[Table of Contents](#page4)



**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 March 31, 2017**

**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** | | |  |



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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 | ☐ (Do not check if a smaller reporting company) | 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 April 28, 2017, the registrant had 175,448,233 shares of common stock, $0.0001 par value per share, outstanding.



[Table of Contents](#page4)

**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 future growth and demand of the telecommunication industry; future financing plans, business strategies, growth prospects and operating and financial performance; expectations regarding the impact and timing of the pending the acquisitions of Hunt Telecommunications, LLC ("Hunt") and Southern Light, LLC ("Southern Light"), including expectations regarding operational synergies with Uniti Towers and Uniti Fiber; expectations regarding settling conversion of our 3% convertible preferred stock in cash upon conversion; expectations regarding the probability of our obligation to pay contingent consideration upon Tower Cloud, Inc.'s ("Tower Cloud") or Hunt's achievement of certain defined operational and financial milestones; expectations regarding future deployment of fiber strand miles and recognition of revenue related thereto; expectations regarding levels of capital expenditures; expectations regarding the deductibility of goodwill for tax purposes; expectations regarding the amortization of intangible assets; 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 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 obtain our 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;
* the ability to generate sufficient cash flows to service our outstanding indebtedness;
* the ability to access debt and equity capital markets;
* the impact on our business or the business of our customers as a result of credit rating downgrades, and fluctuating interest rates;
* our ability to retain our key management personnel;
* our ability to maintain our status as a real estate investment trust (“REIT”);
* changes in the U.S. tax law and other federal, state or local laws, whether or not specific to REITs;
* 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;
* our ability to complete our pending acquisitions; and

2



[Table of Contents](#page4)

* 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, 2016, as well as those described from time to time in our future reports filed with the U.S. Securities and Exchange Commission (“the 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.

3



[Table of Contents](#page4)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Uniti Group Inc.** | | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Table of Contents** | | | | | |  |  |
| **PART I.** | | [**FINANCIAL INFORMATION**](#page5) | | | | | | | | | | | | | | | | | | **Page** |  |
|  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Item 1. | | [Financial Statements (Unaudited)](#page5) | | | | | | | |  | | | | | | | | | | 5 |  |
|  |  | **Uniti Group Inc.** | | | | | | | | | | | | | | | | | |  |  |
|  |  | [Condensed Consolidated Balance Sheets](#page5) | | | | | | | | | | | | | | | | | | 5 |  |
|  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Income](#page6) | | | | | | | | | | | | | | | | | | 6 |  |
|  |  |  |  |  |  |  |  |  |  | | |  |  |  |  |  |  |  |  |  |  |
|  |  | [Condensed Consolidated Statements of Comprehensive Income (Loss)](#page7) | | | | | | | | | | | | | | | | | | 7 |  |
|  |  | [Condensed Consolidated Statements of Shareholders’ Deficit](#page8) | | | | | | | | | | | | | | | |  | | 8 |  |
|  |  | [Condensed Consolidated Statements of Cash Flows](#page9) | | | | | | | | | | |  | | | |  | | | 9 |  |
|  |  | [Notes to Condensed Consolidated Financial Statements](#page10) | | | | | | | | | | | | | | | | | | 10 |  |
|  |  |  |  |  |  |  |  |  |  | | | | |  |  |  | | |  |  |  |
| Item 2. | | [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#page31) | | | | | | | | | | | | | | | | |  | 31 |  |
| Item 3. | | [Quantitative and Qualitative Disclosures About Market Risk](#page40) | | | | | | | | | | | | | |  | | | | 40 |  |
| Item 4. | | [Controls and Procedures](#page40) | | | | |  | | | | | | | | | | | | | 40 |  |
| **PART II.** | | [**OTHER INFORMATION**](#page42) | | | | | |  | | | | | | | | | | | |  |  |
| Item 1. | | [Legal Proceedings](#page42) | | | |  | | | | | | | | | | | | | | 42 |  |
| Item 1A. | | [Risk Factors](#page42) | | | | | | | | | | | | | | | | | | 42 |  |
|  |  |  |  |  |  | | | |  | | | | | |  | | | | |  |  |
| Item 2. | | [Unregistered Sales of Equity Securities and Use of Proceeds](#page42) | | | | | | | | | | | | | | | | | | 42 |  |
| Item 3. | | [Defaults Upon Senior Securities](#page42) | | | | | | | | | | | | |  | | | | | 42 |  |
| Item 4. | | [Mine Safety Disclosures](#page42) | | | | |  | |  | | | | | | | | | | | 42 |  |
| Item 5. | | [Other Information](#page42) | | |  | | | | | | | | | | | | | | | 42 |  |
| Item 6. | | [Exhibits](#page43) | | | | | | | | | | | | | | | | | | 43 |  |
| [Signatures](#page45) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 45 |  |
| [Exhibit Index](#page46) | | | | | | | | | | | | | | | | | | | | 46 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

4



[Table of Contents](#page4)

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Uniti Group Inc.**

**Condensed Consolidated Balance Sheets**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands, except par value) | |  | **March 31, 2017** | |  | **December 31, 2016** | |  |
| **Assets:** |  |  |  |  |  |  |  |  |
| Property, plant and equipment, net | | $ | 2,672,349 |  | $ | 2,670,037 |  |  |
| Cash and cash equivalents | |  | 68,726 |  |  | 171,754 |  |  |
| Accounts receivable, net | |  | 17,236 |  |  | 15,281 |  |  |
| Goodwill | |  | 262,086 |  |  | 262,334 |  |  |
| Intangible assets, net | |  | 214,061 |  |  | 160,584 |  |  |
| Straight-line revenue receivable | |  | 33,406 |  |  | 29,088 |  |  |
| Other assets | |  | 12,813 |  |  | 9,674 |  |  |
| **Total Assets** | | $ | 3,280,677 |  | $ | 3,318,752 |  |  |
| **Liabilities, Convertible Preferred Stock and Shareholders' Deficit:** | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Liabilities:** | |  |  |  |  |  |  |  |
| Accounts payable, accrued expenses and other liabilities | | $ | 56,023 |  | $ | 40,977 |  |  |
| Accrued interest payable | |  | 65,715 |  |  | 27,812 |  |  |
| Deferred revenue | |  | 293,879 |  |  | 261,404 |  |  |
| Derivative liability | |  | 1,536 |  |  | 6,102 |  |  |
| Dividends payable | |  | 94,810 |  |  | 94,607 |  |  |
| Deferred income taxes | |  | 47,048 |  |  | 28,394 |  |  |
| Capital lease obligations | |  | 54,068 |  |  | 54,535 |  |  |
| Contingent consideration | |  | 90,719 |  |  | 98,600 |  |  |
| Notes and other debt, net | |  | 4,003,792 |  |  | 4,028,214 |  |  |
| Total liabilities | |  | 4,707,590 |  |  | 4,640,645 |  |  |
|  |  |  |  |  |  |  |  |  |
| Commitments and contingencies (Note 12) | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Convertible preferred stock**, Series A, $0.0001 par value, 88 shares authorized, issued and outstanding, | |  | 81,296 |  |  | 80,552 |  |  |
| $87,500 liquidation value | |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **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: 155,276 shares at | |  | 16 |  |  | 15 |  |  |
| March 31, 2017 and 155,139 at December 31, 2016 | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Additional paid-in capital | |  | 141,503 |  |  | 141,092 |  |  |
| Accumulated other comprehensive income (loss) | |  | 3,072 |  |  | (6,369) | |  |
| Distributions in excess of accumulated earnings | |  | (1,652,800) | |  | (1,537,183) | |  |
| Total shareholders' deficit | |  |  |  |  |  |  |  |
|  | (1,508,209) | |  | (1,402,445) | |  |
| **Total Liabilities, Convertible Preferred Stock, and Shareholders' Deficit** | | $ | 3,280,677 |  | $ | 3,318,752 |  |  |
|  |  |  |  |  |  |  |  |  |

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

5



[Table of Contents](#page4)

**Uniti Group Inc.**

**Condensed Consolidated Statements of Income**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | |  |  |  |
| (Thousands, except per share data) | |  | **2017** |  |  | **2016** |  |  |
| **Revenues:** |  |  |  |  |  |  |  |  |
| Leasing | | $ | 170,306 |  | $ | 168,613 |  |  |
| Fiber Infrastructure | |  | 34,812 |  |  | - |  |  |
| Tower | |  | 1,428 |  |  | 28 |  |  |
| Consumer CLEC | |  | 4,927 |  |  | 6,034 |  |  |
| Total revenues | |  | 211,473 |  |  | 174,675 |  |  |
| **Costs and Expenses:** | |  |  |  |  |  |  |  |
| Interest expense | |  | 73,365 |  |  | 66,049 |  |  |
| Depreciation and amortization | |  | 101,361 |  |  | 86,340 |  |  |
| General and administrative expense | |  | 13,978 |  |  | 5,189 |  |  |
| Operating expense (exclusive of depreciation, accretion and amortization) | |  | 22,125 |  |  | 4,707 |  |  |
| Transaction related costs | |  | 9,684 |  |  | 3,910 |  |  |
| Other expenses | |  | 11,339 |  |  | - |  |  |
| Total costs and expenses | |  | 231,852 |  |  | 166,195 |  |  |
|  |  |  |  |  |  |  |  |  |
| **(Loss) income before income taxes** | |  | (20,379) | |  | 8,480 |  |  |
| Income (benefit) tax expense | |  | (379) | |  | 444 |  |  |
| **Net (loss) income** | |  |  |  |  |  |  |  |
|  | (20,000) | |  | 8,036 |  |  |
| Participating securities' share in earnings | |  | (387) | |  | (355) | |  |
| Dividends declared on convertible preferred stock | |  | (656) | |  | - |  |  |
| Amortization of discount on convertible preferred stock | |  | (745) | |  | - |  |  |
| **Net (loss) income applicable to common shareholders** | |  |  |  |  |  |  |  |
| $ | (21,788) | | $ | 7,681 |  |  |
|  |  |  |  |  |  |  |  |  |
| **(Loss) earnings per common share:** | |  |  |  |  |  |  |  |
| Basic | | $ | (0.14) | | $ | 0.05 |  |  |
| Diluted | |  |  |  |  |  |  |  |
| $ | (0.14) | | $ | 0.05 |  |  |
|  |  |  |  |  |  |  |  |  |
| **Weighted-average number of common shares outstanding** | |  |  |  |  |  |  |  |
| Basic | |  | 155,184 |  |  | 149,918 |  |  |
| Diluted | |  |  |  |  |  |  |  |
|  | 155,184 |  |  | 149,984 |  |  |
|  |  |  |  |  |  |  |  |  |
| **Dividends declared per common share** | | $ | 0.60 |  | $ | 0.60 |  |  |
|  |  |  |  |  |  |  |  |  |

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

6



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | |  |  |
| (Thousands) |  |  | **2017** |  |  | **2016** |  |
| Net (loss) income | | $ | (20,000) | | $ | 8,036 |  |
| Other comprehensive (loss) income: | |  |  |  |  |  |  |
| Unrealized (loss) gain on derivative contracts | |  | 4,566 |  |  | (40,442) | |
| Changes in foreign currency translation | |  | 4,875 |  |  | 80 |  |
| Other comprehensive income (loss) | |  | 9,441 |  |  | (40,362) | |
|  |  |  |  |  |  |  |  |
| **Comprehensive loss** | | $ | (10,559) | | $ | (32,326) | |
|  |  |  |  |  |  |  |  |

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

7



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| [Table of Contents](#page4) | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **Uniti Group Inc.** | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **Condensed Consolidated Statements of Shareholders’ Deficit** | | | | | | | | | | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **(unaudited)** | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Accumulated | | |  | Distributions | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Additional | | | |  | Other | |  | in Excess of | | |  |  | Total | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Paid-in | | Comprehensive | | | Accumulated | | | | Shareholders' | | | |  |
| (Thousands, except share data) | | |  | Preferred Stock | | | | |  |  |  | Common Stock | | | | |  |  |  |  | Capital | |  | Loss | |  |  | Earnings | |  |  | Deficit | |  |
|  |  |  | Shares | | |  | Amount | |  |  | Shares | | | |  | Amount | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2015 | | |  |  | - | $ | | | - |  | 149,862,459 | | |  | $ | | 15 | | $ | | 1,392 |  | $ | (5,427) | | $ | | (1,162,886) | | $ | | (1,166,906) | |  |
| Net income | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | 8,036 |  |  |  | 8,036 |  |  |
| Issuance of common stock | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | 1,085 |  |  | - |  |  |  | - |  |  |  | 1,085 |  |  |
| Amortization of discount of convertible | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | - |  |  |  | - |  |  |
| preferred stock | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other comprehensive loss | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | (40,362) | |  |  | - |  |  |  | (40,362) | |  |
| Common stock dividends | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | (90,428) | |  |  | (90,428) | |  |
| Equity issuance cost | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | - |  |  |  | - |  |  |
| Net share settlement | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | (1,266) | |  |  | (1,266) | |  |
| Stock-based compensation | | | - | | |  |  |  | - |  | 171,785 | | |  |  |  | - | |  |  | 930 |  |  | - |  |  |  | - |  |  |  | 930 |  |  |
| Balance at March 31, 2016 | | | - | | | $ | | | - |  | 150,034,244 | | |  | $ | | 15 | | $ | | 3,407 |  | $ | (45,789) | | $ | | (1,246,544) | | $ | | (1,288,911) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2016 | | | - | | |  | $ | | - |  | 155,138,637 | | |  | $ | | 15 | |  | $ | 141,092 |  | $ | (6,369) | | $ | | (1,537,183) | | $ | | (1,402,445) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | (20,000) | |  |  | (20,000) | |  |
| Amortization of discount on convertible | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | (745) | |  | - |  |  |  | - |  |  |  | (745) | |  |
| preferred stock | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other comprehensive gain | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | 9,441 |  |  |  | - |  |  |  | 9,441 |  |  |
| Common stock dividends | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | (93,692) | |  |  | (93,692) | |  |
| Convertible preferred stock dividends | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | - |  |  | - |  |  |  | (656) | |  |  | (656) | |  |
| Equity issuance cost | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | (54) | |  | - |  |  |  | - |  |  |  | (54) | |  |
| Net share settlement | | | - | | |  |  |  | - |  | - | | |  |  |  | - | |  |  | (421) | |  | - |  |  |  | (1,269) | |  |  | (1,690) | |  |
| Stock-based compensation | | | - | | |  |  |  | - |  | 136,866 | | |  |  |  | 1 | |  |  | 1,631 |  |  | - |  |  |  | - |  |  |  | 1,632 |  |  |
| Balance at March 31, 2017 | | | - | | | $ | | | - |  | 155,275,503 | | |  | $ | | 16 | | $ | | 141,503 |  | $ | 3,072 |  | $ | | (1,652,800) | | $ | | (1,508,209) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

8



[Table of Contents](#page4)

**Uniti Group Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | | | |  |
| (Thousands) | |  | **2017** |  |  | **2016** |  |  |
| **Cash flow from operating activities** |  |  |  |  |  |  |  |  |
| Net (loss) income | | $ | (20,000) | | $ | 8,036 |  |  |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | |  |  |  |  |  |  |  |
| Depreciation and amortization | |  | 101,361 |  |  | 86,340 |  |  |
| Amortization of deferred financing costs | |  | 2,487 |  |  | 1,818 |  |  |
| Amortization of debt discount | |  | 2,778 |  |  | 1,946 |  |  |
| Deferred income taxes | |  | (1,002) | |  | (216) | |  |
| Straight-line revenues | |  | (3,629) | |  | (4,322) | |  |
| Stock-based compensation | |  | 1,632 |  |  | 930 |  |  |
| Other | |  | 124 |  |  | (9) | |  |
| Changes in assets and liabilities, net of acquisitions: | |  |  |  |  |  |  |  |
| Accounts receivable | |  | 1,014 |  |  | 1,307 |  |  |
| Other assets | |  | (1,626) | |  | (252) | |  |
| Change in fair value of contingent consideration | |  | 10,910 |  |  | - |  |  |
| Accounts payable, accrued expenses and other liabilities | |  | 34,153 |  |  | 26,123 |  |  |
| Net cash provided by operating activities | |  | 128,202 |  |  | 121,701 |  |  |
| **Cash flow from investing activities** | |  |  |  |  |  |  |  |
| Acquisition of businesses, net of cash acquired | |  | 248 |  |  | 111 |  |  |
| Acquisition of ground lease investments | |  | (7,191) | |  | (1,347) | |  |
| NMS asset acquisition (Note 3) | |  | (64,622) | |  | - |  |  |
| Capital expenditures | |  | (14,931) | |  | (77) | |  |
| Net cash used in investing activities | |  |  |  |  |  |  |  |
|  | (86,496) | |  | (1,313) | |  |
| **Cash flow from financing activities** | |  |  |  |  |  |  |  |
| Principal payment on debt | |  | (5,270) | |  | (6,044) | |  |
| Dividends paid | |  | (94,133) | |  | (90,314) | |  |
| Payments of contingent consideration | |  | (18,791) | |  | - |  |  |
| Borrowings under revolving credit facility | |  | 25,000 |  |  | - |  |  |
| Payments under revolving credit facility | |  | (25,000) | |  | - |  |  |
| Capital lease payments | |  | (672) | |  | - |  |  |
| Deferred financing costs | |  | (24,418) | |  | - |  |  |
| Common stock issuance, net of costs | |  | (54) | |  | - |  |  |
| Net share settlement | |  | (1,690) | |  | (1,266) | |  |
| Net cash used in financing activities | |  |  |  |  |  |  |  |
|  | (145,028) | |  | (97,624) | |  |
| Effect of exchange rates on cash and cash equivalents | |  | 294 |  |  | 78 |  |  |
| Net (decrease) increase in cash and cash equivalents | |  | (103,028) | |  | 22,842 |  |  |
| Cash and cash equivalents at beginning of period | |  | 171,754 |  |  | 142,498 |  |  |
| Cash and cash equivalents at end of period | | $ | 68,726 |  | $ | 165,340 |  |  |
| **Non-cash investing and financing activities:** | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Property and equipment acquired but not yet paid | | $ | 4,013 |  | $ | - |  |  |
| Tenant capital improvements | | $ | 33,824 |  | $ | 32,359 |  |  |
| Acquisition of businesses through non-cash consideration | | $ | - |  | $ | 974 |  |  |

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

9



[Table of Contents](#page4)

**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”), formerly known as Communications Sales and Leasing, Inc., was incorporated in the state of Maryland on September 4, 2014 as a subsidiary of Windstream Holdings, Inc. (“Windstream Holdings” and together with its subsidiaries, “Windstream”). On April 24, 2015, Uniti was separated and spun-off from Windstream (“the Spin-Off”). In connection with the Spin-Off, 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”). Immediately following the Spin-Off we entered into a long-term exclusive triple-net lease (the “Master Lease”) with Windstream pursuant to which Uniti leases the Distribution Systems to Windstream. The assets and liabilities of the Distribution Systems and Consumer CLEC Business were recorded in our Condensed Consolidated Financial Statements on a carryover basis as of the date of the Spin-Off.

