,523 |  |  | - |  |  |
| Senior secured revolving credit facility, variable rate, due April 24, 2022 |  |  | 574,961 |  |  | - |  |  | 574,961 |  |  | - |  |  |
| Derivative liability |  |  | 19,117 |  |  |  |  |  | 19,117 |  |  |  |  |  |
| Contingent consideration |  |  | 18,522 |  |  | - |  |  | - |  |  | 18,522 |  |  |
| Total |  | $ | 5,050,246 |  | $ | - |  | $ | 5,031,724 |  | $ | 18,522 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **Prices with** | |  |  |  |  |
|  |  |  |  |  |  | **Quoted Prices in** |  |  |  | **Other** | |  | **Prices with** | |  |
|  |  |  |  |  |  |  |  |  | **Observable** | |  |  |
|  |  |  |  | **Total** | | **Active Markets** |  |  |  | **Inputs** | | **Unobservable Inputs** | | |  |
| (Thousands) | |  |  | **(Level 1)** |  |  |  | **(Level 2)** | |  | **(Level 3)** | |  |
|  | At December 31, 2018 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Assets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Derivative asset | $ | | 31,043 |  | $ | - |  | $ | 31,043 |  | $ | - |  |  |
| Total | |  | $ | 31,043 |  | $ | - |  | $ | 31,043 |  | $ | - |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Senior secured term loan B - variable rate, due October 24, 2022 | $ | | 1,877,303 |  | $ | - |  | $ | 1,877,303 |  | $ | - |  |  |
|  | Senior secured notes - 6.00%, due April 15, 2023 |  |  | 504,625 |  |  | - |  |  | 504,625 |  |  | - |  |  |
|  | Senior unsecured notes - 8.25%, due October 15, 2023 |  |  | 965,700 |  |  | - |  |  | 965,700 |  |  | - |  |  |
|  | Senior unsecured notes - 7.125%, due December 15, 2024 |  |  | 496,500 |  |  | - |  |  | 496,500 |  |  | - |  |  |
|  | Senior secured revolving credit facility, variable rate, due April 24, 2020 |  |  | 639,936 |  |  | - |  |  | 639,936 |  |  | - |  |  |
|  | Contingent consideration |  |  | 83,401 |  |  | - |  |  | - |  |  | 83,401 |  |  |
|  | Total | $ | | 4,567,465 |  | $ | - |  | $ | 4,484,064 |  | $ | 83,401 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The carrying value of cash and cash equivalents, accounts and other receivables, and accounts, interest and dividends payable approximate fair values due to the short-term nature of these financial instruments.

The total principal balance of our outstanding notes and other debt was $5.24 billion at June 30, 2019, with a fair value of $5.05 billion. The estimated fair value of our outstanding notes and other debt was based on available external pricing data and current market rates for similar debt instruments, among other factors, which are classified as Level 2 inputs within the fair value hierarchy. Derivative assets and liabilities are carried at fair value. See Note 9. The fair value of an interest rate swap is determined based on the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swap and also incorporate credit valuation adjustments to appropriately reflect both Uniti’s own non-performance risk and non-performance risk of the respective counterparties. The Company has determined that the majority of the inputs used to value its derivative assets and liabilities fall within Level 2 of the fair value hierarchy; however the associated credit valuation adjustments utilized Level 3 inputs, such as estimates of credit spreads, to evaluate the likelihood of default by the Company and its counterparties. As of June 30, 2019, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall value of the derivatives. As such, the Company classifies its derivative assets and liabilities valuation in Level 2 of the fair value hierarchy.

The merger agreement related to the July 3, 2017 acquisition of Hunt Telecommunications, LLC (“Hunt”) contained a contingent consideration arrangement (the “Hunt Contingent Consideration”) upon the achievement of certain defined revenue milestones. The fair value of the Hunt Contingent Consideration was determined using the closing price of our common shares in the active market and probability of expected declared dividends and is classified as Level 3. In accordance with the merger agreement on January 4, 2019, we settled the Hunt Contingent Consideration in full satisfaction of the obligation through the issuance of 645,385 common shares having a fair value of $11.2 million.

Given the limited trade activity of the Exchangeable Notes, the fair value of the Exchangeable Notes ([see Note 11](#page28)) is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy. Specifically, we estimated the fair value of the Exchangeable Notes based on readily available external pricing information, quoted market prices, and current market rates for similar convertible debt instruments.

We acquired Tower Cloud, Inc. (“Tower Cloud”) on August 31, 2016. As part of the Tower Cloud acquisition, we may be obligated to pay contingent consideration upon achievement of certain defined operational and financial milestones. At the Company’s discretion, a combination of cash and Uniti common shares may be used to satisfy the contingent consideration payments, provided that at least 50% of the aggregate amount of payments is satisfied in cash. We recorded the estimated fair value of future contingent consideration of $18.5 million as of June 30, 2019. The fair value of the contingent consideration as of June 30, 2019, was determined

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using a discounted cash flow model and probability adjusted estimates of the future operational milestones and is classified as Level 3. During the six months ended June 30, 2019 and 2018, we paid $28.2 million and $12.7 million, respectively, for the achievement of certain milestones in accordance with the Tower Cloud merger agreement.

Changes in the fair value of contingent consideration arrangements are recorded in our Condensed Consolidated Statement of Income in the period in which the change occurs. For the three and six months ended June 30, 2019, there was a $22.3 million and $25.5 million, respectively, decrease in the fair value of the contingent consideration that was recorded in Other (income) expense on the Condensed Consolidated Statements of Income.

The following is a roll forward of our liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **December 31, 2018** |  |  |  |  |  | **(Gain)/Loss included in** | | | | |  | **Settlements** | | | |  |  | **June 30, 2019** | |  |
| (Thousands) | |  |  | **Transfers into Level 3** | | | | | | **earnings** | | |  |  |  |  |
| Contingent consideration |  | $ | 83,401 |  | $ |  | - |  | $ |  | (25,531) | |  |  | $ | (39,348) | |  |  | $ | 18,522 |  |  |
| **Note 8. Property, Plant and Equipment** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The carrying value of property, plant and equipment is as follows: | | | | | | | **Depreciable Lives** | | | |  | **June 30, 2019** | | | |  |  |  | **December 31, 2018** | | | |  |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |
| Land | |  |  |  |  |  | Indefinite | | |  |  | $ |  | 27,567 | |  | $ |  |  |  | 29,304 |  |  |
| Building and improvements | |  |  |  |  |  | 3 - 40 years | | | |  |  |  | 345,754 | |  |  |  |  |  | 340,238 |  |  |
| Real property interests | |  |  |  |  |  | (1) | | | |  |  |  | 4,630 | |  |  |  |  |  | 34,878 |  |  |
| Poles | |  |  |  |  |  | 30 years | | | |  |  |  | 255,103 | |  |  |  |  |  | 248,989 |  |  |
| Fiber | |  |  |  |  |  | 30 years | | | |  |  |  | 3,158,337 | |  |  |  |  |  | 3,005,304 |  |  |
| Equipment | |  |  |  |  |  | 5 - 7 years | | | |  |  |  | 266,933 | |  |  |  |  |  | 256,838 |  |  |
| Copper | |  |  |  |  |  | 20 years | | | |  |  |  | 3,756,758 | |  |  |  |  |  | 3,721,649 |  |  |
| Conduit | |  |  |  |  |  | 30 years | | | |  |  |  | 89,768 | |  |  |  |  |  | 89,692 |  |  |
| Tower assets | |  |  |  |  |  | 20 years | | | |  |  |  | 127,577 | |  |  |  |  |  | 120,073 |  |  |
| Capital lease assets | |  |  |  |  |  | (1) | | | |  |  |  | 128,530 | |  |  |  |  |  | 123,017 |  |  |
| Other assets | |  |  |  |  |  | 15 - 20 years | | | |  |  |  | 11,798 | |  |  |  |  |  | 11,524 |  |  |
| Corporate assets | |  |  |  |  |  | 3 - 7 years | | | |  |  |  | 4,733 | |  |  |  |  |  | 4,214 |  |  |
| Construction in progress | |  |  |  |  |  | (1) | | | |  |  |  | 117,547 | |  |  |  |  |  | 137,585 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | 8,295,035 | |  |  |  |  |  | 8,123,305 |  |  |
| Less accumulated depreciation | |  |  |  |  |  |  |  |  |  |  |  |  | (5,093,599) | | |  |  |  |  | (4,914,299) | |  |
| Net property, plant and equipment | |  |  |  |  |  |  |  |  |  |  | $ |  | 3,201,436 | |  | $ |  |  |  | 3,209,006 |  |  |



(1) See our Annual Report for property, plant and equipment accounting policies.

Depreciation expense for the three and six months ended June 30, 2019 was $96.5 million and $194.0 million, respectively. Depreciation expense for the three and six months ended June 30, 2018 was $108.7 million and $216.9 million, respectively.

**Note 9. Derivative Instruments and Hedging Activities**

The Company uses derivative instruments to mitigate the effects of interest rate volatility inherent in our variable rate debt, which could unfavorably impact our future earnings and forecasted cash flows. The Company does not use derivative instruments for speculative or trading purposes.

On April 27, 2015, we entered into fixed for floating interest rate swap agreements to mitigate the interest rate risk inherent in our variable rate Senior Secured Term Loan B facility. These interest rate swaps are designated as cash flow hedges and have a notional value of $2.06 billion and mature on October 24, 2022. The weighted average fixed rate paid is 2.105%, and the variable rate received resets monthly to the one-month LIBOR subject to a minimum rate of 1.0%. The Company does not currently have any master netting arrangements related to its derivative contracts.

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**Notes to the Condensed Consolidated Financial Statements – Continued**

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The following table summarizes the fair value and the presentation in our Condensed Consolidated Balance Sheets:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Location on Condensed Consolidated** | |  | **June 30, 2019** |  |  | **December 31, 2018** | |  |
| (Thousands) | | **Balance Sheets** | |  |  |  |  |
| Interest rate swaps |  | Derivative asset |  | $ | - |  | $ | 31,043 |  |  |
| Interest rate swaps | | Derivative liability | | $ | 19,117 | $ | | - |  |  |

As of June 30, 2019, all of the interest rate swaps were valued in net unrealized loss positions and recognized as liability balances within the derivative liability balance. As of December 31, 2018, all of the interest rate swaps were valued in net unrealized gain positions and recognized as asset balances within the derivative asset balance. For the three and six months ended June 30, 2019, the amount recorded in other comprehensive income related to the unrealized loss on derivative instruments was $26.6 million and $46.1 million, respectively. For the three and six months ended June 30, 2018, the amount recorded in other comprehensive income related to the unrealized gain on derivative instruments was $13.6 million and $46.3 million, respectively. The amount reclassified out of other comprehensive income into interest expense on our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2019, was a benefit of $1.9 million and $4.0 million, respectively. The amount reclassified out of other comprehensive income into interest expense on our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2018, was $1.0 million and $3.6 million, respectively. For the three months ended June 30, 2019 and 2018, there was no ineffective portion of the change in fair value derivatives.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, beginning July 1, 2019, we estimate that $7.6 million will be reclassified as a benefit to interest expense.

*Exchangeable Notes Hedge Transactions*

On June 25, 2019, concurrently with the pricing of the Exchangeable Notes (see Note 11), and on June 27, 2019, concurrently with the exercise by the Initial Purchasers (as defined below) of their option to purchase additional Exchangeable Notes, Uniti Fiber, the issuer of the Exchangeable Notes, entered into the Note Hedge Transactions with certain of the Counterparties. The Note Hedge Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Exchangeable Notes, the same number of shares of the Company’s common stock that initially underlie the Exchangeable Notes in the aggregate and are exercisable upon exchange of the Exchangeable Notes. The Note Hedge Transactions have an initial strike price that corresponds to the initial exchange price of the Exchangeable Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Exchangeable Notes. The Note Hedge Transactions will expire upon the maturity of the Exchangeable Notes, if not earlier exercised. The Note Hedge Transactions are intended to reduce potential dilution to the Company’s common stock upon any exchange of the Exchangeable Notes and/or offset any cash payments Uniti Fiber is required to make in excess of the principal amount of exchanged Exchangeable Notes, as the case may be, in the event that the market value per share of the Company’s common stock, as measured under the Note Hedge Transactions, at the time of exercise is greater than the strike price of the Note Hedge Transactions.



The Note Hedge Transactions are separate transactions, entered into by Uniti Fiber with the Counterparties, and are not part of the terms of the Exchangeable Notes. Holders of the Exchangeable Notes will not have any rights with respect to the Note Hedge Transactions. Uniti Fiber used approximately $70.0 million of the net proceeds from the offering of the Exchangeable Notes to pay the cost of the Note Hedge Transactions. The Note Hedge Transactions meet certain accounting criteria under GAAP, and are recorded in additional paid-in capital on our Condensed Consolidated Balance Sheets, are not accounted for as derivatives that are remeasured each reporting period.

*Warrant Transactions*

On June 25, 2019, concurrently with the pricing of the Exchangeable Notes, and on June 27, 2019 concurrently with the exercise by the Initial Purchasers of their option to purchase additional Exchangeable Notes, the Company entered into warrant transactions to sell to the Counterparties Warrants to acquire, subject to anti-dilution adjustments, up to approximately 27.8 million shares of the Company’s common stock in the aggregate at an exercise price of approximately $16.42 per share. The maximum number of shares of the Company’s common stock that could be issued pursuant to the Warrants is approximately 55.5 million. The Company offered and sold the Warrants in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). If the market value per share of the Company’s common stock, as measured under the Warrants, at the time of

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exercise exceeds the strike price of the Warrants, the Warrants will have a dilutive effect on the Company’s common stock unless, subject to the terms of the Warrants, the Company elects to cash settle the Warrants. The Warrants will expire over a period beginning in September 2024.

The Warrants are separate transactions, entered into by the Company with the Counterparties, and are not part of the terms of the Exchangeable Notes. Holders of the Exchangeable Notes will not have any rights with respect to the Warrants. The Company received approximately $50.8 million from the offering and sale of the Warrants. The Warrants meet certain accounting criteria under GAAP, and are recorded in additional paid-in capital on our Condensed Consolidated Balance Sheets, are not accounted for as derivatives that are remeasured each reporting period.

**Note 10. Goodwill and Intangible Assets and Liabilities**

Changes in the carrying amount of goodwill occurring during the six months ended June 30, 2019, are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |  | **Fiber Infrastructure** | | | | | |  |  |  | **Total** | |  |  |  |
|  | Goodwill at December 31, 2018 |  |  |  |  |  |  |  |  |  |  | $ |  |  |  | 692,385 |  |  |  |  | $ |  |  | 692,385 |  |  |
|  | Goodwill purchase accounting adjustments - See Note 5 | | | | |  |  |  |  |  |  |  |  |  |  | (1,269) | | |  |  |  |  |  | (1,269) | |  |
|  | Goodwill associated with 2019 acquisitions - See Note 5 | | | | |  |  |  |  |  |  |  |  |  |  | 1,717 |  |  |  |  |  |  |  | 1,717 |  |  |
| Goodwill at June 30, 2019 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 692,833 |  |  |  |  |  |  |  | 692,833 |  |  |
| The carrying value of the intangible assets is as follows: | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (Thousands) | |  |  |  |  |  | **June 30, 2019** |  |  |  |  |  |  |  |  |  |  |  |  | **December 31, 2018** | | |  |  |  |  |
|  |  |  |  | **Original** | |  | **Cumulative** |  |  |  |  |  | **Accumulated** |  |  | **Original** | | |  |  | **Cumulative** | |  | **Accumulated** |  |  |
|  |  |  |  |  | **Translation** |  |  |  |  |  |  |  |  | **Translation** | |  |  |
|  |  |  |  | **Cost** | |  | **Adjustment** |  |  |  |  |  | **Amortization** | |  | **Cost** | | |  |  | **Adjustment** | |  | **Amortization** | |  |
|  | Indefinite life intangible assets: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Trade name | $ | | 2,000 |  | $ | | - |  | $ | | | - |  | $ | 2,000 | |  | $ | | - |  | $ | - |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Finite life intangible assets: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Customer lists(3) |  |  | 450,597 |  |  |  | - |  |  |  |  | (81,190) | |  | 451,997 | |  |  |  | - |  |  | (69,393) | |  |
|  | Tenant contracts(3) |  |  | - |  |  |  | - |  |  |  |  | - |  |  | 37,386 | |  |  |  | 411 |  |  | (3,293) | |  |
|  | Network(1)(3) |  |  | - |  |  |  | - |  |  |  |  | - |  |  | 13,541 | |  |  |  | 144 |  |  | (1,192) | |  |
|  | Acquired below-market leases(3) |  |  | - |  |  |  | - |  |  |  |  | - |  |  | 1,509 | |  |  |  | - |  |  | (289) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets |  |  | 452,597 |  |  |  |  |  |  |  |  |  |  |  | 506,988 | |  |  |  |  |  |  |  |  |  |
|  | Less: Accumulated amortization |  |  | (81,190) | |  |  |  |  |  |  |  |  |  |  | (74,167) | | |  |  |  |  |  |  |  |  |
| Total intangible assets, net | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |
| $ | | 371,407 |  |  |  |  |  |  |  |  |  |  | $ | 432,821 | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Finite life intangible liabilities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Acquired above-market leases(3) | $ | | - |  | $ | | - |  | $ | | | - |  | $ | 3,440 | |  | $ | | (182) | | $ | (624) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |
| Total intangible liabilities |  |  | - |  |  |  |  |  |  |  |  |  |  |  | 3,258 | |  |  |  |  |  |  |  |  |  |
|  | Less: Accumulated amortization |  |  | - |  |  |  |  |  |  |  |  |  |  |  | (624) | | |  |  |  |  |  |  |  |  |
| Total intangible liabilities, net(2) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |
| $ | | - |  |  |  |  |  |  |  |  |  |  | $ | 2,634 | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Reflects the potential to lease additional tower capacity on the existing towers due to their geographical location and capacity that currently exists on these towers as of the valuation date.
2. Recorded in accounts payable, accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.
3. Uniti Towers’ Latin American intangible assets were sold on April 2, 2019. [See Note 5.](#page21)

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As of June 30, 2019, the remaining weighted average amortization period of the Company’s intangible assets was 17.8 years. Amortization expense for the three and six months ended June 30, 2019 was $6.1 million and $12.4 million, respectively. Amortization expense for the three and six months ended June 30, 2018 was $6.2 million and $12.7 million, respectively.

Amortization expense is estimated to be $24.5 million for the full year of 2019, $23.8 million in 2020, $23.3 million in 2021, $22.9 million in 2022, and $22.8 million for 2023.

**Note 11. Notes and Other Debt**

All debt, including the senior secured credit facility and notes described below, are obligations of the Operating Partnership and/or certain of its subsidiaries as discussed below. The Company is, however, a guarantor of such debt.

Notes and other debt is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) | |  |  |  |  |  |  | **June 30, 2019** | | | |  |  | **December 31, 2018** | | | |  |
| Principal amount | |  |  |  |  |  |  | $ |  | 5,235,287 | |  | $ |  |  | 4,965,808 |  |  |
| Less unamortized discount, premium and debt issuance costs | |  |  |  |  |  |  |  |  |  | (232,195) | |  |  |  | (119,575) | |  |
| Notes and other debt less unamortized discount, premium and debt issuance costs | | | | |  |  |  | $ |  | 5,003,092 | |  | $ |  |  | 4,846,233 |  |  |
| Notes and other debt at June 30, 2019 and December 31, 2018 consisted of the following: | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **June 30, 2019** | | | | | | |  |  | **December 31, 2018** | | | | | |  |
|  |  |  |  |  |  |  | **Unamortized** | |  |  |  |  |  |  |  | **Unamortized** |  |  |
|  |  |  |  |  | **Discount, Premium** | | | | |  |  |  |  |  | **Discount, Premium** | | |  |
|  |  |  | **Principal** | |  | **and Debt Issuance** | | | |  | **Principal** | | |  |  | **and Debt Issuance** | |  |
| (Thousands) | |  |  |  |  | **Costs** | |  |  |  | **Costs** | |  |
| Senior secured term loan B - variable rate, due October 24, 2022 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 7.47%) | | $ | 2,055,268 |  |  | (86,441) | | | | $ | 2,065,808 | | | $ | | (70,337) | |  |
| Senior secured notes - 6.00%, due April 15, 2023 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 6.29%) | |  | 550,000 |  |  | (6,387) | | | |  |  | 550,000 | |  |  | (7,116) | |  |
| Senior unsecured notes - 8.25%, due October 15, 2023 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 9.06%) | |  | 1,110,000 |  |  | (31,923) | | | |  | 1,110,000 | | |  |  | (34,900) | |  |
| Senior unsecured notes - 7.125% due December 15, 2024 | |  | 600,000 |  |  | (6,771) | | | |  |  | 600,000 | |  |  | (7,222) | |  |
| Exchangeable senior notes - 4.00%, due June 15, 2024 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 11.1%) | |  | 345,000 |  |  | (92,617) | | | |  |  | - | |  |  | - |  |  |
| Senior secured revolving credit facility, variable rate, due April 24, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2022 |  |  | 575,019 |  |  | (8,056) | | | |  |  | 640,000 | |  |  | - |  |  |
| Total | |  |  |  |  |  | | |  |  |  | | |  |  |  |  |  |
| $ | 5,235,287 |  | $ | (232,195) | | | | $ | 4,965,808 | | | $ | | (119,575) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

At June 30, 2019, notes and other debt included the following: (i) $2.1 billion under the Senior Secured Term Loan B facility that matures on October 24, 2022 (“Term Loan Facility”) pursuant to the credit agreement by and among the Operating Partnership, CSL Capital, LLC and Uniti Group Finance Inc., the guarantors and lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent (the “Credit Agreement”); (ii) $550.0 million aggregate principal amount of 6.00% Senior Secured Notes due April 15, 2023 (the “Secured Notes”); (iii) $1.11 billion aggregate principal amount of 8.25% Senior Notes due October 15, 2023 (the “2023 Notes”); (iv) $600 million aggregate principal amount of 7.125% Senior Unsecured Notes due December 15, 2024 (the “2024 Notes,” and together with the Secured Notes and 2023 Notes, the “Notes”), (v) $345 million aggregate principal amount of 4.00% Exchangeable Senior Notes due June 15, 2024 (the “Exchangeable Notes”) and (vi) $575 million under the senior secured revolving credit facility, variable rate, that matures April 24, 2022 pursuant to the Credit Agreement (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Facilities”).

