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 September 30, 2016

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

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

Maryland **(State or other jurisdiction of incorporation or organization)**	**46-5230630** **(I.R.S. Employer Identification No.)**
10802 Executive Center Drive **Benton Building Suite 300** **Little Rock, Arkansas** **(Address of principal executive offices)**	**72211** **(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 7, 2016, the registrant had 155,789,510 shares of common stock, $0.0001 par value per share, outstanding.

EXPLANATORY NOTE

Prior to April 24, 2015, Communications Sales & Leasing, Inc. (the “Company,” “CS&L,” “we,” “us” or “our”) was a wholly-owned subsidiary of Windstream Holdings, Inc. (“Windstream Holdings,” and together with its subsidiaries, “Windstream”). On April 24, 2015, Windstream contributed certain telecommunications network assets, including fiber and copper networks and other real estate (the “Distribution Systems”) and a small consumer competitive local exchange carrier (“CLEC”) business (the “Consumer CLEC Business”), to CS&L. In exchange, CS&L issued to Windstream (i) approximately 149.8 million shares of its common stock, (ii) $400.0 million aggregate principal amount of 6.00% Senior Secured Notes due April 15, 2023 (the “Senior Secured Notes”), (iii) $1.11 billion aggregate principal amount of 8.25% Senior Notes due October 15, 2023 (the “Senior Unsecured Notes” and together with the Senior Secured Notes, the “Notes”) and (iv) approximately $2.0 billion in cash obtained from borrowings under CS&L’s senior credit facilities. The contribution of the Distribution Systems and the Consumer CLEC Business and the related issuance of cash, debt and equity securities are referred to herein as the “Spin-Off.” The Spin-Off was effective on April 24, 2015.

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: the benefits and tax treatment of the Spin-Off; future financing plans, business strategies, growth prospects and operating and financial performance; the benefits and tax treatment of reorganizing into an “up-REIT” structure; expectations regarding the impact of the acquisitions of PEG Bandwidth, LLC (“PEG Bandwidth”) and Tower Cloud, Inc. (“Tower Cloud”), including expectations regarding operational synergies of the acquisitions; 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’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; the deductibility of goodwill for tax purposes; expectations regarding the amortization of intangible assets; expectations regarding the making of distributions and the payment of dividends; and compliance with and changes in governmental regulations.

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 realized. 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 current and future customers to meet and/or perform their obligations under any contractual arrangements entered into with us;
- the ability of current and future customers to comply with laws, rules and regulations in the operation of the assets we lease to them;
- the ability and willingness of Windstream and other current and future customers to renew their agreements 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 customer;
- 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 business;
- our ability to generate sufficient cash flows to service our outstanding indebtedness;
- our 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/or fluctuating interest rates;
- our ability to retain our key management personnel;
- our ability to qualify or 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 risk that we fail to fully realize the potential benefits of the PEG Bandwidth and Tower Cloud transactions or have difficulty integrating PEG Bandwidth or Tower Cloud;
- our ability to promptly obtain all necessary services, materials, labor, supplies and rights-of-way required for construction of our projects, and to complete construction without significant delays, disputes or cost overruns;
- 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; and
- additional factors discussed in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q, in Part II, Item 1A "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2015, 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.

Communications Sales & Leasing, Inc.
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Communications Sales & Leasing, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(Thousands, except par value)	September 30, 2016	December 31, 2015
Assets:		
Property, plant and equipment, net	$ 2,694,141	$ 2,372,651
Cash and cash equivalents	40,762	142,498
Accounts receivable, net	15,846	2,083
Goodwill	263,459	-
Intangible assets, net	162,941	10,530
Straight-line revenue receivable	24,969	11,795
Other assets	15,416	3,079
Total Assets	$ 3,217,534	$ 2,542,636
Liabilities, Convertible Preferred Stock and Shareholders' Deficit:		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 37,925	$ 10,409
Accrued interest payable	57,528	24,440
Deferred revenue	213,889	67,817
Derivative liability	68,758	5,427
Dividends payable	94,470	90,507
Deferred income taxes	31,390	5,714
Capital lease obligations	55,215	-
Contingent consideration	98,600	-
Notes and other debt, net	3,846,711	3,505,228
Total liabilities	4,504,486	3,709,542
Commitments and contingencies (Note 13)		
Convertible Preferred Stock, Series A, $0.0001 par value, 88 shares authorized, issued and outstanding, $87,500 liquidation value	79,807	-
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: 155,123 shares at September 30, 2016 and 149,862 at December 31, 2015	15	15
Additional paid-in capital	140,466	1,392
Accumulated other comprehensive loss	(68,938)	(5,427)
Distributions in excess of accumulated earnings	(1,438,302)	(1,162,886)
Total shareholders' deficit	(1,366,759)	(1,166,906)
Total Liabilities, Convertible Preferred Stock, and Shareholders' Deficit	$ 3,217,534	$ 2,542,636

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

Communications Sales & Leasing, Inc.
Condensed Consolidated Statements of Income
(unaudited)

(Thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Revenues:				
Leasing	$ 169,525	$ 166,959	$ 507,216	$ 291,131
Fiber Infrastructure	25,219	-	38,995	-
Consumer CLEC	5,496	6,675	17,277	11,251
Total revenues	200,240	173,634	563,488	302,382
Costs and Expenses:				
Interest expense	70,522	66,511	204,607	115,307
Depreciation and amortization	96,723	87,271	275,448	151,715
General and administrative expense	10,191	4,229	23,619	7,390
Operating expense	15,704	5,148	30,322	8,889
Transaction related costs	9,315	804	24,435	877
Total costs and expenses	202,455	163,963	558,431	284,178
(Loss) income before income taxes	(2,215)	9,671	5,057	18,204
Income tax expense	128	268	899	500
Net (loss) income	(2,343)	9,403	4,158	17,704
Participating securities' share in earnings	(407)	(430)	(1,164)	(755)
Dividends declared on convertible preferred stock	(649)	-	(1,087)	-
Amortization of discount on convertible preferred stock	(745)	-	(1,241)	-
Net (loss) income applicable to common shareholders	$ (4,144)	$ 8,973	$ 666	$ 16,949
(Loss) earnings per common share:				
Basic	$ (0.03)	$ 0.06	$ 0.00	$ 0.11
Diluted	$ (0.03)	$ 0.06	$ 0.00	$ 0.11
Weighted-average number of common shares outstanding				
Basic	153,878	149,834	151,578	149,831
Diluted	153,878	149,834	151,716	149,831
Dividends declared per common share	$ 0.60	$ 0.60	$ 1.80	$ 1.04

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

Communications Sales & Leasing, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited)

(Thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Net (loss) income	$ (2,343)	$ 9,403	$ 4,158	$ 17,704
Other comprehensive (loss) income:				
Unrealized (loss) gain on derivative contracts	(1,870)	(42,544)	(63,331)	(13,993)
Changes in foreign currency translation	(101)	-	(180)	-
Other comprehensive (loss) income	(1,971)	(42,544)	(63,511)	(13,993)
Comprehensive (loss) gain	$ (4,314)	$ (33,141)	$ (59,353)	$ 3,711