We are an independent, internally managed 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. Effective the first quarter of 2017, we commenced managing our operations in four separate lines of business: Unit Fiber, Uniti Towers, Uniti Leasing, and the Consumer CLEC Business.

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

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, 2016 (“Annual Report”), filed with the SEC on February 23, 2017. 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. All material intercompany balances and transactions have been eliminated.

Income Taxes—We currently have recorded a $5.3 million liability for unrecognized tax benefits in connection with the acquisition of Network Management Holdings, LTD (“NMS”). See Note 3. We have filed our initial U.S. federal and state income tax returns which are subject to examination.

Reclassifications—Certain amounts have been reclassified to conform with current year presentation. Following the acquisition of Network Management Holdings, LTD (“NMS”) in the first quarter of 2017, the Company manages and reports our operations in four reportable business segment: Leasing, Fiber Infrastructure, Towers and Consumer CLEC. Prior year information, including revenues on the Consolidated Statement of Income, has been recast to conform to the current year presentation. [See Note 11](#page20). We determined that certain immaterial misclassifications existed in the supplemental guarantor information condensed consolidating statements of comprehensive income for the three months ended March 31, 2016. During the first quarter of 2017, certain Non-Guarantor entities became Guarantor entities. Prior year information has been recast to conform to the current year presentation. [See Note 14](#page23).

Recently Issued Accounting Standards

In February 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial* *Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (“ASU 2017-05”), whichprovides guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets, and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. The Company is currently evaluating the impacts the adoption of this accounting standard will have on our financial statements.

10



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* (“ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We adopted ASU 2017-04 effective January 1, 2017, and there was no material impact on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2017-01 effective January 1, 2017, with prospective application. As a result of the adoption of ASU 2017-01, the Company’s acquisition of NMS) ([see Note 3](#page11)) was determined to be an asset acquisition. Transaction cost associated with our real property interest investments are now capitalized as opposed to be recorded as an expense as was required prior to adoption of ASU 2017-01.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). This update outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted for public companies for annual periods beginning after December 15, 2016. The Company intends to adopt the revenue recognition guidance on January 1, 2018. The Company’s implementation efforts include reviewing revenue contracts and the identification of revenue within scope of the guidance. While the Company currently has not identified any material changes in the timing of revenue recognition, the evaluation is ongoing and we are in the process of determining the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASC 842”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new 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 recognized based on an effective interest method or 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. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The Company is currently evaluating this guidance to determine the impact it will have on our financial statements by reviewing its existing operating lease contracts, where we are the lessee and service contracts that may include embedded leases. The Company expects a gross-up of its Consolidated Balance Sheets as a result of recognizing lease liabilities and right of use assets, the extent of the impact of a gross-up is under evaluation. The Company does not anticipate material changes to the recognition of operating lease expense in its Consolidated Statements of Income.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance on reducing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In addition to other specific cash flow issues, ASU 2016-15 provides clarification on when an entity should separate cash receipts and cash payments into more than one class of cash flows and when an entity should classify those cash receipts and payments into one class of cash flows on the basis of predominance. The new guidance is effective for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and early adoption is permitted.

The Company is currently evaluating the impacts the adoption of this accounting standard will have on our financial statements.

**Note 3. Business Combinations and Asset Acquisitions**

Asset Acquisitions

*Network Management Holdings LTD*

11



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

On January 31, 2017, we completed the previously announced acquisition of NMS. The Company accounted for the acquisition of NMS as an asset purchase. At close, NMS owned and operated 366 wireless communications towers in Latin America with an additional 105 build to suit tower sites under development. The NMS portfolio spans three Latin America countries with 212 towers in Mexico, 54 towers in Nicaragua, and 100 towers in Colombia. The consideration for the 366 wireless towers currently in operation was $62.6 million, which was funded through cash on hand, and is presented in NMS asset acquisition on the Condensed Consolidated Statements of Cash Flows. NMS conducts its operations through three non-U.S. subsidiaries and the Company has determined that the functional currencies for the Mexico, Nicaraguan and Colombian subsidiaries are the Mexican Peso, US Dollar and Colombian Peso, respectively. The non-U.S. subsidiaries in which NMS conducts its operations are subject to income tax in the jurisdictions in which they operate. The acquisition did not result in a step up in tax basis under local law. The Company recorded a net deferred tax liability of $18.4 million and a liability for unrecognized tax benefits of $5.3 million in connection with the acquisition. The deferred tax liability is primarily related to the excess of the recorded amounts for Property, Plant & Equipment and Intangibles over their respective historical tax bases. Under the terms of the purchase agreement, we will acquire the towers under development when construction is completed. The NMS towers are reflected in our Towers segment. [See note 11](#page20). The following is a summary of the estimated fair values of the assets acquired and liabilities assumed:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **(thousands)** |  |
| Property, plant and equipment | | $ | 36,417 |  |
| Accounts receivable | |  | 2,826 |  |
| Other assets | |  | 1,623 |  |
| Intangible assets | |  | 52,437 |  |
| Accounts payable, accrued expenses and other liabilities | |  | (8,895) | |
| Intangible liabilities | |  | (3,440) | |
| Deferred income taxes | |  | (18,403) | |
| Total purchase consideration | | $ | 62,565 |  |
|  |  |  |  |  |

Of the $52.4 million of acquired intangible assets, $37.4 million was assigned to tenant contracts (22 year life), $13.5 million was assigned to network (22 year life) and $1.5 million was assigned to acquired above-market leases (10 year life). The acquired below-market lease intangible liability of $3.4 million has a 10 year life. [See Note 7](#page16).

On March 15, 2017, construction was completed on 24 towers that were under development, and we acquired the towers pursuant to the purchase agreement for approximately $2.1 million.

Business Combinations

*Tower Cloud, Inc.*

On August 31, 2016, we acquired 100% of the outstanding equity of Tower Cloud, Inc. (“Tower Cloud”) for $187.5 million in cash and 1.9 million shares of our common stock with an acquisition date fair value of $58.5 million. Additional contingent consideration of up to $130 million, with an acquisition date fair value of $98.6 million, may be paid upon the achievement of certain defined operational and financial milestones. [See Note 4](#page13). 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. Tower Cloud provides data transport services, with particular focus on providing infrastructure solutions to the wireless and enterprise sectors, including fiber-to-the-tower backhaul, small cell networks, and dark fiber deployments. 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. During the first quarter of 2017, certain contractual working capital adjustments resulted in a $0.2 million reduction of the purchase price and goodwill. [See Note 7](#page16). The following is a summary of the estimated fair values of the assets acquired and liabilities assumed:

12



[Table of Contents](#page4)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Uniti Group Inc.** | |  |  |  |
| **Notes to the Condensed Consolidated Financial Statements – Continued** | |  |  |  |
| **(unaudited)** | |  |  |  |
|  |  |  | **(thousands)** |  |
| Property, plant and equipment | | $ | 163,680 |  |
| Cash and cash equivalents | |  | 14,346 |  |
| Accounts receivable | |  | 3,043 |  |
| Other assets | |  | 2,595 |  |
| Intangible assets | |  | 116,218 |  |
| Accounts payable, accrued expenses and other liabilities | |  | (16,782) | |
| Deferred revenue | |  | (23,900) | |
| Deferred income taxes | |  | (24,866) | |
| Capital lease obligations | |  | (6,750) | |
| Net assets acquired | | $ | 227,584 |  |
|  |  |  |  |  |
| Goodwill | | $ | 117,032 |  |
|  |  |  |  |  |

**Note 4. 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

***Level 3*** – Unobservable inputs for the asset or liability

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

The following table summarizes the fair value of our financial instruments at March 31, 2017 and December 31, 2016:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Prices with** |  |  |  |  |  |
|  |  |  |  |  | **Quoted Prices in** |  |  |  | **Other** |  |  | **Prices with** | |  |
|  |  |  |  |  |  |  |  | **Observable** |  |  |  |
|  |  |  | **Total** |  | **Active Markets** |  |  |  | **Inputs** |  |  | **Unobservable** | |  |
| (Thousands) |  |  |  | **(Level 1)** |  |  |  | **(Level 2)** |  |  | **Inputs (Level 3)** | |  |
| At March 31, 2017 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior secured term loan B - variable rate, due October 24, 2022 | $ | | 2,100,069 | $ | | - | $ | | 2,100,069 | $ | | - |  |  |
| Senior secured notes - 6.00%, due April 15, 2023 |  |  | 567,875 |  |  | - |  |  | 567,875 |  |  | - |  |  |
| Senior unsecured notes - 8.25%, due October 15, 2023 |  |  | 1,168,275 |  |  | - |  |  | 1,168,275 |  |  | - |  |  |
| Senior unsecured notes - 7.125%, due December 15, 2024 |  |  | 405,000 |  |  | - |  |  | 405,000 |  |  | - |  |  |
| Derivative liability |  |  | 1,536 |  |  | - |  |  | 1,536 |  |  | - |  |  |
| Contingent consideration |  |  | 90,719 |  |  | - |  |  | - |  |  | 90,719 |  |  |
| Total | $ | | 4,333,474 | $ | | - | $ | | 4,242,755 | $ | | 90,719 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

13



[Table of Contents](#page4)

**Uniti Group Inc.**

**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, 2016 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior secured term loan B - variable rate, due October 24, 2022 | | $ | 2,139,586 |  | $ | - |  | $ | 2,139,586 | $ | | - |  |  |
| Senior secured notes - 6.00%, due April 15, 2023 | |  | 569,250 |  |  | - |  |  | 569,250 |  |  | - |  |  |
| Senior unsecured notes - 8.25%, due October 15, 2023 | |  | 1,176,600 |  |  | - |  |  | 1,176,600 |  |  | - |  |  |
| Senior unsecured notes - 7.125%, due December 15, 2024 | |  | 404,000 |  |  | - |  |  | 404,000 |  |  | - |  |  |
| Derivative liability | |  | 6,102 |  |  | - |  |  | 6,102 |  |  | - |  |  |
| Contingent consideration | |  | 98,600 |  |  | - |  |  | - |  |  | 98,600 |  |  |
| Total | | $ | 4,394,138 |  | $ | - |  | $ | 4,295,538 | $ | | 98,600 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 $4.16 billion at March 31, 2017, with a fair value of $4.24 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 liabilities are carried at fair value. [See Note 6](#page15). 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 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 March 31, 2017, 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 liabilities valuation in Level 2 of the fair value hierarchy.

As part of the acquisition of Tower Cloud on August 31, 2016, we may be obligated to pay contingent consideration upon achievement of certain defined operational and financial milestones; therefore, we recorded the estimated fair value of future contingent consideration of $98.6 million as of August 31, 2016. The fair value of the contingent consideration as of August 31, 2016, was determined using a discounted cash flow model and probability adjusted estimates of the future earnings and is classified as Level 3. During the three months ended March 31, 2017, we paid $18.8 million for the achievement of certain milestones in accordance with the Tower Cloud merger agreement. Changes in the fair value of contingent consideration will be recorded in our Condensed Consolidated Statement of Income in the period in which the change occurs. There was a $10.9 million increase in the fair value of the contingent consideration as of March 31, 2017 that was recorded in Other expenses on the Condensed Consolidated Statements of Income during the three months ended March 31, 2017.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **December 31, 2016** |  | **Transfers into Level 3** |  |  | **(Gain)/Loss included** | | |  | **Settlements** |  |  | **March 31, 2017** |  |  |
| (Thousands) |  |  |  |  |  |  | **in earnings** |  |  |  |  |
| Contingent consideration | | $ | 98,600 | $ | | - | $ | | 10,910 |  | $ | (18,791) | | $ | 90,719 |  |  |

14



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

**Note 5. Property, Plant and Equipment**

The carrying value of property, plant and equipment is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  | **Depreciable Lives** | |  |  | **March 31, 2017** |  |  | **December 31, 2016** |  |  |
| Land | |  | Indefinite $ | | | 28,385 |  | $ | 26,833 |  |  |
| Building and improvements | | 3 | - 40 years | | | 320,061 |  |  | 318,967 |  |  |
| Real property interests | | 50 | - 99 years | | | 20,313 |  |  | 12,265 |  |  |
| Poles | | 13 | - 40 years | | | 234,785 |  |  | 234,393 |  |  |
| Fiber | | 7 | - 40 years | | | 2,264,718 |  |  | 2,243,822 |  |  |
| Equipment | |  | 5 - 7 years | | | 134,461 |  |  | 130,945 |  |  |
| Copper | | 7 | - 40 years | | | 3,553,467 |  |  | 3,538,566 |  |  |
| Conduit | | 13 | - 47 years | | | 90,531 |  |  | 90,540 |  |  |
| Tower assets | | 20 | - 49 years | | | 45,523 |  |  | 4,307 |  |  |
| Capital lease assets | | See Note 3 | | | | 90,279 |  |  | 89,723 |  |  |
| Other assets | | 15 | - 20 years | | | 5,299 |  |  | 5,299 |  |  |
| Corporate assets | |  | 3 - 7 years | | | 2,612 |  |  | 2,731 |  |  |
| Construction in progress | | See Note 3 | | | | 61,293 |  |  | 52,685 |  |  |
|  |  |  |  |  |  | 6,851,727 |  |  | 6,751,076 |  |  |
| Less accumulated depreciation | |  |  |  |  | (4,179,378) | |  | (4,081,039) | |  |
| Net property, plant and equipment | |  |  |  |  |  |  |  |  |  |  |
|  | $ | | | 2,672,349 |  | $ | 2,670,037 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Depreciation expense for the three months ended March 31, 2017 and 2016 was $98.9 million and $85.5 million, respectively.

**Note 6. 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 $2.12 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.

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Location on Condensed Consolidated** | |  | **March 31, 2017** |  |  | **December 31, 2016** |  |  |
| (Thousands) |  | **Balance Sheet** |  |  |  |  |
| Interest rate swaps | | Derivative liability | | $ | 1,536 |  | $ | 6,102 |  |  |

As of March 31, 2017 and December 31, 2016, all of the interest rate swaps were valued in net unrealized loss positions and recognized as liability balances within the derivative liability balance. For the three months ended March 31, 2017 and 2016, the amount recorded in other comprehensive income related to the unrealized loss on derivative instruments was $7.1 million and $46.4 million, respectively. The amount reclassified out of other comprehensive income into interest expense on our Condensed Consolidated Statement of Income for the three months ended March 31, 2017 and 2016 was $11.6 million and $5.9 million, respectively. For the three months ended March 31, 2017 and 2016, 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 April 1, 2017, we estimate that $28.4 million will be reclassified as an increase to interest expense.

15



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

**Note 7. Goodwill and Intangible Assets and Liabilities**

Changes in the carrying amount of goodwill occurring during the three months ended March 31, 2017, are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  |  | **Fiber Infrastructure** |  |  | **Total** |  |
| Goodwill at December 31, 2016 | $ | | 262,334 |  | $ | 262,334 |  |
| Goodwill associated with 2017 acquisitions |  |  | - |  |  | - |  |
| Goodwill purchase accounting adjustments |  |  | (248) | |  | (248) | |
| Goodwill at March 31, 2017 |  | $ | 262,086 |  | $ | 262,086 |  |
|  |  |  |  |  |  |  |  |

The carrying value of the intangible assets is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  |  | **March 31, 2017** | | |  |  |  | **December 31, 2016** | | | |  |  |
|  |  | **Cost** |  |  | **Accumulated Amortization** | | |  | **Cost** | |  | **Accumulated Amortization** | | |
| Indefinite life intangible assets: | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Trade name | | $ | 2,000 |  | $ | - |  | $ | 2,000 |  | $ | | - |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Finite life intangible assets: | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Customer lists | |  | 188,469 |  |  | (32,071) | |  | 188,642 |  |  |  | (30,058) | |
| Tenant contracts | |  | 39,992 |  |  | (242) | |  | - |  |  |  | - |  |
| Network(1) | |  | 14,483 |  |  | (88) | |  | - |  |  |  | - |  |
| Acquired below-market leases | |  | 1,527 |  |  | (9) | |  | - |  |  |  | - |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total intangible assets | |  | 246,471 |  |  |  |  |  | 190,642 |  |  |  |  |  |
| Less: Accumulated amortization | |  | (32,410) | |  |  |  |  | (30,058) | |  |  |  |  |
| Total intangible assets, net | | $ | 214,061 |  |  |  |  | $ | 160,584 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Finite life intangible liabilities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Acquired above-market leases | | $ | 3,591 |  | $ | (27) | | $ | - |  | $ | | - |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Finite life intangible liabilities: | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Acquired above-market leases | |  | 3,591 |  |  |  |  |  |  |  |  |  |  |  |
| Less: Accumulated amortization | |  | (27) | |  |  |  |  |  |  |  |  |  |  |
| Total intangible liabilities, net(2) | | $ | 3,564 |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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.