Credit Agreement

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

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The Operating Partnership and its wholly owned subsidiaries, CSL Capital, LLC and Uniti Group Finance Inc. (collectively, the “Borrowers”) are party to the Credit Agreement, which provides for the Term Loan Facility (in an initial principal amount of $2.14 billion) and the Revolving Credit Facility. The term loans bear interest at a rate equal to LIBOR, subject to a 1.0% floor, plus an applicable margin equal to 5.00% and are subject to amortization of 1.0% per annum. All obligations under the Credit Agreement are guaranteed by (i) the Company and (ii) certain of the Operating Partnership’s wholly owned subsidiaries (the “Subsidiary Guarantors”) and are secured by substantially all of the assets of the Borrowers and the Subsidiary Guarantors, which assets also secure the Secured Notes. The Revolving Credit Facility bears interest at a rate equal to LIBOR plus 1.75% to 2.25% based on our consolidated secured leverage ratio, as defined in the Credit Agreement.

The Borrowers are subject to customary covenants under the Credit Agreement, including an obligation to maintain a consolidated secured leverage ratio, as defined in the Credit Agreement, not to exceed 5.00 to 1.00. We are permitted, subject to customary conditions, to incur (i) incremental term loan borrowings and/or increased commitments under the Credit Agreement in an unlimited amount, so long as, on a pro forma basis after giving effect to any such borrowings or increases, our consolidated secured leverage ratio, as defined in the Credit Agreement, does not exceed 4.00 to 1.00 and (ii) other indebtedness, so long as, on a pro forma basis after giving effect to any such indebtedness, our consolidated total leverage ratio, as defined in the Credit Agreement, does not exceed 6.50 to 1.00 and our consolidated secured leverage ratio, as defined in the Credit Agreement, does not exceed 4.00 to 1.00. In addition, the Credit Agreement contains customary events of default, including a cross default provision whereby the failure of the Borrowers or certain of their subsidiaries to make payments under other debt obligations, or the occurrence of certain events affecting those other borrowing arrangements, could trigger an obligation to repay any amounts outstanding under the Credit Agreement. In particular, a repayment obligation could be triggered if (i) the Borrowers or certain of their subsidiaries fail to make a payment when due of any principal or interest on any other indebtedness aggregating $75.0 million or more, or (ii) an event occurs that causes, or would permit the holders of any other indebtedness aggregating $75.0 million or more to cause, such indebtedness to become due prior to its stated maturity. As of June 30, 2019, the Borrowers were in compliance with all of the covenants under the Credit Agreement.

On March 18, 2019, we received a limited waiver from our lenders under our Credit Agreement, waiving an event of default related solely to the receipt of a going concern opinion from our auditors for our 2018 audited financial statements. The limited waiver was issued in connection with the fourth amendment (the “Fourth Amendment”) to our Credit Agreement. During the pendency of Windstream’s bankruptcy, or at such earlier time when certain other conditions are specified, the Fourth Amendment generally limits our ability under the Credit Agreement to (i) prepay unsecured indebtedness and (ii) pay cash dividends in excess of 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. The Fourth Amendment also increased the interest rate on our Term Loan Facility, which now bears a rate of LIBOR, subject to a 1.0% floor, plus an applicable margin equal to 5.0%, a 200 basis point increase over our previous rate. This increase will remain in effect through the remaining term of the facility, which matures on October 24, 2022.

A termination of the Master Lease would result in an “event of default” under the Credit Agreement if a replacement lease was not entered into within ninety

1. calendar days and we do not maintain pro forma compliance with a consolidated secured leverage ratio, as defined in the Credit Agreement, of 5.00 to 1.00.

On June 24, 2019, we entered into an amendment (the “Fifth Amendment”) to our Credit Agreement to extend the maturity date of $575.9 million of commitments under the Revolving Credit Facility to April 24, 2022, pay down approximately $101.6 million of outstanding revolving loans and terminate the related commitments. The maturity date of approximately $72.4 million of other commitments was not extended. On June 28, 2019, the Company repaid approximately $174.0 million in total borrowings, which consisted of the $101.6 million required repayment pursuant to the Fifth Amendment and $72.4 million of non-extended borrowings, thereby terminating the non-extended commitments. As a result, all remaining $575.9 million of commitments will terminate on April 24, 2022, at which time all outstanding borrowings must be repaid. The Company used a portion of the net proceeds from the offering of Exchangeable Notes described below to fund the repayments. The Fifth Amendment increased the applicable margin for base rate loans under the Revolving Credit Facility to a range of 2.75% to 3.25% and for Eurodollar rate loans under the Revolving Credit Facility to a range of 3.75% to 4.25%, calculated in a customary manner and determined based on our consolidated secured leverage ratio.

The Notes

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

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The Borrowers, as co-issuers, have outstanding $550 million aggregate principal amount of the Secured Notes, of which $400 million was originally issued on April 24, 2015 at an issue price of 100% of par value and the remaining $150 million was issued on June 9, 2016 at an issue price of 99.25% of the par value as an add-on to the existing Secured Notes. The Borrowers, as co-issuers, also have outstanding $1.11 billion aggregate principal amount of the 2023 Notes that were originally issued on April 24, 2015 at an issue price of 97.055% of par value. The Secured Notes and the 2023 Notes are guaranteed by the Company and the Subsidiary Guarantors.

The Operating Partnership and its wholly owned subsidiaries, CSL Capital, LLC and Uniti Fiber Holdings Inc., as co-issuers, have outstanding $600 million aggregate principal amount of the 2024 Notes, of which $400 million was originally issued on December 15, 2016 at an issue price of 100% of par value and the remaining $200 million of which was issued on May 8, 2017 at an issue price of 100.50% of par value under a separate indenture and was mandatorily exchanged on August 11, 2017 for 2024 Notes issued as “additional notes” under the indenture governing the 2024 Notes. The 2024 Notes are guaranteed by the Company, Uniti Group Finance Inc. and the Subsidiary Guarantors.

Effective July 8, 2019, Deutsche Bank Trust Company Americas succeeded as trustee and collateral agent, as applicable, to the Notes pursuant to a Tri-Party Agreement dated as of June 26, 2019 among Deutsche Bank Trust Company, Wells Fargo Bank, N.A. and the co-issuers of the Notes.

The Exchangeable Notes

On June 28, 2019, Uniti Fiber, a subsidiary of the Company, issued $345 million aggregate principal amount of the Exchangeable Notes. The Exchangeable Notes are senior unsecured notes and are guaranteed by the Company and each of the Company’s subsidiaries (other than Uniti Fiber) that is an issuer, obligor or guarantor under the Company’s Notes. The Exchangeable Notes bear interest at a fixed rate of 4.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2019. The Exchangeable Notes are exchangeable into cash, shares of the Company’s common stock, or a combination thereof, at Uniti Fiber’s election, subject to limitations under the Company's Credit Agreement. The Exchangeable Notes will mature on June 15, 2024, unless earlier exchanged, redeemed or repurchased.

Uniti Fiber issued the Exchangeable Notes pursuant to an indenture, dated as of June 28, 2019 (the “Indenture”), among Uniti Fiber, the Company, the other guarantors party thereto and Deutsche Bank Trust Company Americas, as trustee. Prior to the close of business on the business day immediately preceding March 15, 2024, the Exchangeable Notes are exchangeable only upon satisfaction of certain conditions and during certain periods described in the Indenture, and thereafter, the Exchangeable Notes are exchangeable at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Exchangeable Notes are exchangeable on the terms set forth in the Indenture into cash, shares of the Company’s common stock, or a combination thereof, at Uniti Fiber’s election, subject to limitations under the Company's Credit Agreement. The exchange rate is initially 80.4602 shares of the Company’s common stock per $1,000 principal amount of Exchangeable Notes (equivalent to an initial exchange price of approximately $12.43 per share of the Company’s common stock). The exchange rate is subject to adjustment in some circumstances as described in the Indenture. In addition, following certain corporate events that occur prior to the maturity date or Uniti Fiber’s delivery of a notice of redemption, Uniti Fiber will increase, in certain circumstances, the exchange rate for a holder who elects to exchange its Exchangeable Notes in connection with such corporate event or notice of redemption, as the case may be.

If Uniti Fiber or the Company undergoes a fundamental change (as defined in the Indenture), subject to certain conditions, holders may require Uniti Fiber to repurchase for cash all or part of their Exchangeable Notes at a repurchase price equal to 100% of the principal amount of the Exchangeable Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

Uniti Fiber may redeem all or a portion of the Exchangeable Notes, at any time, at a cash redemption price equal to 100% of the principal amount of the Exchangeable Notes to be redeemed, plus accrued and unpaid interest to, but not including, the redemption date, if the Company’s board of directors determines such redemption is necessary to preserve the Company's status as a real estate investment trust for U.S. federal income tax purposes. Uniti Fiber may not otherwise redeem the Exchangeable Notes prior to June 20, 2022. On or after June 20, 2022 and prior to the 42nd scheduled trading day immediately preceding the maturity date, if the last reported sale price per share of the Company’s common stock has been at least 130% of the exchange price for the Exchangeable Notes for certain specified periods, Uniti Fiber may redeem all or a portion of the Exchangeable Notes at a cash redemption price equal to 100% of the principal amount of the Exchangeable Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date.

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**Uniti Group Inc.**

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On June 28, 2019, Uniti Fiber, the Company and Barclays Capital Inc., on behalf of the initial purchasers involved in the offering of the Exchangeable Notes (the “Initial Purchasers”), entered into a registration rights agreement with respect to the Company’s common stock deliverable upon exchange of the Exchangeable Notes (the “Registration Rights Agreement”). Under the Registration Rights Agreement, the Company has agreed to file a shelf registration statement to register the resale of the common stock of the Company deliverable upon exchange of the Exchangeable Notes. The Company has agreed to use its commercially reasonable efforts to cause such shelf registration statement to become effective on or prior to the 365th day after the issue date of the Exchangeable Notes.

Under GAAP, certain convertible debt instruments that may be settled in cash upon conversion are required to be separately accounted for as liability and equity components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. Accordingly, in accounting for the issuance of the Exchangeable Notes, the Company separated the Exchangeable Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature.

The carrying amount of the equity component, which is recognized as a debt discount, represents the difference between the proceeds from the issuance of the Exchangeable Notes and the fair value of the liability component of the Exchangeable Notes. The excess of the principal amount of the liability component over its carrying amount will be amortized to interest expense using an effective interest rate of 11.1% over the term of the Exchangeable Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

Debt issuance costs related to the Exchangeable Notes were comprised of commissions payable to the Initial Purchasers of $10.4 million and third-party costs of approximately $1.4 million.

In accounting for the debt issuance costs related to the issuance of the Exchangeable Notes, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Debt issuance costs attributable to the liability component were recorded as a contra-liability and are presented net against the Exchangeable Notes balance on our Condensed Consolidated Balance Sheets. These costs are amortized to interest expense using the effective interest method over the term of the Exchangeable Notes. Debt issuance costs of $2.9 million attributable to the equity component are netted with the equity component in stockholders’ equity, which netted to $80.8 million.

Deferred Financing Cost

Deferred financing costs were incurred in connection with the issuance of the Notes and the Facilities. These costs are amortized using the effective interest method over the term of the related indebtedness, and are included in interest expense in our Condensed Consolidated Statements of Income. For the three and six months ended June 30, 2019, we recognized $3.7 million and $7.5 million, respectively, of non-cash interest expense related to the amortization of deferred financing costs. For the three and six months ended June 30, 2018, we recognized $3.7 million and $7.3 million, respectively, of non-cash interest expense related to the amortization of deferred financing costs.

**Note 12. Earnings Per Share**

Our time-based restricted stock awards are considered participating securities as they receive non-forfeitable rights to dividends at the same rate as common stock. As participating securities, we included these instruments in the computation of earnings per share under the two-class method described in FASB ASC 260, *Earnings per Share* (“ASC 260”).

We also have outstanding performance-based restricted stock units that contain forfeitable rights to receive dividends. Therefore, the awards are considered non-participating restrictive shares and are not dilutive under the two-class method until performance conditions are met.

Prior to the second quarter of 2019, the earnings-per-share impact of the Company’s 3% Convertible Preferred Stock, $0.0001 par value (“Series A Shares”), issued in connection with the May 2, 2016 acquisition of PEG Bandwidth, LLC, was calculated using the net share settlement method, whereby the redemption value of the instrument is assumed to be settled in cash and only the conversion premium, if any, is assumed to be settled in shares. The Series A Shares provided Uniti the option to settle the instrument in cash or

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shares. During the second quarter of 2019, the Company received notice from the holder of the Series A Shares of its election to convert all its shares, and the Company made an election to issue shares upon conversion. [See Note 17](#page37). As a result, the earnings-per-share impact of the Series A Shares for three and six months ended June 30, 2019, is calculated by using the “if-converted” method.

The dilutive effect of the Exchangeable Notes (see Note 11) is calculated by using the “if-converted” method. This assumes an add-back of interest, net of income taxes, to net income attributable to shareholders as if the securities were converted at the beginning of the reporting period (or at time of issuance, if later) and the resulting common shares included in number of weighted average shares. The dilutive effect of the Warrants (see Note 9) is calculated using the treasury-stock method. During the three and six months ended June 30, 2019, the Warrants were excluded from diluted shares outstanding because the exercise price exceeded the average market price of our common stock for the reporting period.

The July 3, 2017 merger agreement for our acquisition of Hunt provides for the issuance of additional common shares upon the achievement of certain defined revenue milestones. See Note 7. The earnings per share impact of the Hunt Contingent Consideration is calculated under the method described in ASC 260 for the treatment of contingently issuable shares in weighted-average shares outstanding. On January 4, 2019, we settled the Hunt Contingent Consideration in full satisfaction of the obligation through the issuance of 645,385 common shares having a fair value of $11.2 million.

The following sets forth the computation of basic and diluted earnings per share under the two-class method:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands, except per share data) | |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | | | |  |
|  | **2019** |  |  | **2018** |  |  | **2019** |  |  |  | **2018** |  |  |
| Basic earnings per share: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Numerator: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) attributable to shareholders | | $ | 38,717 |  | $ | (3,503) | | $ | 41,159 |  | $ | | (2,293) | |  |
| Less: Income allocated to participating securities | |  | (223) | |  | (400) | |  | (251) | |  |  | (869) | |  |
| Income allocated to participating securities on share | |  | - |  |  | (258) | |  | - |  |  |  | (468) | |  |
| settled contingent consideration arrangements | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Dividends declared on convertible preferred stock | |  | - |  |  | (656) | |  | (656) | |  |  | (1,312) | |  |
| Amortization of discount on convertible preferred stock | |  | (248) | |  | (745) | |  | (993) | |  |  | (1,490) | |  |
| Net income (loss) attributable to common shares | | $ | 38,246 |  | $ | (5,562) |  | $ | 39,259 |  |  | $ | (6,432) |  |  |
| Denominator: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic weighted-average common shares outstanding | |  | 182,971 |  |  | 175,011 |  |  | 182,597 |  |  |  | 174,951 |  |  |
| Basic earnings (loss) per common share | | $ | 0.21 |  | $ | (0.03) |  | $ | 0.22 |  |  | $ | (0.04) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | 32 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



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|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands, except per share data) |  | **Three Months Ended June 30,** | | | | **Six Months Ended June 30,** | | |  |
| **2019** |  | **2018** |  | **2019** |  | **2018** |  |



Diluted earnings per share:

Numerator:

Net income (loss) attributable to shareholders $

Less: Income allocated to participating securities

Income allocated to participating securities on share

settled contingent consideration arrangements Dividends declared on convertible preferred stock Amortization of discount on convertible preferred stock Impact on if-converted dilutive securities

Net income (loss) attributable to common shares $

Denominator:

Basic weighted-average common shares outstanding

Effect of dilutive non-participating securities

Impact on if-converted dilutive securities

Weighted-average shares for dilutive earnings per common share

Dilutive earnings (loss) per common share $

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38,717 | $ | (3,503) | | $ | 41,159 |  | $ | | (2,293) | |  |
| (223) |  | (400) | |  | (251) | |  |  | (869) | |  |
| - |  | (258) | |  | - |  |  |  | (468) | |  |
| - |  | (656) | |  | (656) | |  |  | (1,312) | |  |
| (248) |  | (745) | |  | (993) | |  |  | (1,490) | |  |
| 363 |  | - |  |  | 1,764 |  |  |  | - |  |  |
| 38,609 | $ | (5,562) |  | $ | 41,023 |  |  | $ | (6,432) |  |  |
| 182,971 |  | 175,011 |  |  | 182,597 |  |  |  | 174,951 |  |  |
| 8 |  | - |  |  | 8 |  |  |  | - |  |  |
| 10,126 |  | - |  |  | 9,671 |  |  |  | - |  |  |
| 193,105 |  | 175,011 |  |  | 192,276 |  |  |  | 174,951 |  |  |
| 0.20 |  |  | |  |  |  |  | |  | |  |
| $ | (0.03) |  | $ | 0.21 |  |  | $ | (0.04) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |



For the three and six months ended June 30, 2018, 563,492 non-participating securities and 619,581 potential common shares related to Hunt Contingent Consideration were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive.

**Note 13. Segment Information**

Our management, including our chief executive officer, who is our chief operating decision maker, manages our operations as four reportable segments in addition to our corporate operations, which include:

*Leasing*: Represents the results from our leasing business, Uniti Leasing, which is engaged in the acquisition of mission-critical communications assets andleasing them back to anchor customers on either an exclusive or shared-tenant basis.

*Fiber Infrastructure*: Represents the operations of our fiber business, Uniti Fiber, which is a leading provider of infrastructure solutions, including cell sitebackhaul and dark fiber, to the telecommunications industry.

*Towers*: Represents the operations of our towers business, Uniti Towers, through which we acquire and construct tower and tower-related real estate, whichwe then lease to our customers in the United States. On April 2, 2019, the Company completed the sale of LATAM and no longer has on-going operations in [Latin America. On May 23, 2019, the Company completed the sale of substantially all of its ground lease business located across the United States. See Note](#page21) [5*.*](#page21)

*Consumer CLEC*: Represents the operations of Talk America Services (“Talk America”) through which we operate the Consumer CLEC Business, whichprior to the Spin-Off was reported as an integrated operation within Windstream. Talk America provides local telephone, high-speed internet and long distance services to customers in the eastern and central United States.

*Corporate:* Represents our corporate and back office functions. Certain costs and expenses, primarily related to headcount, insurance, professional fees andsimilar charges, that are directly attributable to operations of our business segments are allocated to the respective segments.

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Management evaluates the performance of each segment using Adjusted EBITDA, which is a segment performance measure we define as net income determined in accordance with GAAP, before interest expense, provision for income taxes, depreciation and amortization, stock-based compensation expense, the impact, which may be recurring in nature, of transaction and integration related expenses, the write off of unamortized deferred financing costs, costs incurred as a result of the early repayment of debt, changes in the fair value of contingent consideration and financial instruments, and other similar items. The Company believes that net income, as defined by GAAP, is the most appropriate earnings metric; however, we believe that Adjusted EBITDA serves as a useful supplement to net income because it allows investors, analysts and management to evaluate the performance of our segments in a manner that is comparable period over period. Adjusted EBITDA should not be considered as an alternative to net income as determined in accordance with GAAP.