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

Communications Sales & Leasing, Inc.
Condensed Consolidated Statements of Shareholders' Deficit
(unaudited)

(Thousands, except share data)	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Accumulated Earnings	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount				
Balance at April 24, 2015	-	$ -	149,827,214	$ 15	$ -	$ -	$ 2,508,405	$ 2,508,420
Net income	-	-	-	-	-	-	17,704	17,704
Distributions to Windstream related to Spin-Off	-	-	-	-	-	-	(3,447,879)	(3,447,879)
Other comprehensive loss	-	-	-	-	-	(13,993)	-	(13,993)
Common stock dividends	-	-	-	-	-	-	(156,926)	(156,926)
Equity issuance cost	-	-	-	-	(516)	-	(113)	(629)
Stock-based compensation	-	-	8,413	-	1,117	-	-	1,117
Balance at September 30, 2015	-	$ -	149,835,627	$ 15	$ 601	$ (13,993)	$ (1,078,809)	$ (1,092,186)
Balance at December 31, 2015	-	$ -	149,862,459	$ 15	$ 1,392	$ (5,427)	$ (1,162,886)	$ (1,166,906)
Net income	-	-	-	-	-	-	4,158	4,158
Issuance of common stock, net of costs	-	-	5,077,629	-	137,665	-	-	137,665
Amortization of discount on convertible preferred stock	-	-	-	-	(1,241)	-	-	(1,241)
Other comprehensive loss	-	-	-	-	-	(63,511)	-	(63,511)
Common stock dividends	-	-	-	-	-	-	(276,567)	(276,567)
Convertible preferred stock dividends	-	-	-	-	-	-	(1,087)	(1,087)
Equity issuance cost	-	-	-	-	(625)	-	-	(625)
Net share settlement	-	-	-	-	(203)	-	(1,920)	(2,123)
Stock-based compensation	-	-	183,072	-	3,478	-	-	3,478
Balance at September 30, 2016	-	$ -	155,123,160	$ 15	$ 140,466	$ (68,938)	$ (1,438,302)	$ (1,366,759)

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

Communications Sales & Leasing, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

(Thousands)	Nine Months Ended September 30, 2016	Period from April 24-September 30, 2015
Cash flow from operating activities		
Net income	$ 4,158	$ 17,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	275,448	151,715
Amortization of deferred financing costs	5,640	3,039
Amortization of debt discount	5,964	3,253
Deferred income taxes	836	(672)
Straight-line rental revenues	(13,174)	(7,497)
Stock-based compensation	3,478	1,117
Other	22	-
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(4,435)	217
Other assets	(4,951)	(1,664)
Accounts payable, accrued expenses and other liabilities	27,565	54,047
Net cash provided by operating activities	300,551	221,259
Cash flow from investing activities		
Acquisition of businesses, net of cash acquired	(489,538)	-
Consideration paid to Windstream Services, LLC	-	(1,035,029)
Capital expenditures	(19,204)	(712)
Net cash used in investing activities	(508,742)	(1,035,741)
Cash flow from financing activities		
Principal payment on debt	(16,744)	(5,350)
Dividends paid	(273,692)	(66,522)
Proceeds from issuance of Term Loans	-	1,127,000
Proceeds from issuance of Notes	148,875	-
Borrowings under revolving credit facility	521,000	-
Payments under revolving credit facility	(321,000)	-
Capital lease payments	(945)	-
Deferred financing costs	(2,946)	(30,018)
Common stock issuance, net of costs	54,211	(516)
Net share settlement	(2,123)	(113)
Cash in-lieu of fractional shares	-	(19)
Net cash provided by financing activities	106,636	1,024,462
Effect of exchange rates on cash and cash equivalents	(181)	-
Net (decrease) increase in cash and cash equivalents	(101,736)	209,980
Cash and cash equivalents at beginning of period	142,498	18
Cash and cash equivalents at end of period	$ 40,762	$ 209,998
Supplemental cash flow information:		
Cash paid for interest	$ 158,695	$ 58,600
Cash paid for income taxes	$ 2,522	$ -
Non-cash investing and financing activities:		
Property and equipment acquired but not yet paid	$ 4,403	$ -
Tenant capital improvements	$ 112,200	$ 41,289
Acquisition of businesses through non-cash consideration	$ 259,996	$ -
Issuance of notes and other debt to Windstream Services, LLC, net of deferred financing costs ($34,681)	$ -	$ 2,412,829

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

Communications Sales & Leasing, Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

Note 1. Organization and Description of Business

CS&L was incorporated in the state of Maryland on September 4, 2014 as a subsidiary of Windstream. In connection with the Spin-Off, Windstream and CS&L entered into a long-term, triple-net lease (the "Master Lease") pursuant to which CS&L 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.

CS&L is an independent, internally managed REIT engaged in the acquisition and construction of mission critical infrastructure in the communications industry. The Company is principally focused on acquiring and constructing fiber optic broadband networks, wireless communications towers, copper and coaxial broadband networks and data centers. Through our fiber infrastructure group, Uniti Fiber, the Company has also become a leading provider of infrastructure solutions, including cell site backhaul and dark fiber, to the telecommunications industry. The Consumer CLEC Business, which was reported as an integrated operation within Windstream prior to the Spin-Off, offers voice, broadband, long-distance, and value-added services to residential customers located primarily in rural locations. Substantially all of the network assets used to provide these services to customers are contracted through interconnection agreements with other telecommunications carriers.

The Company 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 certain indirect, wholly-owned subsidiaries of CS&L through which we operate Uniti Fiber and the Consumer CLEC Business 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.

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, 2015 ("Annual Report"), filed with the SEC on March 7, 2016. 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.

Communications Sales & Leasing, Inc.
Notes to the Condensed Consolidated Financial Statements – Continued
(unaudited)

Income Taxes—We currently have no liabilities for uncertain income tax positions. We have filed our initial U.S. federal and state income tax returns which are subject to examination.

Business Combinations—In accordance with ASC 805, *Business Combinations*, we apply the acquisition method of accounting for acquisitions meeting the definition of a business combination, where assets acquired and liabilities assumed are recorded at fair value at the date of each acquisition, and the results of operations are included with those of the Company from the dates of the respective acquisitions. Any excess of the purchase price paid by the Company over the amounts recognized for assets acquired and liabilities assumed is recorded as goodwill. ASC 805 also requires acquirers, among other things, to estimate the acquisition date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. The Company continues to evaluate acquisitions for a period not to exceed one year after the applicable acquisition date of each transaction to determine whether any additional adjustments are needed to the allocation of the purchase price paid for the assets acquired and liabilities assumed.

Goodwill—Goodwill is recognized for the excess of purchase price over the fair value of net assets of businesses acquired. Goodwill is reviewed for impairment at least annually. In accordance with ASC 350-20, *Intangibles-Goodwill and Other*, we evaluate goodwill for impairment between annual impairment tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Unless circumstances otherwise dictate, the annual impairment test is performed in the fourth quarter.