Amortization expense for the three months ended March 31, 2017 and 2016 was $2.5 million and $0.8 million, respectively.

Amortization expense is estimated to be $8.7 million for the full year of 2017, $8.1 million in 2018, $7.5 million in 2019, $7.0 million in 2020, $6.5 million in 2021.

16



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

**Note 8. Notes and Other Debt**

Notes and other debt is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) | |  |  |  |  |  |  | **March 31, 2017** | | | |  |  |  | **December 31, 2016** | | |  |  |
| Principal amount | |  |  |  |  | $ | | |  | 4,162,697 | |  | $ | |  |  | 4,167,967 |  |  |
| Less unamortized discount and debt issuance costs | |  |  |  |  |  |  |  |  |  | (158,905) | |  |  |  |  | (139,753) | |  |
| Notes and other debt less unamortized discount and debt issuance costs | |  |  |  |  |  | | $ |  | 4,003,792 | |  |  | $ |  |  | 4,028,214 |  |  |
| Notes and other debt at March 31, 2017 and December 31, 2016 consisted of the following: | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **March 31, 2017** | | | | | | |  |  |  | **December 31, 2016** | | | | | |  |
|  |  |  |  |  | **Unamortized Discount** | | | |  |  |  |  |  |  |  | **Unamortized Discount** | |  |  |
|  |  |  | **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 5.66%) | | $ | 2,102,697 |  |  | (99,175) | | | | $ | 2,107,967 | | | | $ | | (78,699) | |  |
| Senior secured notes - 6.00%, due April 15, 2023 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 6.29%) | |  | 550,000 |  |  | (9,615) | | | |  |  |  | 550,000 | |  |  | (9,817) | |  |
| Senior unsecured notes - 8.25%, due October 15, 2023 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (discount is based on imputed interest rate of 9.06%) | |  | 1,110,000 |  |  | (44,634) | | | |  | 1,110,000 | | | |  |  | (45,599) | |  |
| Senior unsecured notes - 7.125% due December 15, 2024 | |  | 400,000 |  |  | (5,481) | | | |  |  |  | 400,000 | |  |  | (5,638) | |  |
| Total | |  |  |  |  |  | | |  |  |  | | | |  |  |  |  |  |
| $ | 4,162,697 |  | $ | (158,905) | | | | $ | 4,167,967 | | | | $ | | (139,753) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

At March 31, 2017, we had outstanding: (i) $2.1 billion under our senior secured term loan B facility that matures on October 24, 2022 (“Term Loan Facility”); (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”); and (iv) $400 million aggregate principal amount of 7.125% Senior Unsecured Notes due December 15, 2024 (the “2024 Notes”).

Credit Agreement

On April 24, 2015 the Company and CSL Capital, LLC, a wholly-owned subsidiary of the Company, entered into a credit agreement (the “Credit Agreement”), which provides for the Term Loan Facility (in an initial principal amount of $2.14 billion) and a $500 million senior secured revolving credit facility maturing April 24, 2020 (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Facilities”). On October 21, 2016, the Company and CSL Capital amended the Credit Agreement to, among other things, replace the then outstanding principal amounts of the term loans thereunder with a like aggregate amount of new term loans having substantially similar terms as the then outstanding term loans, other than with respect to the applicable interest rate marigin and the period of time for which prepayment premiums in respect of certain repricing transactions apply. On February 9, 2017, we again repriced the term loans decreasing the interest rate margin by an additional 50 basis points. The term loans now bear interest at a rate equal to LIBOR, subject to a 1.0% floor, plus an applicable margin equal to 3.00%, and are subject to amortization of 1.0% per annum. The loans have been incurred by the Company and CSL Capital, are guaranteed by certain of Uniti’s wholly-owned subsidiaries (the “Guarantors”), and are secured by substantially all of the assets of Uniti, CSL Capital and the Guarantors, subject to certain exceptions, 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.

We 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 incremental term loan borrowings and/or increased commitments under the Credit Agreement in an aggregate amount equal to $150 million plus, an unlimited amount, so long as, on a pro forma basis after giving effect to any such increases, 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 by the Company or certain of its subsidiaries to make payments under other debt obligations, or the occurrence of certain events affecting those other borrowing arrangements, could trigger an obligation to

17



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

repay any amounts outstanding under the Credit Agreement. In particular, a repayment obligation could be triggered if (i) the Company or certain of its subsidiaries fails 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 March 31, 2017, we were in compliance with all of the covenants under the Credit Agreement.

The Notes

On April 24, 2015, we, along with CSL Capital, co-issued $400 million aggregate principal amount of the Secured Notes and $1.11 billion aggregate principal amount of the 2023 Notes (together the “Notes”). The Secured Notes were issued at an issue price of 100% of par value, while the 2023 Notes were issued at an issue price of 97.055% of par value. The Notes are guaranteed by the Guarantors. The Notes were issued to Windstream Services as partial consideration for the contribution of the Distribution Systems and the Consumer CLEC Business in connection with the Spin-Off. As such, Uniti did not receive any proceeds from the issuance of the Notes. The issuance of the Notes and their exchange by Windstream Services for certain of its outstanding indebtedness were not registered under the Securities Act of 1933, as amended (the “Securities Act”), but were exempt from registration under Rule 144A, Regulation S and other applicable exemptions of the Securities Act. Pursuant to a registration rights agreement entered into by the Company in connection with the sale of the 2023 Notes, the Company subsequently filed with the SEC a registration statement relating to an exchange offer pursuant to which 8.25% Senior Notes due 2023 that were registered with the SEC (the “Exchange Notes”) were offered in exchange for 2023 Notes tendered by the holders of those notes. The terms of the Exchange Notes were substantially identical to the terms of the 2023 Notes in all material respects, except that the Exchange Notes were registered under the Securities Act of 1933 and the transfer restrictions, registration rights and additional interest provision applicable to the 2023 Notes do not apply to the Exchange Notes. On January 3, 2017, we filed a Form 15 with the SEC as notice of the suspension of responsibility to file reports with the SEC with respect to the Exchange Notes.

On June 9, 2016, we, along with CSL Capital, co-issued an additional $150 million aggregate principal amount of 6.00% Senior Secured Notes (the “add-on Notes”) as an add-on to the Company’s existing Secured Notes. The add-on Notes were issued at an issue price of 99.25% of par value, are subject to the same customary covenant requirements as the existing Secured Notes, and are guaranteed by the Guarantors. The issuance of the add-on Notes was not registered under the Securities Act, but was exempt from registration under Rule 144A, Regulation S and other applicable exemptions of the Securities Act. Proceeds from the issuance of the add-on Notes were used to repay existing borrowings under the Revolving Credit Facility.

On December 15, 2016, we, along with CSL Capital, co-issued $400 million aggregate principal amount of the 2024 Notes. The 2024 Notes were issued at an issue price of 100% of par value and are guaranteed by the Guarantors. The issuance of the 2024 Notes was not registered under the Securities Act, but was exempt from registration under Rule 144A, Regulation S and other applicable exemptions of the Securities Act. Proceeds from the issuance of the 2024 Notes were used to repay existing borrowings under the Revolving Credit Facility.

Deferred Financing Cost

Deferred financing costs were incurred in connection with the issuance of the Notes, the add-on Notes and the 2024 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 Consolidated Statement of Income. For the three months ended March 31, 2017 and 2016, we recognized $2.5 million and $1.8 million of non-cash interest expense, respectively, related to the amortization of deferred financing costs.

**Note 9. Related Party Transactions**

In connection with the Spin-Off, we issued approximately 149.8 million shares of our common stock to Windstream Services as partial consideration for the contribution of the Distribution Systems and the Consumer CLEC Business. Windstream Holdings distributed approximately 80.4% of the Uniti shares it received to existing stockholders of Windstream Holdings and retained a passive ownership interest of approximately 19.6% of the common stock of Uniti. As a result of this ownership Windstream was deemed to be a related party.

On June 15, 2016, Windstream Holdings disposed of 14.7 million shares of our common stock, representing approximately half of its retained ownership interest. On June 24, 2016, Windstream Holdings disposed of its remaining 14.7 million shares of our common stock as part of a public offering. The Company did not receive any proceeds resulting from the disposition of these shares.

18



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

Accordingly, effective as of June 24, 2016, Windstream is no longer deemed a related party under applicable accounting regulations. Our condensed consolidated financial statements reflect the following transactions with Windstream during the periods in which Windstream was deemed a related party.

Revenues – The Company records leasing revenue pursuant to the Master Lease. For the three months ended March 31, 2016, we recognized leasing revenues of $168.6 million related to the Master Lease.

General and Administrative Expenses – We were party to a Transition Services Agreement (“TSA”) pursuant to which Windstream and its affiliates provided, on an interim basis, various services, including but not limited to information technology services, payment processing and collection services, financial and tax services, regulatory compliance and other support services. On April 1, 2016, the TSA terminated and we incurred $19,000 of related TSA expense for the three months ended March 31, 2016.

Operating Expenses – We are party to a Wholesale Master Services Agreement (“Wholesale Agreement”) and a Master Services Agreement with Windstream related to the Consumer CLEC Business. Under the Wholesale Agreement, Windstream provides us transport services (local and long distance telecommunications service), provisioning services (directory assistance, directory listing, service activation and service changes), and repair services (routine and emergency network maintenance, network audits and network security). Under the Master Services Agreement, Windstream provides billing and collections services to Uniti. During the three months ended March 31, 2016, we incurred expenses of $3.4 million and $0.4 million related to the Wholesale Agreement and Master Services Agreement, respectively.

Employee Matters Agreement – We are party to an Employee Matters Agreement (“Employee Matters Agreement”) with Windstream that governs the respective compensation and employee benefit obligations of the Company and Windstream in connection with and following the Spin-Off. Under the Employee Matters Agreement, if requested by a Windstream employee, the Company is required to withhold shares to satisfy the employee’s tax obligations arising from the recognition of income and the vesting of shares related to awards of Uniti restricted stock held by the employee that were granted in connection with the Spin-Off. In that case, the Company must pay to Windstream an amount of cash equal to the amount required to be withheld to satisfy minimum statutory tax withholding obligations or, at the request of Windstream, remit such cash directly to the applicable taxing authorities. During the three months ended March 31, 2016, we withheld 91,412 common shares to satisfy these minimum statutory tax-withholding obligations and delivered $1.3 million to Windstream for remittance to the applicable taxing authorities.

Lease Amendment – During the quarter ended March 31, 2016, we amended the Master Lease with Windstream (the “Master Lease Amendment”) to allow for the transfer of ownership rights or exchanges of indefeasible rights of use (an “IRU”) and other long term rights in certain fiber and associated assets constituting leased property under the Master Lease. We will enter into such transactions pursuant to certain fiber exchange agreements under which we will grant to a third party ownership rights in certain fiber assets or an IRU in certain fiber assets that constitute leased property under the Master Lease in exchange for Uniti receiving ownership rights in certain fiber assets or an IRU in certain fiber assets of the third party, which we will then lease to Windstream as leased property under the Master Lease. Under the terms of the Master Lease Amendment, Windstream is responsible for any taxes imposed on Uniti related to the sale, exchange or other disposition of the fiber assets delivered to a third party or the granting of rights to the leased property that arise from fiber exchange agreements. As of March 31, 2016, no such transactions had been consummated. The Master Lease Amendment also permits us to install, own and operate certain wireless communication towers, antennas and related equipment on designated portions of the leased property.

**Note 10. Earnings Per Share**

Our 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*.

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.

19



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

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 acquisition of PEG Bandwidth, LLC, is 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 provide Uniti the option to cash or share settle the instrument, and it is our policy to settle the instrument in cash upon conversion.

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended March 31,** | | |  |  |  |
| (Thousands, except per share data) |  |  | **2017** |  |  | **2016** |  |  |
| Basic earnings per share: |  |  |  |  |  |  |  |  |
| Numerator: |  |  |  |  |  |  |  |  |
| Net (loss) income | $ | | (20,000) | | $ | 8,036 |  |  |
| Less: Income allocated to participating securities |  |  | (387) | |  | (355) | |  |
| Dividends declared on convertible preferred stock |  |  | (656) | |  | - |  |  |
| Amortization of discount on convertible preferred stock |  |  | (745) | |  | - |  |  |
| Net (loss) income applicable to common shares |  |  |  |  |  |  |  |  |
| $ | | (21,788) | | $ | 7,681 |  |  |
| Denominator: |  |  |  |  |  |  |  |  |
| Basic weighted-average common shares outstanding |  |  | 155,184 |  |  | 149,918 |  |  |
| Basic (loss) earnings per common share | $ | | (0.14) | | $ | 0.05 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Three Months Ended March 31,** | | |  |  |  |
| (Thousands, except per share data) |  |  | **2017** |  |  | **2016** |  |  |
| Diluted earnings per share: |  |  |  |  |  |  |  |  |
| Numerator: |  |  |  |  |  |  |  |  |
| Net (loss) income | $ | | (20,000) | | $ | 8,036 |  |  |
| Less: Income allocated to participating securities |  |  | (387) | |  | (355) | |  |
| Dividends declared on convertible preferred stock |  |  | (656) | |  | - |  |  |
| Amortization of discount on convertible preferred stock |  |  | (745) | |  | - |  |  |
| Net (loss) income applicable to common shares |  |  |  |  |  |  |  |  |
| $ | | (21,788) | | $ | 7,681 |  |  |
| Denominator: |  |  |  |  |  |  |  |  |
| Basic weighted-average common shares outstanding |  |  | 155,184 |  |  | 149,918 |  |  |
| Effect of dilutive non-participating securities |  |  | - |  |  | 66 |  |  |
| Weighted-average shares for dilutive earnings per common share |  |  | 155,184 |  |  | 149,984 |  |  |
| Dilutive (loss) earnings per common share | $ | | (0.14) | | $ | 0.05 |  |  |
|  |  |  |  |  |  |  |  |  |

For the three months ended March 31, 2017, 382,019 non-participating securities were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive.

**Note 11. Segment Information**

Effective in the first quarter of 2017, our management, including our chief executive officer, who is our chief operating decision maker, commenced managing our operations as four reportable segments in addition to our corporate operations and include:

*Leasing*: Represents our REIT operations and includes the results from our leasing programs, Uniti Leasing, which is engaged in the acquisition of mission-criticalcommunications assets and leasing back to anchor customers on either an exclusive or shared-tenant basis.

*Fiber Infrastructure*: Represents the operations of Uniti Fiber, which is a leading provider of infrastructure solutions including cell site backhaul and dark fiber, to thetelecommunications industry.

20



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

*Towers*: Represents the operations of our towers business, Uniti Towers, through which we acquire and construct tower and tower-related real estate in the UnitedStates and Latin America.

*Consumer CLEC*: Represents the operations of Talk America Services (“Talk America”) through which we operate the Consumer CLEC Business, that prior to theSpin-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 and similarcharges, that are directly attributable to operations of our business segments are allocated to the respective segments.

Management evaluates the performance of each segment using Adjusted EBITDA, which is a segment performance measure defined 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 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’s business segment information is presented below. Prior year information has been recast to conform to the current year presentation.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Three Months Ended March 31, 2017** | | | | |  |  |  |  |  |  |  |
|  |  |  | **Leasing** |  | **Fiber Infrastructure** | |  |  | **Towers** |  |  | **Consumer CLEC** |  |  | **Corporate** |  |  | **Subtotal of** |  |  |
| (Thousands) |  |  |  |  |  | **Reportable Segments** | |  |  |
| Revenues | $ | | 170,306 |  | $ | 34,812 |  | $ | 1,428 |  | $ | 4,927 |  | $ | - |  | $ | 211,473 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | $ | | 170,060 |  | $ | 11,567 |  | $ | (735) | | $ | 1,166 |  | $ | (5,056) | | $ | 177,002 |  |  |
| Less: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 73,365 |  |  |
| Depreciation and amortization |  |  | 86,506 |  |  | 13,221 |  |  | 886 |  |  | 652 |  |  | 96 |  |  | 101,361 |  |  |
| Other expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 11,339 |  |  |
| Transaction related costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 9,684 |  |  |
| Stock-based compensation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1,632 |  |  |
| Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (379) | |  |
| Net loss |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (20,000) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Capital expenditures(1) | $ | | - |  | $ | 14,502 |  | $ | 72,203 |  | $ | - |  | $ | 39 | | $ | 86,744 |  |  |

(1)Segment capital expenditures represents capital expenditures, NMS asset acquisition and ground lease investments as reported in the investing activities section of the Condensed Consolidated Statements of Cash Flows.

21



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Three Months Ended March 31, 2016** | | | | | |  |  |  |  |  |  |  |
|  |  |  | **Leasing** |  | **Fiber Infrastructure** | |  |  | **Towers** |  |  |  | **Consumer CLEC** |  |  | **Corporate** |  |  | **Subtotal of** |  |  |
| (Thousands) |  |  |  |  |  |  | **Reportable Segments** | |  |  |
| Revenues | | $ | 168,613 |  | $ | - |  | $ | 28 |  |  |  | 6,034 |  | $ | - |  | $ | 174,675 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | | $ | 168,208 |  | $ | - |  | $ | (302) | | $ | | 1,332 |  | $ | (3,529) | | $ | 165,709 |  |  |
| Less: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 66,049 |  |  |
| Depreciation and amortization | |  | 85,403 |  |  |  |  |  | 30 |  |  |  | 814 |  |  | 93 |  |  | 86,340 |  |  |
| Other expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | - |  |  |
| Transaction related costs | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,910 |  |  |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 930 |  |  |
| Income tax expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 444 |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 8,036 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Capital expenditures(1) | | $ | - |  | $ | - |  | $ | 1,347 |  | $ | | - |  | $ | 77 |  | $ | 1,424 |  |  |

(1)Segment capital expenditures represents capital expenditures and ground lease investments as reported in the investing activities section of the Condensed Consolidated Statements of Cash Flows.