Selected financial data related to our segments is presented below for the three and six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2019** | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** | |  |  |
|  |  |  |  |  |  | **Leasing** | | |  |  |  |  | **Fiber Infrastructure** | |  |  |  | **Towers** | | |  |  | **Consumer CLEC** | | |  |  |  | **Corporate** | | |  |  |  | **Reportable** | | |  |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Segments** | | |  |
|  | Revenues |  |  | $ | | 177,042 | |  |  |  |  | $ | 81,327 | |  |  | $ | 3,146 | |  |  |  | $ | 2,899 | |  |  | $ | - | |  |  |  | $ | 264,414 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | $ | | | | 175,881 | |  |  |  | $ | | 37,036 | | $ | | | (42) | | | $ | | | 565 | | $ | | | (6,576) | | | $ | | | 206,864 |  |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 97,729 | |  |  |
|  | Depreciation and |  |  |  |  | 72,275 | |  |  |  |  |  | 28,494 | |  |  |  | 1,412 | |  |  |  |  | 346 | |  |  |  | 51 | |  |  |  |  | 102,578 |  |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (22,275) | | |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 7,035 |  |  |  |
|  | Gain on sale of real estate |  |  |  |  | (4,960) | | |  |  |  |  | - | |  |  |  | (23,830) | | |  |  |  | - | |  |  |  | - | |  |  |  |  | (28,790) | | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,197 |  |  |  |
|  | Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 7,843 |  |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 39,547 | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2018** | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  | |  |
|  |  |  |  |  |  | **Leasing** | | |  |  | **Fiber Infrastructure** | | | |  |  |  | **Towers** | | |  | **Consumer CLEC** | | | |  |  |  | **Corporate** | | |  |  |  | **Reportable** | | |  |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Segments** | | |  |
|  | Revenues |  |  | | $ | 173,885 |  |  |  | $ |  |  | 67,389 |  |  | $ |  | 2,472 |  |  |  | 3,583 | | |  |  | $ | | - |  |  |  | $ | | 247,329 |  |  |  |
|  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | |  |  | |  |  |  |  |
| Adjusted EBITDA | $ | | | | 173,356 |  |  | $ | |  |  | 29,405 |  | $ | |  | (1,167) | |  | $ | |  | 928 |  | $ | | | (5,511) | | | $ | | | 197,011 |  |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 79,385 |  |  |  |
|  | Depreciation and |  |  |  |  | 86,454 |  |  |  |  |  |  | 26,244 |  |  |  |  | 1,575 |  |  |  |  |  | 499 |  |  |  |  | 70 |  |  |  |  |  | 114,842 |  |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,349 |  |  |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,789 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1,885 |  |  |  |
|  | Income tax benefit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (2,646) | | |  |
|  | Net loss |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | | (3,593) |  | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 34 | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2019** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** | |  |  |
|  |  |  |  |  |  | **Leasing** | | |  |  |  |  | **Fiber Infrastructure** | |  |  |  | **Towers** | | |  |  | **Consumer CLEC** | | |  |  |  | **Corporate** | | |  |  |  | **Reportable** | | |  |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Segments** | | |  |
|  | Revenues |  |  | $ | | 353,125 | |  |  |  |  | $ | 158,160 | |  |  | $ | 8,226 | |  |  |  | $ | 5,934 | |  |  | $ | - | |  |  |  | $ | 525,445 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | $ | | | | 350,632 | |  |  |  | $ | | 67,036 | |  |  | $ | 283 | |  | $ | | | 1,211 | | $ | | | (12,023) | | | $ | | | 407,139 |  |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 182,187 |  |  |  |
|  | Depreciation and |  |  |  |  | 146,028 | |  |  |  |  |  | 56,752 | |  |  |  | 2,827 | |  |  |  |  | 692 | |  |  |  | 106 | |  |  |  |  | 206,405 |  |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (25,388) | | |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 13,704 | |  |  |
|  | Gain on sale of real estate |  |  |  |  | (4,960) | | |  |  |  |  | - | |  |  |  | (23,830) | | |  |  |  | - | |  |  |  | - | |  |  |  |  | (28,790) | | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5,085 |  |  |  |
|  | Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 11,897 |  |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 42,039 | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2018** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  | |  |
|  |  |  |  |  |  | **Leasing** | | |  |  | **Fiber Infrastructure** | | | |  |  |  | **Towers** | | |  | **Consumer CLEC** | | | |  |  |  | **Corporate** | | |  |  |  | **Reportable** | | |  |
| (Thousands) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Segments** | | |  |
|  | Revenues |  |  | | $ | 346,659 |  |  |  | $ |  |  | 134,356 |  |  | $ |  | 5,842 |  |  |  |  |  | 7,387 |  |  | $ | | - |  |  |  | $ | | 494,244 |  |  |  |
|  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | |  |  | |  |  |  |  |
| Adjusted EBITDA | $ | | | | 345,725 |  |  | $ | |  |  | 58,600 |  | $ | |  | (1,630) | |  | $ | |  | 1,841 |  | $ | | | (10,824) | | | $ | | | 393,712 |  |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 156,992 |  |  |  |
|  | Depreciation and |  |  |  |  | 173,198 |  |  |  |  |  |  | 52,149 |  |  |  |  | 3,052 |  |  |  |  |  | 997 |  |  |  |  | 167 |  |  |  |  |  | 229,563 |  |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (536) | | |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 9,702 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 4,095 |  |  |  |
|  | Income tax benefit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (3,742) | | |  |
|  | Net loss |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | | (2,362) |  | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 14. Commitments and Contingencies**

In the ordinary course of our business, we are subject to claims and administrative proceedings, none of which we believe are material or would be expected to have, individually or in the aggregate, a material adverse effect on our business, financial condition, cash flows or results of operations.

Pursuant to the Separation and Distribution Agreement entered into with Windstream in connection with the Spin-Off, Windstream has agreed to indemnify us (including our subsidiaries, directors, officers, employees and agents and certain other related parties) for any liability arising from or relating to legal proceedings involving Windstream's telecommunications business prior to the Spin-Off, and, pursuant to the Master Lease, Windstream has agreed to indemnify us for, among other things, any use, misuse, maintenance or

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

repair by Windstream with respect to the Distribution Systems. Windstream is currently a party to various legal actions and administrative proceedings, including various claims arising in the ordinary course of its telecommunications business, which are subject to the indemnities provided to us by Windstream. If Windstream assumes the Separation and Distribution Agreement and/or the Master Lease in bankruptcy, it would be obligated to honor all indemnification claims arising under such agreement. If the Separation and Distribution Agreement and or the Master Lease are rejected in Windstream’s bankruptcy, any claims on the applicable indemnity would be treated as unsecured claims, and, if that were to occur, there can be no assurance we would receive any related indemnification payments from Windstream in connection with the applicable indemnity claims.

On July 25, 2019, in connection with Windstream’s bankruptcy, Windstream Holdings and Windstream Services, LLC filed a complaint with the U.S. Bankruptcy Court for the Southern District of New York alleging¸ among other things, that the Master Lease should be recharacterized as a financing arrangement, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. If the Master Lease is recharacterized as a financing arrangement, Windstream would be deemed the true owner of the property subject to the Master Lease, and Uniti would be treated as a creditor of Windstream rather than as a landlord, which could significantly affect current payments to us under the Master Lease, the ultimate treatment of our claims (including potentially through changing our status to that of a creditor that would share in creditor recoveries from the estate rather than receive rent payments) and our status as a REIT. If the Master Lease is determined to be a lease of personal property, the deadline for Windstream Holdings to assume or reject the Master Lease would be the confirmation of its plan by the bankruptcy court, and Windstream may seek from the bankruptcy court relief from its current performance obligations during the bankruptcy case. If the constructive fraudulent transfer claim is successful, Uniti may be required to repay Windstream the amount of rent payments and tenant capital improvements since at least the third quarter of 2017. In parallel with this filing, Windstream Holdings also filed a motion to stay the deadline under which Windstream must assume or reject the Master Lease pending the resolution of issues raised in the complaint. A mediation of these claims is ongoing in Windstream’s bankruptcy. In connection with the mediation, Uniti has agreed to an extension of the assumption deadline for the Master Lease to December 7, 2019. In exchange, Windstream has provided certain assurances regarding the continued payment of rent pursuant to the Master Lease during the extension period and following the expiration of the extension period, Windstream will continue to make payments under the Master Lease as they come due, unless and until Windstream obtains an order from the bankruptcy court permitting cessation of such payments.

We believe that it is unlikely that a court will determine to recharacterize the Master Lease as a financing transaction, that the Master Lease is a lease of personal property, or that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. We intend to defend this matter vigorously, and, because it is still in its preliminary stages, have not yet determined what effect these claims will have, if any, on our financial position or results of operations. As of the date of this Quarterly Report on Form 10-Q, we are unable to estimate a reasonably possible range of loss and therefore have not recorded any liabilities associated with these claims in our Condensed Consolidated Balance Sheet. However, it is difficult to predict what could occur in Windstream’s bankruptcy restructuring, including any judicial decisions in respect of claims against us by Windstream or its creditors. Any adverse determination or judicial decision could have a material adverse effect on our business, financial position or results of operations.

On July 3, 2019, SLF Holdings, LLC (“SLF”) filed a complaint against the Company, Uniti Fiber, and certain current and former officers of the Company (collectively, the “Defendants”) in the United States District Court for the Southern District of Alabama, in connection with Uniti Fiber’s purchase of Southern Light, LLC from SLF in July 2017. The complaint asserts claims for fraud and conspiracy, as well as claims under federal and Alabama securities laws, alleging that Defendants improperly failed to disclose to SLF the risk that the 2015 spin-off of Uniti from Windstream Holdings violated certain debt covenants of Windstream Holdings’ subsidiary, Windstream Services, LLC. SLF seeks compensatory and punitive damages, as well as reformation of the purchase agreement for the sale. We intend to defend this matter vigorously, and, because it is still in its preliminary stages, have not yet determined what effect this lawsuit will have, if any, on our financial position or results of operations. As of the date of this Quarterly Report on Form 10-Q, we are unable to estimate a reasonably possible range of loss and therefore have not recorded any liabilities associated with these claims in our Condensed Consolidated Balance Sheet.

Under the terms of the tax matters agreement entered into on April 24, 2015 by the Company, Windstream Services, LLC and Windstream (the “Tax Matters Agreement”), in connection with the Spin-Off, we are generally responsible for any taxes imposed on Windstream that arise from the failure of the Spin-Off and the debt exchanges to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Section 355 and Section 368(a)(1)(D) of the Code, as applicable, to the extent such failure to qualify is attributable to certain actions, events or transactions relating to our stock, indebtedness, assets or business, or a breach of the

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

relevant representations or any covenants made by us in the Tax Matters Agreement, the materials submitted to the IRS in connection with the request for the private letter ruling or the representations provided in connection with the tax opinion. We believe that the probability of us incurring obligations under the Tax Matters Agreement are remote; and therefore, we have recorded no such liabilities in our Condensed Consolidated Balance Sheet as of June 30, 2019.

**Note 15. Accumulated Other Comprehensive (Loss) Income**

Changes in accumulated other comprehensive (loss) income by component is as follows for the three and six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June 30,** | | | | | |  |  | **Six Months Ended June 30,** | | | | | |
| (Thousands) |  |  | **2019** |  |  |  | **2018** |  |  |  | **2019** |  |  |  | **2018** |  |
| Cash flow hedge changes in fair value gain (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at beginning of period attributable to common shareholders | $ | | 8,835 |  | $ | | 40,728 |  | $ | | 30,042 |  | $ | | 6,351 |  |
| Other comprehensive (loss) income before reclassifications |  |  | (26,457) | |  |  | 13,282 |  |  |  | (46,083) | |  |  | 46,317 |  |
| Amounts reclassified from accumulated other comprehensive income |  |  | (1,906) | |  |  | 958 |  |  |  | (3,966) | |  |  | 3,556 |  |
| Balance at end of period |  |  | (19,528) |  |  |  | 54,968 |  |  |  | (20,007) |  |  |  | 56,224 |  |
| Less: Other comprehensive (loss) income attributable to |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| noncontrolling interest |  |  | (568) | |  |  | (106) | |  |  | (1,047) | |  |  | 1,150 |  |
| Balance at end of period attributable to common shareholders |  |  | (18,960) |  |  |  | 55,074 |  |  |  | (18,960) |  |  |  | 55,074 |  |
| Foreign currency translation gain (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at beginning of period attributable to common shareholders |  |  | 826 |  |  |  | 6,007 |  |  |  | 63 |  |  |  | 1,470 |  |
| Translation adjustments |  |  | (780) | |  |  | (4,879) | |  |  | - |  |  |  | (314) | |
| Amounts reclassified from accumulated other comprehensive income |  |  | (63) | |  |  | - |  |  |  | (63) | |  |  | - |  |
| Balance at end of period |  |  | (17) |  |  |  | 1,128 |  |  |  | - |  |  |  | 1,156 |  |
| Less: Other comprehensive income attributable to noncontrolling |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interest |  |  | (17) | |  |  | (35) | |  |  | - |  |  |  | (7) | |
| Balance at end of period attributable to common shareholders |  |  | - |  |  |  | 1,163 |  |  |  | - |  |  |  | 1,163 |  |
| Accumulated other comprehensive income at end of period |  | $ | (18,960) |  |  | $ | 56,237 |  |  | $ | (18,960) |  |  | $ | 56,237 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 16. Capital Stock**

Until June 15, 2019, we had an effective shelf registration statement on file with the SEC (the “Registration Statement”) to offer and sell various securities from time to time. Under the Registration Statement, we established an at-the-market common stock offering program (the “ATM Program”) to sell shares of common stock having an aggregate offering price of up to $250.0 million. As of June 30, 2019, the Company has issued and sold an aggregate of 6.7 million shares of common stock at a weighted average price of $19.92 per share under the ATM Program, receiving net proceeds of $131.2 million, after commissions of $1.7 million and other offering costs. The ATM Program is currently suspended following the June 15, 2019 expiration of the Registration Statement.

**Note 17. Subsequent Events**

On July 2, 2019, the Company issued 8,677,163 shares of its common stock in connection with the conversion by PEG Bandwidth Holdings, LLC of 87,500 shares of the Series A Shares. The Company issued common stock with a total value of $87,500,000, with

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**Uniti Group Inc.**

**Notes to the Condensed Consolidated Financial Statements – Continued**

**(unaudited)**

the total number of shares calculated based on the five-day volume weighted average price of its common stock ending on June 27, 2019. Upon conversion, all outstanding Series A Shares were cancelled and no longer remain outstanding.

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**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following management’s discussion and analysis of financial condition and results of operations describes the principal factors affecting the results of our operations, financial condition, and changes in financial condition for the three and six months ended June 30, 2019. This discussion should be read in conjunction with the accompanying Condensed Consolidated Financial Statements, and the notes thereto set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the “SEC”) on March 18, 2019.

**Overview**

***Company Description***

Uniti Group Inc. (the “Company”, “Uniti”, “we”, “us” or “our”) is an independent, internally managed real estate investment trust (“REIT”) engaged in the acquisition and construction of mission critical infrastructure in the communications industry. We are principally focused on acquiring and constructing fiber optic broadband networks, wireless communications towers, copper and coaxial broadband networks and data centers.

On April 24, 2015, we were separated and spun-off (the “Spin-Off”) from Windstream Holdings, Inc. (“Windstream Holdings” and together with its subsidiaries, “Windstream”) pursuant to which Windstream contributed certain telecommunications network assets, including fiber and copper networks and other real estate (the “Distribution Systems”) and a small consumer competitive local exchange carrier (“CLEC”) business (the “Consumer CLEC Business”) to Uniti and Uniti issued common stock and indebtedness and paid cash obtained from borrowings under Uniti’s senior credit facilities to Windstream. In connection with the Spin-Off, we entered into a long-term exclusive triple-net lease (the “Master Lease”) with Windstream, pursuant to which a substantial portion of our real property is leased to Windstream and from which a substantial portion of our leasing revenues are currently derived.

Uniti operates as a REIT for U.S. federal income tax purposes. As a REIT, the Company is generally not subject to U.S. federal income taxes on income generated by its REIT operations, which includes income derived from the Master Lease. We have elected to treat the subsidiaries through which we operate our fiber business, Uniti Fiber, and Talk America Services, LLC, which operates the Consumer CLEC Business (“Talk America”), as taxable REIT subsidiaries (“TRSs”). TRSs enable us to engage in activities that result in income that does not constitute qualifying income for a REIT. Our TRSs are subject to U.S. federal, state and local corporate income taxes.

The Company operates through a customary up-REIT structure, pursuant to which we hold substantially all of our assets through a partnership, Uniti Group LP, a Delaware limited partnership (the “Operating Partnership”), that we control as general partner. This structure is intended to facilitate future acquisition opportunities by providing the Company with the ability to use common units of the Operating Partnership as a tax-efficient acquisition currency. As of June 30, 2019, we are the sole general partner of the Operating Partnership and own approximately 98.0% of the partnership interests in the Operating Partnership.

We expect to grow and diversify our portfolio and tenant base by pursuing a range of transaction structures with communication service providers, including,

1. sale leaseback transactions, whereby we acquire existing infrastructure assets from third parties, including communication service providers, and lease them back on a long-term triple-net basis; (ii) whole company acquisitions, which may include the use of one or more TRSs that are permitted under the tax laws to acquire and operate non-REIT businesses and assets subject to certain limitations; (iii) capital investment financing, whereby we offer communication service providers a cost efficient method of raising funds for discrete capital investments to upgrade or expand their network; and (iv) mergers and acquisitions financing, whereby we facilitate mergers and acquisition transactions as a capital partner, including through operating company/property company (“OpCo-PropCo”) structures.

We manage our operations as four reportable business segments in addition to our corporate operations:

*Leasing Segment*: Represents our REIT operations and includes the results from our leasing business, Uniti Leasing, which is engaged in the acquisition ofmission-critical communications assets and leasing them to anchor customers on either an exclusive or shared-tenant basis.

*Fiber Infrastructure Segment*: Represents the operations of our fiber business, Uniti Fiber, which is a leading provider of infrastructure solutions, includingcell site backhaul and dark fiber, to the telecommunications industry.

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*Towers Segment*: Represents the operations of our towers business, Uniti Towers, through which we acquire and construct tower and tower-related real estateand lease space on communications towers to wireless service providers and other tenants. Uniti Towers is a component of our REIT operations.

*Consumer CLEC Segment*: Represents the operations of Talk America through which we operate the Consumer CLEC Business that prior to the Spin-Off wasreported as an integrated operation within Windstream. Talk America provides local telephone, high-speed internet and long-distance services to customers in the eastern and central United States.

*Corporate Operations*: Represents our corporate office and shared service functions. Certain costs and expenses, primarily related to headcount, informationtechnology systems, insurance, professional fees and similar charges, that are directly attributable to operations of our business segments are allocated to the respective segments.

We evaluate the performance of each segment based on Adjusted EBITDA, which is a segment performance measure we define as net income determined in accordance with GAAP, before interest expense, provision for income taxes, depreciation and amortization, stock-based compensation expense, the impact, which may be recurring in nature, of transaction and integration related expenses, the write off of unamortized deferred financing costs, costs incurred as a result of the early repayment of debt, changes in the fair value of contingent consideration and financial instruments, and other similar items. For more information on Adjusted EBITDA, see “Non-GAAP Financial Measures.” Detailed information about our segments can be found in Note 13 to our accompanying Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

***Significant Business Developments***

*Windstream Bankruptcy Filing.* Windstream was involved in litigation with an entity who acquired certain Windstream debt securities and thereafter issued anotice of default as to such securities relating to the Spin-Off. Windstream challenged the matter in federal court and a trial was held in July 2018. On February 15, 2019, the federal court judge issued a ruling against Windstream, finding that Windstream’s attempts to waive such default were not valid; that an “event of default” occurred with respect to such debt securities; and that the holder’s acceleration of such debt in December 2017 was effective. Following the adverse outcome, on February 25, 2019, Windstream filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York.

In bankruptcy, Windstream has the option to assume or reject the Master Lease. Because the Master Lease is a single indivisible Master Lease with a single rent payment, it must be assumed or rejected in whole and cannot be sub-divided by facility or market. A significant amount of Windstream’s revenue is generated from the use of our network included in the Master Lease, and we believe that the Master Lease is essential to Windstream’s

operations. Furthermore, Windstream is designated as a “carrier of last resort” in certain markets where it utilizes the Master Lease to provide service to its customers, and Windstream would require approval from the Public Utility Commissions and the Federal Communications Commission to cease providing service in those markets. As a result, we believe the probability of Windstream rejecting the Master Lease in bankruptcy to be remote. Windstream has filed claims that allege, among other things, that the Master Lease should be recharacterized as a financing transaction, which would impact its treatment in Windstream’s bankruptcy (including potentially through changing our status to that of a creditor that would share in creditor recoveries from the estate rather than receive rent payments) and could affect our status as a REIT, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. A mediation of these claims is ongoing in Windstream’s bankruptcy. In connection with the mediation, Uniti has agreed to an extension of the assumption deadline for the master lease to December 7, 2019. In exchange, Windstream has provided certain assurances regarding the continued payment of rent pursuant to the Master Lease during the extension period and following the expiration of the extension period, Windstream will continue to make payments under the Master Lease as they come due, unless and until Windstream obtains an order from the bankruptcy court permitting cessation of such payments. A rejection by Windstream of the Master Lease, an adverse determination by a judge on Windstream’s claims, or Windstream’s inability or unwillingness to meet its rent and other obligations under the Master Lease could materially adversely affect our consolidated results of operations, liquidity, and financial condition, including our ability to service debt, comply with debt covenants and maintain our status as a REIT.