Property, Plant and Equipment—Property, plant and equipment is stated at original cost, net of accumulated depreciation. The Company capitalizes costs incurred in bringing property, plant and equipment to an operational state, including all activities directly associated with the acquisition, construction, and installation of the related assets it owns. The Company also enters into leasing arrangements providing for the long-term use of constructed fiber that is then integrated into the Company's network infrastructure. For each lease that qualifies as a capital lease, the present value of the lease payments, which may include both periodic lease payments over the term of the lease as well as upfront payments to the lessor, is capitalized at the inception of the lease and included in property and equipment.

Certain property, plant and equipment are depreciated using a group composite depreciation method. Under this method, when property is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the property. For all other property, which includes amortization of capital lease assets, depreciation is computed using the straight-line method over the estimated useful life of the respective property. When the property is retired or otherwise disposed of, the related cost and accumulated depreciation are written-off, with the corresponding gain or loss reflected in operating results.

Costs of maintenance and repairs to property, plant and equipment subject to the Master Lease are the responsibility of our tenant. Costs of maintenance and repairs to property, plant and equipment not subject to triple-net leasing arrangements are expensed as incurred.

We acquire real property interests from third parties who own land where communications infrastructure assets are located and desire to monetize the underlying real property. These real property interests entitle us to receive rental payments from leases on our sites. The financial results of the acquired real property interests are included in the Leasing segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations. Real property interests are recorded in real estate investments on our Condensed Consolidated Balance Sheet.

Foreign Currency Translation—The financial statements of our international subsidiaries whose functional currency is the local currency are translated into U.S. dollars using the exchange rate at the balance sheet date for assets and liabilities and the weighted average exchange rate for the applicable period for revenues, expenses, gains and losses. Translation adjustments are recorded as a separate component of comprehensive income in stockholders' equity.

Reclassifications—Certain amounts have been reclassified to conform with current year presentation. We determined that certain immaterial misclassifications existed in the supplemental guarantor information condensed consolidating statements of comprehensive income and statement of cash flows for the period April 24, 2015 to September 30, 2015. See Note 15.

Transaction Related Costs—The Company expenses transaction related costs in the period in which they are incurred and services are received. Transaction related costs include incremental acquisition pursuit, transaction and integration costs, including unsuccessful acquisition pursuit costs. Pursuit and transaction costs include professional services (legal, accounting, advisory, regulatory, etc.), finder's fees, travel expenses, and other direct expenses associated with an acquisition. Integration costs include direct costs necessary to integrate an acquired business, including professional services, systems and data conversion, severance and retention bonuses payable to employees of an acquired business.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The standard 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 is in the process of evaluating this guidance to determine the impact it will have on our financial statements.

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. 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. ASC 842 is effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is in the process of evaluating this guidance to determine the impact it will have on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. We adopted ASU 2016-09 effective April 1, 2016, and will reverse compensation cost of forfeited awards as they occur. At the time of adoption, we had not experienced any forfeited awards and therefore no cumulative-effect adjustment was necessary.

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

Tower Cloud, Inc.

On August 31, 2016, we acquired 100% of the outstanding equity of Tower Cloud, Inc. ("Tower Cloud") for $187.7 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. At the Company's discretion, a combination of cash and CS&L 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. Following the close of the transaction, the Tower Cloud business and the previously acquired PEG Bandwidth LLC ("PEG Bandwidth") business were combined into a unified fiber infrastructure organization, Uniti Fiber. The operating results from this acquisition are included in the condensed consolidated financial statements from the acquisition date. The acquisition was recorded by allocating the costs of the assets acquired

Communications Sales & Leasing, Inc.
Notes to the Condensed Consolidated Financial Statements – Continued
(unaudited)

based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the assets acquired is recorded as goodwill within our Fiber Infrastructure segment. See Note 7. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed:

		(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		(24,840)
Capital lease obligations		(6,750)
Net assets acquired	$	227,610
Goodwill	$	117,254

The above purchase price allocation is considered preliminary and is subject to revision when the valuation of assets and liabilities are finalized upon receipt of the final valuation report from a third party valuation expert, and resolution of contractual adjustments, such as working capital adjustments, set forth in the merger agreement.

The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of Tower Cloud. The acquisition was treated as a taxable acquisition of the outstanding stock of Tower Cloud, Inc. Thus, none of the goodwill is expected to be deductible for tax purposes.

We acquired an intangible asset that was assigned to customer relationships of $116.2 million (30 year life).

Tower Cloud had federal net operating loss ("NOL") carryforwards of approximately $81.2 million at the date of the acquisition, which will expire between 2026 and 2036. As a result of the change in ownership, the utilization of NOL carryforwards is subject to limitations imposed by the Internal Revenue Code. The gross deferred tax assets associated with the NOL and other temporary differences as of August 31, 2016 were approximately $37.0 million, with respect to which we have determined that a valuation allowance is not required. A net deferred tax liability of $24.8 million was recorded in connection with the acquisition, which is primarily related to the excess of the recorded amounts for Property, Plant & Equipment and Intangible Assets over their respective historical tax bases.

The acquired business contributed revenue of $3.5 million and an operating loss of $0.4 million, which excludes transaction and transition costs, to our consolidated results from the date of acquisition through September 30, 2016. We recorded transaction related costs related to the acquisition of Tower Cloud for the three and nine months ended September 30, 2016 of $5.4 million and $8.9 million, respectively, within transaction related costs on the Condensed Consolidated Statement of Income.

The following table presents the unaudited pro forma summary of our financial results as if the business combination had occurred on April 24, 2015. The pro forma results include additional depreciation and amortization resulting from purchase accounting adjustments, adjustments to amortized deferred revenue, and interest expense associated with debt used to fund the acquisition. The pro forma results do not include any synergies or other benefits of the acquisition. The pro forma results are not indicative of future results of operations, or results that might have been achieved had the acquisition been consummated as of April 24, 2015.

(Thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Pro forma revenue	$ 207,142	$ 184,728	$ 591,185	$ 333,226
Pro forma net (loss) income	(1,820)	6,585	(5,744)	9,773
Pro forma net (loss) income per share	$ (0.01)	$ 0.04	$ (0.04)	$ 0.06

Windstream Towers

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On May 12, 2016, the Company completed the previously announced transaction with Windstream pursuant to which the Company acquired 32 wireless towers owned by Windstream and operating rights for 49 wireless towers previously conveyed to the Company in the Spin-Off for a purchase price of $3 million. The financial results of this tower acquisition are included in the Leasing segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations and therefore, pro forma financial information has not been presented.