Total assets by business segment as of March 31, 2017 and December 31, 2016 are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  |  | **March 31, 2017** |  |  | **December 31, 2016** |  |
| Leasing | | $ | 2,175,234 |  | $ | 2,238,517 |  |
| Fiber Infrastructure | |  | 925,379 |  |  | 914,082 |  |
| Towers | |  | 129,853 |  |  | 18,004 |  |
| Consumer CLEC | |  | 14,634 |  |  | 14,239 |  |
| Corporate | |  | 35,577 |  |  | 133,910 |  |
| Total of reportable segments | | $ | 3,280,677 |  | $ | 3,318,752 |  |
|  |  |  |  |  |  |  |  |

**Note 12. 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 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.

Under the terms of the Tax Matters Agreement entered into with Windstream 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-

22



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

free for U.S. federal income tax purposes, within the meaning of Section 355 and Section 368(a)(1)(D) of the Internal Revenue 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 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 consolidated balance sheet.

**Note 13. Accumulated Other Comprehensive (Loss) Income**

Changes in accumulated other comprehensive (loss) income by component is as follows for the three months ended March 31, 2017:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Currency Translation** | |  | **Changes in Fair Value of** | | |  | **Total** |  |  |
| (Thousands) |  |  | **Adjustment** |  |  | **Effective Cash Flow Hedge** | |  |  |  |
| Beginning balance at December 31, 2016 | $ | | (267) | | $ | | (6,102) | | $ | (6,369) | |  |
| Other comprehensive income (loss) before reclassifications |  |  | 4,875 |  |  |  | (7,061) | |  | (2,186) | |  |
| Amounts reclassified from accumulated other comprehensive income |  |  | - |  |  |  | 11,627 |  |  | 11,627 |  |  |
| Ending balance at March 31, 2017 | $ | | 4,608 |  | $ | | (1,536) | | $ | 3,072 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Note 14. Supplemental Guarantor Information**

Pursuant to SEC Regulation S-X Rule 3-10 “Financial statements of guarantors and issuers of guaranteed securities registered or being registered,” the Company is required to provide condensed consolidating financial information for CSL Capital and the Guarantors because the Exchange Notes ([see Note 8](#page17)) and the guarantees thereof were registered with the SEC under the Securities Act. Although the Exchange Notes are no longer registered with the SEC, we are required by SEC rules to provide the information contained in this footnote so long as the Exchange Notes remain outstanding.

While the condensed consolidating financial information presented below is in respect of our Exchange Notes only, our Secured Notes, 2024 Notes and senior credit facilities under the Credit Agreement are guaranteed by the Guarantors. These guarantees are full and unconditional as well as joint and several. All property assets and related operations of the Guarantors are pledged as collateral under the Secured Notes and Credit Agreement and the Guarantors are subject to restrictions on certain investments and payments. Subject to the terms and provisions of the debt agreements, in certain circumstances, a Guarantor may be released from its guarantee obligation including, upon the sale or transfer of any portion of its equity interest or all or substantially all of its property, and upon any Guarantor being designated an Unrestricted Subsidiary, as defined in the Credit Agreement, or otherwise no longer being required to remain a Guarantor given its size or regulatory restrictions.

Certain amounts in the Condensed Consolidating Statement of Comprehensive Income for the three months ended March 31, 2016, have been revised to correct immaterial errors. Specifically, immaterial adjustments were made to properly reflect the Guarantor’s proportionate share in earnings from consolidated subsidiaries of Non-Guarantor entities. These adjustments have no impact on the consolidated results of the Company.

During the first quarter of 2017, certain Non-Guarantor entities became Guarantor entities. Prior year information has been retrospectively revised based on the structure that existed at March 31, 2017.

23



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

The following information summarizes our Condensed Consolidating Balance Sheets as of March 31, 2017 and December 31, 2016, Condensed Consolidating Statement of Comprehensive Income (Loss) for the three months ended March 31, 2017 and 2016, and the Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2017 and 2016:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Condensed Consolidating Balance Sheet** | | | | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **As of March 31, 2017** | | | | |  |  |  |  |  |  |  |  |
|  |  |  | **Uniti** | |  |  | **CSL Capital** | |  |  | **Guarantors** |  |  | **Non-** | |  | **Eliminations** | | **Consolidated** | | |  |  |
| (Thousands) | |  |  |  |  |  |  | **Guarantors** | | |  |  |  |
| **Assets:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Property, plant and equipment, net | | $ | — | | $ | | — | | $ | | 1,953,848 | $ | | 718,501 |  | $ | — | | $ | 2,672,349 |  |  |  |
| Cash and cash equivalents | |  | 36,179 |  |  |  | — | |  |  | 15,779 |  |  | 16,768 |  |  | — | |  | 68,726 |  |  |  |
| Accounts receivable, net | |  | (3) | |  |  | — | |  |  | 10,862 |  |  | 6,377 |  |  | — | |  | 17,236 |  |  |  |
| Affiliate receivable | |  | — | |  |  | — | |  |  | 125 |  |  | — | |  | (125) | |  | — | |  |  |
| Goodwill | |  | — | |  |  | — | |  |  | 145,054 |  |  | 117,032 |  |  | — | |  | 262,086 |  |  |  |
| Intangible assets, net | |  | — | |  |  | — | |  |  | 36,511 |  |  | 177,550 |  |  | — | |  | 214,061 |  |  |  |
| Straight-line revenue receivable | |  | — | |  |  | — | |  |  | 33,406 |  |  | — | |  | — | |  | 33,406 |  |  |  |
| Investment in consolidated subsidiaries | |  | 2,792,306 |  |  |  | 1,958,252 |  |  |  | 818,922 |  |  | - |  |  | (5,569,480) | |  | - |  |  |  |
| Other assets | |  | 1,202 |  |  |  | — |  |  |  | 7,103 |  |  | 4,508 |  |  | — |  |  | 12,813 |  |  |  |
| **Total Assets** | | $ | 2,829,684 |  | $ | | 1,958,252 |  | $ | | 3,021,610 | $ | | 1,040,736 |  | $ | (5,569,605) | | $ | 3,280,677 |  |  |  |
| **Liabilities and Shareholders' Deficit:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable, accrued expenses and other liabilities | | $ | 25 |  | $ | | — | | $ | | 26,915 | $ | | 29,083 |  | $ | — | | $ | 56,023 |  |  |  |
| Accrued interest payable | |  | 65,715 |  |  |  | 65,715 |  |  |  | — |  |  | — | |  | (65,715) | |  | 65,715 |  |  |  |
| Deferred revenue | |  | — | |  |  | — | |  |  | 176,885 |  |  | 116,994 |  |  | — | |  | 293,879 |  |  |  |
| Derivative liability | |  | 1,536 |  |  |  | 1,536 |  |  |  | — |  |  | — | |  | (1,536) | |  | 1,536 |  |  |  |
| Affiliate payable | |  | — | |  |  | — | |  |  | — |  |  | 125 |  |  | (125) | |  | — | |  |  |
| Dividends payable | |  | 94,810 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 94,810 |  |  |  |
| Deferred income taxes | |  | — | |  |  | — | |  |  | 1,978 |  |  | 45,070 |  |  | — | |  | 47,048 |  |  |  |
| Capital lease obligations | |  | — | |  |  | — | |  |  | 47,661 |  |  | 6,407 |  |  | — | |  | 54,068 |  |  |  |
| Contingent consideration | |  | 90,719 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 90,719 |  |  |  |
| Notes and other debt, net | |  | 4,003,792 |  |  |  | 4,003,792 |  |  |  | — |  |  | — |  |  | (4,003,792) | |  | 4,003,792 |  |  |  |
| Total liabilities | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 4,256,597 |  |  |  | 4,071,043 |  |  |  | 253,439 |  |  | 197,679 |  |  | (4,071,168) | |  | 4,707,590 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Convertible preferred stock** | |  | 81,296 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 81,296 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Shareholders' Deficit:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Common stock | |  | 16 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 16 |  |  |  |
| Additional paid-in capital | |  | 141,503 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 141,503 |  |  |  |
| Accumulated other comprehensive income | |  | 3,072 |  |  |  | (1,536) | |  |  | — |  |  | 4,608 |  |  | (3,072) | |  | 3,072 |  |  |  |
| Distributions in excess of earnings | |  | (1,652,800) | |  |  | (2,111,255) | |  |  | 2,768,171 |  |  | 838,449 |  |  | (1,495,365) | |  | (1,652,800) | |  |  |
| Total shareholders' deficit | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | (1,508,209) | |  |  | (2,112,791) | |  |  | 2,768,171 |  |  | 843,057 |  |  | (1,498,437) | |  | (1,508,209) | |  |  |
| **Total Liabilities, Convertible Preferred Stock, and** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 2,829,684 |  |  | $ | 1,958,252 |  |  | $ | 3,021,610 | $ | | 1,040,736 |  | $ | (5,569,605) | | $ | 3,280,677 |  |  |  |
| **Shareholders' Deficit** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 24 | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Condensed Consolidating Balance Sheet** | | | | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **As of December 31, 2016** | | | | |  |  |  |  |  |  |  |  |
|  |  |  | **Uniti** | |  |  | **CSL Capital** | |  |  | **Guarantors** |  |  | **Non-** | |  | **Eliminations** | | **Consolidated** | | |  |  |
| (Thousands) | |  |  |  |  |  |  | **Guarantors** | | |  |  |  |
| **Assets:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Property, plant and equipment, net | | $ | — | | $ | | — | | $ | | 1,990,526 | $ | | 679,511 |  | $ | — | | $ | 2,670,037 |  |  |  |
| Cash and cash equivalents | |  | 131,145 |  |  |  | — | |  |  | 32,426 |  |  | 8,183 |  |  | — | |  | 171,754 |  |  |  |
| Accounts receivable, net | |  | (3) | |  |  | — | |  |  | 9,034 |  |  | 6,250 |  |  | — | |  | 15,281 |  |  |  |
| Affiliate receivable | |  | — | |  |  | — | |  |  | 107 |  |  | — | |  | (107) | |  | — | |  |  |
| Goodwill | |  | — | |  |  | — | |  |  | 145,054 |  |  | 117,280 |  |  | — | |  | 262,334 |  |  |  |
| Intangible assets, net | |  | — | |  |  | — | |  |  | 37,033 |  |  | 123,551 |  |  | — | |  | 160,584 |  |  |  |
| Straight-line revenue receivable | |  | — | |  |  | — | |  |  | 29,084 |  |  | 4 |  |  | — | |  | 29,088 |  |  |  |
| Investment in consolidated subsidiaries | |  | 2,801,234 |  |  |  | 2,036,717 |  |  |  | 763,522 |  |  | - |  |  | (5,601,473) | |  | - |  |  |  |
| Other assets | |  | 1,066 |  |  |  | — |  |  |  | 6,599 |  |  | 2,009 |  |  | — |  |  | 9,674 |  |  |  |
| **Total Assets** | | $ | 2,933,442 |  | $ | | 2,036,717 |  | $ | | 3,013,385 | $ | | 936,788 |  | $ | (5,601,580) | | $ | 3,318,752 |  |  |  |
| **Liabilities and Shareholders' Deficit:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable, accrued expenses and other liabilities | | $ | — | | $ | | — | | $ | | 25,865 | $ | | 15,112 |  | $ | — | | $ | 40,977 |  |  |  |
| Accrued interest payable | |  | 27,812 |  |  |  | 27,812 |  |  |  | — |  |  | — | |  | (27,812) | |  | 27,812 |  |  |  |
| Deferred revenue | |  | — | |  |  | — | |  |  | 157,857 |  |  | 103,547 |  |  | — | |  | 261,404 |  |  |  |
| Derivative liability | |  | 6,102 |  |  |  | 6,102 |  |  |  | — |  |  | — | |  | (6,102) | |  | 6,102 |  |  |  |
| Affiliate payable | |  | — | |  |  | — | |  |  | — |  |  | 107 |  |  | (107) | |  | — | |  |  |
| Dividends payable | |  | 94,607 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 94,607 |  |  |  |
| Deferred income taxes | |  | — | |  |  | — | |  |  | 1,603 |  |  | 26,791 |  |  | — | |  | 28,394 |  |  |  |
| Capital lease obligations | |  | — | |  |  | — | |  |  | 47,977 |  |  | 6,558 |  |  | — | |  | 54,535 |  |  |  |
| Contingent consideration | |  | 98,600 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 98,600 |  |  |  |
| Notes and other debt, net | |  | 4,028,214 |  |  |  | 4,028,214 |  |  |  | — |  |  | — |  |  | (4,028,214) | |  | 4,028,214 |  |  |  |
| Total liabilities | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 4,255,335 |  |  |  | 4,062,128 |  |  |  | 233,302 |  |  | 152,115 |  |  | (4,062,235) | |  | 4,640,645 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Convertible preferred stock** | |  | 80,552 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 80,552 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Shareholders' Deficit:** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Common stock | |  | 15 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 15 |  |  |  |
| Additional paid-in capital | |  | 141,092 |  |  |  | — | |  |  | — |  |  | — | |  | — | |  | 141,092 |  |  |  |
| Accumulated other comprehensive income | |  | (6,369) | |  |  | (6,102) | |  |  | — |  |  | (267) | |  | 6,369 |  |  | (6,369) | |  |  |
| Distributions in excess of earnings | |  | (1,537,183) | |  |  | (2,019,309) | |  |  | 2,780,083 |  |  | 784,940 |  |  | (1,545,714) | |  | (1,537,183) | |  |  |
| Total shareholders' deficit | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | (1,402,445) | |  |  | (2,025,411) | |  |  | 2,780,083 |  |  | 784,673 |  |  | (1,539,345) | |  | (1,402,445) | |  |  |
| **Total Liabilities, Convertible Preferred Stock, and** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 2,933,442 |  |  | $ | 2,036,717 |  |  | $ | 3,013,385 | $ | | 936,788 |  | $ | (5,601,580) | | $ | 3,318,752 |  |  |  |
| **Shareholders' Deficit** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | 25 | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Condensed Consolidating Statement of Comprehensive Income (Loss)** | | | | | | | | | | | |  |  |  |  |
| (Thousands) |  |  |  |  |  |  |  | **For the Three Months Ended March 31, 2017** | | | | | | | | |  |  |  |  |  |  |
|  |  | **Uniti** | |  |  | **CSL Capital** | |  | **Guarantors** | |  | **Non-Guarantors** | |  |  | **Eliminations** | |  | **Consolidated** |  |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing | $ | | — | | $ | | — | | $ | 169,335 |  | $ | 971 |  | $ | | — | | $ | 170,306 |  |  |
| Fiber Infrastructure |  |  | — | |  |  | — | |  | 24,780 |  |  | 10,032 |  |  |  | — | |  | 34,812 |  |  |
| Tower |  |  | — | |  |  | — | |  | 326 |  |  | 1,102 |  |  |  | — | |  | 1,428 |  |  |
| Consumer CLEC |  |  | — |  |  |  | — |  |  | — |  |  | 4,927 |  |  |  | — |  |  | 4,927 |  |  |
| Total revenues |  |  | — | |  |  | — | |  | 194,441 |  |  | 17,032 |  |  |  | — | |  | 211,473 |  |  |
| **Costs and Expenses:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  | 70,372 |  |  |  | 72,247 |  |  | 2,693 |  |  | 300 |  |  |  | (72,247) | |  | 73,365 |  |  |
| Depreciation and amortization |  |  | — | |  |  | — | |  | 72,890 |  |  | 28,471 |  |  |  | — | |  | 101,361 |  |  |
| General and administrative expense |  |  | 1,628 |  |  |  | — | |  | 10,260 |  |  | 2,090 |  |  |  | — | |  | 13,978 |  |  |
| Operating expense (exclusive of depreciation, |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| accretion and amortization) |  |  | — | |  |  | — | |  | 12,819 |  |  | 9,306 |  |  |  | — | |  | 22,125 |  |  |
| Transaction related costs |  |  | — | |  |  | — | |  | 8,597 |  |  | 1,087 |  |  |  | — | |  | 9,684 |  |  |
| Other expenses, net |  |  | 10,910 |  |  |  | — |  |  | 429 |  |  | — |  |  |  | — |  |  | 11,339 |  |  |
| Total costs and expenses |  |  | 82,910 |  |  |  | 72,247 |  |  | 107,688 |  |  | 41,254 |  |  |  | (72,247) | |  | 231,852 |  |  |
| Earnings (loss) from consolidated subsidiaries |  |  | 62,910 |  |  |  | 69,358 |  |  | (23,703) | |  | — | |  |  | (108,565) | |  | — | |  |
| (Loss) income before income taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | (20,000) | |  |  | (2,889) | |  | 63,050 |  |  | (24,222) | |  |  | (36,318) | |  | (20,379) | |  |
| Income tax expense |  |  | — |  |  |  | — |  |  | 556 |  |  | (935) | |  |  | — | |  | (379) | |  |
| Net (loss) income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | $ | (20,000) | | $ | | (2,889) | | $ | 62,494 |  | $ | (23,287) | | $ | | (36,318) | | $ | (20,000) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive (loss) income | $ | | (10,559) | | $ | | 1,677 |  | $ | 62,494 |  | $ | (18,412) | | $ | | (45,759) | | $ | (10,559) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