In addition, a rejection of the Master Lease by Windstream would result in an “event of default” under our Credit Agreement if we are unable to enter into a replacement lease that satisfies certain criteria set forth in the Credit Agreement within ninety (90) calendar days and we do not maintain pro forma compliance with a consolidated secured leverage ratio, as defined in the Credit Agreement, of 5.0 to 1.0. Our Credit Agreement prohibits the Company from amending the Master Lease in a manner that, among other provisions, pro forma for any such amendment, would result in our consolidated secured leverage ratio to exceed 5.0 to 1.0, and management has no intention to enter into a lease amendment that would violate our debt covenants.

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Although the Master Lease contains no provision that contemplates renegotiation of the lease and the bankruptcy court has no ability to unilaterally reset the rent or terms of the lease, it is difficult to predict what could occur in Windstream’s bankruptcy restructuring, including any judicial decisions in respect of claims against us by Windstream or its creditors. Any adverse determination or judicial decision could have a material adverse effect on our business, financial position or results of operations.

See in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information concerning the impact Windstream’s bankruptcy and related claims may have on our REIT status, operations and financial condition.

*Going Concern.* There are conditions and events which raise substantial doubt about our ability to continue as a going concern, and in its opinion on ourDecember 31, 2018 financial statements, PricewaterhouseCoopers LLP, our independent registered public accounting firm, expressed substantial doubt as to whether we could continue as a going concern during the one year period following the date those financial statements were issued as a result of Windstream’s bankruptcy petition and its potential uncertain effects on the Master Lease. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. We expect Windstream will continue to perform on the Master Lease and believe it is unlikely that Windstream will reject the Master Lease because the Master Lease is central to Windstream’s operations. We also believe that it is unlikely that a court will determine to recharacterize the Master Lease as a financing transaction, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. We have reduced our dividend and may reduce our capital expenditures, as well as seek external funding in order to sustain our operations. The failure to provide 2018 audited financial statements without a going concern opinion to the lenders under our Credit Agreement by March 31, 2019 would have constituted a breach of the covenants and an immediate event of default under our Credit Agreement, unless waived by our lenders. If an event of default were to have occurred under our Credit Agreement, the Credit Agreement’s administrative agent could have declared all outstanding loans immediately due and payable. Such an acceleration would have triggered cross-default provisions within the indentures governing our senior notes and thereby would have entitled the trustee and noteholders to accelerate the repayment of the senior notes.

On March 18, 2019, we received a limited waiver from our lenders under our Credit Agreement, waiving an event of default related solely to the receipt of a going concern opinion from our auditors for our 2018 audited financial statements. The limited waiver was issued in connection with the fourth amendment (the “Fourth Amendment”) to our Credit Agreement. During the pendency of Windstream’s bankruptcy, or at such earlier time when certain other conditions are specified, the Fourth Amendment generally limits our ability under the Credit Agreement to (i) prepay unsecured indebtedness and (ii) pay cash dividends in excess of 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. The Fourth Amendment also increased the interest rate on our Term Loan Facility, which now bears a rate of LIBOR, subject to a 1.0% floor, plus an applicable margin equal to 5.0%, a 200 basis point increase over our previous rate. This increase will remain in effect though the remaining term of the facility, which matures on October 24, 2022.

*Extension of Revolving Credit Facility Maturity Date.* On June 24, 2019, we entered into an amendment (the “Fifth Amendment”) to our Credit Agreement toextend the maturity date of $575.9 million of commitments under the Revolving Credit Facility to April 24, 2022, pay down approximately $101.6 million of outstanding revolving loans and terminate the related commitments. The maturity date of approximately $72.4 million of other commitments was not extended. On June 28, 2019, the Company repaid approximately $174.0 million in total borrowings, which consisted of the $101.6 million required repayment pursuant to the Fifth Amendment and $72.4 million of non-extended borrowings, thereby terminating the non-extended commitments. As a result, all remaining $575.9 million of commitments will terminate on April 24, 2022, at which time all outstanding borrowings must be repaid. The Company used a portion of the net proceeds from the offering of Exchangeable Notes described below to fund the repayments. The Fifth Amendment increased the applicable margin for base rate loans under the Revolving Credit Facility to a range of 2.75% to 3.25% and for Eurodollar rate loans under the Revolving Credit Facility to a range of 3.75% to 4.25%, calculated in a customary manner and determined based on our consolidated secured leverage ratio.

*Exchangeable Notes Offering.* On June 28, 2019, Uniti Fiber Holdings Inc. (“Uniti Fiber”), a subsidiary of the Company, issued $345 million aggregateprincipal amount of 4.00% Exchangeable Senior Notes due 2024 (the “Exchangeable Notes”). The Exchangeable Notes are guaranteed by the Company and each of the Company’s subsidiaries (other than Uniti Fiber) that is an issuer, obligor or guarantor under the Company’s Notes. The Exchangeable Notes bear interest at a fixed rate of 4.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2019. The Exchangeable Notes are exchangeable into cash, shares of the Company’s common stock, or a combination thereof, at Uniti Fiber’s election. The Exchangeable Notes will mature on June 15, 2024, unless earlier exchanged, redeemed or repurchased. The Exchangeable Notes were sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

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The net proceeds from the sale of the Exchangeable Notes were approximately $334.7 million, after deducting discounts and commissions to the Initial Purchasers. A portion of the net proceeds were used to repay outstanding borrowings under the Revolving Credit Facility, as described above, and to pay the cost of the exchangeable note hedge transactions, as described in Note 9 to our Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. The remaining net proceeds will be used for general corporate purposes, which may include funding acquisitions (including BlueBird (as defined below)) and the repayment of additional borrowings under the Revolving Credit Facility.

*Sale of Ground Lease Portfolio.* On May 23, 2019, the Company completed the sale of substantially all of its ground lease business located across the UnitedStates for cash consideration of approximately $31 million. For the three months ended June 30, 2019, we recorded a pre-tax gain of $5.0 million.

*Sale of Latin American Tower Portfolio.* On April 2, 2019, the Company completed the sale of the Uniti Towers’ Latin American business to an entitycontrolled by Phoenix Towers International (“PTI”). At closing, PTI acquired approximately 500 towers located across Mexico, Colombia and Nicaragua. Total consideration was approximately $100 million. For the three months ended June 30, 2019, we recorded a pre-tax gain of $23.8 million related to this sale. The sale of our Latin American tower portfolio and United States ground lease business recycles capital at an attractive return, as well as allows the Company to focus solely on its strategy of building towers in the United States for our wireless customers.

*Consumer CLEC Business.* On April 23, 2019, Windstream provided notice to Uniti of its termination of (i) the Wholesale Master Services Agreementbetween Windstream Communications, Inc. and Talk America Services, LLC (“Talk America”), (ii) the Master Services Agreement between Windstream Services, LLC and Talk America, and (iii) the Billing and Remittance Agreement between Windstream Services, LLC and CSL National, LP, each dated April 24, 2015 (collectively the “Agreements”). The termination of the Agreements is effective April 20, 2020. Under the Agreements, Windstream provides us transport, provisioning, repair and billing and collection services necessary to operate our Consumer CLEC Business. We currently do not have the infrastructure necessary to perform these services in the absence of the Agreements. We have evaluated the costs of building out the required infrastructure and have determined that incurring such costs would not be economically feasible. Furthermore, we have evaluated potential strategic alternatives with respect to the Consumer CLEC Business, including retaining other vendors to perform the services currently provided under the Agreements, and an outright sale of all or parts of the business, but have not identified viable alternatives. As a result, we have commenced a wind down of our Consumer CLEC Business, which includes customer notifications and terminations. We anticipate that the business will be completely wound down prior to the April 20, 2020 effective date of the termination of the Agreements.

*Bluebird Network, LLC Operating Company – Property Company Transaction.* On January 15, 2019, the Company entered into an OpCo-PropCo transactionwith Macquarie Infrastructure Partners (“MIP”) to acquire Bluebird Network, LLC (“Bluebird”). MIP operates within the Macquarie Infrastructure and Real Assets division of Macquarie Group. Bluebird’s network consists of approximately 178,000 fiber strand miles in the Midwest across Missouri, Kansas, Illinois and Oklahoma. In the transaction, Uniti has agreed to purchase the Bluebird fiber network and MIP has agreed to purchase the Bluebird operations. In addition, Uniti has agreed to sell Uniti Fiber’s Midwest operations to MIP, while Uniti will retain its existing Midwest fiber network. Uniti is acquiring the fiber network of Bluebird for $319 million, of which $175 million will be funded by Uniti in cash and $144 million from pre-paid rent to be received from MIP at closing. In connection with the sale of the Company’s Midwest operations, we will receive total upfront cash of approximately $37 million, including related pre-paid rent to be received from MIP at closing. These transactions are subject to regulatory and other closing conditions and are expected to close by the end of the third quarter of 2019. Concurrently with the closing of these transactions, Uniti will lease the Bluebird fiber network and its Midwest fiber network on a combined basis to MIP, under a long-term triple net lease, with initial annual cash rents of approximately $20.3 million. The lease will be reported within the results of our Leasing segment. The Midwest operations that will be sold to MIP are currently reported in our Fiber Infrastructure segment.

**Comparison of the three months ended June 30, 2019 and 2018**

The following table sets forth, for the periods indicated, our results of operations expressed as dollars and as a percentage of total revenues:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30,** | | | | |  |  |  |
|  |  |  | **2019** | |  |  |  | **2018** | |  |  |  |
|  |  |  | **Amount** | | **% of** |  |  | **Amount** | | **% of** |  |  |
| (Thousands) | |  | **Revenues** | |  | **Revenues** | |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing | | $ | 177,042 |  | 66.9% |  | $ | 173,885 |  | 70.4% |  |  |
| Fiber Infrastructure | |  | 81,327 |  | 30.8% |  |  | 67,389 |  | 27.2% |  |  |
| Tower | |  | 3,146 |  | 1.2% |  |  | 2,472 |  | 1.0% |  |  |
| Consumer CLEC | |  | 2,899 |  | 1.1% |  |  | 3,583 |  | 1.4% |  |  |
| Total revenues | |  | 264,414 |  | 100.0% |  |  | 247,329 |  | 100.0% |  |  |
| **Costs and Expenses:** | |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  | 97,729 |  | 37.0% |  |  | 79,385 |  | 32.1% |  |  |
| Depreciation and amortization | |  | 102,578 |  | 38.7% |  |  | 114,842 |  | 46.4% |  |  |
| General and administrative expense | |  | 26,428 |  | 10.0% |  |  | 20,681 |  | 8.4% |  |  |
| Operating expense | |  | 40,163 |  | 15.2% |  |  | 31,522 |  | 12.7% |  |  |
| Transaction related costs | |  | 7,035 |  | 2.7% |  |  | 3,789 |  | 1.5% |  |  |
| Gain on sale of real estate | |  | (28,790) | | (10.9%) |  |  | - |  | - |  |  |
| Other (income) expense | |  | (28,119) | | (10.6%) |  |  | 3,349 |  | 1.4% |  |  |
| Total costs and expenses | |  | 217,024 |  | 82.1% |  |  | 253,568 |  | 102.5% |  |  |
| **Income (loss) before income taxes** | |  | 47,390 |  | 17.9% |  |  | (6,239) |  | (2.5%) |  |  |
| Income tax expense (benefit) | |  | 7,843 |  | 3.0% |  |  | (2,646) | | (1.0%) |  |  |
| **Net income (loss)** | |  | 39,547 |  | 14.9% |  |  | (3,593) |  | (1.5%) |  |  |
| Net income (loss) attributable to noncontrolling interests | |  | 830 |  | 0.3% |  |  | (90) | | 0.1% |  |  |
| **Net income (loss) attributable to shareholders** | |  | 38,717 |  | 14.6% |  |  | (3,503) |  | (1.4%) |  |  |
| Participating securities' share in earnings | |  | (223) | | 0.0% |  |  | (658) | | (0.3%) |  |  |
| Dividends declared on convertible preferred stock | |  | - |  | 0.0% |  |  | (656) | | (0.2%) |  |  |
| Amortization of discount on convertible preferred stock | |  | (248) | | (0.1%) |  |  | (745) | | (0.3%) |  |  |
| **Net income (loss) attributable to common shareholders** | | $ | 38,246 |  | 14.5% |  | $ | (5,562) |  | (2.2%) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

The following tables set forth, for the three months ended June 30, 2019 and 2018, revenues, Adjusted EBITDA and net income of our reportable segments:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2019** | | | | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  |  |
|  |  |  |  | **Leasing** | |  | **Fiber Infrastructure** |  |  | **Towers** | | **Consumer CLEC** | |  |  | **Corporate** | |  | **Reportable** | |  |
| (Thousands) | |  |  |  |  |  |  |  |  | **Segments** | |  |
|  | Revenues |  | $ | 177,042 |  | $ | 81,327 |  | $ | 3,146 |  | $ | 2,899 |  | $ | - |  | $ | 264,414 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | $ | | 175,881 |  | $ | 37,036 | $ | | (42) | | $ | 565 | $ | | (6,576) | | $ | 206,864 |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 97,729 |  |  |
|  | Depreciation and |  |  | 72,275 |  |  | 28,494 |  |  | 1,412 |  |  | 346 |  |  | 51 |  |  | 102,578 |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (22,275) | |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 7,035 |  |  |
|  | Gain on sale of real estate |  |  | (4,960) | |  | - |  |  | (23,830) | |  | - |  |  | - |  |  | (28,790) | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,197 |  |  |
|  | Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 7,843 |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 39,547 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **Three Months Ended June 30, 2018** | | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  |  |
|  |  |  |  | **Leasing** |  |  | **Fiber Infrastructure** |  |  | **Towers** | |  | **Consumer CLEC** | | |  | **Corporate** | |  |  | **Reportable** | |  |
| (Thousands) | | |  |  |  |  |  |  |  |  |  | **Segments** | |  |
|  | Revenues |  | $ | 173,885 |  | $ | 67,389 |  | $ | 2,472 |  |  |  | 3,583 |  | $ | - |  |  | $ | 247,329 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | | $ | 173,356 | $ | | 29,405 | $ | | (1,167) | | $ | | 928 |  | $ | (5,511) | | $ | | 197,011 |  |  |
|  | Less: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 79,385 |  |  |
|  | Depreciation and | |  | 86,454 |  |  | 26,244 |  |  | 1,575 |  |  |  | 499 |  |  | 70 |  |  |  | 114,842 |  |  |
|  | amortization | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,349 |  |  |
|  | Transaction related costs | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,789 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1,885 |  |  |
|  | Income tax benefit | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (2,646) | |  |
|  | Net loss | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (3,593) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

***Revenues***

*Leasing* - Leasing revenues are primarily attributable to rental revenue from leasing our Distribution Systems to Windstream Holdings pursuant to the MasterLease. Under the Master Lease, Windstream Holdings is responsible for the costs related to operating the Distribution Systems, including property taxes, insurance, and maintenance and repair costs. As a result, we do not record an obligation related to the payment of property taxes, as Windstream makes direct payments to the taxing authorities. The Master Lease has an initial term of 15 years with four 5-year renewal options and encompasses properties located in 29 states. Annual cash rent under the Master Lease is currently $657 million and is subject to an annual escalation of 0.5% each May through the initial term.

We adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (“ASC 842”) as of January 1, 2019. This standard supersedes prior guidance regarding the evaluation of collectability of lease receivables, including straight-line revenue receivables. We have evaluated the collectability of our straight-line revenue receivable associated with the Master Lease in accordance with ASC 842, and in light of Windstream’s pending bankruptcy, we concluded that the receivable should be written-off. As a result, effective January 1, 2019, the Master Lease will be accounted for on a cash basis in accordance with ASC 842, until a time at which there is more certainty regarding Windstream’s decision to assume or reject the Master Lease.

The Master Lease provides that tenant funded capital improvements (“TCIs”), defined as maintenance, repair, overbuild, upgrade or replacement to the Distribution Systems, including without limitation, the replacement of copper distribution systems with fiber distribution systems, automatically become property of Uniti upon their construction by Windstream. We receive non-monetary consideration related to TCIs as they automatically become our property, and we recognize the cost basis of TCIs that are capital in nature as real estate investments and deferred revenue. We depreciate the real estate investments over their estimated useful lives and amortize the deferred revenue as additional leasing revenues over the same depreciable life of the TCI assets.

For the three months ended June 30, 2019, we recognized $171.7 million of revenue from rents under the Master Lease, which included $7.0 million of TCI revenue. For the three months ended June 30, 2018, we recognized $173.3 million of revenue from rents under the Master Lease, which included $3.8 million of straight-line revenues and $5.6 million of TCI revenue. The increase in TCI revenue is attributable to continued investment by Windstream in TCIs. Windstream invested $51.5 million in TCIs during the three months ended June 30, 2019, an increase from $44.8 million it invested in TCIs during the three months ended June 30, 2018. Since the inception of the Master Lease, Windstream has invested a total of $688.3 million in such improvements.

Because a substantial portion of our revenue and cash flows are derived from lease payments by Windstream pursuant to the Master Lease, there could be a material adverse impact on our consolidated results of operations, liquidity, financial condition and/or ability to maintain our status as a REIT and service debt if Windstream were to reject the Master Lease in bankruptcy, default under the Master Lease, succeed in its claims against us or otherwise experiences operating or liquidity difficulties and becomes unable to generate sufficient cash to make payments to us. In recent years, Windstream has experienced annual declines in its total revenue, sales and cash flow, has had its credit ratings downgraded by nationally recognized credit rating agencies multiple times over the past 12 months and, on February 25, 2019, filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for

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the year ended December 31, 2018 for additional information concerning the impact Windstream’s bankruptcy and related claims may have on our REIT status, operations and financial condition.

Windstream is a publicly traded company and is subject to the periodic filing requirements of the Securities Exchange Act of 1934, as amended. Windstream filings can be found at www.sec.gov. Windstream filings are not incorporated by reference in this Quarterly Report on Form 10-Q.

For the three months ended June 30, 2019, we recognized $5.3 million of leasing revenues from non-Windstream triple-net leasing and dark fiber indefeasible rights of use (“IRU”) arrangements. For the three months ended June 30, 2018, we recognized $0.6 million from non-Windstream triple-net leasing and dark fiber IRU arrangements.

*Fiber Infrastructure* – For the three months ended June 30, 2019 and 2018, we recognized $81.3 million and $67.4 million of revenue, respectively, in our

Fiber Infrastructure segment. Fiber Infrastructure revenues for the three months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30,** | | | |  |  |  |  |
|  |  |  |  | **2019** |  |  |  |  | **2018** |  |  |  |
|  |  |  | **Amount** |  | **% of Segment** |  |  | **Amount** |  | **% of Segment** |  |  |
| (Thousands) | |  |  | **Revenues** |  |  |  | **Revenues** | |  |
| **Fiber Infrastructure revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Lit backhaul services | | $ | 33,401 | 41.1% | | $ | | 33,474 | 49.7% | |  |  |
| Enterprise and wholesale | |  | 19,241 | 23.7% | |  |  | 15,562 | 23.1% | |  |  |
| E-Rate and government | |  | 22,533 | 27.7% | |  |  | 14,157 | 21.0% | |  |  |
| Dark fiber and small cells | |  | 5,478 | 6.7% | |  |  | 3,318 | 4.9% | |  |  |
| Other services | |  | 674 | 0.8% | |  |  | 878 | 1.3% | |  |  |
| Total Fiber Infrastructure revenues | | $ | 81,327 |  | 100.0% |  | $ | 67,389 |  | 100.0% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

At June 30, 2019, we had approximately 19,707 customer connections, up from 17,559 customer connections at June 30, 2018.

*Towers* – Towers revenues for the three months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30,** | | | | |  |  |
| (Thousands) |  |  | **2019** |  | **% of Total** | |  | **2018** |  | **% of Total** | |
| **Towers revenues:** |  |  |  |  |  |  |  |  |  |  |  |
| United States | $ | | 3,118 |  | 99.1% |  | $ | 186 |  | 7.5% |  |
| Latin America |  |  | 28 |  | 0.9% |  |  | 2,286 |  | 92.5% |  |
| Total |  | $ | 3,146 |  | 100.0% |  | $ | 2,472 |  | 100.0% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

The increase in revenue for the three months ended June 30, 2019, compared to the three months ended June 30, 2018, is primarily driven by our development activities in the U.S., and the inclusion of a non-recurring charge of $1.1 million related to the accounting of straight line rents in our U.S. operations during the three months ended June 30, 2018. For three months ended June 30, 2019, we completed the construction of 69 towers in the U.S. At June 30, 2019, the Uniti Towers’ domestic portfolio consisted of 573 wireless communications towers located in 30 states across the eastern and central regions in the United States, an increase from 305 wireless communications towers at June 30, 2018. The decrease in revenues in Latin America compared to the three months ended June 30, 2018 is due to the April 2, 2019 sale of our Latin American tower portfolio.

*Consumer CLEC* – For the three months ended June 30, 2019, we recognized $2.9 million of revenue from the Consumer CLEC Business, compared to $3.6million for the three months ended June 30, 2018. The decrease is primarily attributable to a loss of customers during the period. We served 20,300 customers as of June 30, 2019, a 19.1% decrease from 25,100 customers served at June 30, 2018. The decrease in customers is due to the effects of competition and customer attrition.