PEG Bandwidth, LLC

On May 2, 2016, we acquired 100% of the outstanding equity of PEG Bandwidth for $323 million in cash, the issuance of 87,500 shares of our 3.00% Series A Convertible Preferred Stock with a fair value of $78.6 million and 1 million shares of our common stock with an acquisition date fair value of $23.2 million. PEG Bandwidth is a leading provider of infrastructure solutions, including cell site backhaul and dark fiber, to the telecommunications industry. The operating results from this acquisition are included in the condensed consolidated financial statements from the acquisition date. The acquisition was recorded by allocating the costs of the assets acquired based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the assets acquired is recorded as goodwill within our Fiber Infrastructure segment. See Note 7. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed:

	(thousands)
Property, plant and equipment	$ 293,415
Cash and cash equivalents	7,003
Accounts receivable	6,230
Other assets	5,161
Intangible assets	38,000
Accounts payable, accrued expenses and other liabilities	(9,075)
Deferred revenue	(12,700)
Capital lease obligations	(49,195)
Net assets acquired	$ 278,839
Goodwill	$ 146,205

The above purchase price allocation is considered preliminary and is subject to revision upon resolution of contractual adjustments, such as working capital adjustments, set forth in the merger agreement.

The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of PEG Bandwidth. The goodwill is expected to be deductible for tax purposes.

Of the $38 million of acquired intangible assets, $36 million was assigned to customer relationships (weighted average 17 year life) and $2 million was assigned to trademarks (indefinite life).

The acquired business contributed revenues of $35.5 million and an operating loss of $0.6 million, which excludes transaction and transition costs, to our consolidated results from the date of acquisition through September 30, 2016. We recorded $1.1 million and $10.5 million for the three and nine months ended September 30, 2016, respectively, related to the acquisition of PEG Bandwidth within transaction related costs on our Condensed Consolidated Statements of Income.

The following table presents the unaudited pro forma summary of our financial results as if the business combination had occurred on April 24, 2015. The pro forma results include additional depreciation and amortization resulting from purchase accounting adjustments, adjustments to amortized deferred revenue, and interest expense associated with debt used to fund the acquisition. The pro forma results do not include any synergies or other benefits of the acquisition. The pro forma results are not indicative of future results of operations, or results that might have been achieved had the acquisition been consummated as of April 24, 2015.

Communications Sales & Leasing, Inc.
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(Thousands, except per share data)	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Pro forma revenue	$ 192,968	$ 590,717	$ 336,035
Pro forma net income (loss)	6,399	(3,349)	12,624
Pro forma net income (loss) per share	$ 0.04	$ (0.02)	$ 0.08

Summit Wireless Infrastructure, LLC

On January 22, 2016, we acquired 100% of the outstanding equity of Summit Wireless Infrastructure LLC ("Summit"). Summit builds, owns and operates telecommunication infrastructure serving wireless carriers in Mexico. Consideration given to acquire Summit included performance-based shares of common equity valued at $1.1 million, which will vest in full on the third anniversary of the closing date, subject to Summit meeting certain performance targets, and the assumption of Summit's existing debt. The financial results of Summit are included in the Leasing segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations and therefore, pro forma financial information has not been presented.

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 September 30, 2016 and December 31, 2015:

(Thousands)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
At September 30, 2016				
Liabilities				
Senior secured notes - 6.00%, due April 15, 2023	$ 569,250	$ -	$ 569,250	$ -
Senior unsecured notes - 8.25%, due October 15, 2023	1,159,950	-	1,159,950	-
Senior secured term loan B - variable rate, due October 24, 2022	2,121,280	-	2,121,280	-
Senior secured revolving credit facility, variable rate, due April 24, 2020	200,000	-	200,000	-
Derivative liability	68,758	-	68,758	-
Contingent consideration	98,600	-	-	98,600
Total	$ 4,217,838	$ -	$ 4,119,238	$ 98,600

Communications Sales & Leasing, Inc.
Notes to the Condensed Consolidated Financial Statements – Continued
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(Thousands)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
At December 31, 2015				
Liabilities				
Senior secured notes - 6.00%, due April 15, 2023	$ 376,000	$ -	$ 376,000	$ -
Senior unsecured notes - 8.25%, due October 15, 2023	937,950	-	937,950	-
Senior secured term loan B - variable rate, due October 24, 2022	1,986,198	-	1,986,198	-
Derivative liability	5,427	-	5,427	-
Total	$ 3,305,575	$ -	$ 3,305,575	$ -

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 Notes and other debt was $3.97 billion at September 30, 2016, with a fair value of $4.05 billion. The estimated fair value of our 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. 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 CS&L'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 September 30, 2016, 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. 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 no change in the fair value of the contingent consideration as of September 30, 2016.

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

(Thousands)	December 31, 2015	Transfers into Level 3	Gain/(Loss) included in earnings	Settlements	September 30, 2016
Contingent consideration	$ -	$ 98,600	$ -	$ -	$ 98,600

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Note 5. Property, Plant and Equipment

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

(Thousands)	Depreciable Lives	September 30, 2016	December 31, 2015
Land		$ 34,295	$ 33,386
Building and improvements	3 - 40 years	314,577	313,736
Real property interests	50 years	2,394	-
Poles	13 - 40 years	231,835	228,031
Fiber	7 - 40 years	2,217,760	1,948,192
Equipment	5 - 7 years	127,496	-
Copper	7 - 40 years	3,518,283	3,475,987
Conduit	13 - 47 years	90,538	89,460
Tower assets	20 - 49 years	7,307	-
Capital lease assets	See Note 2	88,999	-
Construction in progress		44,693	4,749
		6,678,177	6,093,541
Less accumulated depreciation		(3,984,036)	(3,720,890)
Net property, plant and equipment		$ 2,694,141	$ 2,372,651

Depreciation expense for the three and nine months ended September 30, 2016 was $95.0 million and $271.7 million, respectively. Depreciation expense for the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015 was $86.2 million and $150.0 million, respectively.

As of September 30, 2016, construction in progress includes approximately $1.3 million of in process capital projects that were transferred to us at the time of the Spin-Off. As Windstream completes these projects, amounts are reclassified to depreciable assets. All construction in progress at December 31, 2015 related to projects transferred to us at the time of the Spin-Off.

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:

(Thousands)	Location on Condensed Consolidated Balance Sheet	September 30, 2016	December 31, 2015
Interest rate swaps	Derivative liability	$ 68,758	$ 5,427

As of September 30, 2016 and December 31, 2015, 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 and nine months ended September 30, 2016, the amount recorded in other comprehensive income related to the unrealized loss on derivative instruments was $7.8 million and $81.2 million, respectively. The amount reclassified out of other comprehensive income into interest expense on our Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2016 was $6.0 million and $17.8 million, respectively. For the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, the amount recorded in other comprehensive income related to the unrealized loss on derivative instruments was $36.5 million and $3.7 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 September 30, 2015 and for the period from April 24, 2015 to September 30, 2015 was $6.0 million and $10.3 million, respectively. For the three and nine months ended September 30, 2016, there was no ineffective portion of the change in fair value derivatives. For the period from April 24, 2015 to September 30, 2015, 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 October 1, 2016, we estimate that $23.9 million will be reclassified as an increase to interest expense.