26



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Condensed Consolidating Statement of Comprehensive Income (Loss)** | | | | | | | | | | |  |  |  |  |
| (Thousands) |  |  |  |  |  |  | **For the Three Months Ended March 31, 2016** | | | | | | | |  |  |  |  |  |  |
|  |  | **Uniti** | |  | **CSL Capital** | |  | **Guarantors** | |  | **Non-Guarantors** | |  | **Eliminations** | |  | **Consolidated** |  |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing | $ | | — | | $ | — | | $ | 168,266 |  | $ | 347 |  | $ | — | | $ | 168,613 |  |  |
| Fiber Infrastructure |  |  | — | |  | — | |  | — | |  | — | |  | — | |  | — | |  |
| Tower |  |  | — | |  | — | |  | 28 |  |  | — | |  | — | |  | 28 |  |  |
| Consumer CLEC |  |  | — |  |  | — |  |  | — |  |  | 6,034 |  |  | — |  |  | 6,034 |  |  |
| Total revenues |  |  | — | |  | — | |  | 168,294 |  |  | 6,381 |  |  | — | |  | 174,675 |  |  |
| **Costs and Expenses:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  | 66,145 |  |  | 66,145 |  |  | (96) | |  | — | |  | (66,145) | |  | 66,049 |  |  |
| Depreciation and amortization |  |  | — | |  | — | |  | 64,089 |  |  | 22,251 |  |  | — | |  | 86,340 |  |  |
| General and administrative expense |  |  | 930 |  |  | — | |  | 4,163 |  |  | 96 |  |  | — | |  | 5,189 |  |  |
| Operating expense (exclusive of depreciation, |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| accretion and amortization) |  |  | — | |  | — | |  | — | |  | 4,707 |  |  | — | |  | 4,707 |  |  |
| Transaction related costs |  |  | — |  |  | — |  |  | 3,910 |  |  | — |  |  | — |  |  | 3,910 |  |  |
| Total costs and expenses |  |  | 67,075 |  |  | 66,145 |  |  | 72,066 |  |  | 27,054 |  |  | (66,145) | |  | 166,195 |  |  |
| Earnings (loss) from consolidated subsidiaries |  |  | 75,111 |  |  | 75,214 |  |  | (21,191) | |  | — | |  | (129,134) | |  | — | |  |
| Income (loss) before income taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 8,036 |  |  | 9,069 |  |  | 75,037 |  |  | (20,673) | |  | (62,989) | |  | 8,480 |  |  |
| Income tax expense |  |  | — |  |  | — |  |  | 248 |  |  | 196 |  |  | — |  |  | 444 |  |  |
| Net income (loss) | $ | | 8,036 |  | $ | 9,069 |  | $ | 74,789 |  | $ | (20,869) | | $ | (62,989) | | $ | 8,036 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive income (loss) | $ | | (32,326) | | $ | (31,373) | | $ | 74,789 |  | $ | (20,789) | | $ | (22,627) | | $ | (32,326) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

27



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Condensed Consolidating Statement of Cash Flows** | | | | | | | | | | | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **For the Three Months Ended March 31, 2017** | | | | | | | | | | | |  |  |  |  |  |  |  |
|  |  |  | **Uniti** | | | **CSL Capital** | |  |  |  | **Guarantors** | |  |  | **Non-** | |  | **Eliminations** | | | **Consolidated** | | |  |  |
| (Thousands) |  |  |  |  |  |  |  | **Guarantors** | |  |  |  |
| **Cash flow from operating activities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash provided by (used in) operating activities | $ | | 49,390 |  |  | $ | — | $ | | | 150,115 |  | $ | | 5,195 |  | $ | | (76,498) | | $ | 128,202 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flow from investing activities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Acquisition of businesses, net of cash acquired |  |  | — | | |  | — |  |  |  | — | |  |  | 248 |  |  |  | — | |  | 248 |  |  |  |
| Acquisition of ground lease investments |  |  | — | | |  | — |  |  |  | (7,191) | |  |  | — | |  |  | — | |  | (7,191) | |  |  |
| NMS asset acquisition (Note 3) |  |  | — | | |  | — |  |  |  | — | |  |  | (64,622) | |  |  | — | |  | (64,622) | |  |  |
| Capital expenditures |  |  | — |  | |  | — |  |  |  | (5,641) | |  |  | (9,290) | |  |  | — | |  | (14,931) | |  |  |
| Net cash used in investing activities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | — |  | |  | — |  |  |  | (12,832) | |  |  | (73,664) | |  |  | — | |  | (86,496) | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flow from financing activities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Principal payment on debt |  |  | (5,270) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (5,270) | |  |  |
| Dividends paid |  |  | (94,133) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (94,133) | |  |  |
| Borrowings under revolving credit facility |  |  | 25,000 |  |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | 25,000 |  |  |  |
| Payments under revolving credit facility |  |  | (25,000) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (25,000) | |  |  |
| Capital lease payments |  |  | — | | |  | — |  |  |  | (520) | |  |  | (152) | |  |  | — | |  | (672) | |  |  |
| Deferred financing costs |  |  | (24,418) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (24,418) | |  |  |
| Common stock issuance, net of costs |  |  | (54) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (54) | |  |  |
| Payments of contingent consideration |  |  | (18,791) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (18,791) | |  |  |
| Net share settlement |  |  | (1,690) | |  |  | — |  |  |  | — | |  |  | — | |  |  | — | |  | (1,690) | |  |  |
| Intercompany transactions, net |  |  | — |  | |  | — |  |  |  | (153,410) | |  |  | 76,912 |  |  |  | 76,498 |  |  | — | |  |  |
| Net cash (used in) provided by financing activities |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | (144,356) | |  |  | — |  |  |  | (153,930) | |  |  | 76,760 |  |  |  | 76,498 |  |  | (145,028) | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effect of exchange rates on cash and cash equivalents |  |  | — | | |  | — |  |  |  | — | |  |  | 294 |  |  |  | — | |  | 294 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net increase in cash and cash equivalents |  |  | (94,966) | |  |  | — |  |  |  | (16,647) | |  |  | 8,585 |  |  |  | — | |  | (103,028) | |  |  |
| Cash and cash equivalents, December 31, 2016 |  |  | 131,145 |  |  |  | — |  |  |  | 32,426 |  |  |  | 8,183 |  |  |  | — |  |  | 171,754 |  |  |  |
| **Cash and cash equivalents, March 31, 2017** | $ | | 36,179 |  |  | $ | — | $ | | | 15,779 |  | $ | | 16,768 |  | $ | | — | | $ | 68,726 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | 28 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Condensed Consolidating Statement of Cash Flows** | | | | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **For the three months ended March 31, 2016** | | | | | | | | | | |  |  |  |  |  |  |  |  |
|  |  |  | **Uniti** | | | **CSL Capital** | | | |  | **Guarantors** | |  | **Non-** | | | **Eliminations** | | |  | **Consolidated** | | |  |  |
| (Thousands) | |  |  |  | **Guarantors** | | |  |  |  |
| **Cash flow from operating activities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash provided by (used in) operating activities | | $ | 97,665 |  |  | $ | — | | | $ | 153,550 |  | $ | 1,181 |  |  | $ | (130,695) | | $ | | 121,701 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flow from investing activities** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Acquisition of businesses, net of cash acquired | |  | — | | |  | — | | |  | — | |  | 111 |  |  |  | — | |  |  | 111 |  |  |  |
| Acquisition of ground lease investments | |  |  |  |  |  |  |  |  |  | (1,347) | |  | — | | |  |  |  |  |  | (1,347) | |  |  |
| Capital expenditures | |  | — |  | |  | — |  | |  | (77) | |  | — | | |  | — | |  |  | (77) | |  |  |
| Net cash used in investing activities | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | — |  | |  | — |  | |  | (1,424) | |  | 111 |  |  |  | — | |  |  | (1,313) | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flow from financing activities** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Principal payment on debt | |  | (6,044) | |  |  | — | | |  | — | |  | — | | |  | — | |  |  | (6,044) | |  |  |
| Net share settlement | |  | (1,266) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (1,266) | |  |  |
| Dividends Paid | |  | (90,314) | |  |  | — | | |  | — | |  | — | | |  | — | |  |  | (90,314) | |  |  |
| Intercompany transactions, net | |  | — |  | |  | — |  | |  | (132,165) | |  | 1,470 |  |  |  | 130,695 |  |  |  | — | |  |  |
| Net cash (used in) provided by financing activities | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | (97,624) | |  |  | — | | |  | (132,165) | |  | 1,470 |  |  |  | 130,695 |  |  |  | (97,624) | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effect of exchange rates on cash and cash equivalents | |  | — | | |  | — | | |  | — | |  | 78 |  |  |  | — | |  |  | 78 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net increase in cash and cash equivalents | |  | 41 |  |  |  | — | | |  | 19,961 |  |  | 2,840 |  |  |  | — | |  |  | 22,842 |  |  |  |
| Cash and cash equivalents, December 31, 2015 | |  | 17 |  |  |  | — |  | |  | 140,197 |  |  | 2,284 |  |  |  | — |  |  |  | 142,498 |  |  |  |
| **Cash and cash equivalents, March 31, 2016** | | $ | 58 |  |  | $ | — | | | $ | 160,158 |  | $ | 5,124 |  |  | $ | — | | $ | | 165,340 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | 29 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page4)

**Uniti Group Inc.**

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

**(unaudited)**

**Note 15. Subsequent Events**

On April 25, 2017, we issued 19.5 million shares of our common stock, generating proceeds of approximately $518 million, before underwriter discounts and transaction costs. The Company intends to use the proceeds from this offering to fund a portion of the cash consideration payable in connection with the previously announced acquisitions of Southern Light, LLC (“Southern Light”) and Hunt Telecommunications LLC.

On April 24, 2017, we, along with CSL Capital and Uniti Fiber Holdings Inc., announced the pricing of an offering of $200 million aggregate principal amount of 7.125% senior notes due 2024. The notes will be jointly and severally issued by Uniti Group, Inc., CSL Capital and Uniti Fiber Holdings Inc. at an issue price of 100.500%, plus accrued interest from December 15, 2016. Proceeds from the offering will be used to fund a portion of the cash consideration payable in connection with the previously announced acquisition of Southern Light. The indenture governing these notes contains a mandatory redemption feature, whereby we will be required to redeem the notes at issue price plus accrued interest if the Southern Light acquisition is not completed by October 14, 2017.

On April 10, 2017, we announced a definitive agreement to acquire Southern Light for initial consideration of $700 million, consisting of $635 million in cash, subject to certain adjustments set forth in the transaction documents, and the issuance of 2.5 million operating partnership units. Southern Light is a leading provider of data transport services along the Gulf Coast region serving twelve attractive Tier II and Tier III markets across Florida, Alabama, Louisiana, and Mississippi. The transaction is expected to close during the third quarter of 2017 and is subject to regulatory approvals and other customary terms and conditions.

On April 28 2017, we amended the Credit Agreement to increase the commitments under our Revolving Credit Facility from $500 million to $750 million. Other terms of the revolving credit agreement remain unchanged.

30



[Table of Contents](#page4)

**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 months ended March 31, 2017. This discussion should be read in conjunction with the accompanying unaudited 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, 2016, filed with the SEC on February 23, 2017.

**Overview**

***Company Description***

On April 24, 2015, Uniti Group Inc. (the “Company”, “Uniti”, “we”, “us” or “our”), formerly known as Communications Sales & Leasing, Inc., completed the Spin-Off from Windstream pursuant to which Windstream contributed the Distribution Systems and the Consumer CLEC Business (“Talk America”) 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 the Master Lease with Windstream, pursuant to which a substantial portion of our real property is leased to Windstream and from which substantially all of our leasing revenues are currently derived.

We are an independent, internally managed 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.

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 as taxable REIT subsidiaries (“TRSs”). TRSs enable us to engage in activities that do not result in income that would be qualifying income for a REIT. Our TRSs are subject to U.S. federal, state and local corporate income taxes.

We expect to grow and diversify our portfolio and tenant base by pursuing a range of transaction structures with communication service providers, including, (i) sale leaseback transactions, whereby we acquire existing infrastructure assets from communication service providers and lease them back on a long-term triple net basis;

1. whole company acquisitions, which may include the use of one or more TRSs that are permitted under the tax laws to acquire non-REIT operating 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.

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

*Leasing*: Represents our REIT operations and includes the results from our leasing programs, Uniti Leasing, which is engaged in the acquisition of mission-criticalcommunications assets and leasing them back to anchor customers on either an exclusive or shared-tenant basis.

*Fiber Infrastructure*: Represents the operations of Uniti Fiber, which is a leading provider of infrastructure solutions including cell site backhaul and dark fiber, to thetelecommunications industry.

*Towers*: Represents the operations of our towers business, Uniti Towers, through which we acquire and construct tower and tower-related real estate in the UnitedStates and Latin America

*Consumer CLEC*: Represents the operations of Talk America Services (“Talk America”) through which we operate the Consumer CLEC Business, that prior to theSpin-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 and similarcharges, 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 defined as net income determined in accordance with GAAP, before interest expense, provision for income taxes, depreciation and amortization,

31



[Table of Contents](#page4)

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.

***Significant Quarterly Business Developments***

*Acquisition of Southern Light, LLC.* On April 10, 2017, we announced a definitive agreement to acquire Southern Light, LLC (“Southern Light”) for initialconsideration of $700 million, consisting of $635 million in cash, subject to certain adjustments set forth in the transaction documents, and the issuance of 2.5 million operating partnership units. Southern Light is a leading provider of data transport services along the Gulf Coast region serving twelve attractive Tier II and Tier III markets across Florida, Alabama, Louisiana, and Mississippi. Southern Light’s dense regional fiber network comprises nearly 540,000 fiber strand miles, 5,700 fiber route miles, and over 4,500 on-net locations. The transaction is expected to close during the third quarter of 2017 and is subject to regulatory approvals and other customary terms and conditions.

*Acquisition of Hunt Telecommunications, LLC.* On February 23, 2017, we announced a definitive agreement to acquire Hunt Telecommunications, LLC (“Hunt”) forinitial consideration of $114.5 million in cash and approximately 2 million operating partnership units. Hunt is a leading provider of data transport to K-12 schools and government agencies with a dense fiber network in Louisiana. The transaction is expected to close during the third quarter of 2017 and is subject to regulatory approvals and other customary terms and conditions.

*Acquisition of NMS.* On January 31, 2017, we completed the previously announced acquisition of Network Management Holdings LTD (‘‘NMS’’). At close, NMSowned and operated 366 wireless communications towers in Latin America with an additional 105 build to suit tower sites under development. The NMS portfolio spans three Latin America countries with 212 towers in Mexico, 54 towers in Nicaragua, and 100 towers in Colombia. The consideration for the 366 wireless towers currently in operation was $62.6 million, which was funded through cash on hand. Under the terms of the purchase agreement, we will acquire the towers under development when construction is completed, of which we acquired 24 completed towers on March 15, 2017 for approximately $2.1 million.

**Comparison of the three months ended March 31, 2017 and 2016**

Beginning in the first quarter of 2017, the Company manages and reports our operations in four reportable segments: Leasing, Fiber Infrastructure, Towers, and Consumer CLEC. Prior period data has been reclassified to conform to the current period presentation.

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

32



[Table of Contents](#page4)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended March 31,** | | | | |  |  |  |
|  |  |  | **2017** | |  |  |  | **2016** | |  |  |  |
| (Thousands) | |  | **Amount** | | **% of Revenues** | |  | **Amount** | | **% of Revenues** | |  |
| **Revenues:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing | | $ | 170,306 |  | 80.5% |  | $ | 168,613 |  | 96.5% |  |  |
| Fiber Infrastructure | |  | 34,812 |  | 16.5% |  |  | - |  | 0.0% |  |  |
| Tower | |  | 1,428 |  | 0.7% |  |  | 28 |  | 0.0% |  |  |
| Consumer CLEC | |  | 4,927 |  | 2.3% |  |  | 6,034 |  | 3.5% |  |  |
| Total revenues | |  | 211,473 |  | 100.0% |  |  | 174,675 |  | 100.0% |  |  |
| **Costs and Expenses:** | |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  | 73,365 |  | 34.7% |  |  | 66,049 |  | 37.8% |  |  |
| Depreciation and amortization | |  | 101,361 |  | 47.9% |  |  | 86,340 |  | 49.4% |  |  |
| General and administrative expense | |  | 13,978 |  | 6.6% |  |  | 5,189 |  | 3.0% |  |  |
| Operating expense | |  | 22,125 |  | 10.5% |  |  | 4,707 |  | 2.7% |  |  |
| Transaction related costs | |  | 9,684 |  | 4.6% |  |  | 3,910 |  | 2.2% |  |  |
| Other expense | |  | 11,339 |  | 5.4% |  |  | - |  | 0.0% |  |  |
| Total costs and expenses | |  | 231,852 |  | 109.6% |  |  | 166,195 |  | 95.1% |  |  |
| **(Loss) income before income taxes** | |  | (20,379) | | (9.6%) |  |  | 8,480 |  | 4.9% |  |  |
| Income tax (benefit) expense | |  | (379) | | (0.2%) |  |  | 444 |  | 0.3% |  |  |
| **Net (loss) income** | |  |  |  |  |  |  |  |  |  |  |  |
|  | (20,000) | | (9.5%) |  |  | 8,036 |  | 4.6% |  |  |
| Participating securities' share in earnings | |  | (387) | | (0.2%) |  |  | (355) | | (0.2%) |  |  |
| Dividends declared on convertible preferred stock | |  | (656) | | (0.3%) |  |  | - |  | 0.0% |  |  |
| Amortization of discount on convertible preferred stock | |  | (745) | | (0.4%) |  |  | - |  | 0.0% |  |  |
| **Net (loss) income applicable to common shareholders** | |  |  |  |  |  |  |  |  |  |  |  |
| $ | (21,788) | | (10.3%) |  | $ | 7,681 |  | 4.4% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

***Revenues***

*Leasing* - Leasing revenues are attributable to rental revenue from leasing our Distribution Systems to Windstream Holdings pursuant to 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, thus 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 March 31, 2017, we recognized $170.3 million of revenue from rents under the Master Lease, which included $4.3 million of straight-line revenues and $2.6 million of TCI revenue. For the three months ended March 31, 2016, we recognized $168.6 million of revenues from the Master Lease, which included $4.3 million of straight-line rent revenue, and $0.9 million of TCI revenue.