***Interest Expense***

Interest expense for the three months ended June 30, 2019 totaled $97.7 million, which includes non-cash interest expense of $10.8 million resulting from the amortization of our debt discounts and debt issuance costs, partially offset by $1.2 million of capitalized

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interest. Interest expense for the three months ended June 30, 2018, totaled $79.4 million, which includes non-cash interest expense of $6.1 million resulting from the amortization of our debt discounts and debt issuance costs.

The increase is primarily related to an increase of interest expense incurred on the Revolving Credit Facility of $3.6 million due to increased borrowings and higher LIBOR rates compared to the prior year. The increase is also attributed to an increase of interest expense of $10.3 million on the Term Loan Facility and an increase in non-cash interest expense from the amortization of our debt discounts and debt issuance costs of $4.7 million, both as a result from the Fourth Amendment. The Fourth Amendment increased the rate of term loans by 200 basis points effective March 18, 2019.

***Depreciation and Amortization Expense***

We incur depreciation and amortization expense related to our property, plant and equipment, corporate assets and intangible assets. Charges for depreciation and amortization for the three months ended June 30, 2019 totaled $102.6 million, which included property, plant and equipment depreciation of $96.5 million and intangible asset amortization of $6.1 million. Charges for depreciation and amortization for the three months ended June 30, 2018 totaled $114.8 million, which included property, plant and equipment depreciation of $108.6 million and intangible asset amortization of $6.2 million.

***General and Administrative Expense***

General and administrative expenses include compensation costs, including stock-based compensation awards, professional and legal services, corporate office costs and other costs associated with administrative activities. For the three months ended June 30, 2019, general and administrative costs totaled $26.4 million (10.0% of revenue), which includes $3.2 million of stock-based compensation and $1.3 million of general and administrative costs attributable to the timing of the Information Transport Solutions, Inc. (“ITS”) acquisition that occurred on October 19, 2018. For the three months ended June 30, 2018, general and administrative costs totaled $20.7 million (8.4% of revenue), which includes $1.9 million of stock-based compensation expense.

***Operating Expense***

Operating expense for the three months ended June 30, 2019, totaled $40.2 million (15.2% of revenue) compared to $31.6 million (12.7% of revenue) for the three months ended June 30, 2018, which was attributable to the increase in Fiber Infrastructure operating expenses. Operating expense for our reportable segments for the three months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended June 30,** | | | |  |  |  |  |
|  |  |  |  | **2019** |  |  |  |  | **2018** | |  |  |
|  |  |  |  |  | **% of** |  |  |  |  | **% of Consolidated** | |  |
|  |  |  | **Amount** |  | **Consolidated** |  |  | **Amount** |  |  |
| (Thousands) |  |  |  | **Revenues** |  |  |  | **Revenues** | |  |
| **Operating expenses by segment:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiber Infrastructure | $ | | 35,518 | 13.4% | | $ | | 26,534 | 10.6% | |  |  |
| Towers |  |  | 1,887 | 0.7% | |  |  | 2,167 | 0.9% | |  |  |
| CLEC |  |  | 2,334 | 0.9% | |  |  | 2,655 | 1.1% | |  |  |
| Leasing |  |  | 424 | 0.2% | |  |  | 166 | 0.1% | |  |  |
| Total operating expenses |  | $ | 40,163 |  | 15.2% |  | $ | 31,522 |  | 12.7% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

*Fiber Infrastructure* – For the three months ended June 30, 2019, Fiber Infrastructure operating expenses totaled $35.5 million as compared to $26.5 millionfor the three months ended June 30, 2018. Operating expense consists of network related costs, such as dark fiber and tower rents, and lit service and maintenance expense. In addition, costs associated with our construction activities are presented within operating expenses. The increase in operating expenses is primarily attributable to the timing of the ITS acquisition that occurred on October 19, 2018, which incurred operating expenses of $7.1 million for the three months ended June 30, 2019.

*Towers* – Our Towers segment operating expense primarily consists of ground rent, some or all of which may be passed to our tenants, as well as regulatoryfees and maintenance and repairs. For the three months ended June 30, 2019, Towers operating expense included $0.9 million of ground rent expense, compared to $1.2 million for the three months ended June 30, 2018. The change is attributable to the April 2, 2019 sale of the Latin American tower business, which incurred operating expenses of $0.9 million for the three months

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ended June 30, 2018, partially offset by a $0.6 million increase in operating expenses attributable to the increase in completed towers at June 30, 2019 from June 30, 2018, driven by our development activity in the United States.

*Consumer CLEC* – Expense associated with the Consumer CLEC Business is primarily attributable to the Wholesale Agreement and the Master ServicesAgreement entered into between us and Windstream in connection with the Spin-Off, and includes costs arising under the interconnection agreements with other telecommunication carriers. Expense associated with the Wholesale Agreement and Master Services Agreement for the three months ended June 30, 2019 totaled $1.6 million and $0.2 million, respectively, and expense associated with the Wholesale Agreement and Master Services Agreement for the three months ended June 30, 2018 totaled $2.0 million and $0.2 million, respectively.

***Gain on Sale of Real Estate***

For the three months ended June 30, 2019, we recognized in other income realized pre-tax gains of $23.8 million and $5.0 million related to the April 2, 2019 sale of the Uniti Towers’ Latin American business and the May 23, 2019 sale of the U.S. ground lease business, respectively.

***Other Income***

We recognized in other income a $22.3 million unrealized gain for mark-to-market adjustments on our contingent consideration arrangements for the three months ended June 30, 2019, compared to a $3.4 million unrealized loss for mark-to-market adjustments on our contingent consideration arrangements for the three months ended June 30, 2018. The fair value of the contingent consideration arrangement in connection with the August 31, 2016 acquisition of Tower Cloud is determined using a discounted cash flow model and probability adjusted estimates of the future operational milestones.

***Income Tax Expense (Benefit)***

We recorded a $7.8 million income tax expense for the three months ended June 30, 2019. This is primarily driven by approximately $4.6 million of income tax expense related to capital gain from the sale of Uniti Towers’ Latin American business, $1.2 million of income tax expense resulting from the undistributed REIT taxable income and approximately $2.4 million income tax expense attributable to unrecognized tax benefit related to the sale of Uniti Towers’ Latin American business. Additionally, we recorded a $0.5 million income tax benefit related to our Fiber Infrastructure segment. We recorded a $2.6 million income tax benefit for the three months ended June 30, 2018, $1.3 million of which relates to the impact of the reduction in the corporate tax rate under the Tax Cuts and Jobs Act (the “Tax Bill”) on purchase price allocation adjustments recorded during the three months ended June 30, 2018 and the remainder of which is primarily driven by pre-tax loss in our Fiber Infrastructure segment.

**Comparison of the six months ended June 30, 2019 and 2018**

The following table sets forth, for the periods indicated, our results of operations expressed as dollars and as a percentage of total revenues:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30,** | | | | |  |  |  |
|  |  |  | **2019** | |  |  |  | **2018** | |  |  |  |
|  |  |  | **Amount** | | **% of** |  |  | **Amount** | | **% of Revenues** | |  |
| (Thousands) | |  | **Revenues** | |  |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing | | $ | 353,125 |  | 67.2% |  | $ | 346,659 |  | 70.1% |  |  |
| Fiber Infrastructure | |  | 158,160 |  | 30.1% |  |  | 134,356 |  | 27.2% |  |  |
| Tower | |  | 8,226 |  | 1.6% |  |  | 5,842 |  | 1.2% |  |  |
| Consumer CLEC | |  | 5,934 |  | 1.1% |  |  | 7,387 |  | 1.5% |  |  |
| Total revenues | |  | 525,445 |  | 100.0% |  |  | 494,244 |  | 100.0% |  |  |
| **Costs and Expenses:** | |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  | 182,187 |  | 34.7% |  |  | 156,992 |  | 31.8% |  |  |
| Depreciation and amortization | |  | 206,405 |  | 39.2% |  |  | 229,563 |  | 46.4% |  |  |
| General and administrative expense | |  | 50,654 |  | 9.6% |  |  | 43,201 |  | 8.7% |  |  |
| Operating expense | |  | 78,581 |  | 15.0% |  |  | 61,426 |  | 12.4% |  |  |
| Transaction related costs | |  | 13,704 |  | 2.6% |  |  | 9,702 |  | 2.0% |  |  |
| Gain on sale of real estate | |  | (28,790) | | (5.4%) |  |  | - |  | - |  |  |
| Other (income) expense | |  | (31,232) | | (5.9%) |  |  | (536) | | (0.1%) |  |  |
| Total costs and expenses | |  | 471,509 |  | 89.8% |  |  | 500,348 |  | 101.2% |  |  |
| **Income (loss) before income taxes** | |  | 53,936 |  | 10.2% |  |  | (6,104) |  | (1.2%) |  |  |
| Income tax expense (benefit) | |  | 11,897 |  | 2.2% |  |  | (3,742) | | (0.7%) |  |  |
| **Net income (loss)** | |  | 42,039 |  | 8.0% |  |  | (2,362) |  | (0.5%) |  |  |
| Net income (loss) attributable to noncontrolling interests | |  | 880 |  | 0.2% |  |  | (69) | | (0.0%) |  |  |
| **Net income (loss) attributable to shareholders** | |  | 41,159 |  | 7.8% |  |  | (2,293) |  | (0.5%) |  |  |
| Participating securities' share in earnings | |  | (251) | | (0.0%) |  |  | (1,337) | | (0.3%) |  |  |
| Dividends declared on convertible preferred stock | |  | (656) | | (0.1%) |  |  | (1,312) | | (0.2%) |  |  |
| Amortization of discount on convertible preferred stock | |  | (993) | | (0.2%) |  |  | (1,490) | | (0.3%) |  |  |
| **Net income (loss) attributable to common shareholders** | | $ | 39,259 |  | 7.5% |  | $ | (6,432) |  | (1.3%) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

The following tables set forth, for the six months ended June 30, 2019 and 2018, revenues, Adjusted EBITDA and net income of our reportable segments:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2019** | | | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  |  |
|  |  |  |  | **Leasing** | |  | **Fiber Infrastructure** | |  | **Towers** | | **Consumer CLEC** | |  |  | **Corporate** | |  | **Reportable** | |  |
| (Thousands) | |  |  |  |  |  |  |  | **Segments** | |  |
|  | Revenues |  | $ | 353,125 |  | $ | 158,160 |  | $ | 8,226 |  | $ | 5,934 |  | $ | - |  | $ | 525,445 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | $ | | 350,632 |  | $ | 67,036 |  | $ | 283 |  | $ | 1,211 | $ | | (12,023) | | $ | 407,139 |  |  |
|  | Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 182,187 |  |  |
|  | Depreciation and |  |  | 146,028 |  |  | 56,752 |  |  | 2,827 |  |  | 692 |  |  | 106 |  |  | 206,405 |  |  |
|  | amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (25,388) | |  |
|  | Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 13,704 |  |  |
|  | Gain on sale of real estate |  |  | (4,960) | |  | - |  |  | (23,830) | |  | - |  |  | - |  |  | (28,790) | |  |
|  | Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5,085 |  |  |
|  | Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 11,897 |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 42,039 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  | **Six Months Ended June 30, 2018** | | | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Subtotal of** |  |  |
|  |  |  |  | **Leasing** |  |  | **Fiber Infrastructure** |  |  | **Towers** | |  | **Consumer CLEC** | | |  | **Corporate** | |  |  | **Reportable** | |  |
| (Thousands) | | |  |  |  |  |  |  |  |  |  | **Segments** | |  |
|  | Revenues |  | $ | 346,659 |  | $ | 134,356 |  | $ | 5,842 |  |  |  | 7,387 |  | $ | - |  |  | $ | 494,244 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | | $ | 345,725 | $ | | 58,600 | $ | | (1,630) | | $ | | 1,841 |  | $ | (10,824) | | $ | | 393,712 |  |  |
|  | Less: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 156,992 |  |  |
|  | Depreciation and | |  | 173,198 |  |  | 52,149 |  |  | 3,052 |  |  |  | 997 |  |  | 167 |  |  |  | 229,563 |  |  |
|  | amortization | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (536) | |  |
|  | Transaction related costs | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 9,702 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Stock-based compensation | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 4,095 |  |  |
|  | Income tax benefit | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (3,742) | |  |
|  | Net loss | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (2,362) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

***Revenues***

*Leasing* – For the six months ended June 30, 2019, we recognized $342.5 million of revenue from rents under the Master Lease, which included $13.6 millionof TCI revenue. For the six months ended June 30, 2018, we recognized $346.1 million of revenue from rents under the Master Lease, which included $8.1 million of straight-line revenues and $10.7 million of TCI revenue. For the six months ended June 30, 2019, we recognized $10.6 million of leasing revenues from non-Windstream triple-net leasing and dark fiber IRU arrangements, compared to $0.6 million for the six months ended June 30, 2018.

*Fiber Infrastructure* – For the six months ended June 30, 2019 and 2018, we recognized $158.2 million and $134.4 million of revenue, respectively, in our

Fiber Infrastructure segment. Fiber Infrastructure revenues for the six months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30,** | | | |  |  |  |  |
|  |  |  |  | **2019** |  |  |  |  | **2018** |  |  |  |
|  |  |  | **Amount** |  | **% of Segment** |  |  | **Amount** |  | **% of Segment** |  |  |
| (Thousands) | |  |  | **Revenues** |  |  |  | **Revenues** | |  |
| **Fiber Infrastructure revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Lit backhaul services | | $ | 65,606 | 41.4% | | $ | | 66,820 | 49.7% | |  |  |
| Enterprise and wholesale | |  | 35,970 | 22.7% | |  |  | 30,980 | 23.1% | |  |  |
| E-Rate and government | |  | 44,528 | 28.2% | |  |  | 28,387 | 21.1% | |  |  |
| Dark fiber and small cells | |  | 10,373 | 6.6% | |  |  | 6,301 | 4.7% | |  |  |
| Other services | |  | 1,683 | 1.1% | |  |  | 1,868 | 1.4% | |  |  |
| Total Fiber Infrastructure revenues | | $ | 158,160 |  | 100.0% |  | $ | 134,356 |  | 100.0% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

At June 30, 2019, we had approximately 19,707 customer connections, up from 17,559 customer connections at June 30, 2018.

*Towers* – Towers revenues for the six months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30,** | | | | |  |  |
| (Thousands) |  |  | **2019** |  | **% of Total** | |  | **2018** |  | **% of Total** | |
| **Towers revenues:** |  |  |  |  |  |  |  |  |  |  |  |
| United States | $ | | 5,674 |  | 69.0% |  | $ | 1,256 |  | 21.5% |  |
| Latin America |  |  | 2,552 |  | 31.0% |  |  | 4,586 |  | 78.5% |  |
| Total |  | $ | 8,226 |  | 100.0% |  | $ | 5,842 |  | 100.0% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

The increase in revenue for the six months ended June 30, 2019, compared to the six months ended June 30, 2018, is primarily driven by our development activities in the U.S., and the inclusion of a non-recurring charge of $1.1 million related to the accounting of

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straight line rents in our U.S. operations during the six months ended June 30, 2018. For six months ended June 30, 2019, we completed the construction of 143 towers in the U.S. At June 30, 2019, the Uniti Towers’ domestic portfolio consisted of 573 wireless communications towers located in 30 states across the eastern and central regions in the United States, an increase from 305 wireless communications towers at June 30, 2018. The decrease in revenues in Latin America compared to the six months ended June 30, 2018 is due to the April 2, 2019 sale of our Latin American tower portfolio.

*Consumer CLEC* – For the six months ended June 30, 2019, we recognized $5.9 million of revenue from the Consumer CLEC Business, compared to $7.4million for the six months ended June 30, 2018. The decrease is primarily attributable to a loss of customers during the period. We served 20,300 customers as of June 30, 2019, a 19.1% decrease from 25,100 customers served at June 30, 2018. The decrease in customers is due to the effects of competition and customer attrition.

***Interest Expense***

Interest expense for the six months ended June 30, 2019 totaled $182.2 million, which includes non-cash interest expense of $17.7 million resulting from the amortization of our debt discounts and debt issuance costs, partially offset by $2.6 million of capitalized interest. Interest expense for the six months ended June 30, 2018, totaled $157.0 million, which includes non-cash interest expense of $12.1 million resulting from the amortization of our debt discounts and debt issuance costs.

The increase is primarily related to an increase of interest expense incurred on the Revolving Credit Facility of $8.4 million due to increased borrowings and higher LIBOR rates compared to the prior year. The increase is also attributed to an increase of interest expense of $11.5 million on the Term Loan Facility and an increase in non-cash interest expense from the amortization of our debt discounts and debt issuance costs of $5.5 million, both as a result from the Fourth Amendment. The Fourth Amendment increased the rate of term loans by 200 basis points effective March 18, 2019.

***Depreciation and Amortization Expense***

We incur depreciation and amortization expense related to our property, plant and equipment, corporate assets and intangible assets. Charges for depreciation and amortization for the six months ended June 30, 2019 totaled $206.4 million (39.2% of revenue), which included property, plant and equipment depreciation of $194.0 million and intangible asset amortization of $12.4 million. Charges for depreciation and amortization for the six months ended June 30, 2018 totaled $229.6 million, which included property, plant and equipment depreciation of $216.9 million and intangible asset amortization of $12.7 million.

***General and Administrative Expense***

General and administrative expenses include compensation costs, including stock-based compensation awards, professional and legal services, corporate office costs and other costs associated with administrative activities. For the six months ended June 30, 2019, general and administrative costs totaled $50.7 million (9.6% of revenue), which includes $2.8 million of costs attributable to the timing of the ITS acquisition that occurred on October 19, 2018, compared to $43.2 million (8.7% of revenue) for the six months ended June 30, 2018.

***Operating Expense***

Operating expense for the six months ended June 30, 2019, totaled $78.6 million (15.0% of revenue) compared to $61.4 million (12.4% of revenue) for the six months ended June 30, 2018, which was attributable to the increase in Fiber Infrastructure operating expenses. Operating expense for our reportable segments for the six months ended June 30, 2019 and 2018 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Six Months Ended June 30,** | | | |  |  |  |  |
|  |  |  |  | **2019** |  |  |  |  | **2018** |  |  |  |
|  |  |  | **Amount** |  | **% of Consolidated** |  |  | **Amount** |  | **% of Consolidated** |  |  |
| (Thousands) |  |  |  | **Revenues** |  |  |  | **Revenues** | |  |
| **Operating expenses by segment:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiber Infrastructure | $ | | 68,491 | 13.0% | | $ | | 51,495 | 10.4% | |  |  |
| Towers |  |  | 4,566 | 0.9% | |  |  | 4,220 | 0.9% | |  |  |
| CLEC |  |  | 4,723 | 0.9% | |  |  | 5,545 | 1.1% | |  |  |
| Leasing |  |  | 801 | 0.2% | |  |  | 166 | 0.0% | |  |  |
| Total operating expenses |  | $ | 78,581 |  | 15.0% |  | $ | 61,426 |  | 12.4% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 50 | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |



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*Fiber Infrastructure* – For the six months ended June 30, 2019, Fiber Infrastructure operating expenses totaled $68.5 million as compared to $51.5 million forthe six months ended June 30, 2018. Operating expense consists of network related costs, such as dark fiber and tower rents, and lit service and maintenance expense. In addition, costs associated with our construction activities are presented within operating expenses. The increase in operating expenses is primarily attributable to the timing of the ITS acquisition that occurred on October 19, 2018, which incurred operating expenses of $12.4 million for the six months ended June 30, 2019.

*Towers* – Our Towers segment operating expense primarily consists of ground rent, some or all of which may be passed to our tenants, as well as regulatoryfees and maintenance and repairs. For the six months ended June 30, 2019, Towers operating expense included $2.5 million of ground rent expense, compared to $2.2 million for the six months ended June 30, 2018. The change is attributable to a $1.2 million increase in operating expenses attributable to our development activity in the United States and the increase in completed towers at June 30, 2019 from June 30, 2018, partially offset by the April 2, 2019 sale of the Latin American tower business, which incurred a $0.8 million decrease for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

*Consumer CLEC* – Expense associated with the Consumer CLEC Business is primarily attributable to the Wholesale Agreement and the Master ServicesAgreement entered into between us and Windstream in connection with the Spin-Off, and includes costs arising under the interconnection agreements with other telecommunication carriers. Expense associated with the Wholesale Agreement and Master Services Agreement for the six months ended June 30, 2019 totaled $3.3 million (0.6% of revenue) and $0.3 million (0.1% of revenue), respectively, and expense associated with the Wholesale Agreement and Master Services Agreement for the six months ended June 30, 2018 totaled $4.1 million (0.8% of revenue) and $0.4 million (0.1% of revenue), respectively.

***Gain on Sale of Real Estate***

For the six months ended June 30, 2019, we recognized in other income realized gains of $23.8 million (4.5% of revenue) and $5.0 million (0.9% of revenue) related to the April 2, 2019 sale of the Uniti Towers’ Latin American business and May 23, 2019 sale of U.S. ground lease business, respectively.