Note 7. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill occurring during the nine months ended September 30, 2016, are as follows:

(Thousands)	Fiber Infrastructure	Total
Goodwill at December 31, 2015	$ -	$ -
Goodwill associated with 2016 acquisitions	263,459	263,459
Goodwill at September 30, 2016	$ 263,459	$ 263,459

The carrying value of the intangible assets is as follows:

(Thousands)	September 30, 2016		December 31, 2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Indefinite life intangible assets:				
Trade name	$ 2,000	$ -	$ -	$ -
Finite life intangible assets:				
Customer lists	188,642	(27,701)	34,501	(23,971)
Total intangible assets	190,642		34,501	
Less: Accumulated amortization	(27,701)		(23,971)	
Total intangible assets, net	$ 162,941		$ 10,530	

Amortization expense for the three and nine months ended September 30, 2016 was $1.7 million and $3.7 million, respectively. Amortization expense for the customer list intangible assets was $0.9 million and $1.6 million for the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, respectively.

Amortization expense is estimated to be $6.1 million for the full year of 2016, $8.7 million in 2017, $8.1 million in 2018, $7.5 million in 2019, $7.0 million in 2020 and $6.5 million in 2021.

Note 8. Notes and Other Debt

Notes and other debt is as follows:

(Thousands)	September 30, 2016	December 31, 2015
Principal amount	$ 3,973,250	$ 3,639,300
Less unamortized discount and debt issuance costs	(126,539)	(134,072)
Notes and other debt less unamortized discount and debt issuance costs	$ 3,846,711	$ 3,505,228

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Notes and other debt at September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016		December 31, 2015	
(Thousands)	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
Senior secured notes - 6.00%, due April 15, 2023 (discount is based on imputed interest rate of 6.29%)	$ 550,000	(10,127)	$ 400,000	$ (6,767)
Senior unsecured notes - 8.25%, due October 15, 2023 (discount is based on imputed interest rate of 9.06%)	1,110,000	(46,746)	1,110,000	(50,200)
Senior secured term loan B - variable rate, due October 24, 2022 (discount is based on imputed interest rate of 5.66%)	2,113,250	(69,666)	2,129,300	(77,105)
Senior secured revolving credit facility - variable rate, due April 24, 2020	200,000	-	-	-
Total	$ 3,973,250	$ (126,539)	$ 3,639,300	$ (134,072)

On April 22, 2016, the Company borrowed $321 million under our $500 million senior secured revolving credit facility maturing April 24, 2020 (the "Revolving Credit Facility") to fund the cash portion of consideration paid to acquire PEG Bandwidth and related transaction costs. See Note 3.

On June 9, 2016, we, along with our wholly-owned subsidiary CSL Capital, LLC ("CSL Capital"), co-issued $150 million aggregate principal amount of 6.00% Senior Secured Notes (the "add-on Notes") as an add-on to the Company's existing Senior Secured Notes due April 15, 2023 (the "Senior 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 Senior Secured Notes, and are guaranteed by each of CS&L's wholly-owned domestic subsidiaries that guarantee indebtedness under CS&L's senior credit facilities. The issuance of the add-on Notes was not registered under the Securities Act of 1933, as amended (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 August 26, 2016, the Company borrowed $150 million under the Revolving Credit Facility to fund the cash portion of consideration paid to acquire Tower Cloud and related transaction costs. See Note 3.

On April 24, 2015 we, along with CSL Capital, co-issued $400 million aggregate principal amount of Senior Secured Notes and $1.11 billion aggregate principal amount of 8.25% Senior Unsecured Notes due October 15, 2023 (the "Senior Unsecured Notes" and together with the Senior Secured Notes, the "Notes"). The Senior Secured Notes were issued at an issue price of 100% of par value, while the Senior Unsecured Notes were issued at an issue price of 97.055% of par value. The Notes are guaranteed by each of CS&L's wholly-owned domestic subsidiaries that guarantee indebtedness under CS&L's senior credit facilities. The Notes were issued to Windstream Services, LLC, a wholly-owned subsidiary of Windstream Holdings ("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, CS&L 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, 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 Senior Unsecured 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 (the "Exchange Notes") that were registered with the SEC, were offered in exchange for Senior Unsecured Notes tendered by the holders of those notes. The terms of the Exchange Notes are substantially identical to the terms of the Senior Unsecured Notes in all material respects, except that the Exchange Notes are registered under the Securities Act, and the transfer restrictions, registration rights and additional interest provision applicable to the Senior Unsecured Notes do not apply to the Exchange Notes. The exchange offer was launched on August 5, 2015, and completed on September 2, 2015, with all outstanding Senior Unsecured Notes being tendered and exchanged for Exchange Notes.

The Notes contain customary high yield covenants limiting our ability to incur or guarantee additional indebtedness; incur or guarantee secured indebtedness; pay dividends or distributions on, or redeem or repurchase, capital stock; make certain investments or other restricted payments; sell assets; enter into transactions with affiliates; merge or consolidate or sell all or substantially all of our assets; and create restrictions on the ability of CS&L, CSL Capital and our restricted subsidiaries to pay dividends. The covenants are subject to a number of important and significant limitations, qualifications and exceptions. As of September 30, 2016, we were in compliance with all of the covenants under the Notes.

In addition, on April 24, 2015, the Company and CSL Capital entered into a credit agreement (the “Credit Agreement”), which provides for a $2.14 billion Senior Secured Term Loan B facility due October 24, 2022 (the “Term Loan Facility”) and the Revolving Credit Facility (together with the Term Loan Facility, the “Facilities”). The term loans under the Facilities were issued at an issue price of 98.00% of par value, bear interest at a rate equal to a Eurodollar rate, subject to a 1.0% floor, plus an applicable margin equal to 4.00%, 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 CS&L’s wholly-owned subsidiaries (the “Guarantors”), and are secured by substantially all of the assets of CS&L, CSL Capital and the Guarantors, subject to certain exceptions, which assets also secure the Senior 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. As of September 30, 2016, we were in compliance with all of the covenants under the Credit Agreement.

The Company transferred $1.04 billion of cash proceeds under the Facilities to Windstream Services, the Company’s parent immediately preceding the Spin-Off, as partial consideration for the contribution of the Distribution Systems and the Consumer CLEC Business in connection with the Spin-Off.

Deferred financing costs were incurred in connection with the issuance of the Notes and the Facilities. These costs are amortized using the effective interest method over the term of the related indebtedness, and are included in interest expense in our Condensed Consolidated Statement of Income. For the three months and nine months ended September 30, 2016, we recognized $2.0 million and $5.6 million of non-cash interest expense related to the amortization of deferred financing costs, respectively. For the period from April 24, 2015 to September 30, 2015, we recognized $3.0 million of non-cash interest expense related to the amortization of deferred financing costs.

Note 9. Capital Stock

On August 31, 2016, we issued 1.9 million shares of our common stock, par value $0.0001 per share, as partial consideration for all outstanding equity interests of Tower Cloud. See Note 3.

On June 24, 2016, in connection with Windstream’s disposition of its retained ownership interest in CS&L pursuant to the public offering (See Note 10), we issued 2.2 million additional shares of our common stock. The shares were sold at a public offering price of $26.01, resulting in proceeds to the Company of $54.8 million, net of underwriting discounts and commissions, which were used to repay existing borrowings under our Revolving Credit Facility.