Because a substantial portion of our revenue is 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 and/or financial condition if Windstream experiences operating 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 and sales. Accordingly, we monitor the credit quality of Windstream through numerous methods, including by (i) reviewing the credit ratings of Windstream by nationally recognized credit rating agencies, (ii) reviewing the financial statements of Windstream that are publicly available and that are required to be delivered to us pursuant to the Master Lease, (iii) monitoring news reports regarding Windstream and its businesses, (iv) conducting research to ascertain industry trends potentially affecting Windstream, and (v) monitoring the timeliness of its lease payments.

In addition to periodic financial statements, Windstream is obligated under the Master Lease to provide us (i) a detailed consolidated budget on an annual basis and any significant revisions approved by Windstream’s board of directors, (ii) prompt notice of any adverse action or investigation by a governmental authority relating to Windstream’s licenses affecting the leased property, and (iii) any information we require to comply with our reporting and filing obligations with the

SEC. Furthermore, pursuant to the Master Lease, we may inspect the properties leased to Windstream upon reasonable advance notice, and, no more than twice per year, we may require Windstream to deliver an officer’s certificate certifying, among other things, its material compliance with the covenants under

33



[Table of Contents](#page4)

the Master Lease, the amount of rent and additional charges payable thereunder, the dates the same were paid, and any other questions or statements of fact we reasonably request.

*Fiber Infrastructure* – For the three months ended March 31, 2017 we recognized $34.8 million of revenue, approximately 70% of which was derived from litbackhaul services. No revenue was recognized during the three months ended March 31, 2016 as we had not yet closed on the acquisitions of companies that comprise our Uniti Fiber business. At March 31, 2017, we had approximately 5,500 customer connections.

*Towers* - For the three months ended March 31, 2017, we recognized $1.4 million of revenue, of which $1.1 million relates to our Latin American operations,primarily driven by revenues associated with our January 2017 acquisition of NMS.

*Consumer CLEC* - For the three months ended March 31, 2017, we recognized $4.9 million of revenue from the Consumer CLEC Business, compared to $6.0million for the three months ended March 31, 2016. The decrease is due to the effects of competition and customer attrition, as we served 34,800 customers as of March 31, 2017, a 20% decrease from 43,500 customers served at March 31, 2016.

***Interest Expense***

Interest expense for the three months ended March 31, 2017, totaled $73.4 million, which includes non-cash interest expense of $5.3 million resulting from the amortization of our debt discounts and debt issuance costs. Interest expense for the three months ended March 31, 2016, totaled $66.0 million, which includes non-cash interest expense of $3.8 million resulting from the amortization of our debt discounts and debt issuance costs. The 11.3% increase is primarily related to interest expense on the add-on Secured Notes, and 2024 Notes (December issuance) of $7.1 million, which were not incurred in the prior year. This increase was partially offset by approximately $3.8 million of interest savings related to the two repricings of $2.1 billion of term loans outstanding under our senior secured credit agreement. Effective February 9, 2017, interest on the term loans was LIBOR plus 3.00% per annum (with a minimum LIBOR rate of 1.0%), compared to LIBOR plus 4.0% per annum (with a minimum LIBOR rate of 1.0%) for the three months ended March 31, 2016.

***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 March 31, 2017 totaled $101.4 million, which included property, plant and equipment depreciation of $93.3 million, corporate asset depreciation of $5.6 million and intangible asset amortization of $2.5 million. Charges for depreciation and amortization for the three months ended March 31, 2016 totaled $86.3 million, which included property, plant and equipment depreciation of $85.4 million, corporate asset depreciation of $0.1 million and intangible asset amortization of $0.8 million. The increase is primarily due to $13.2 million of depreciation and amortization expense related to Uniti Fiber, which was not in operation during the first quarter of 2016.

***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 March 31, 2017, general and administrative costs totaled $14.0 million (6.6% of

revenue), which includes $1.6 million of stock-based compensation expense. For the three months ended March 31, 2016, general and administrative costs totaled

$5.2 million (3.0% of revenue), which includes $0.9 million of stock-based compensation expense. The increase is primarily due to $5.9 million of expense related to

Uniti Fiber, which was not in operation during the first quarter of 2016.

***Operating Expense***

Operating expense for the three months ended March 31, 2017, totaled $22.1 million (10.5% of revenue), and consisted of $3.8 million (1.8% of revenue) of expense related to the operation of the Consumer CLEC Business and $17.6 million (8.4% of revenue) of expense related to Uniti Fiber operations. For the three months ended March 31, 2016, operating expenses totaled $4.7 million (2.7% of revenue), which related to the operation of the Consumer CLEC Business.

For the three months ended March 31, 2017, Fiber Infrastructure operating expenses included $3.3 million of payroll related expense, $2.8 million of tower rent, $1.8 million of lit service expense and $1.7 million of maintenance expense.

Expense associated with the Consumer CLEC Business is primarily attributable to the Wholesale Master Services Agreement and the Master Services Agreement entered between us and Windstream in connection with the Spin-Off, and also included costs arising

34



[Table of Contents](#page4)

under the interconnection agreements with other telecommunication carriers. Expense associated with the Wholesale Master Services Agreement and Master Services Agreement for the three months ended March 31, 2017 totaled $2.8 million (1.4% of revenue) and $0.4 million (0.2% of revenue), respectively, and expense associated with the Wholesale Master Services Agreement and the Master Services Agreement for the three months ended March 31, 2016 totaled $3.4 million (1.9% of revenue) and $0.4 million (0.3% of revenue), respectively.

***Other Expense***

Other expense for the three months ended March 31, 2017, totaled $11.3 million (5.4% of revenue), primarily as a result of an unrealized loss of $10.9 million for mark-to-market adjustments on our contingent consideration.

***Reportable Segments***

The following tables set forth, for the three months ended March 31, 2017 and 2016, revenues and Adjusted EBITDA of our reportable segments:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | **Three Months Ended March 31, 2017** | | | | | |  |  |  |  |  |  |  |  |
|  |  |  | **Leasing** |  | **Fiber Infrastructure** | |  |  | **Towers** |  |  |  | **Consumer CLEC** |  |  | **Corporate** |  |  | **Subtotal of** |  |  |  |
| (Thousands) |  |  |  |  |  |  | **Reportable Segments** | |  |  |  |
| Revenues | | $ | 170,306 |  | $ | 34,812 |  | $ | 1,428 |  | $ | | 4,927 |  | $ | - |  | $ | 211,473 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | | $ | 170,060 |  | $ | 11,567 |  | $ | (735) | | $ | | 1,166 |  | $ | (5,056) | | $ | 177,002 |  |  |  |
| Less: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 73,365 |  |  |  |
| Depreciation and amortization | |  | 86,506 |  |  | 13,221 |  |  | 886 |  |  |  | 652 |  |  | 96 |  |  | 101,361 |  |  |  |
| Other expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 11,339 |  |  |  |
| Transaction related costs | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 9,684 |  |  |  |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1,632 |  |  |  |
| Income tax expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (379) | |  |  |
| Net loss | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (20,000) | |  |  |
|  |  |  |  |  |  |  |  |  | **Three Months Ended March 31, 2016** | | | | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Leasing** |  | **Fiber Infrastructure** | |  |  | **Towers** |  |  |  | **Consumer CLEC** |  |  | **Corporate** |  |  | **Subtotal of** |  |  |  |
| (Thousands) |  |  |  |  |  |  | **Reportable Segments** | |  |  |  |
| Revenues | | $ | 168,613 |  | $ | - |  | $ | 28 |  |  |  | 6,034 |  | $ | - |  | $ | 174,675 |  |  |  |
|  | |  |  |  |  |  |  |  |  | |  | |  |  |  |  | |  |  |  |  |  |
| Adjusted EBITDA | | $ | 168,208 |  | $ | - |  | $ | (302) | | $ | | 1,332 |  | $ | (3,529) | | $ | 165,709 |  |  |  |
| Less: | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 66,049 |  |  |  |
| Depreciation and amortization | |  | 85,403 |  |  |  |  |  | 30 |  |  |  | 814 |  |  | 93 |  |  | 86,340 |  |  |  |
| Other expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | - |  |  |  |
| Transaction related costs | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3,910 |  |  |  |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 930 |  |  |  |
| Income tax expense | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 444 |  |  |  |
| Net income | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 8,036 |  |  |  |
|  |  |  |  |  |  |  |  |  | 35 |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page4)

**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")), Normalized Funds from Operations ("NFFO") 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, NFFO 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 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 applicable 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 NFFO, as FFO excluding the impact, which may be recurring in nature, of transaction and integration related costs. We define AFFO as NFFO excluding

1. noncash 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, and revenue associated with the amortization of tenant funded capital improvements ("TCIs") and (ii) 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, 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, NFFO 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, NFFO and AFFO to be useful measures for reviewing comparative operating and financial 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 and integration related costs. We use FFO, NFFO and AFFO, and their respective per share amounts, as performance measures, and FFO, NFFO and AFFO do not purport to be indicative of cash available to fund our future cash requirements. While FFO, NFFO 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, NFFO 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, NFFO and AFFO differently than we do.

36



[Table of Contents](#page4)

The reconciliation of our net income to EBITDA and Adjusted EBITDA and of our net income applicable to common shareholders to FFO, NFFO and AFFO for the three months ended March 31, 2017 and 2016 is as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| (Thousands) |  | **Three Months Ended March 31,** | | |  |  |  |
|  | **2017** |  |  | **2016** |  |  |
| **Net (loss) income** | $ | (20,000) | | $ | 8,036 |  |  |
| Depreciation and amortization |  | 101,361 |  |  | 86,340 |  |  |
| Interest expense |  | 73,365 |  |  | 66,049 |  |  |
| Income tax (benefit) expense |  | (379) | |  | 444 |  |  |
| **EBITDA** | $ | 154,347 |  | $ | 160,869 |  |  |
| Stock based compensation |  | 1,632 |  |  | 930 |  |  |
| Other expense |  | 11,339 |  |  | - |  |  |
| Transaction related costs |  | 9,684 |  |  | 3,910 |  |  |
| **Adjusted EBITDA** | $ | 177,002 |  | $ | 165,709 |  |  |
|  |  |  |  |  |  |  |  |
| (Thousands) |  | **Three Months Ended March 31,** | | |  |  |  |
|  | **2017** |  |  | **2016** |  |  |
| **Net (loss) income attributable to common shareholders** | $ | (21,788) | | $ | 7,681 |  |  |
| Real estate depreciation and amortization |  | 91,014 |  |  | 85,501 |  |  |
| Participating securities share in earnings |  | 387 |  |  | 355 |  |  |
| Participating securities share in FFO |  | (387) | |  | (368) | |  |
| **FFO applicable to common shareholders** | $ | 69,226 |  | $ | 93,169 |  |  |
| Transaction related costs |  | 9,684 |  |  | 3,910 |  |  |
| **NFFO applicable to common shareholders** |  | 78,910 |  |  | 97,079 |  |  |
| Changes in fair value of contingent consideration |  | 10,910 |  |  | - |  |  |
| Amortization of deferred financing costs |  | 2,487 |  |  | 1,818 |  |  |
| Amortization of debt discount |  | 2,778 |  |  | 1,946 |  |  |
| Stock based compensation |  | 1,632 |  |  | 930 |  |  |
| Non-real estate depreciation and amortization |  | 10,347 |  |  | 839 |  |  |
| Straight-line revenue |  | (3,629) | |  | (4,322) | |  |
| Maintenance capital expenditures |  | (536) | |  | - |  |  |
| Amortization of discount on convertible preferred stock |  | 745 |  |  | - |  |  |
| Other non-cash (revenue) expense, net |  | (3,328) | |  | (817) | |  |
| **AFFO applicable to common shareholders** | $ | 100,316 |  | $ | 97,473 |  |  |
|  |  |  |  |  |  |  |  |

**Critical Accounting Estimates**

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our 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 believe the current assumptions and other considerations used to estimate amounts reflected in our financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and, in certain situations, could have a material adverse effect on our consolidated 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, 2016, filed with SEC on February 23, 2017. As of March 31, 2017, there has been no material change to these estimates.

37



[Table of Contents](#page4)

**Liquidity and Capital Resources**

Our principal liquidity needs are to fund operating expenses, meet debt service requirements, fund investment activities, 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), borrowings under our Credit Agreement, and proceeds from the issuance of debt and equity securities. As of March 31, 2017, we had cash and cash equivalents of $68.7 million and $500 million of undrawn borrowing capacity under the Revolving Credit Facility.

Cash provided by operating activities was $128.2 million for the three months ended March 31, 2017, which was driven by favorable changes in working capital, primarily attributable to our leasing activities.

Cash used in investing activities was $86.5 million for the three months ended March 31, 2017, which was driven by the acquisition of NMS ($62.6 million) and capital expenditures ($23.9 million).

Cash used in financing activities was $145.0 million for the three months ended March 31, 2017, which was driven by dividend payments ($94.1 million), deferred financing costs related to the term loan repricing ($24.4 million), contingent consideration payments ($18.8 million), and principal payments related to the Term Loan Facility ($5.3 million).

On February 9, 2017, we completed a second repricing of our Term Loan Facility. The repricing (i) decreased the interest rate margin by an additional 50 basis points to LIBOR plus 3.00% per annum with a minimum LIBOR rate of 1.0% and (ii) will, together with the repricing in October 2016, reduce our cash interest costs by $10 million annually. Our interest rate swap agreements are unaffected by this repricing and effectively fix the interest rate on our Term Loan Facility at 5.1%.

On April 24, 2017, we, along with CSL Capital and Uniti Fiber Holdings Inc., announced the pricing of an offering of $200 million aggregate principal amount of 7.125% senior notes due 2024. The notes will be jointly and severally issued by Uniti Group, Inc., CSL Capital and Uniti Fiber Holdings Inc. at an issue price of 100.500%, plus accrued interest from December 15, 2016. Proceeds from the offering will be used to fund a portion of the cash consideration payable in connection with the previously announced acquisition of Southern Light. The indenture governing these notes contains a mandatory redemption feature, whereby we will be required to redeem the notes at issue price plus accrued interest if the Southern Light acquisition is not completed by October 14, 2017.

On April 25, 2017, we issued 19.5 million shares of our common stock, generating proceeds of approximately $518 million, before underwriter discounts and transaction costs. The Company intends to use the proceeds from this offering to fund a portion of the cash consideration payable in connection with the previously announced acquisitions of Southern Light and Hunt.

On April 28, 2017, we amended the Credit Agreement to increase the commitments under our Revolving Credit Facility to $750 million.

We have 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 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 $250.0 million. During the quarter ended March 31, 2017, no sales were made 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. While we have not used the program to date, we currently intend to utilize the program when we believe the price we can obtain for our common stock is attractive. In addition, our UPREIT structure, once in place, will also enable us to acquire properties by issuing to sellers, as a form of consideration, limited partnership interests in our operating partnership. 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 intend to issue limited partnership interests as part of the acquisition consideration for our pending acquisitions of Hunt and Southern Light.

We anticipate our cash on hand and borrowing availability under our Revolving Credit Facility, combined with our cash flows provided by operating activities will be sufficient to fund our business operations, debt service and distributions to our shareholders over the next twelve months. However, we may take advantage of opportunities to generate additional liquidity through capital markets transactions including, without limitation the ATM Program. 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, we could be subject to a shortfall in liquidity in the future, and this shortfall may occur rapidly and with little or no notice, which would limit our ability to address the shortfall on a timely basis.

**Contractual Obligations**

38



[Table of Contents](#page4)

As of March 31, 2017, we had contractual obligations and commitments as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Payments Due by Period** | | | | |  |  |  |  |  |  |  |  |  |
|  |  |  | **Less than 1** | **1-3** | | |  |  |  |  | **3-5** |  |  |  | **More than** | | |  | **Total** |  |  |
| (millions) |  |  | **Year** |  |  | **Years** |  |  |  |  | **Years** |  |  |  | **5 Years** |  |  |  |  |
| Long-term debt (a) |  | $ | 21 | $ | | | 42 | $ | | | 42 |  | $ | | 4,058 |  |  | $ | 4,163 |  |  |
| Interest payments on long-term debt obligations (b) | |  | 238 |  |  |  | 474 |  |  |  | 470 |  |  |  | 361 |  |  |  | 1,543 |  |  |
| Operating leases | |  | 14 |  |  |  | 17 |  |  |  | 6 |  |  |  | 5 |  |  |  | 42 |  |  |
| Capital Leases | |  | 7 |  |  |  | 14 |  |  |  | 13 |  |  |  | 59 |  |  |  | 93 |  |  |
| Network deployment (c) | |  | 64 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 64 |  |  |
| **Total projected obligations and commitments (d)** | | $ | 344 | $ | | | 547 | $ | | | 531 |  | $ | | 4,483 |  |  | $ | 5,905 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Excludes $158.9 million of unamortized discounts on long-term debt and deferred financing costs.
2. Interest rates on our Term Loan Facility are based on our swap rates.
3. Network deployment purchase commitments are for success-based projects for which we have a signed customer contract before we commit resources to expand our network.
4. Excludes $1.5 million of derivative liability related to interest rate swaps maturing on October 24, 2022.

**Dividends**

We are 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. We intend to make regular quarterly 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 April 14, 2017, we paid, to shareholders of record as of the close of business on March 31, 2017, a cash dividend on our common stock of $0.60 per share for the period from January 1, 2017 through March 31, 2017.