***Other Income***

We recognized in other income a $25.5 million unrealized gain for mark-to-market adjustments on our contingent consideration arrangements for the six months ended June 30, 2019, compared to a $0.5 million unrealized gain for mark-to-market adjustments on our contingent consideration arrangements for the six months ended June 30, 2018.

***Income Tax Expense (Benefit)***

We recorded a $11.9 million income tax expense for the six months ended June 30, 2019. Included in income tax expense is approximately (i) $4.6 million of income tax expense related to the cancellation of debt income that was recognized for federal income tax purposes as a result of the Fourth Amendment, (ii) approximately $4.6 million of income tax expense related to capital gain from the sale of Uniti Towers’ Latin American business, (iii) approximately $2.7 million of income tax expense related to undistributed income from operations and (iv) approximately $2.4 million of income tax expense attributable to unrecognized tax benefit related to the sale of Uniti Towers’ Latin American business. Additionally, we recorded a $2.6 million income tax benefit related to our Fiber Infrastructure segment. We recorded a $3.7 million income tax benefit for the six months ended June 30, 2018, $1.3 million of which relates to the impact of the reduction in the corporate tax rate under the Tax Bill on purchase price allocation adjustments recorded during the three months ended June 30, 2018 and the remainder of which is primarily driven by pre-tax loss in our Fiber Infrastructure segment.

**Non-GAAP Financial Measures**

We refer to EBITDA, Adjusted EBITDA, Funds From Operations ("FFO") (as defined by the National Association of Real Estate Investment Trusts ("NAREIT")) and Adjusted Funds From Operations ("AFFO") in our analysis of our results of operations, which are not required by, or presented in accordance with, accounting principles generally accepted in the United States ("GAAP"). While we believe that net income, as defined by GAAP, is the most appropriate earnings measure, we also believe that EBITDA, Adjusted EBITDA, FFO and AFFO are important non-GAAP supplemental measures of operating performance for a REIT.

We define "EBITDA" as net income, as defined by GAAP, before interest expense, provision for income taxes and depreciation and amortization. We define "Adjusted EBITDA" as EBITDA before stock-based compensation expense and the impact, which may be recurring in nature, of transaction and integration related costs (collectively, "transaction related costs"), the write-off of unamortized deferred financing costs, costs incurred as a result of the early repayment of debt, changes in the fair value of contingent consideration

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and financial instruments, and other similar items (although we may not have had such charges in the periods presented). We believe EBITDA and Adjusted EBITDA are important supplemental measures to net income because they provide additional information to evaluate our operating performance on an unleveraged basis. Since EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, they should not be considered as an alternative to net income determined in accordance with GAAP.

Because the historical cost accounting convention used for real estate assets requires the recognition of depreciation expense except on land, such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. FFO is defined by NAREIT as net income attributable to common shareholders computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and impairment charges. We compute FFO in accordance with NAREIT's definition.

We define AFFO as FFO excluding (i) transaction related costs; (ii) Windstream bankruptcy related expenses; (iii) certain non-cash revenues and expenses such as stock-based compensation expense, amortization of debt and equity discounts, amortization of deferred financing costs, depreciation and amortization of non-real estate assets, straight-line revenues, non-cash income taxes, and the amortization of other non-cash revenues to the extent that cash has not been received, such as revenue associated with the amortization of TCIs; and (iv) the impact, which may be recurring in nature, of the write-off of unamortized deferred financing fees, additional costs incurred as a result of the early repayment of debt, taxes associated with tax basis cancellation of debt, changes in the fair value of contingent consideration and financial instruments and similar items less maintenance capital expenditures. We believe that the use of FFO and AFFO, and their respective per share amounts, combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and analysts, and makes comparisons of operating results among such companies more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating performance. In particular, we believe AFFO, by excluding certain revenue and expense items, can help investors compare our operating performance between periods and to other REITs on a consistent basis without having to account for differences caused by unanticipated items and events, such as transaction related costs. The Company uses FFO and AFFO, and their respective per share amounts, only as performance measures, and FFO and AFFO do not purport to be indicative of cash available to fund our future cash requirements. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance.

Further, our computations of EBITDA, Adjusted EBITDA, FFO and AFFO may not be comparable to that reported by other REITs or companies that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define EBITDA, Adjusted EBITDA and AFFO differently than we do.

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The reconciliation of our net income to EBITDA and Adjusted EBITDA and of our net income attributable to common shareholders to FFO and AFFO for the three and six months ended June 30, 2019 and 2018 is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  |  | **Three Months Ended June 30,** | | |  |  |  |  | **Six Months Ended June 30,** | | | | |  |
|  |  | **2019** |  | **2018** |  |  |  |  | **2019** |  |  | **2018** |  |  |
| **Net income (loss)** |  | $ | 39,547 |  | $ | (3,593) |  |  | $ | 42,039 |  | $ | (2,362) |  |  |
| Depreciation and amortization |  |  | 102,578 |  |  | 114,842 |  |  |  | 206,405 |  |  | 229,563 |  |  |
| Interest expense |  |  | 97,729 |  |  | 79,385 |  |  |  | 182,187 |  |  | 156,992 |  |  |
| Income tax expense (benefit) |  |  | 7,843 |  |  | (2,646) | |  |  | 11,897 |  |  | (3,742) | |  |
| **EBITDA** |  | $ | 247,697 |  | $ | 187,988 |  |  | $ | 442,528 |  | $ | 380,451 |  |  |
| Stock based compensation |  |  | 3,197 |  |  | 1,885 |  |  |  | 5,085 |  |  | 4,095 |  |  |
| Transaction related costs |  |  | 7,035 |  |  | 3,789 |  |  |  | 13,704 |  |  | 9,702 |  |  |
| Gain on sale of real estate |  |  | (28,790) | |  | - |  |  |  | (28,790) | |  | - |  |  |
| Other (income) expense |  |  | (22,275) | |  | 3,349 |  |  |  | (25,388) | |  | (536) | |  |
| **Adjusted EBITDA** |  | $ | 206,864 |  | $ | 197,011 |  |  | $ | 407,139 |  | $ | 393,712 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |
| (Thousands) |  |  | **Three Months Ended June 30,** | | |  |  |  |  | **Six Months Ended June 30,** | | | | |  |
|  |  | **2019** |  | **2018** |  |  |  |  | **2019** |  |  | **2018** |  |  |
| **Net income (loss) attributable to common shareholders** |  | $ | 38,246 |  | $ | (5,562) |  |  | $ | 39,259 |  | $ | (6,432) |  |  |
| Real estate depreciation and amortization |  |  | 82,436 |  |  | 95,399 |  |  |  | 166,162 |  |  | 190,976 |  |  |
| Gain on sale of real estate assets, net of tax |  |  | (24,215) | |  | - |  |  |  | (24,215) | |  | - |  |  |
| Participating securities share in earnings |  |  | 223 |  |  | 658 |  |  |  | 251 |  |  | 1,337 |  |  |
| Participating securities share in FFO |  |  | (541) | |  | (658) | |  |  | (569) | |  | (1,337) | |  |
| Adjustments for noncontrolling interests |  |  | (1,181) | |  | (2,200) | |  |  | (3,034) | |  | (4,405) | |  |
| **FFO attributable to common shareholders** |  | $ | 94,968 |  | $ | 87,637 |  |  | $ | 177,854 |  | $ | 180,139 |  |  |
| Transaction related costs |  |  | 7,035 |  |  | 3,789 |  |  |  | 13,704 |  |  | 9,702 |  |  |
| Change in fair value of contingent consideration |  |  | (22,275) | |  | 3,376 |  |  |  | (25,531) | |  | (488) | |  |
| Amortization of deferred financing costs and debt discount |  |  | 10,786 |  |  | 6,113 |  |  |  | 17,659 |  |  | 12,147 |  |  |
| Stock based compensation |  |  | 3,197 |  |  | 1,885 |  |  |  | 5,085 |  |  | 4,095 |  |  |
| Non-real estate depreciation and amortization |  |  | 20,142 |  |  | 19,443 |  |  |  | 40,243 |  |  | 38,587 |  |  |
| Straight-line revenues |  |  | (693) | |  | (2,808) | |  |  | (1,416) | |  | (7,400) | |  |
| Maintenance capital expenditures |  |  | (1,923) | |  | (665) | |  |  | (4,726) | |  | (2,150) | |  |
| Amortization of discount on convertible preferred stock |  |  | 248 |  |  | 745 |  |  |  | 993 |  |  | 1,490 |  |  |
| Cash taxes on tax basis cancellation of debt |  |  | - |  |  | - |  |  |  | 4,590 |  |  | - |  |  |
| Other non-cash items, net |  |  | (5,967) | |  | (9,678) | |  |  | (15,649) | |  | (17,260) | |  |
| Adjustments for noncontrolling interests |  |  | (219) | |  | (482) | |  |  | (735) | |  | (835) | |  |
| **AFFO attributable to common shareholders** |  | $ | 105,299 |  | $ | 109,355 |  |  | $ | 212,071 |  | $ | 218,027 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Critical Accounting Estimates**

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our Condensed Consolidated Financial Statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. We have identified the accounting for income taxes, revenue recognition, useful lives of assets, the impairment of property, plant and equipment, goodwill impairment and business combinations as critical accounting estimates, as they are the most important to our financial statement presentation and require difficult, subjective and complex judgments.

We believe the current assumptions and other considerations used to estimate amounts reflected in our accompanying Condensed Consolidated Financial Statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our Condensed Consolidated Financial Statements, the resulting changes could

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have a material adverse effect on our consolidated results of operations and, in certain situations, could have a material adverse effect on our financial condition.

For further information on our critical accounting estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the notes to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019. As of June 30, 2019, there has been no material change to these estimates.

**Liquidity and Capital Resources**

Our principal liquidity needs are to fund operating expenses, meet debt service requirements, fund investment activities, including capital expenditures, and make dividend distributions. Our primary sources of liquidity and capital resources are cash on hand, cash provided by operating activities (primarily arising under the Master Lease with Windstream), available borrowings under our credit agreement by and among the Operating Partnership, CSL Capital, LLC and Uniti Group Finance Inc., the guarantors and lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent (the “Credit Agreement”), and proceeds from the issuance of debt and equity securities.

As of June 30, 2019, we had cash and cash equivalents of $299.4 million. There have been no material outlays of funds subsequent to June 30, 2019. Our Revolving Credit Facility is subject to various conditions, including a maximum secured leverage ratio of 5.0:1. In addition, if we incur debt under our Revolving Credit Facility or otherwise such that our total leverage ratio exceeds 6.5:1, our debt instruments would impose significant restrictions on our ability to pay dividends.

Cash provided by operating activities was $250.4 million and $231.0 million for the six months ended June 30, 2019 and 2018, respectively. Cash provided by operating activities is primarily attributable to our leasing activities.

Cash used in investing activities was $57.2 million for the six months ended June 30, 2019, which was driven by capital expenditures ($180.5 million), primarily related to our Uniti Fiber and Uniti Towers businesses, partially offset by proceeds related to the sale of Uniti Towers’ Latin American and ground lease businesses ($127.5 million). Cash used in investing activities was $164.6 million for the six months ended June 30, 2018, which was driven by capital expenditures ($163.5 million), primarily related to our Uniti Fiber and Uniti Leasing businesses. The increase in capital expenditures is due to network deployments related to our Uniti Fiber and Uniti Towers businesses.

Cash provided by financing activities was $68.2 million for the six months ended June 30, 2019, which primarily represents the proceeds from issuance of notes ($345.0 million), proceeds from sale of the Warrants ($50.8 million) and net proceeds under our ATM program ($21.6 million). This was partially offset by dividend payments ($120.2 million), payment for bond hedge option ($70.0 million), net repayments under the Revolving Credit Facility ($65.0 million), payments for financing costs ($49.5 million), contingent consideration payments ($28.2 million), principal payments related to the Term Loan Facility ($10.5 million) and distributions paid to noncontrolling interests ($2.7 million). Cash used in financing activities was $49.5 million for the six months ended June 30, 2018, which primarily represents the dividend payments ($212.0 million), contingent consideration payments ($12.7 million), principal payments related to the Term Loan Facility ($10.5 million), and distributions paid to noncontrolling interests ($5.0 million), partially offset by net borrowings under the Revolving Credit Facility ($195 million).

On June 28, 2019, Uniti Fiber issued $345 million aggregate principal amount of the Exchangeable Notes. The Exchangeable Notes are guaranteed by the Company and each of the Company’s subsidiaries (other than Uniti Fiber) that is an issuer, obligor or guarantor under the Company’s Notes. The Exchangeable Notes bear interest at a fixed rate of 4.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on December 15, 2019. The Exchangeable Notes are exchangeable into cash, shares of the Company’s common stock, or a combination thereof, at Uniti Fiber’s election. The Exchangeable Notes will mature on June 15, 2024, unless earlier exchanged, redeemed or repurchased. The Exchangeable Notes were sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act. See Note 11 to our accompanying Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

The net proceeds from the sale of the Exchangeable Notes were approximately $334.7 million, after deducting discounts and commissions to the Initial Purchasers and other estimated fees and expenses. A portion of the net proceeds were used to repay outstanding borrowings under the Revolving Credit Facility, as described above, and to pay the approximately $70.0 million cost associated with the exchangeable note hedge transactions, as described in Note 9 to our accompanying Condensed Consolidated Financial Statements contained in Part I, Item 1 *Financial Statements*. The remaining net proceeds will be used for general corporate purposes, which may include funding acquisitions (including BlueBird) and the repayment of additional borrowings under the

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Revolving Credit Facility. The Company also received approximately $50.8 million from the sale of warrants, as described in Note 9 to our accompany Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We have established an at the market common stock offering program (the “ATM Program”) to sell shares of common stock having an aggregate offering price of up to $250 million. The ATM Program is currently suspended following the June 15, 2019 expiration of our shelf registration statement. As of June 30, 2019, we have approximately $117.1 million available for issuance under the ATM Program. This program provides additional financial flexibility and an alternative mechanism to access the capital markets at an efficient cost as and when we need financing, including for acquisitions. In addition, our UPREIT structure enables us to acquire properties by issuing to sellers, as a form of consideration, limited partnership interests in our operating partnership, (commonly called “OP Units”). We believe that this structure will facilitate our ability to acquire individual properties and portfolios of properties by enabling us to structure transactions which will defer taxes payable by a seller while preserving our available cash for other purposes, including the possible payment of dividends.

We anticipate continuing to invest in our network infrastructure across our Uniti Leasing, Uniti Fiber and Uniti Towers portfolios. We have also committed to spend $175 million on our proposed acquisition of Bluebird, net of the collection of prepaid rent. We anticipate declaring dividends for the 2019 tax year to comply with our REIT distribution requirements, although such dividends are expected to be lower than in prior periods. We anticipate that we will partially finance these needs, together with operating expenses (including debt service) from our $299.4 million of cash on hand, including proceeds from the Exchangeable Notes offering, cash flows provided by operating activities, together with funds anticipated from announced divestures. However, we may need to access the capital markets to generate additional funds that will be sufficient to fund our business operations, announced investment activities, capital expenditures, debt service and distributions to our shareholders. We are closely monitoring the equity and debt markets and will seek to access them promptly when we determine market conditions are appropriate.

The amount, nature and timing of any capital markets transactions will depend on: our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions. These expectations are forward-looking and subject to a number of uncertainties and assumptions. If our expectations about our liquidity prove to be incorrect or we are unable to access the capital markets as we anticipate, we could be subject to a shortfall in liquidity in the future which could lead to a reduction in our capital expenditures and/or dividends. If this shortfall occurs rapidly and with little or no notice, it could limit our ability to address the shortfall on a timely basis.

In addition to exploring potential capital markets transactions, the Company regularly evaluates market conditions, its liquidity profile, and various financing alternatives for opportunities to enhance its capital structure. If opportunities are favorable, the Company may refinance or repurchase existing

debt. However, there can be no assurances that any debt refinancing would be on similar or more favorable terms than our existing arrangements. This would include the risk that interest rates could increase and/or there may be changes to our existing covenants.

On June 24, 2019, we entered into the Fifth Amendment to our Credit Agreement to extend the maturity date of $575.9 million of commitments under the Revolving Credit Facility to April 24, 2022, pay down approximately $101.6 million of outstanding revolving loans and terminate the related commitments. The maturity date of approximately $72.4 million of other commitments was not extended. On June 28, 2019, the Company repaid approximately $174.0 million in total borrowings, which consisted of the $101.6 million required repayment pursuant to the Fifth Amendment and $72.4 million of non-extended borrowings, thereby terminating the non-extended commitments. As a result, all remaining $575.9 million of commitments will terminate on April 24, 2022, at which time all outstanding borrowings must be repaid. The Company used a portion of the net proceeds from the offering of Exchangeable Notes described above to fund the repayments. The Fifth Amendment increased the applicable margin for base rate loans under the Revolving Credit Facility to a range of 2.75% to 3.25% and for Eurodollar rate loans under the Revolving Credit Facility to a range of 3.75% to 4.25%, calculated in a customary manner and determined based on our consolidated secured leverage ratio.

In light of recent developments and uncertainty surrounding Windstream and the effect of substantial doubt about our ability to continue as a going concern, as discussed in Note 2 to our accompanying Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, we have taken measures, and may take further measures to conserve cash as we anticipate that it may be more difficult for us to access the capital markets at attractive rates until such uncertainty is clarified. Windstream has the option to assume or reject the Master Lease. While we believe that the Master Lease is essential to Windstream’s operations, it is difficult to predict what could occur in a restructuring, and even a temporary disruption in payments to us may require us to fund certain expenses and obligations (e.g., real estate taxes, insurance and maintenance expenses) to preserve the value of our properties and avoid the imposition of liens on our properties and could impact our ability to fund other cash obligations, including dividends necessary to maintain REIT status, non-essential capital expenditures and, in an extreme case, our debt service obligations. Windstream has also

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filed claims that allege, among other things, that the Master Lease should be recharacterized as a financing transaction, which would impact its treatment in Windstream’s bankruptcy (including potentially through changing our status to that of a creditor that would share in creditor recoveries from the estate rather than receive rent payments) and could affect our status as a REIT, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. A rejection of the Master Lease, an adverse determination by a judge on Windstream’s claims, or even a temporary disruption in payments to us, may require us to fund certain expenses and obligations (e.g., real estate taxes, insurance and maintenance expenses) to preserve the value of our properties, and could materially adversely affect our consolidated results of operations, liquidity and financial condition, including our ability to service debt, comply with debt covenants and maintain our status as a REIT.

Although management has concluded the probability of a rejection of the Master Lease to be remote, and has noted the absence of any provision in the Master Lease that contemplates renegotiation of the lease and the lack of any ability of the bankruptcy court to unilaterally reset the rent or terms of the lease, it is difficult to predict what could occur in Windstream’s bankruptcy restructuring, including any judicial decisions in respect of claims against us by Windstream or its creditors. Accordingly, we may elect to suspend, delay or reduce success-based capital expenditures and further reduce dividend payments to conserve cash. However, because our Master Lease is essential to Windstream’s operations, we expect that any disruption in payments by Windstream would be limited. Based on our analysis, including consideration of the timing of petitioners’ requirements to make post-petition lease payments under U.S. bankruptcy law and absent any adverse determination in respect to Windstream’s claims or disruptions in rent payments under the Master Lease, we believe that we have adequate liquidity to continue to fund our operations for twelve months after the issuance of the accompanying Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. If our assumptions are incorrect, we could need additional sources of liquidity to fund our cash needs and cannot assure that we will obtain them.

**Dividends**

We have elected to be taxed as a REIT for U.S. federal income tax purposes. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. In order to maintain our REIT status, we intend to make dividend payments of all or substantially all of our taxable income to holders of our common stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we make any dividend payments, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service obligations. If our cash available for distribution is less than our taxable income, we could be required to sell assets or borrow funds to make cash dividends or we may make a portion of the required dividend in the form of a taxable distribution of stock or debt securities.

On March 18, 2019, we received a limited waiver and amendment to our Credit Agreement (the “Fourth Amendment”). During the pendency of Windstream’s bankruptcy, or at such earlier time when certain conditions are specified, the Fourth Amendment generally limits our ability under the Credit Agreement to pay cash dividends in excess of 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains.

The following table below sets out details regarding our cash dividends on our common stock:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Period | | Payment Date | |  | Cash Dividend Per Share | | Record Date |
| October 1, 2018 - December 31, 2018 |  | January 15, 2019 |  | $ | 0.60 |  | December 31, 2018 |
| January 1, 2019 - March 31, 2019 | | April 15, 2019 | | $ | 0.05 |  | April 1, 2019 |
| April 1, 2019 - June 30, 2019 | | July 15, 2019 | | $ | 0.05 |  | June 28, 2019 |
|  |  | 56 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |



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Any dividends must be declared by our Board of Directors, which will take into account various factors including our current and anticipated operating results, our financial position, REIT requirements, conditions prevailing in the market, restrictions in our debt documents and additional factors they deem appropriate. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to change the amount paid as dividends. In light of recent developments with Windstream, we may take measures to conserve cash, which may include a suspension, delay or reduction in our dividend.