On May 2, 2016, we issued 1 million shares of our common stock, par value $0.0001 per share, as partial consideration for all outstanding equity interests of PEG Bandwidth. See Note 3. In addition, we issued 87,500 shares of the Company’s 3% Series A Convertible Preferred Stock, $0.0001 par value (“Series A Shares”), with a liquidation value of $87.5 million. The Series A Shares are non-voting and entitle the holders to receive cumulative dividends at the rate per annum of 3.0%, payable in cash. Holders of the Series A Shares have the option to convert at any time after three years, or are mandatorily convertible after eight years at a conversion rate of 28.5714 shares of common stock per Series A Share, subject to adjustment for certain dilutive events not to exceed a conversion rate of 50.5305 shares of common stock per Series A Share. The Series A Shares provide us the option to cash or share settle, and it is our policy to settle in cash upon conversion. Upon liquidation, each holder of the Series A Shares shall be entitled to receive the liquidation preference per share of $1,000 plus an amount equal to the accumulated and unpaid dividends on such shares. The Series A Shares were recorded at inception on the Condensed Consolidated Balance Sheet as mezzanine equity at fair value determined using a Black Scholes model, as of the date of issuance. Amortization of the difference between the liquidation value and the fair value at issuance is recorded as preferred dividends and a component of shareholders' deficit.

Note 10. 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 CS&L shares it received to existing stockholders of Windstream Holdings and retained a passive ownership interest of approximately 19.6% of the common stock of CS&L. 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.

Accordingly, 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 six months ended June 30, 2016, we recognized leasing revenues of $337.6 million related to the Master Lease. For the period from April 24, 2015 to September 30, 2015, we recognized $291.1 million of revenue 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 ceased and we incurred $19,000 of related TSA expense for the three months ended March 31, 2016. For the period from April 24, 2015 to September 30, 2015, we incurred $88,000 of such expenses.

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 CS&L. During the six months ended June 30, 2016, we incurred expenses of $6.6 million and $0.9 million related to the Wholesale Agreement and Master Services Agreement, respectively. For the period from April 24, 2015 to September 30, 2015 we incurred expenses of $6.5 million and $0.7 million related to the Wholesale Agreement and Master Services Agreement, respectively.

Accounts Receivable – As of December 31, 2015, there were $1.7 million accounts receivable from Windstream related to the collection of Consumer CLEC Business revenues, net of amounts owed to Windstream under the Wholesale Agreement and Master Services Agreement recorded in accounts receivable on our Condensed Consolidated Balance Sheet.

Dividend Payable – At December 31, 2015, there was a $17.6 million dividend payable to Windstream related to the dividend declared on November 6, 2015, based on Windstream ownership of CS&L shares as of the December 31, 2015 record date. This amount was paid to Windstream on January 15, 2016 along with the dividends payable to all common shareholders.

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 CS&L 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 six months ended June 30, 2016, we withheld 91,412 common shares to satisfy these minimum statutory tax-withholding obligations and delivered $1.9 million to Windstream for remittance to the applicable taxing authorities.

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Tower Purchase – In May, 2016, we completed the previously announced transaction with Windstream to acquire 32 wireless towers owned by Windstream and operating rights for 49 wireless towers previously conveyed to the Company in the Spin-Off for a purchase price of approximately $3 million.

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 CS&L 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 CS&L 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 June 30, 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 11. 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.

The earnings per share impact of the Series A Shares (See Note 9) 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 CS&L 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 September 30,		Nine Months Ended	Period from April 24 -
(Thousands, except per share data)	2016	2015	September 30, 2016	September 30, 2015
Basic earnings per share:				
Numerator:				
Net (loss) income	$ (2,343)	$ 9,403	$ 4,158	$ 17,704
Less: Income allocated to participating securities	(407)	(430)	(1,164)	(755)
Dividends declared on convertible preferred stock	(649)	-	(1,087)	-
Amortization of discount on convertible preferred stock	(745)	-	(1,241)	-
Net (loss) income applicable to common shares	$ (4,144)	$ 8,973	$ 666	$ 16,949
Denominator:				
Basic weighted-average common shares outstanding	153,878	149,834	151,578	149,831
Basic (loss) earnings per common share	$ (0.03)	$ 0.06	$ 0.00	$ 0.11

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(Thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Diluted earnings per share:				
Numerator:				
Net (loss) income	$ (2,343)	$ 9,403	$ 4,158	$ 17,704
Less: Income allocated to participating securities	(407)	(430)	(1,164)	(755)
Dividends declared on convertible preferred stock	(649)	-	(1,087)	-
Amortization of discount on convertible preferred stock	(745)	-	(1,241)	-
Net (loss) income applicable to common shares	$ (4,144)	$ 8,973	$ 666	$ 16,949
Denominator:				
Basic weighted-average common shares outstanding	153,878	149,834	151,578	149,831
Effect of dilutive non-participating securities	-	-	138	-
Weighted-average shares for dilutive earnings per common share	153,878	149,834	151,716	149,831
Dilutive (loss) earnings per common share	$ (0.03)	$ 0.06	$ 0.00	$ 0.11

For the three months ended September 30, 2016, 149,087 non-participating securities were excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive.

Note 12. Segment Information

Subsequent to our acquisition of PEG Bandwidth on May 2, 2016 (Note 3), our management, including our chief executive officer, who is our chief operating decision maker, manages our operations as three operating business segments: Leasing, Fiber Infrastructure and Consumer CLEC. Our Leasing segment represents our REIT operations, including the results of our tower and ground lease operations and corporate expenses not directly attributable to our other operating segments. The Fiber Infrastructure segment represents the operations of the Uniti Fiber business, as well as corporate expenses directly attributable to the operations of that business, and the Consumer CLEC segment represents the operations of our Consumer CLEC Business and corporate expenses directly attributable to the operation of that business. We determined that each of these operating segments represents a reportable segment.

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.

Selected financial data related to our segments is presented below for the three months ended September 30, 2016, and September 30, 2015:

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	Three Months Ended September 30, 2016			
(Thousands)	Leasing	Fiber Infrastructure	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 169,525	$ 25,219	$ 5,496	$ 200,240
Adjusted EBITDA	$ 165,190	$ 9,273	$ 1,213	$ 175,676
Less:				
Interest expense				70,522
Depreciation and amortization	86,208	9,701	814	96,723
Transaction related costs				9,315
Stock-based compensation				1,331
Income tax expense				128
Net loss				$ (2,343)
Capital expenditures(1)	$ 2,875	$ 6,877	$ -	$ 9,752

	Three Months Ended September 30, 2015		
(Thousands)	Leasing	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 166,959	$ 6,675	$ 173,634
Adjusted EBITDA	$ 163,509	$ 1,527	$ 165,036
Less:			
Interest expense			66,511
Depreciation and amortization	86,307	964	87,271
Transaction related costs			804
Stock-based compensation			779
Income tax expense			268
Net income			$ 9,403
Capital expenditures(1)	$ 315	$ -	$ 315

(1)Segment capital expenditures represents capital expenditures as reported in the investing activities section of the Statement of Cash Flows.