On January 13, 2017, we paid, to shareholders of record as of the close of business on December 30, 2016, a cash dividend on our common stock of $0.60 per share for the period from October 1, 2016 through December 31, 2016.

**Capital Expenditures**

We anticipate incurring total capital expenditures related to the Uniti Fiber business of $70 million to $85 million during 2017, driven by network deployment. As of March 31, 2017, we have incurred approximately $14.5 million of such expenditures.

We anticipate incurring total capital expenditures related to the Uniti Towers business of $25 million to $30 million during 2017, driven by network deployment. As of March 31, 2017, we have incurred approximately $9.7 million of such expenditures.

We do not anticipate incurring significant capital expenditures on an annual basis in connection with corporate assets or operating our Consumer CLEC Business.

**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, 2016, filed with the SEC on February 23, 2017.

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting* *for Goodwill Impairment*" ("ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Agoodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We adopted ASU 2017-04 effective January 1, 2017, and there was no material impact on our financial position, results of operations or cash flows.

39



[Table of Contents](#page4)

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2017-01 effective January 1, 2017, with prospective application. As a result of the adoption of ASU 2017-01, the Company’s acquisition of Network Management Holdings LTD (“NMS”) ([see Note 3](#page11)) was determined to be an asset acquisition. Transaction cost associated with our real property interest investments are now capitalized as opposed to be recorded as an expense prior to adoption.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). This update outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted for public companies for annual periods beginning after December 15, 2016. The Company intends to adopt the revenue recognition guidance on January 1, 2018. The Company’s implementation efforts include reviewing revenue contracts and the identification of revenue within scope of the guidance. While the Company currently has not identified any material changes in the timing of revenue recognition, the evaluation is ongoing and we are in the process of determining the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASC 842”), hich sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new 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 recognized based on an effective interest method or 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. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The Company is currently evaluating this guidance to determine the impact it will have on our financial statements by reviewing its existing operating lease contracts, where we are the lessee and service contracts that may include embedded leases. The Company expects a gross-up of its Consolidated Balance Sheets as a result of recognizing lease liabilities and right of use assets, the extent of the impact of a gross-up is under evaluation. The Company does not anticipate material changes to the recognition of operating lease expense in its Consolidated Statements of Income.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance on reducing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In addition to other specific cash flow issues, ASU 2016-15 provides clarification on when an entity should separate cash receipts and cash payments into more than one class of cash flows and when an entity should classify those cash receipts and payments into one class of cash flows on the basis of predominance. The new guidance is effective for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and early adoption is permitted.

The Company is currently evaluating the impacts the adoption of this accounting standard will have on our financial statements.

**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, 2016, filed with the SEC on February 23, 2017.

**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

40



[Table of Contents](#page4)

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 March 31, 2017. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2017.

*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 March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

41



[Table of Contents](#page4)

**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.

**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, 2016 filed with the SEC on February 23, 2017.

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

***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.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Total Number** |  |  |  |  | **Total Number of Shares** |  | **Maximum Number of Shares** | |  |
|  |  |  | **Average Price Paid per** | | | **Purchased as Part of** |  |  |
|  |  | **of Shares** |  | **Publicly Announced Plans** |  | **that May Yet Be Purchased** | |  |
| Period |  | **Purchased** |  |  | **Share(1)** |  | **or Programs** |  | **Under the Plans or Programs** |  |  |
| January 1, 2017 to January 31, 2017 | | 522 | $ | | 26.27 |  | — |  | — | |  |
| February 1, 2017 to February 29, 2017 | | 13,940 |  |  | 28.97 |  | — |  | — | |  |
| March 1, 2017 to March 31, 2017 | | 8,081 |  |  | 26.02 |  | — |  | — | |  |
| Total | | 22,543 | $ | | 27.85 |  | — |  | — | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

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

42



[Table of Contents](#page4)

**Item 6. Exhibits.**

|  |  |
| --- | --- |
| **Exhibit** | **Description** |
| **Number** |  |
| 2.1 | Membership Interests Purchase Agreement, dated April 7, 2017, by and among Uniti Group Inc., Uniti Fiber Holdings Inc. and SLF Holdings, |
|  | LLC (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K dated as of April 7, 2017 and filed with the SEC |
|  | as of April 11, 2017 (File No. 001-36708))\*\* |
| 3.1 | Articles of Amendment and Restatement of Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s |
|  | Current Report on Form 8-K dated and filed with the SEC as of April 10, 2015 (File No. 001-36708)) |
| 3.2 | Articles of Amendment of Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report |
|  | on Form 8-K dated as of February 22, 2017 and filed with the SEC as of February 28, 2017 (File No. 001-36708)) |
| 3.3 | Amended and Restated Bylaws of Uniti Group Inc., as amended May 1, 2017 (incorporated by reference to Exhibit 3.1 to the Company’s |
|  | Current Report on Form 8-K dated as of May 1, 2017 and filed with the SEC as of May 2, 2017 (File No. 001-36708)) |
| 10.1\* | Communications Sales & Leasing, Inc. 2016 Short Term Incentive Plan\*\*\* |
| 10.2\* | Communications Sales & Leasing, Inc. 2017 Short Term Incentive Plan\*\*\*\* |
| 10.3 | Amendment No. 2 to the Credit Agreement, dated as of February 9, 2017 by and among Communications Sales & Leasing, Inc. and CSL |
|  | Capital, LLC, as borrowers, the guarantors party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent and |
|  | collateral agent (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated and filed with the SEC as of |
|  | February 9, 2017 (File No. 001-36708)) |
| 10.4 | Amendment No. 3 to the Credit Agreement, dated as of April 28, 2017 by and among Uniti Group Inc. and CSL Capital, LLC, as borrowers, |
|  | the guarantors party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent and collateral agent (incorporated |
|  | by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated as of May 1, 2017 and filed with the SEC as of May 2, 2017 |
|  | (File No. 001-36708)) |
| 21.1\* | List of Subsidiaries of Uniti Group Inc. |
| 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 Adopted |
|  | Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 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 Adopted |
|  | Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1\* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley |
|  | Act of 2002. |
| 32.2\* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act |
|  | of 2002. |
| 101.INS | XBRL Instance 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 |



* Filed herewith.
* Schedules to the agreement have been omitted pursuant to Section 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule upon the request of the Securities and Exchange Commission.

43



[Table of Contents](#page4)

* This exhibit was originally included as Exhibit 10.4 to the Quarterly Report on Form 10-Q filed on May 12, 2016 with confidential treatment granted on a portion of the exhibit. The confidential treatment order expired on April 30, 2017, and the full version of the exhibit is filed herewith.
* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

44



[Table of Contents](#page4)

**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: | May 4, 2017 | /s/ Mark A. Wallace |
|  |  | **Mark A. Wallace** |
|  |  | **Executive Vice President – Chief Financial Officer and Treasurer** |
|  |  | **(Principal Financial Officer)** |
| Date: | May 4, 2017 | /s/ Blake Schuhmacher |
|  |  | **Blake Schuhmacher** |

**Vice President – Chief Accounting Officer**

**(Principal Accounting Officer)**

45



[Table of Contents](#page4)

|  |  |
| --- | --- |
|  | **Exhibit Index** |
| **Exhibit** | **Description** |
| **Number** |  |
| 2.1 | Membership Interests Purchase Agreement, dated April 7, 2017, by and among Uniti Group Inc., Uniti Fiber Holdings Inc. and SLF Holdings, |
|  | LLC (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K dated as of April 7, 2017 and filed with the SEC |
|  | as of April 11, 2017 (File No. 001-36708))\*\* |
| 3.1 | Articles of Amendment and Restatement of Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s |
|  | Current Report on Form 8-K dated and filed with the SEC as of April 10, 2015 (File No. 001-36708)) |
| 3.2 | Articles of Amendment of Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report |
|  | on Form 8-K dated as of February 22, 2017 and filed with the SEC as of February 28, 2017 (File No. 001-36708)) |
| 3.3 | Amended and Restated Bylaws of Uniti Group Inc., as amended May 1, 2017 (incorporated by reference to Exhibit 3.1 to the Company’s |
|  | Current Report on Form 8-K dated as of May 1, 2017 and filed with the SEC as of May 2, 2017 (File No. 001-36708)) |
| 10.1\* | Communications Sales & Leasing, Inc. 2016 Short Term Incentive Plan\*\*\* |
| 10.2\* | Communications Sales & Leasing, Inc. 2017 Short Term Incentive Plan\*\*\*\* |
| 10.3 | Amendment No. 2 to the Credit Agreement, dated as of February 9, 2017 by and among Communications Sales & Leasing, Inc. and CSL |
|  | Capital, LLC, as borrowers, the guarantors party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent and |
|  | collateral agent (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated and filed with the SEC as of |
|  | February 9, 2017 (File No. 001-36708)) |
| 10.4 | Amendment No. 3 to the Credit Agreement, dated as of April 28, 2017 by and among Uniti Group Inc. and CSL Capital, LLC, as borrowers, |
|  | the guarantors party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent and collateral agent (incorporated |
|  | by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated as of May 1, 2017 and filed with the SEC as of May 2, 2017 |
|  | (File No. 001-36708)) |
| 21.1\* | List of Subsidiaries of Uniti Group Inc. |
| 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 Adopted |
|  | Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 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 Adopted |
|  | Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1\* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley |
|  | Act of 2002 |
| 32.2\* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act |
|  | of 2002 |
| 101.INS | XBRL Instance 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 |



* Filed herewith.
* Schedules to the agreement have been omitted pursuant to Section 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule upon the request of the Securities and Exchange Commission.

46



[Table of Contents](#page4)

* This exhibit was originally included as Exhibit 10.4 to the Quarterly Report on Form 10-Q filed on May 12, 2016 with confidential treatment granted on a portion of the exhibit. The confidential treatment order expired on April 30, 2017, and the full version of the exhibit is filed herewith.
* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

47

**Exhibit 10.1**

**COMMUNICATIONS SALES & LEASING, INC.**

**2016 SHORT TERM INCENTIVE PLAN**

As of February 29, 2016 (the “Effective Date”), Communications Sales & Leasing, Inc., a Maryland corporation (the “Corporation”), hereby adopts this 2016 Short Term Plan (this “Plan”).

WHEREAS, the Board of Directors of the Corporation deems it in the best interest of the Corporation that the Corporation reward certain executives of the Corporation with a short-term incentive program (annual cash bonuses) in order to motivate the Corporation’s executive officers to achieve performance goals that reinforce the Corporation’s annual business plan, to assist the Corporation in attracting and retaining qualified executives and to promote the alignment of the executive officers’ interests with those of the Corporation’s stockholders; and

WHEREAS, the Board of Directors approved on February 29, 2016 the terms of this Plan, including Exhibit A hereto which is incorporated by reference in its entirety.

NOW, THEREFORE, BE IT RESOLVED:

**Section 1. Definitions**. The following words and phrases shall have the following meanings unless a different meaning is plainlyrequired by the context:

(a)

“*Award*” means any Short-Term Cash Bonus granted under this Plan.

(b)

“*Board*” means the Board of Directors of the Corporation.

(c)

“*Code*” means the Internal Revenue Code of 1986, as amended.

(d)

administer this Plan.

“*Committee*” means the Compensation Committee of the Board which has been appointed to

(e)

direct or indirect subsidiary thereof.

“*Corporation*” means Communications Sales & Leasing, Inc., a Maryland corporation, and any

(f)

Section 3 of this Plan.

“*Eligible Executive*” means an executive officer of the Corporation holding the positions set forth in

(g) “*Employee*” means an individual who is an employee of the Corporation who is reported on the payroll records as a common‑law employee.

(h)

“*Plan*” means this 2016 Short Term Plan of the Corporation.

(i)

pursuant to Section 4 of this Plan.

“*Short-Term Incentive Bonus*” means the incentive compensation granted to an Eligible Executive

(j) “*Subsidiary*” means a corporation at least 50% of the total combined voting power of all classes of

stock which is owned by the Corporation, either directly or through one or more other Subsidiaries.



**Section 2. Administration**. This Plan will be administered by the Committee. In addition to any other powers granted to the

Committee, the Committee will have the following powers:

(a)

Plan to Eligible Executives;

to determine whether and to what extent Short-Term Incentive Bonuses are to be granted under this

(b) to determine whether the performance metrics required to receive Short‑Term Incentive Bonuses have been satisfied and to what extent they have been satisfied;

(c)

to construe and interpret this Plan;

(d) to require, at the time Short‑Term Incentive Bonuses are to be paid, the making of any

representations or agreements that the Committee may deem necessary or advisable in order for the Corporation to comply with the securities laws of the United States of America or of any state or any rule or regulation thereunder;

(e)

to provide for satisfaction of an Eligible Executive’s tax liabilities arising in connection with this

Plan; and

(f)

administration of this Plan.

to make all other determinations and take all other actions necessary or advisable for the

Any determinations or actions made or taken by the Committee pursuant to this Section 2 will be binding and final.

**Section 3. Eligibility**. The individuals holding the following executive officer positions of the Corporation on the Effective Date shallbe eligible to receive Short‑Term Incentive Bonuses under this Plan:

(a)

President and Chief Executive Officer

(b)

Executive Vice President and Chief Financial Officer; and

(c)

Executive Vice President and General Counsel.

**Section 4. Short‑Term Incentive Bonuses**. Short‑Term Incentive Bonuses shall be awarded to the Eligible Executives as set forth inthis Section 4 and Exhibit A to this Plan. Short-Term Incentive Bonuses shall be payable in cash upon the attainment of the criteria set forth on Exhibit A as the Committee shall determine, in its sole discretion.

**Section 5. Termination or Amendment**. The Board may amend or terminate this Plan in any respect at any time. Board approval mustbe accompanied by (a) stockholder approval in those cases in which amendment requires stockholder approval under applicable law or regulations or the requirements of the principal exchange or interdealer quotation system on which the shares of common stock of the Corporation are listed or quoted, and (b) affected Eligible Executive approval if the amendment or termination would adversely affect the holder’s rights under any outstanding grants or Awards. The Short‑Term Incentive Bonus provisions may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board. To the extent required by Section 162(m) of the Code with respect to bonus Awards that the Committee determines should qualify as performance‑based compensation as described in Section 162(m)(4)(C), no action may

2



modify the performance criteria or bonus potentials after the commencement of the measurement period with respect to which such bonus Awards relate.

**Section 6. Effectiveness of this Plan**. This Plan is effective as of the Effective Date which is the date of adoption of this Plan by the

Board.

**Section 7. Term of this Plan**. This Plan will terminate on the date all benefits anticipated by this Plan have been paid.

**Section 8. Indemnification of Committee**. In addition to such other rights of indemnification as they may have as directors of theCorporation or as members of the Committee, the members of the Committee will be indemnified by the Corporation against the reasonable expenses, including attorneys’ fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with this Plan or any grant or Award hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner that they believed to be in, and not opposed to, the best interests of the Corporation.

**Section 9.**

**General Provisions**.

(a) The establishment of this Plan will not confer upon any Eligible Executive or Employee, any legal

or equitable right against the Corporation, any Subsidiary or the Committee, except as expressly provided in this Plan or employment agreement of the Eligible Executive, if any.

(b) This Plan does not constitute inducement or consideration for the employment of any Employee, nor is it a contract of employment between the Corporation or any Subsidiary and any Employee. Participation in this Plan, or the receipt of a grant or Award hereunder, will not give an Employee any right to be retained in the service of the Corporation or any Subsidiary.

(c) The interests of any Employee under this Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as otherwise provided herein.

(d) The Corporation may withhold any federal, state or local taxes required with respect to any

distribution under this Plan. The Employee shall take whatever action the Committee deems appropriate with respect to withholding of taxes, including, but not limited to, the Employee remitting to the Corporation any taxes required to be withheld by the Corporation under federal, state or local law as a result of the distribution.

(e) Notwithstanding anything contained herein to the contrary, this Plan shall be administered and operated in accordance with any applicable laws and regulations, including, but not limited to, Section 409A of the Code. The Corporation reserves the right to amend this Plan at any time in order for this Plan to comply with any such laws and regulations.

(f) This Plan will be governed, construed and administered in accordance with the laws of Delaware.

3



(g) If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provisions of this Plan, and this Plan shall be construed and enforced as if such provision had not been included.

IN WITNESS WHEREOF, the Corporation, by its duly authorized officer, has executed this Plan on the Effective Date as first set forth above and as duly authorized by the Board.

COMMUNICATIONS SALES & LEASING, INC.

|  |  |  |  |
| --- | --- | --- | --- |
| By: |  |  | /s/ |
| Kenneth A. Gunderman | | | |
|  |  |  | |
| Name: | Kenneth A. Gunderman | | |
| Title: | President and Chief Executive Officer | | |

4



**EXHIBIT A**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **2016 Short Term Incentive Plan** | | | |  |  |  |
| A. | | Vesting based on the following: | |  |  |  |  |  |  |  |
|  |  | 1. | Stand Alone REIT Normalized AFFO(1) for 2016 (50% weight): | | | | |  |  |  |
|  |  |  | **Threshold** |  | **Target** |  |  | **Superior** |  |  |
|  |  |  | $382 million |  | $385 million |  |  | $388 million |  |  |
|  |  | 2. | Maintain Consolidated Financial Leverage(2) average at 6.0x or less (25% weight): | | | | |  |  |  |
|  |  |  | **Threshold** |  | **Target** |  |  | **Superior** |  |  |
|  |  |  | 6.0x |  | 5.8x |  |  | 5.6x |  |  |
|  |  | 3. | Diversification target for 4Q16 Annualized Adjusted EBITDA(3), from Annualized Adjusted EBITDA achieved in 4Q15 of | | | | | | |  |
|  |  |  | $664 million (25% weight): |  |  |  |  |  |  |  |
|  |  |  | **Threshold** |  | **Target** |  |  | **Superior** |  |  |
|  |  |  | 8% | 10% | |  |  | 12% |  |  |
| B. | | Potential payouts determined by Compensation Committee: | | | | | |  |  |  |
|  |  | **Performance Achievement Level** | |  | **Potential as Percent of Base Salary\*** | | | | |  |
|  |  |  | **CEO** | |  | **CFO/GC** | |  |
|  | |  |  |  |  |  |  |  |  |  |
| Threshold | |  |  |  | 75% |  |  | 50% |  |  |
| Target | |  |  |  | 150% |  |  | 100% |  |  |
| Superior | |  |  |  | 225% |  |  | 150% |  |  |

\* Subject to adjustment as determined by Compensation Committee in its sole discretion.