**Capital Expenditures**

We categorize our capital expenditures as either (i) success-based, (ii) maintenance, (iii) integration or (iv) corporate and non-network. We define success-based capital expenditures as those related to installing existing or anticipated contractual customer service orders. Maintenance capital expenditures are those necessary to keep existing network elements fully operational. Integration capital expenditures are those made specifically with respect to recent acquisitions that are essential to integrating acquired companies in our business. We anticipate continuing to invest in our network infrastructure across our Uniti Leasing, Uniti Fiber and Uniti Towers portfolios, and expect that cash on hand and cash flows provided by operating activities will be sufficient to support these investments.

In light of recent developments with Windstream, we may need to take measures to conserve cash, which may include a suspension, delay or reduction in success-based capital expenditures. We are closely monitoring developments of the Windstream bankruptcy and continually assess our capital expenditure plans in light of such developments.

**Recent Accounting Guidance**

New accounting rules and disclosures can impact our reported results and comparability of our financial statements. These matters are described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019.

Effective January 1, 2019, we account for leases in accordance with ASC 842. The standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is comprised of amortization on the right-of-use asset (“ROU”) and interest expense recognized based on an effective interest method, or as a single lease cost recognized on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The accounting for lessors remains largely unchanged. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

We determine if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (i) there is an identified asset in the contract that is land or a depreciable asset (i.e., property, plant, and equipment), and (ii) the customer has the right to control the use of the identified asset.

We enter into lease contracts including ground, towers, equipment, office, colocation and fiber lease arrangements, in which we are the lessee, and service contracts that may include embedded leases. Operating leases where we are the lessor are included in Leasing, Fiber Infrastructure and Tower revenues on our Condensed Consolidated Statements of Income.

From time to time we enter into direct financing lease arrangements that include (i) a lessee obligation to purchase the leased equipment at the end of the lease term, (ii) a bargain purchase option, (iii) a lease term having a duration that is for the major part of the remaining economic life of the leased equipment or

1. provides for minimum lease payments with a present value amounting to substantially all of the fair value of the leased equipment at the date of lease inception.

ROU assets and lease liabilities related to operating leases where we are the lessee are included in other assets and accounts payable, accrued expenses and other liabilities, respectively, on our Condensed Consolidated Balance Sheets. The lease liabilities are initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

ROU assets and lease liabilities related to finance leases where we are the lessee are included in property, plant and equipment, net and finance lease obligations, respectively, on our Condensed Consolidated Balance Sheets. The lease liabilities are initially measured in the same manner as operating leases and are subsequently measured at amortized cost using the effective interest method. ROU assets for finance leases are amortized on a straight-line basis over the remaining lease term.

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Key estimates and judgments include how we determined (i) the discount rate we use to discount the unpaid lease payments to present value, (ii) lease term and (iii) lease payments.

1. ASC 842 requires a lessor to discount its unpaid lease payments using the interest rate implicit in the lease and a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As we generally do not know the implicit rate for our leases where we are the lessee, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate for a lease is the rate of interest we would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.
2. The lease term for all of our leases includes the noncancellable period of the lease plus any additional periods covered by either a lessee option to extend (or not to terminate) the lease that the lessee is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
3. Lease payments included in the measurement of the lease asset or liability comprise the following: (i) fixed payments (including in-substance fixed payments), (ii) variable payments that depend on index or rate based on the index or rate at lease commencement, and (iii) the exercise price of a lessee option to purchase the underlying asset if the lessee is reasonably certain to exercise.

For operating leases where we are the lessor, we continue recognizing the underlying asset and depreciating it over its estimated useful life. Lease income is recognized on a straight-line basis over the lease term. Leasing revenue is not recognized when collection of all contractual rents over the term of the agreement is not probable. When collection is probable, the lessee is placed on non-accrual status and Leasing revenue is recognized when cash payments are received.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to us, or we are reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with our leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented within Leasing, Fiber Infrastructure and Tower revenues and general and administrative expense and operating expense in our Condensed Consolidated Statements of Income in the same line item as revenue arising from fixed lease payments (operating leases where we are the lessor) and expense arising from fixed lease payments (operating leases where we are the lessee) or amortization of the ROU asset (finance leases), respectively.

We monitor for events or changes in circumstances that require a reassessment of a lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

We have lease agreements which include lease and nonlease components. For both leases where we are a lessor and leases where we are a lessee, we have elected to combine lease and nonlease components for all lease contracts. Nonlease components that are combined with lease components are primarily maintenance services related to the leased asset. Where we are the lessor, we determine whether the lease or nonlease component is the predominant component on a case-by-case basis. For all existing leases where we are the lessor, ASC Topic 842 has been applied to all combined components.

We have elected not to recognize ROU assets and lease liabilities for all short-term leases that have a lease term of 12 months or less. We recognize the lease payments associated with our short-term leases as an expense on a straight-line basis over the lease term. We have elected to exclude sales taxes from lease payments in arrangements where we are a lessor.

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We adopted ASC 842 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU 2018-11, *Leases* *(Topic 842): Target Improvements*, which provides an alternative modified retrospective transition method. As a result, we were not required to adjust ourcomparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e. January 1, 2019). We have elected to adopt the package of transition practical expedients and, therefore, have not reassessed (i) whether existing or expired contracts contain a lease, (ii) lease classification for existing or expired leases or (iii) the accounting for initial direct costs that were previously capitalized. We elected the practical expedient to use hindsight for leases existing at the adoption date. Further, we elected to adopt the amendments in ASU 2018-01:

*Land Easement Practical Expedient for Transition to Topic 842*, which permits an entity to elect an optional transaction practical expedient to not evaluateland easements that exist or expire before the Company’s adoption of ASC 842 and that were not previously accounted for as leases under ASC 840, *Leases* (“ASC 840”).

**Off-Balance Sheet Arrangements**

As of the date of this Quarterly Report on Form 10-Q, we do not have any off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes from the information reported under Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures*

We have established disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2019.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, that occurred during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

In the ordinary course of our business, we are subject to claims and administrative proceedings, none of which we believe are material or would be expected to have, individually or in the aggregate, a material adverse effect on our business, financial condition, cash flows or results of operations.

Pursuant to the Master Lease, Windstream has agreed to indemnify us for, among other things, any use, misuse, maintenance or repair by Windstream with respect to the Distribution Systems. Windstream is currently a party to various legal actions and administrative proceedings, including various claims arising in the ordinary course of its telecommunications business, which are subject to the indemnities provided by Windstream to us. If Windstream assumes the Master Lease, it would be obligated to honor all indemnification claims. If Windstream were to reject the Master Lease, any indemnification claims would be treated as unsecured claims, and, if that were to occur, there can be no assurance we would receive any indemnification payments from Windstream. While these actions and proceedings are not believed to be material, individually or in the aggregate, the ultimate outcome of these matters cannot be predicted. The resolution of any such legal proceedings, either individually or in the aggregate, could have a material adverse effect on Windstream’s business, financial position or results of operations, which, in turn, could have a material adverse effect on our business, financial position or results of operations if Windstream is unable to meet its indemnification obligations.

Windstream was involved in litigation with an entity who acquired certain Windstream debt securities and thereafter issued a notice of default as to such securities relating to the Spin-Off. Windstream challenged the matter in federal court and a trial was held in July 2018. On February 15, 2019, the federal court judge issued a ruling against Windstream, finding that Windstream’s attempts to waive such default were not valid; that an “event of default” occurred with respect to such debt securities; and that the holder’s acceleration of such debt in December 2017 was effective.

In response to the adverse outcome, on February 25, 2019, Windstream and all of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York.

In bankruptcy, Windstream has the option to assume or reject the Master Lease. While we believe that the Master Lease is essential to Windstream’s operations, it is difficult to predict what could occur in a restructuring, and even a temporary disruption in payments to us may require us to fund certain expenses and obligations (e.g., real estate taxes, insurance and maintenance expenses) to preserve the value of our properties and avoid the imposition of liens on our properties and could impact our ability to fund other cash obligations, including dividends necessary to maintain REIT status, non-essential capital expenditures and, in an extreme case, our debt service obligations. See Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information concerning the impact Windstream’s bankruptcy may have on our operations and financial conditions. A rejection by Windstream of the Master Lease or its inability or unwillingness to meet its rent and other obligations under the Master Lease could materially adversely affect our consolidated results of operations, liquidity, and financial condition, including our ability to service debt, comply with debt covenants and pay dividends to our stockholders as required to maintain our status as a REIT. A rejection of the Master Lease by Windstream would result in an “event of default” under our Credit Agreement if we are unable to enter into a replacement lease that satisfies certain criteria set forth in the Credit Agreement within ninety (90) calendar days and we do not maintain pro forma compliance with a consolidated secured leverage ratio, as defined in the Credit Agreement, of 5.00 to 1.00.

The Master Lease contains no provision that contemplates renegotiation of the lease and the bankruptcy court has no ability to unilaterally reset the rent or terms of the lease. In addition, our Credit Agreement prohibits the Company from amending the Master Lease in a manner that, among other provisions, pro forma for any such amendment, would result in our consolidated secured leverage ratio to exceed 5.0 to 1.0, and management has no intention to enter into a lease amendment that would violate our debt covenants.

On July 25, 2019, in connection with Windstream’s bankruptcy, Windstream Holdings and Windstream Services, LLC filed a complaint with the U.S. Bankruptcy Court for the Southern District of New York alleging¸ among other things, that the Master Lease should be recharacterized as a financing arrangement, that the Master Lease is a lease of personal property, and that rent payments and tenant capital improvements made by Windstream under the Master Lease since at least the third quarter of 2017 constitute constructive fraudulent transfers. If the Master Lease is recharacterized as a financing arrangement, Windstream would be deemed the true owner of the property subject to the Master Lease, and Uniti would be treated as a creditor of Windstream rather than as a landlord, which could significantly affect current payments to us under the Master Lease, the ultimate treatment of our claims (including potentially through changing our status to that of a creditor that would share in creditor recoveries from the estate rather than receive rent payments) and our status as a REIT. If the Master Lease is determined to be a lease of personal property, the deadline for Windstream Holdings to assume or reject the Master Lease would be the confirmation of its plan by the bankruptcy court, and

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Windstream may seek from the bankruptcy court relief from its current performance obligations during the bankruptcy case. If the constructive fraudulent transfer claim is successful, Uniti may be required to repay Windstream the amount of rent payments and tenant capital improvements since at least the third quarter of 2017. In parallel with this filing, Windstream Holdings also filed a motion to stay the deadline under which Windstream must assume or reject the Master Lease pending the resolution of issues raised in the complaint. mediation of these claims is ongoing in Windstream’s bankruptcy. In connection with the mediation, Uniti has agreed to an extension of the assumption deadline for the master lease to December 7, 2019. In exchange, Windstream has provided certain assurances regarding the continued payment of rent pursuant to the Master Lease during the extension period and following the expiration of the extension period, Windstream will continue to make payments under the Master Lease as they come due, unless and until Windstream obtains an order from the bankruptcy court permitting cessation of such payments.

It is difficult to predict what could occur in Windstream’s bankruptcy restructuring, including any judicial decisions in respect of claims against us by Windstream or its creditors. Any adverse determination or judicial decision could have a material adverse effect on our business, financial position or results of operations.

On July 3, 2019, SLF Holdings, LLC (“SLF”) filed a complaint against the Company, Uniti Fiber Holdings Inc. (“Uniti Fiber”), and certain current and former officers of the Company (collectively, the “Defendants”) in the United States District Court for the Southern District of Alabama, in connection with Uniti Fiber’s purchase of Southern Light, LLC from SLF in July 2017. The complaint asserts claims for fraud and conspiracy, as well as claims under federal and Alabama securities laws, alleging that Defendants improperly failed to disclose to SLF the risk that the 2015 spin-off of Uniti from Windstream Holdings violated certain debt covenants of Windstream Holdings’ subsidiary, Windstream Services, LLC. SLF seeks compensatory and punitive damages, as well as reformation of the purchase agreement for the sale. We intend to defend this matter vigorously, and, because it is still in its preliminary stages, have not yet determined what effect this lawsuit will have, if any, on our financial position or results of operations.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors affecting our business that were discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 18, 2019.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On June 25, 2019 and on June 27, 2019, in connection with the sale of the Exchangeable Notes, the Company sold warrants (the “Warrants”) to certain of the initial purchasers or their respective affiliates involved in the offering of Exchangeable Notes (the “Counterparties”). The Warrants enable the Counterparties to acquire, subject to anti-dilution adjustments, up to approximately 27.8 million shares of the Company’s common stock in the aggregate at an exercise price of approximately $16.42 per share. The maximum number of shares of the Company’s common stock that could be issued pursuant to the Warrants is approximately 55.5 million. The Company offered and sold the Warrants in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act. If the market value per share of the Company’s common stock, as measured under the Warrants, at the time of exercise exceeds the strike price of the Warrants, the Warrants will have a dilutive effect on the Company’s common stock unless, subject to the terms of the Warrants, the Company elects to cash settle the Warrants. The Warrants will expire over a period beginning in September 2024.

The Company received approximately $50.8 million from the sale of the Warrants. See Note 9 to our condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

On July 2, 2019, the Company issued 8,677,163 shares of its common stock in connection with the conversion by PEG Bandwidth Holdings, LLC of 87,500 shares of the Series A Shares. The Company issued common stock with a total value of $87,500,000 based on the five-day volume weighted average price of its common stock ending on June 27, 2019. Upon conversion, all outstanding Series A Shares were cancelled and no longer remain outstanding.

***Issuer Purchases of Equity Securities***

The table below provides information regarding shares withheld from Uniti employees to satisfy minimum statutory tax withholding obligations arising from the vesting of restricted stock granted under the Uniti Group Inc. 2015 Equity Incentive Plan. The shares of common stock withheld to satisfy tax withholding obligations may be deemed purchases of such shares required to be disclosed pursuant to this Item 2.

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Total Number** |  |  |  |  | **Total Number of Shares** |  | **Maximum Number of** | |  |
|  |  |  | **Average Price Paid per** | | | **Purchased as Part of** |  | **Shares that May Yet Be** | |  |
|  |  | **of Shares** |  | **Publicly Announced Plans** |  | **Purchased Under the Plans** | |  |
| Period | | **Purchased** |  |  | **Share(1)** | | **or Programs** |  | **or Programs** | |  |
| April 1, 2019 to April 30, 2019 |  | 4,975 |  | $ | 12.08 |  | — |  | — |  |  |
| May 1, 2019 to May 31, 2019 | | 18,134 |  |  | 10.55 |  | — |  | — | |  |
| June 1, 2019 to June 30, 2019 | | 1,004 |  |  | 10.77 |  | — |  | — | |  |
| Total | | 24,113 | $ | | 10.87 |  | — |  | — | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

1. The average price paid per share is the weighted-average of the fair market prices at which we calculated the number of shares withheld to cover tax withholdings for the employees.

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

Not Applicable

**Item 5. Other Information.**

None

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**Item 6. Exhibits.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Exhibit** |  |  |  |  |  | **Description** | | | | | | | | | | | | |
| **Number** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4.1 | [Indenture, dated June 28, 2019, among Uniti Fiber Holdings Inc., Uniti Group Inc., the other guarantors party thereto and Deutsche](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex0401.htm) | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | [Bank Trust Company Americas (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex0401.htm) | | | | | | | | | | | | | | | | | |
|  | [SEC on June 28, 2019)](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex0401.htm) | | |  | | | | | | | | | | | | | | |
| 4.2 | [Form of 4.00% Exchangeable Senior Notes due 2024 (included in Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex0401.htm) | | | | | | | | |  | | | | | | | | |
|  | [Company’s Current Report on Form 8-K filed with the SEC on June 28, 2019)](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex0401.htm) | | | | | | | | | | | | | | | | | |
|  |  |  |  | |  |  |  |  |  | |  |  |  |  |  |  |  |  |
| 10.1 | [Amendment No. 5 to the Credit Agreement, dated as of June 24, 2019, among Uniti Group LP, Uniti Group Finance Inc. and CSL](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008295/dp108693_ex1001.htm) | | | | | | | | | | | | | | | | | |
|  |  |  |  | |  |  |  |  | | |  |  |  |  |  |  |  |  |
|  | [Capital, LLC, as borrowers, the guarantors party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008295/dp108693_ex1001.htm) | | | | | | | | | | | | | | | | | |
|  | [and collateral agent (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008295/dp108693_ex1001.htm) | | | | | | | | | | | | | | | | | |
|  | [June 24, 2019)](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008295/dp108693_ex1001.htm) |  | | | | | | | | | | |  | | | | | |
| 10.2 | [Form of Exchangeable Note Hedge Transaction Confirmation (incorporated by reference to Exhibit 10.1 to the Company’s Current](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex1001.htm) | | | | | | | | | | | | | | | | | |
|  | [Report on Form 8-K filed with the SEC on June 28, 2019)](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex1001.htm) | | | | | | | | | | |  | | | | | | |
|  |  | |  | |  |  |  |  | | | | | |  |  |  |  |  |
| 10.3 | [Form of Warrant Transaction Confirmation (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex1002.htm) | | | | | | | | | | | | | | | |  | |
|  | [filed with the SEC on June 28, 2019)](http://www.sec.gov/Archives/edgar/data/1620280/000095010319008752/dp109169_ex1002.htm) | | | | | | | | | | | | | | | | | |
|  |  | |  | |  | |  |  | | | | | |  |  |  |  |  |
| 10.4\* | [Tri-Party Agreement, dated, June 26, 2019, among Deutsche Bank Trust Company, Wells Fargo Bank, N.A. and Uniti Group LP, CSL](#page65) | | | | | | | | | | | | | | | | |  |
|  | [Capital, LLC, Uniti Group Finance Inc. and Uniti Fiber Holdings Inc.](#page65) | | | | | | |  | | | | | | | | | | |
| 31.1\* | [Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as](#page81) | | | | | | | | | | | | | | | |  | |
|  | [Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#page81) | | | | | |  | | | | | | | | | | | |
| 31.2\* | [Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as](#page82) | | | | | | | | | | | | | |  | | | |
|  | [Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#page82) | | | | | |  | | | | | | | | | | | |
| 32.1\* | [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-](#page83) | | | | | | | | | | | | | | | | | |
|  | [Oxley Act of 2002.](#page83) | | | | | | | | | | | | | | |  | | |
|  |  | |  | | | | | | | | | | |  | | | | |
| 32.2\* | [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-](#page84) | | | | | | | | | | | | |  | | | | |
|  | [Oxley Act of 2002.](#page84) | | | | | | | | | | | | | | | | | |
|  |  | |  | | | | | | | | | | | | | | | |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded | | | | | | | | | | | | | | | | | |
|  | within the Inline XBRL document | | | | | | | | | | | | | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | | | | | | | | | | | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | | | | | | | | | | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | | | | | | | | | | | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | | | | | | | | | | | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | | | | | | | | | | | | | |

* 1. Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

\*Filed herewith.



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**SIGNATURES**

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

|  |  |  |
| --- | --- | --- |
|  |  | **UNITI GROUP INC.** |
| Date: | August 8, 2019 | /s/ Mark A. Wallace |
|  |  | **Mark A. Wallace** |
|  |  | **Executive Vice President – Chief Financial Officer and Treasurer** |
|  |  | **(Principal Financial Officer)** |
| Date: | August 8, 2019 | /s/ Blake Schuhmacher |
|  |  | **Blake Schuhmacher** |
|  |  | **Senior Vice President – Chief Accounting Officer** |
|  |  | **(Principal Accounting Officer)** |

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**Exhibit 10.4**

AGREEMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE (the “Agreement”), dated as of June 26, 2019 by and among Uniti Group LP (“Uniti”), CSL Capital, LLC (“CSL”), Uniti Group Finance Inc. (“UGFI” and, together with Uniti and CSL, the “2023 Issuers”) and Uniti Fiber Holdings Inc. (“UFHI” and, together with Uniti and CSL, the “2024 Issuers”; the 2023 Issuers and the 2024 Issuers are collectively referred to herein as the “Issuers”), each a limited partnership, limited liability company or corporation, as applicable, duly organized and existing under the laws Delaware and having its principal offices at 10802 Executive Center Dr., Benton Building, Suite 300, Little Rock, AR 72211-4354, Deutsche Bank Trust Company Americas, a New York State banking institution and having a corporate trust office at 60 Wall Street, 16th Floor, MS NYC60-1630, New York, New York 10005 (“Successor Trustee”) and Wells Fargo Bank, N.A., a national banking association duly organized and existing under the laws of United States of America and having a corporate trust office at 150 East 42nd Street, 40th Floor, New York, New York 10017 (“Resigning Trustee”).