Selected financial data related to our segments is presented below for the nine months ended September 30, 2016 and for the period from April 24, 2015 to September 30, 2015:

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(Thousands)	Nine Months Ended September 30, 2016 Leasing		Fiber Infrastructure		Consumer CLEC		Subtotal of Reportable Segments	
Revenues	$	507,216	$	38,995	$	17,277	$	563,488
Adjusted EBITDA	$	494,377	$	14,773	$	3,875	$	513,025
Less:								
Interest expense								204,607
Depreciation and amortization		257,557		15,448		2,443		275,448
Transaction related costs								24,435
Stock-based compensation								3,478
Income tax expense								899
Net income							$	4,158
Capital expenditures(1)	$	8,926	$	10,278	$	-	$	19,204

(Thousands)	Period from April 24, 2015 to September 30, 2015 Leasing		Consumer CLEC		Subtotal of Reportable Segments	
Revenues	$	291,131	$	11,251	$	302,382
Adjusted EBITDA	$	284,858	$	2,362	$	287,220
Less:						
Interest expense						115,307
Depreciation and amortization		150,108		1,607		151,715
Transaction related costs						877
Stock-based compensation						1,117
Income tax expense						500
Net income					$	17,704
Capital expenditures(1)	$	712	$	-	$	712

(1)Segment capital expenditures represents capital expenditures as reported in the investing activities section of the Statement of Cash Flows.

Total assets by business segment as of September 30, 2016 and December 31, 2015 are as follows:

(Thousands)	September 30, 2016		December 31, 2015	
Leasing	$	2,288,927	$	2,527,915
Fiber Infrastructure		914,252		-
Consumer CLEC		14,355		14,721
Subtotal of reportable segments	$	3,217,534	$	2,542,636

Note 13. 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, we are generally responsible for any taxes imposed on Windstream that arise from the failure of the Spin-Off and the debt exchanges to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Section 355 and Section 368(a)(1)(D) of the 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 14. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by component is as follows for the nine months ended September 30, 2016:

(Thousands)	Currency Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedge	Total
Beginning balance at December 31, 2015	$ -	$ (5,427)	$ (5,427)
Other comprehensive loss before reclassifications	(180)	(81,163)	(81,343)
Amounts reclassified from accumulated other comprehensive income	-	17,832	17,832
Ending balance at September 30, 2016	$ (180)	$ (68,758)	$ (68,938)

Note 15. Supplemental Guarantor Information

In connection with the issuance of the Senior Secured Notes, Senior Unsecured Notes and Term Loan Facility due 2022, the Guarantors provided guarantees of that indebtedness. 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 these obligations 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.

We determined that certain immaterial misclassifications existed in the condensed consolidating statement of cash flows for the period from April 24, 2015 to September 30, 2015, which impacted only CS&L, CSL Capital and the Guarantors with applicable offsetting adjustments in Eliminations. In the condensed consolidating statement of cash flows for the period from April 24, 2015 to September 30, 2015, net cash provided by operating activities for the Guarantors should have been increased by $68.8 million to $278.3 million, with an offsetting decrease of $68.8 million to net cash provided by financing activities for the Guarantors. The condensed consolidating statement of cash flows for the period from April 24, 2015 to September 30, 2015 presented below includes the impact of these revisions.

In addition, we determined that certain immaterial misclassifications existed in the condensed consolidating statements of comprehensive income for the quarter ended September 30, 2015 and the period from April 24, 2015 to September 30, 2015, which impacted only CS&L with applicable offsetting adjustments in the Eliminations column. For the quarter ended September 30, 2015, earnings from consolidated subsidiaries, net income, and comprehensive income of CS&L should have been increased from $10.2 million, ($57.1) million, and ($99.7) million to $76.7 million, $9.4 million, and ($33.1) million, respectively. For the period from April 24, 2015 to September 30, 2015, earnings from consolidated subsidiaries, net income, and comprehensive income of CS&L should have been increased from $18.8 million, ($97.6) million, and ($111.6) million to $134.1 million, $17.7 million, and $3.7

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million respectively. The condensed consolidating statement of comprehensive income for the quarter ended September 30, 2015 and the period from April 24, 2015 to September 30, 2015 presented below includes the impact of these revisions.

The following information summarizes our Condensed Consolidating Balance Sheets as of September 30, 2016 and December 31, 2015, Condensed Consolidating Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016, and the Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2016:

	Condensed Consolidating Balance Sheet As of September 30, 2016					
(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets:						
Property, plant and equipment, net	$ —	$ —	$ 2,017,542	$ 676,599	$ —	$ 2,694,141
Cash and cash equivalents	1,698	—	26,595	12,469	—	40,762
Accounts receivable, net	—	—	8,642	7,204	—	15,846
Affiliate receivable	—	—	—	2,231	(2,231)	—
Goodwill	—	—	146,205	117,254	—	263,459
Intangible assets, net	—	—	37,562	125,379	—	162,941
Straight-line revenue receivable	—	—	24,762	207	—	24,969
Investment in consolidated subsidiaries	2,876,376	2,876,376	336,279	1,016,622	(7,105,653)	-
Other assets	1,041	—	11,265	3,110	—	15,416
Total Assets	$ 2,879,115	$ 2,876,376	$ 2,608,852	$ 1,961,075	$ (7,107,884)	$ 3,217,534
Liabilities and Shareholders' Deficit:						
Liabilities:						
Accounts payable, accrued expenses and other liabilities	$ —	$ —	$ 20,604	$ 17,321	$ —	$ 37,925
Accrued interest payable	57,528	57,528	—	—	(57,528)	57,528
Deferred revenue	—	—	134,714	79,175	—	213,889
Derivative liability	68,758	68,578	—	—	(68,578)	68,758
Affiliate payable	—	—	2,231	—	(2,231)	—
Dividends payable	94,470	—	—	—	—	94,470
Deferred income taxes	—	—	3,636	27,754	—	31,390
Capital lease obligations	—	—	48,512	6,703	—	55,215
Contingent consideration	98,600	—	—	—	—	98,600
Notes and other debt, net	3,846,711	3,846,711	—	—	(3,846,711)	3,846,711
Total liabilities	4,166,067	3,972,817	209,697	130,953	(3,975,048)	4,504,486
Convertible preferred stock	79,807	—	—	—	—	79,807
Shareholders' Deficit:						
Common stock	15	—	—	—	—	15
Additional paid-in capital	140,466	—	—	—	—	140,466
Accumulated other comprehensive income	(68,938)	(68,578)	—	(180)	68,758	(68,938)
Distributions in excess of earnings	(1,438,302)	(1,027,863)	2,399,155	1,830,302	(3,201,594)	(1,438,302)
Total shareholders' deficit	(1,366,759)	(1,096,441)	2,399,155	1,830,122	(3,132,836)	(1,366,759)
Total Liabilities, Convertible Preferred Stock, and Shareholders' Deficit	$ 2,879,115	$ 2,876,376	$ 2,608,852	$ 1,961,075	$ (7,107,884)	$ 3,217,534