\_\_\_\_\_\_\_\_\_\_\_\_

1. Definition consistent with publicly reported definition, and excluding effect of future capital markets & M&A transactions, and similar costs.
2. Financial Leverage defined as monthly average Net Debt to Annualized Adjusted EBITDA on a basis consistent with our debt agreements.
3. Definition consistent with publicly reported definition. Diversification target includes signed transactions pending close.

5

Portions of this document have been redacted pursuant to a Confidential Treatment Request filed with the Securities and Exchange Commission pursuant to Rule 406 under the Securities Act of 1933, as amended, and Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Redacted portions are indicated with the notation “[\*\*]”.

**Exhibit 10.2**

**COMMUNICATIONS SALES & LEASING, INC.**

**2017 SHORT TERM INCENTIVE PLAN**

As of February 14, 2017 (the “Effective Date”), Communications Sales & Leasing, Inc., a Maryland corporation (the “Corporation”), hereby adopts this 2017 Short Term Plan (this “Plan”).

WHEREAS, the Compensation Committee of the Board of Directors of the Corporation deems it in the best interest of the Corporation that the Corporation reward certain executives of the Corporation with a short-term incentive program (annual cash bonuses) in order to motivate the Corporation’s executive officers to achieve performance goals that reinforce the Corporation’s annual business plan, to assist the Corporation in attracting and retaining qualified executives and to promote the alignment of the executive officers’ interests with those of the Corporation’s stockholders; and

WHEREAS, the Compensation Committee approved on February 14, 2017 the terms of this Plan, including Exhibit A hereto which is incorporated by reference in its entirety.

NOW, THEREFORE, BE IT RESOLVED:

**Section 1. Definitions**. The following words and phrases shall have the following meanings unless a different meaning is plainlyrequired by the context:

|  |  |
| --- | --- |
| (a) | “*Award*” means any Short-Term Cash Bonus granted under this Plan. |
| (b) | “*Board*” means the Board of Directors of the Corporation. |
| (c) | “*Code*” means the Internal Revenue Code of 1986, as amended. |
| (d) | “*Committee*” means the Compensation Committee of the Board which has been appointed to |
| administer this Plan. |  |
| (e) | “*Corporation*” means Communications Sales & Leasing, Inc., a Maryland corporation, and any |
| direct or indirect subsidiary thereof. |  |
| (f) | “*Eligible Officer*” means an officer of the Corporation holding the positions set forth in Section 3 of |
| this Plan. |  |
| (g) | “*Employee*” means an individual who is an employee of the Corporation who is reported on the |
| payroll records as a common‑law employee. | |
| (h) | “*Plan*” means this 2017 Short Term Plan of the Corporation. |
|  |  |



(i)

pursuant to Section 4 of this Plan.

“*Short-Term Incentive Bonus*” means the incentive compensation granted to an Eligible Officer

(j) “*Subsidiary*” means a corporation at least 50% of the total combined voting power of all classes of

stock which is owned by the Corporation, either directly or through one or more other Subsidiaries.

**Section 2. Administration**. This Plan will be administered by the Committee. In addition to any other powers granted to the

Committee, the Committee will have the following powers:

(a)

Plan to Eligible Officers;

to determine whether and to what extent Short-Term Incentive Bonuses are to be granted under this

(b) to determine whether the performance metrics required to receive Short‑Term Incentive Bonuses have been satisfied and to what extent they have been satisfied;

(c)

to construe and interpret this Plan;

(d) to require, at the time Short‑Term Incentive Bonuses are to be paid, the making of any

representations or agreements that the Committee may deem necessary or advisable in order for the Corporation to comply with the securities laws of the United States of America or of any state or any rule or regulation thereunder;

(e)

to provide for satisfaction of an Eligible Officer’s tax liabilities arising in connection with this Plan;

and

(f)

administration of this Plan.

to make all other determinations and take all other actions necessary or advisable for the

Any determinations or actions made or taken by the Committee pursuant to this Section 2 will be binding and final.

**Section 3. Eligibility**. The individuals holding the following executive officer positions of the Corporation on the Effective Date shallbe eligible to receive Short‑Term Incentive Bonuses under this Plan:

(a)

President and Chief Executive Officer

(b)

Executive Vice President and Chief Financial Officer;

(c)

Executive Vice President and General Counsel;

(d)

Executive Vice President – President of Fiber Operations;

(e)

Senior Vice President – President of Tower Operations; and

(f)

Senior Vice President – Chief Technology Officer.

**Section 4. Short‑Term Incentive Bonuses**. Short‑Term Incentive Bonuses shall be awarded to the Eligible Officers as set forth in thisSection 4 and Exhibit A to this Plan. Short-Term Incentive

2



Bonuses shall be payable in cash upon the attainment of the criteria set forth on Exhibit A as the Committee shall determine, in its sole discretion.

**Section 5. Termination or Amendment**. The Board may amend or terminate this Plan in any respect at any time. Board approval mustbe accompanied by (a) stockholder approval in those cases in which amendment requires stockholder approval under applicable law or regulations or the requirements of the principal exchange or interdealer quotation system on which the shares of common stock of the Corporation are listed or quoted, and (b) affected Eligible Officer approval if the amendment or termination would adversely affect the holder’s rights under any outstanding grants or Awards. The Short‑Term Incentive Bonus provisions may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board. To the extent required by Section 162(m) of the Code with respect to bonus Awards that the Committee determines should qualify as performance‑based compensation as described in Section 162(m)(4)(C), no action may modify the performance criteria or bonus potentials after the commencement of the measurement period with respect to which such bonus Awards relate.

**Section 6. Effectiveness of this Plan**. This Plan is effective as of the Effective Date which is the date of adoption of this Plan by the

Board.

**Section 7. Term of this Plan**. This Plan will terminate on the date all benefits anticipated by this Plan have been paid.

**Section 8. Indemnification of Committee**. In addition to such other rights of indemnification as they may have as directors of theCorporation or as members of the Committee, the members of the Committee will be indemnified by the Corporation against the reasonable expenses, including attorneys’ fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with this Plan or any grant or Award hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner that they believed to be in, and not opposed to, the best interests of the Corporation.

**Section 9.**

**General Provisions**.

(a) The establishment of this Plan will not confer upon any Eligible Officer or Employee, any legal or equitable right against the Corporation, any Subsidiary or the Committee, except as expressly provided in this Plan or employment agreement of the Eligible Officer, if any.

(b) This Plan does not constitute inducement or consideration for the employment of any Employee, nor

is it a contract of employment between the Corporation or any Subsidiary and any Employee. Participation in this Plan, or the receipt of a grant or Award hereunder, will not give an Employee any right to be retained in the service of the Corporation or any Subsidiary.

(c) The interests of any Employee under this Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as otherwise provided herein.

(d) The Corporation may withhold any federal, state or local taxes required with respect to any

distribution under this Plan. The Employee shall take whatever action the Committee deems appropriate with respect to withholding of taxes, including, but not limited to,

3



the Employee remitting to the Corporation any taxes required to be withheld by the Corporation under federal, state or local law as a result of the distribution.

(e) Notwithstanding anything contained herein to the contrary, this Plan shall be administered and operated in accordance with any applicable laws and regulations, including, but not limited to, Section 409A of the Code. The Corporation reserves the right to amend this Plan at any time in order for this Plan to comply with any such laws and regulations.

(f)

This Plan will be governed, construed and administered in accordance with the laws of Delaware.

(g) If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall

not affect any other provisions of this Plan, and this Plan shall be construed and enforced as if such provision had not been included.

IN WITNESS WHEREOF, the Corporation, by its duly authorized officer, has executed this Plan on the Effective Date as first set forth above and as duly authorized by the Board.

COMMUNICATIONS SALES & LEASING, INC.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| By: |  |  | /s/ | |
| Kenneth A. Gunderman | | |  |  |
|  |  |  | | |
| Name: | Kenneth A. Gunderman | | | |
| Title: |  | Presid | | |

and Chief Executive Officer

4



**Exhibit A**

**COMMUNICATIONS SALES & LEASING, INC.**

**2017 SHORT TERM INCENTIVE PLAN**

1. CS&L STIP. Vesting based on the following:
2. Consolidated Normalized AFFO per diluted share(1) for 2017 (25% weight):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Threshold | | Target | Superior |
|  |  |  |  |  |
|  | $2.59 |  | $2.61 | $2.65 |
|  |  |  | |  |
| B. | Consolidated 4Q17 Annualized Adjusted EBITDA(2) (25% weight): | | |  |
|  | Threshold | | Target | Superior |
|  |  |  |  |  |
|  | **[\*\*]** |  | **[\*\*]** | **[\*\*]** |
|  | **[\*\*]**(3) |  | **[\*\*]**(3) | **[\*\*]**(3) |
|  |  |  |  |  |
| C. | Capital markets transactions(4) (20% weight): | |  |  |
|  | Threshold | | Target | Superior |
|  |  |  |  |  |
|  | **[\*\*]** |  | **[\*\*]** | **[\*\*]** |
|  |  |  | |  |
| D. | Cumulative revenue **[\*\*]** based on 4Q17 Annualized Revenue(5) (30% weight): | | |  |
|  | Threshold | | Target | Superior |
|  |  |  |  |  |
|  | **[\*\*]** |  | **[\*\*]** | **[\*\*]** |
|  |  |  |  |  |

1. Payouts for each component will be interpolated between levels. Potential Payouts at each level are as follows:



|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Performance Achievement |  | Potential as Percent of Base Salary | | |  |  |  |
| Level | CEO |  | CFO | | GC | CTO |  |
|  |  |  |
|  |  |  |  |  |  |  |  |
| Threshold | 75% |  | 50% |  | 50% | 35% |  |
| Target | 150% |  | 100% |  | 100% | 70% |  |
| Superior | 225% |  | 150% |  | 150% | 105% |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

5



1. Excludes future M&A and capital markets transactions consistent with guidance.
2. Definition to be consistent with public reporting. **[\*\*]**
3. Percentage growth over 2016 Adjusted EBITDA of $690 million / % growth over threshold level of **[\*\*]**.
4. Capital market transactions include activities after February 4, 2017 and include: the expansion of revolving credit facilities, equity and debt offerings, structured financings and 33% of the transaction value of loan repricings. Excludes the initial placement of equity directly with selling counterparties and assumed debt.
5. **[\*\*]**



Performance Achievement Level

* (40%)
* (40%)
* (20%)

Threshold

**[\*\*]**

**[\*\*]**

**[\*\*]**

Target

**[\*\*]**

**[\*\*]**

**[\*\*]**

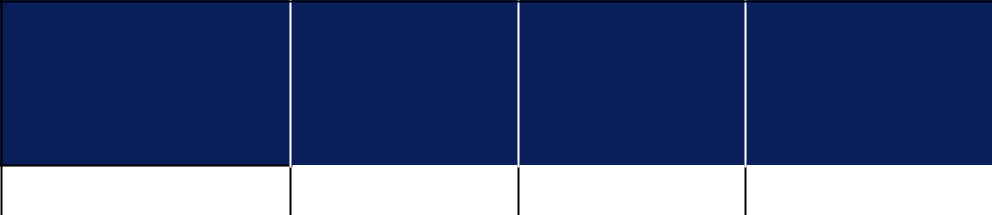
Superior

**[\*\*]**

**[\*\*]**

**[\*\*]**

1. A.Uniti Fiber STIP. Vesting based on the following:
   1. Payout for the Uniti Fiber President will be as follows (expressed as a percentage of base salary): Threshold – 50%, Target – 100%, and Superior – 150%.
2. A.Uniti Towers STIP. Vesting based on the following:



|  |  |  |  |
| --- | --- | --- | --- |
| Performance | **[\*\*]**(1) (30%) | **[\*\*]** (30%) | **[\*\*]**(2) (40%) |

Achievement Level



Threshold **[\*\*]** **[\*\*]** **[\*\*]**

|  |  |  |  |
| --- | --- | --- | --- |
| Target | **[\*\*]** | **[\*\*]** | **[\*\*]** |
| Superior | **[\*\*]** | **[\*\*]** | **[\*\*]** |
|  |  |  |  |

1. Payout for the Uniti Towers President will be as follows (expressed as a percentage of base salary): Threshold – 50%, Target – 100%, and Superior – 150%.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. **[\*\*]**
2. **[\*\*]**

6



* **Confidential Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to this omitted information.**

7

|  |  |  |
| --- | --- | --- |
|  |  | **Exhibit 21.1** |
|  | **Subsidiaries of the Registrant** | |
|  |  |  |
| **Subsidiary** |  | **State or other jurisdiction of incorporation or organization** |
| CSL Capital, LLC\* |  | Delaware |
| Uniti Holdings GP LLC\* |  | Delaware |
| Uniti Holdings LP\* |  | Delaware |
| Contact Network, LLC |  | Alabama |
| CSL Alabama System, LLC |  | Delaware |
| CSL Arkansas System, LLC |  | Delaware |
| CSL Florida System, LLC |  | Delaware |
| CSL Georgia Realty, LLC |  | Delaware |
| CSL Georgia System, LLC |  | Delaware |
| CSL Iowa System, LLC |  | Delaware |
| CSL Kentucky System, LLC |  | Delaware |
| CSL Mississippi System, LLC |  | Delaware |
| CSL Missouri System, LLC |  | Delaware |
| CSL National, LP |  | Delaware |
| CSL National GP, LLC |  | Delaware |
| CSL New Mexico System, LLC |  | Delaware |
| CSL North Carolina Realty, LP |  | Delaware |
| CSL North Carolina Realty GP, LLC |  | Delaware |
| CSL North Carolina System, LP |  | Delaware |
| CSL Ohio System, LLC |  | Delaware |
| CSL Oklahoma System, LLC |  | Delaware |
| CSL Realty, LLC |  | Delaware |
| CSL Tennessee Realty, LLC |  | Delaware |
| CSL Tennessee Realty Partner, LLC |  | Delaware |
| CSL Texas System, LLC |  | Delaware |
| InLine Services, LLC |  | Delaware |
| Network Management Holdings, Ltd |  | Cayman Islands |
| Network Mgmt. Services, S.A. |  | Nicaragua |
| NMS Delaware Subsidiary, LLC |  | Delaware |
| NMS NewCo 1, LLC |  | Delaware |
| NMS NewCo 2, LLC |  | Delaware |
| NMS Towers De Colombia SAS |  | Colombia |
| NMS Towers de Mexico, S. De R.L. de C.V. |  | Mexico |
| PEG Bandwidth DC, LLC |  | Delaware |
| PEG Bandwidth DE, LLC |  | Delaware |
| PEG Bandwidth IA, LLC |  | Delaware |
| PEG Bandwidth IL, LLC |  | Delaware |
| PEG Bandwidth LA, LLC |  | Delaware |
| PEG Bandwidth MA, LLC |  | Delaware |
| PEG Bandwidth MD, LLC |  | Delaware |
| PEG Bandwidth MS, LLC |  | Delaware |
| PEG Bandwidth NJ, LLC |  | Delaware |
| PEG Bandwidth NY, LLC |  | Delaware |
| PEG Bandwidth PA, LLC |  | Delaware |
| PEG Bandwidth Services, LLC |  | Delaware |
|  |  |  |



|  |  |
| --- | --- |
| PEG Bandwidth TX, LLC | Delaware |
| PEG Bandwidth VA, LLC | Delaware |
| Summit Wireless Infrastructure de México, S. de R.L. de C.V. | Mexico |
| Summit Wireless Infrastructure Servicios, S. de R.L. de C.V. | Mexico |
| Talk America Services, LLC | Delaware |
| Tower Cloud, Inc. | Delaware |
| Uniti Dark Fiber LLC | Delaware |
| Uniti Fiber Holdings Inc. | Delaware |
| Uniti Fiber Holdings-TC LLC | Delaware |
| Uniti Fiber LLC | Delaware |
| Uniti LATAM GP LLC | Delaware |
| Uniti LATAM LP | Delaware |
| Uniti Leasing LLC | Delaware |
| Uniti QRS Holdings GP LLC | Delaware |
| Uniti QRS Holdings LP | Delaware |
| Uniti Towers LLC | Delaware |
| Uniti Towers NMS Holdings LLC | Delaware |
| Uniti Towers – NMS Investor LLC | Delaware |
| Uniti Wireless Holdings LLC | Delaware |
| Uniti Wireless Infrastructure LLC | Delaware |
| Yacht Merger Sub, L.L.C. | Louisiana |
| **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** |  |

\*CSL Capital, LLC, Uniti Holdings GP LLC and Uniti Holdings LP are direct, wholly-owned subsidiaries of Uniti Group Inc. The remaining subsidiaries are direct or indirect, wholly-owned subsidiaries of CSL Capital, LLC, Uniti Holdings GP LLC or Uniti Holdings LP.

**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: May 4, 2017 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: May 4, 2017 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 March 31, 2017 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: May 4, 2017 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 March 31, 2017 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: May 4, 2017 By: /s/ Mark A. Wallace

**Mark A. Wallace**



**Executive Vice President – Chief Financial Officer**

**and Treasurer**