RECITALS:

WHEREAS, there are currently $550,000,000.00 and $1,110,000,000.00 aggregate principal amount of the 2023 Issuers’ 6.000% Senior Secured Notes due 2023 (the “6.000% Notes”) and 8.250% Senior Notes due 2023 (the “8.250% Notes”) outstanding under indentures dated as of April 24, 2015, as amended and supplemented as of the date hereof, among the 2023 Issuers, the guarantors party thereto and the Resigning Trustee, as trustee and collateral agent, as applicable (the “2023 Indentures”), and $600,000,000.00 aggregate principal amount of the 2024 Issuers’ 7.125% Senior Notes due 2024 (the “7.125% Notes” and together with the 6.000% Notes and 8.250% Notes, the “Securities”) outstanding under the indenture dated as of December 15, 2016, as amended and supplemented as of the date hereof (the “2024 Indenture” and, together with the 2023 Indentures, the “Indentures”) among 2024 Issuers, the guarantors party thereto and the Resigning Trustee, as trustee;

WHEREAS, the Issuers appointed Resigning Trustee as the trustee (the “Trustee”), registrar (the “Registrar”), paying agent (the “Paying Agent”) and, with respect to the 6.000% Notes, collateral agent (the “Collateral Agent”) under the Indentures;



WHEREAS, Section 7.08 of the Indentures provide that the Trustee may at any time resign with respect to the Securities by giving written notice of such resignation to the Issuers, effective upon the acceptance by a successor Trustee of its appointment as a successor Trustee;

WHEREAS, Section 7.08 of the Indentures provides that, if the Trustee shall resign, the Issuers shall promptly appoint a successor Trustee;

WHEREAS, Section 10.03(g) of the Indenture governing the 6.000% Notes (the “Secured Notes Indenture”) provides that the Collateral Agent may resign at any time by notice to the Trustee and the 2023 Issuers, effective upon the acceptance of a successor agent to its appointment as Collateral Agent;

WHEREAS, Section 10.03(g) of the Secured Notes Indenture provides that if the Collateral Agent shall resign, the 2023 Issuers shall appoint a successor Collateral Agent;

WHEREAS, Section 7.08 of the Indentures provide that any successor Trustee appointed in accordance with the Indentures shall execute, acknowledge and deliver to the Issuers and to their predecessor Trustee an instrument accepting such appointment under each Indenture, and thereupon the resignation of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of the predecessor Trustee;

WHEREAS, Section 10.03(g) of the Secured Notes Indenture provides that upon the acceptance of its appointment as successor Collateral Agent under the Secured Notes Indenture, such successor Collateral Agent shall succeed to all the rights, powers and duties of the retiring Collateral Agent, and the term “Collateral Agent” shall mean such successor collateral agent, and the retiring Collateral Agent’s appointment, powers and duties as the Collateral Agent shall be terminated;

WHEREAS, the Resigning Trustee has given written notice to the Issuers that it is resigning as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures;

WHEREAS, the Issuers desire to appoint Successor Trustee as successor Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, to succeed Resigning Trustee in such capacities, as applicable, under the Indentures; and

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WHEREAS, Successor Trustee is willing to accept such appointment as successor Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures;

NOW, THEREFORE, the Issuers, Resigning Trustee and Successor Trustee, for and in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby consent and agree as follows:

1

THE RESIGNING TRUSTEE

1.1 Pursuant to Section 7.08 of the Indentures, Resigning Trustee has by letter notified the Issuers that Resigning Trustee is resigning as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures.

1.2 Resigning Trustee hereby represents and warrants to Successor Trustee that:

1. Each Indenture, and each amendment and supplemental indenture thereto, if any, was validly and lawfully executed and delivered by the Resigning Trustee and is in full force and effect.
2. No covenant or condition contained in any Indenture has been waived by Resigning Trustee or, to the best knowledge of responsible officers of Resigning Trustee’s corporate trust department, by the Holders of the percentage in aggregate principal amount of the Securities required by the Indentures to effect any such waiver.
3. To the best knowledge of responsible officers of Resigning Trustee’s corporate trust department, there is no action, suit or proceeding pending or threatened against Resigning Trustee before any court or any governmental authority arising out of any act or omission of Resigning Trustee as Trustee under the Indentures.
4. As of the effective date of this Agreement, Resigning Trustee will hold no moneys or property under any Indenture.
5. Pursuant to Section 2.02 of the Indentures, Resigning Trustee has duly authenticated and delivered $2,260,000,000.00 aggregate principal amount

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of Securities, $2,260,000,000.00 of which are outstanding as of the effective date hereof and interest has been paid through the most recent date on which interest is required to be paid in accordance with the terms of such Securities.

1. The registers in which it has registered and transferred registered Securities accurately reflect the amount of Securities issued and outstanding and the amounts payable thereon.
2. Each person who so authenticated the Securities was duly elected, qualified and acting as an officer or authorized signatory of Resigning Trustee and empowered to authenticate the Securities at the respective times of such authentication and the signature of such person or persons appearing on such Securities is each such person’s genuine signature.
3. This Agreement has been duly authorized, executed and delivered on behalf of Resigning Trustee and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.
4. To its best knowledge, no responsible officer of the Resigning Trustee’s corporate trust department has received notice from the Issuers or any Holder that a default or Event of Default has occurred and is continuing, and no responsible officer of the Resigning Trustee’s corporate trust department has actual knowledge that a default or Event of Default has occurred and is continuing under any Indenture.

1.3 Resigning Trustee hereby assigns, transfers, delivers and confirms to Successor Trustee all right, title and interest of Resigning Trustee in and to the trust under the Indentures and all the rights, powers, trusts, privileges, immunities, duties and obligations of the Trustee under the Indentures, including, without limitation, all of its rights to, and all of its security interests in and liens upon, the collateral, if any, and all other rights of Resigning Trustee with respect to the collateral, if any, pursuant to the transaction documents. Resigning Trustee shall execute and deliver such further instruments and shall do such other things as Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in Successor Trustee all the rights, powers, trusts, privileges, immunities, duties and obligations hereby assigned, transferred,

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delivered and confirmed to Successor Trustee as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable.

1.4 Resigning Trustee shall deliver to Successor Trustee, as of or promptly after the effective date hereof, all of the documents listed on Exhibit A hereto, to the extent that such documents exist and are in the Resigning Trustee’s possession.

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THE ISSUERS

2.1 The Issuers hereby accept the resignation of Resigning Trustee as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures.

2.2 Each Issuer hereby appoints Successor Trustee as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indenture(s) to which it is a party to succeed to, and hereby vests Successor Trustee with, all the rights, powers, trusts, privileges, immunities, duties and obligations of Resigning Trustee under such Indenture(s) with like effect as if originally named as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, in such Indenture(s).

2.3 The Issuers, severally and not jointly, hereby represent and warrant to Resigning Trustee and Successor Trustee that:

1. Each Issuer is a limited partnership, limited liability company or corporation, as applicable, duly and validly organized and existing pursuant to the laws of the State of Delaware.
2. Each Indenture, and each amendment or supplemental indenture thereto, was validly and lawfully executed and delivered by the Issuers party thereto and is in full force and effect and the Securities were validly issued by the applicable Issuers.
3. Each Issuer has performed or fulfilled prior to the date hereof, and will continue to perform and fulfill after the date hereof, each covenant, agreement, condition, obligation and responsibility under the applicable Indenture(s).

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1. No event has occurred and is continuing which is, or after notice or lapse of time would become, an Event of Default under the Indenture(s) to which it is a party.
2. No covenant or condition contained in the Indentures has been waived by the Issuers party thereto or, to the best of each such Issuer’s knowledge, by Holders of the percentage in aggregate principal amount of the Securities required to effect any such waiver.
3. There is no action, suit or proceeding pending or, to the best of the each Issuer’s knowledge, threatened against such Issuer before any court or any governmental authority arising out of any act or omission of such Issuer under the Indenture(s) to which it is a party.
4. This Agreement has been duly authorized, executed and delivered on behalf of each Issuer and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.
5. All conditions precedent relating to the appointment of Deutsche Bank Trust Company Americas as successor Trustee and Collateral Agent, as applicable, under the Indentures have been complied with by the applicable Issuers.
6. No Issuer has appointed any paying agents under the Indenture(s) to which it is a party other than the Resigning Trustee.

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THE SUCCESSOR TRUSTEE

3.1 Successor Trustee hereby represents and warrants to Resigning Trustee and to the Issuers that:

1. Successor Trustee is eligible to act as Trustee under the provisions of the Indentures.
2. Successor Trustee is eligible to act as Collateral Agent under the provisions of the Secured Notes Indenture.

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1. This Agreement has been duly authorized, executed and delivered on behalf of Successor Trustee and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

3.2 Successor Trustee hereby accepts its appointment as successor Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures and accepts the rights, powers, trusts, privileges, immunities, duties and obligations of Resigning Trustee as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures, upon the terms and conditions set forth therein, with like effect as if originally named as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under the Indentures.

3.3 References in the Indentures to “Principal Office,” “Corporate Trust Office of the Trustee” or other similar terms shall be deemed to refer to the designated corporate trust office of Successor Trustee, which is presently located at 60 Wall Street, 16th Floor, MS NYC60-1630, New York, New York 10005.

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NOTICES

4.1 Promptly after the effective date of this Agreement, the Successor Trustee, in the Issuers’ names and at their expense, shall transmit notices of the Successor’s Trustee’s succession to the Holders of the Securities, in the forms of Exhibit B annexed hereto, in accordance with the provisions of Section 7.08 of the Indentures.

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MISCELLANEOUS

5.1 Except as otherwise expressly provided herein or unless the context otherwise requires, all terms used herein which are defined in the Indentures shall have the meanings assigned to them in the Indentures.

5.2 This Agreement and the resignation, appointment and acceptance effected hereby shall be effective as of July

8, 2019.

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5.3 This Agreement does not constitute a waiver by any of the parties hereto of any obligation or liability which Resigning Trustee may have incurred in connection with its serving as Trustee, Paying Agent, Registrar or Collateral Agent, as applicable, under the Indentures or an assumption by Successor Trustee of any liability of Resigning Trustee arising out of a breach by Resigning Trustee prior to its resignation of its duties under the Indentures.

5.4 Resigning Trustee hereby acknowledges payment or provision for payment in full by the Issuers of compensation for all services rendered by Resigning Trustee in its capacity as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, under Section 7.07 of the Indentures and reimbursement in full by the Issuers of the expenses, disbursements and advances incurred or made by Resigning Trustee in its capacity as Trustee, Registrar, Paying Agent and Collateral Agent, as applicable, in accordance with the provisions of the Indentures. Resigning Trustee acknowledges that it relinquishes any lien it may have upon all property or funds held or collected by it to secure any amounts due it pursuant to the provisions of Section 7.07 of the Indentures. This Agreement does not constitute a waiver or assignment by the Resigning Trustee of any compensation, reimbursement, expenses or indemnity to which it is or may be entitled pursuant to the Indentures. Each Issuer acknowledges its obligation set forth in Section 7.07 of the Indenture(s) to which it is a party to indemnify Resigning Trustee for, and to hold Resigning Trustee harmless against, any loss, liability or expense incurred without willful misconduct or negligence on the part of Resigning Trustee and arising out of or in connection with the acceptance or administration of the trust evidenced by the Indentures (which obligation shall survive the execution hereof).

5.5 The parties hereto agree to take reasonable action to confirm, evidence and perfect Successor Trustee’s rights in, or with respect to, the collateral, if any, pursuant to the transaction documents.

5.6 This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof.

5.7 This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile or PDF transmission

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shall constitute effective execution and delivery of this Agreement as to the parties hereto and may be used in lieu of the original Agreement and signature pages for all purposes.

5.8 The Issuers acknowledge that, in accordance with Section 326 of the USA Patriot Act, Successor Trustee, in order to help fight the funding of terrorism and prevent money laundering, is required to obtain, verify and record information that identifies each person or legal entity that establishes a relationship or opens an account with Successor Trustee. The Issuers agree that it will provide Successor Trustee with such information as it may request in order for Successor Trustee to satisfy the requirements of the USA Patriot Act.

5.9 This Agreement sets forth the entire agreement of the parties with respect to its subject matter, and supersedes and replaces any and all prior contemporaneous warranties, representations or agreements, whether oral or written, with respect to the subject matter of this Agreement other than those contained in this Agreement.

5.10 Neither the Resigning Trustee, nor the Successor Trustee shall incur any liability for not performing any act or fulfilling any duty, obligation or responsibility hereunder by reason of any occurrence beyond the control of the Resigning Trustee or the Successor Trustee (including but not limited to any act or provision of any present or future law or regulation or governmental authority, any act of God or war, civil unrest, local or national disturbance or disaster, any act of terrorism, or the unavailability of the Federal Reserve Bank wire or facsimile or other wire or communication facility).

5.11 The Issuers, Resigning Trustee and Successor Trustee hereby acknowledge receipt of an executed counterpart of this Agreement and the effectiveness thereof.

5.12 Unless otherwise provided herein, all notices, requests and other communications to any party hereunder shall be in writing (including facsimile and electronic transmission in PDF format) and shall be given to such party, addressed to it, as set forth below:

If to the Issuers:

c/o Uniti Group Inc.

10802 Executive Center Drive,

Benton Building Suite 300,

Little Rock, AR 72211

Attention: General Counsel

Fax No.: (501) 537-0769

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If to Resigning Trustee:

Wells Fargo Bank, N.A.

150 East 42nd Street, 40th Floor

New York, New York 10017

Attention: Raymond Delli Colli

Facsimile: (917) 260-1593

Email: Raymond.dellicolli@wellsfargo.com If to Successor Trustee:

Deutsche Trust Company Americas

60 Wall Street, 16th Floor

MS NYC60-1630

New York, New York 10005

Attn: Corporates Team, Uniti Group and CSL Capital

Facsimile: (732) 578-4635

[Signature pages to follow]

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**Exhibit 10.4**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation, Appointment and Acceptance to be duly executed, all as of the day and year first above written.

Uniti Group LP

By: Uniti Group Inc., as its general partner

By: /s/ Daniel L. Heard



Name: Daniel L. Heard

Title: Executive Vice President – General Counsel and Secretary

CSL Capital, LLC

By: /s/ Daniel L. Heard



Name: Daniel L. Heard

Title: Executive Vice President – General Counsel and Secretary

Uniti Group Finance Inc.

By: /s/ Daniel L. Heard



Name: Daniel L. Heard

Title: Executive Vice President – General Counsel and Secretary

Uniti Fiber Holdings Inc.

By: /s/ Daniel L. Heard



Name: Daniel L. Heard

Title: Executive Vice President – General Counsel and Secretary

Wells Fargo Bank, N.A.

as Resigning Trustee

By: /s/ Raymond Delli Colli



Name: Raymond Delli Colli

Title: Vice President

[Signature Page to Agreement of Resignation, Appointment and Acceptance]



Deutsche Bank Trust Company Americas,

as Successor Trustee

By: /s/ Robert S. Peschler



Name: Robert S. Peschler

Title: Vice President

By: /s/ Bridgette Casasnovas



Name: Bridgette Casasnovas

Title: Vice President

[Signature Page to Agreement of Resignation, Appointment and Acceptance]



EXHIBIT A

Documents to be delivered to Successor Trustee

1. Executed copy of each Indenture and each amendment and supplemental indenture thereto.
2. File of closing documents from initial issuance.
3. Collateral, if any, and related documents.
4. Originals of all global notes required to be held by it as custodian for the Depository Trust Company.
5. A copy of the most recent compliance certificate delivered pursuant to Section 4.04 of the Indentures.
6. Certified list of Holders, including certificate detail and all “stop transfers” and the reason for such “stop transfers” (or, alternatively, if there are a substantial number of registered Holders, the computer tape reflecting the identity of such Holders).
7. Filed, stamped copies of all existing financing statements.



EXHIBIT B

**Uniti Group LP, Uniti Group Finance Inc. and CSL Capital, LLC**

NOTICE

To the Holders of the 8.250% Senior Notes due 2023 of

Uniti Group LP, Uniti Group Finance Inc. and CSL Capital, LLC

(CUSIP No. 20341W AD7)\*

NOTICE IS HEREBY GIVEN, pursuant to Section 7.08 of the Indenture, dated as of April 24, 2015 (as amended and supplemented through the date hereof, the “Indenture”), by and among Uniti Group LP, a Delaware limited partnership (“Uniti”), Uniti Group Finance Inc., a Delaware corporation (“Uniti Finance”), and CSL Capital, LLC, a Delaware limited liability company (“CSL Capital” and, together with Uniti and Uniti Finance, the “Issuers”), the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee, that Wells Fargo Bank, National Association has resigned as trustee, registrar and paying agent under the Indenture.

Pursuant to Section 7.08 of the Indenture, Deutsche Bank Trust Company Americas, a New York State banking institution, has accepted appointment as trustee, registrar and paying agent under the Indenture. The address of the designated corporate trust office of the successor Trustee (including for purposes of Section 12.01 of the Indenture) is 60 Wall Street, 16th Floor, MS NYC60-1630, New York, New York 10005, Attn: Corporates Team, Uniti Group and CSL Capital, Facsimile: (732) 578-4635.

Wells Fargo Bank, National Association’s resignation as trustee, registrar and paying agent and Deutsche Bank Trust Company Americas’ appointment as successor trustee, registrar and paying agent were effective as of July 8, 2019.

\* \* \* \* \*

Dated: July \_\_, 2019

\* No representation is made as to the accuracy or correctness of CUSIP Nos.



**Uniti Group LP, Uniti Group Finance Inc. and CSL Capital, LLC**

NOTICE

To the Holders of the 6.000% Senior Secured Notes due 2023 of

Uniti Group LP, Uniti Group Finance Inc. and CSL Capital, LLC

(CUSIP Nos. 20341W AA3, U20316 AA0 and U20316 AC6)\*

NOTICE IS HEREBY GIVEN, pursuant to Sections 7.08 and 10.03 of the Indenture, dated as of April 24, 2015 (as amended and supplemented through the date hereof, the “Indenture”), by and among Uniti Group LP, a Delaware limited partnership (“Uniti”), Uniti Group Finance Inc., a Delaware corporation (“Uniti Finance”), and CSL Capital, LLC, a Delaware limited liability company (“CSL Capital” and, together with Uniti and Uniti Finance, the “Issuers”), the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee and Collateral Agent, that Wells Fargo Bank, National Association has resigned as trustee, registrar, paying agent and collateral agent under the Indenture.

Pursuant to Sections 7.08 and 10.03 of the Indenture, Deutsche Bank Trust Company Americas, a New York State banking institution, has accepted appointment as trustee, registrar, paying agent and collateral agent under the Indenture. The address of the designated corporate trust office of the successor Trustee and the successor Collateral Agent (including for purposes of Section 13.01 of the Indenture) is 60 Wall Street, 16th Floor, MS NYC60-1630, New York, New York 10005, Attn: Corporates Team, Uniti Group and CSL Capital, Facsimile: (732) 578-4635.

Wells Fargo Bank, National Association’s resignation as trustee, registrar, paying agent and collateral agent and Deutsche Bank Trust Company Americas’ appointment as successor trustee, registrar, paying agent and collateral agent were effective as of July 8, 2019.

\* \* \* \* \*

Dated: July \_\_, 2019

\* No representation is made as to the accuracy or correctness of CUSIP Nos.



**Uniti Group LP, Uniti Fiber Holdings Inc. and CSL Capital, LLC**

NOTICE

To the Holders of the 7.125% Senior Notes due 2024 of

Uniti Group LP, Uniti Fiber Holdings Inc. and CSL Capital, LLC

(CUSIP Nos. 20341W AE5 and U20316 AD4)\*

NOTICE IS HEREBY GIVEN, pursuant to Section 7.08 of the Indenture, dated as of December 15, 2016 (as amended and supplemented through the date hereof, the “Indenture”), by and among Uniti Group LP, a Delaware limited partnership (“Uniti”), Uniti Fiber Holdings Inc., a Delaware corporation (“Uniti Fiber”), and CSL Capital, LLC, a Delaware limited liability company (“CSL Capital” and, together with Uniti and Uniti Fiber, the “Issuers”), the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee, that Wells Fargo Bank, National Association has resigned as trustee, registrar and paying agent under the Indenture.

Pursuant to Section 7.08 of the Indenture, Deutsche Bank Trust Company Americas, a New York State banking institution, has accepted appointment as trustee, registrar and paying agent under the Indenture. The address of the designated corporate trust office of the successor Trustee (including for purposes of Section 12.01 of the Indenture) is 60 Wall Street, 16th Floor, MS NYC60-1630, New York, New York 10005, Attn: Corporates Team, Uniti Group and CSL Capital, Facsimile: (732) 578-4635.

Wells Fargo Bank, National Association’s resignation as trustee, registrar and paying agent and Deutsche Bank Trust Company Americas’ appointment as successor trustee, registrar and paying agent were effective as of July 8, 2019.

\* \* \* \* \*

Dated: July \_\_, 2019

\* No representation is made as to the accuracy or correctness of CUSIP Nos.

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**

**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**

**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth A. Gunderman, certify that:

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

Date: August 8, 2019 By: /s/Kenneth A. Gunderman

**Kenneth A. Gunderman**



**President and Chief Executive Officer**

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**

**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**

**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark A. Wallace, certify that:

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

Date: August 8, 2019 By: /s/ Mark A. Wallace

**Mark A. Wallace**



**Executive Vice President – Chief Financial Officer**

**and Treasurer**

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Uniti Group Inc. (the “Company”) for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

Date: August 8, 2019 By: /s/ Kenneth A. Gunderman

**Kenneth A. Gunderman**



**President and Chief Executive Officer**

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Uniti Group Inc. (the “Company”) for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

Date: August 8, 2019 By: /s/ Mark A. Wallace

**Mark A. Wallace**



**Executive Vice President – Chief Financial Officer**

**and Treasurer**