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	Condensed Consolidating Balance Sheet As of December 31, 2015					
(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets:						
Property, plant and equipment, net	$ —	$ —	$ 1,839,603	$ 533,048	$ —	$ 2,372,651
Cash and cash equivalents	17	—	140,197	2,284	—	142,498
Accounts receivable, net	—	—	474	1,609	—	2,083
Affiliate receivable	—	—	151	—	(151)	—
Intangible assets, net	—	—	—	10,530	—	10,530
Straight-line revenue receivable	—	—	11,795	—	—	11,795
Investment in consolidated subsidiaries	2,458,679	2,458,679	11,235	—	(4,928,593)	—
Other assets	—	—	2,781	298	—	3,079
Total Assets	$ 2,458,696	$ 2,458,679	$ 2,006,236	$ 547,769	$ (4,928,744)	$ 2,542,636
Liabilities and Shareholders' Deficit:						
Accounts payable, accrued expenses and other liabilities	$ —	$ —	$ 9,204	$ 1,205	$ —	$ 10,409
Accrued interest payable	24,440	24,440	—	—	(24,440)	24,440
Deferred revenue	—	—	44,862	22,955	—	67,817
Derivative liability	5,427	5,427	—	—	(5,427)	5,427
Affiliate payable	—	—	—	151	(151)	—
Dividends payable	90,507	—	—	—	—	90,507
Deferred income taxes	—	—	1,677	4,037	—	5,714
Notes and other debt, net	3,505,228	3,505,228	—	—	(3,505,228)	3,505,228
Total liabilities	3,625,602	3,535,095	55,743	28,348	(3,535,246)	3,709,542
Common stock	15	—	—	—	—	15
Additional paid-in capital	1,392	—	—	—	—	1,392
Accumulated other comprehensive income	(5,427)	(5,427)	—	—	5,427	(5,427)
Distributions in excess of earnings	(1,162,886)	(1,070,989)	1,950,493	519,421	(1,398,925)	(1,162,886)
Total shareholders' deficit	(1,166,906)	(1,076,416)	1,950,493	519,421	(1,393,498)	(1,166,906)
Total Liabilities and Shareholders' Deficit	$ 2,458,696	$ 2,458,679	$ 2,006,236	$ 547,769	$ (4,928,744)	$ 2,542,636

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Condensed Consolidating Statement of Comprehensive Income (Loss)
For the Three Months Ended September 30, 2016

(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Leasing	$ —	$ —	$ 168,772	$ 753	$ —	$ 169,525
Fiber Infrastructure	—	—	21,741	3,478	—	25,219
Consumer CLEC	—	—	—	5,496	—	5,496
Total revenues	—	—	190,513	9,727	—	200,240
Costs and Expenses:						
Interest expense	67,683	69,600	2,741	98	(69,600)	70,522
Depreciation and amortization	—	—	72,584	24,139	—	96,723
General and administrative expense	1,331	—	8,124	736	—	10,191
Operating expense	—	—	9,791	5,913	—	15,704
Transaction related costs	3,945	—	5,370	—	—	9,315
Total costs and expenses	72,959	69,600	98,610	30,886	(69,600)	202,455
Earnings from consolidated subsidiaries	70,616	70,616	—	—	(141,232)	—
(Loss) income before income taxes	(2,343)	1,016	91,903	(21,159)	(71,632)	(2,215)
Income tax expense	—	—	148	(20)	—	128
Net (loss) income	$ (2,343)	$ 1,016	$ 91,755	$ (21,139)	$ (71,632)	$ (2,343)
Comprehensive (loss) income	$ (4,314)	$ (854)	$ 91,755	$ (21,240)	$ (69,661)	$ (4,314)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the Three Months Ended September 30, 2015

(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Leasing	$ —	$ —	$ 166,914	$ 45	$ —	$ 166,959
Consumer CLEC	—	—	—	6,675	—	6,675
Total revenues	—	—	166,914	6,720	—	173,634
Costs and Expenses:						
Interest expense	66,511	66,511	—	—	(66,511)	66,511
Depreciation and amortization	—	—	63,257	24,014	—	87,271
General and administrative expense	779	—	3,450	—	—	4,229
Operating expense	—	—	—	5,148	—	5,148
Transaction related costs	—	—	804	—	—	804
Total costs and expenses	67,290	66,511	67,511	29,162	(66,511)	163,963
Earnings from consolidated subsidiaries	76,693	76,693	—	—	(153,386)	—
Income (loss) before income taxes	9,403	10,182	99,403	(22,442)	(86,875)	9,671
Income tax expense	—	—	101	167	—	268
Net income (loss)	$ 9,403	$ 10,182	$ 99,302	$ (22,609)	$ (86,875)	$ 9,403
Comprehensive income (loss)	$ (33,141)	$ (32,362)	$ 99,302	$ (22,609)	$ (44,331)	$ (33,141)

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(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
	Condensed Consolidating Statement of Comprehensive Income (Loss) For the Nine Months Ended September 30, 2016					
Revenues:						
Leasing	$ —	$ —	$ 505,569	$ 1,647	$ —	$ 507,216
Fiber Infrastructure	—	—	35,517	3,478		38,995
Consumer CLEC	—	—	—	17,277	—	17,277
Total revenues	—	—	541,086	22,402	—	563,488
Costs and Expenses:						
Interest expense	200,210	203,357	4,312	85	(203,357)	204,607
Depreciation and amortization	—	—	206,727	68,721	—	275,448
General and administrative expense	3,461	—	19,222	936	—	23,619
Operating expense	—	—	15,273	15,049	—	30,322
Transaction related costs	3,945	—	20,490	—	—	24,435
Total costs and expenses	207,616	203,357	266,024	84,791	(203,357)	558,431
Earnings from consolidated subsidiaries	211,774	211,774	—	—	(423,548)	—
(Loss) income before income taxes	4,158	8,417	275,062	(62,389)	(220,191)	5,057
Income tax expense	—	—	532	367	—	899
Net (loss) income	$ 4,158	$ 8,417	$ 274,530	$ (62,756)	$ (220,191)	$ 4,158
Comprehensive (loss) income	$ (59,353)	$ (54,914)	$ 274,530	$ (62,936)	$ (156,680)	$ (59,353)

(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
	Condensed Consolidating Statement of Comprehensive Income For the Period from April 24 - September 30, 2015					
Revenues:						
Leasing	$ —	$ —	$ 291,086	$ 45	$ —	$ 291,131
Consumer CLEC	—	—	—	11,251	—	11,251
Total revenues	—	—	291,086	11,296	—	302,382
Costs and Expenses:						
Interest expense	115,307	115,307	—	—	(115,307)	115,307
Depreciation and amortization	—	—	110,001	41,714	—	151,715
General and administrative expense	1,117	—	6,273	—	—	7,390
Operating expense	—	—	—	8,889	—	8,889
Transaction related costs	—	—	877	—	—	877
Total costs and expenses	116,424	115,307	117,151	50,603	(115,307)	284,178
Earnings from consolidated subsidiaries	134,128	134,128	—	—	(268,256)	—
Income (loss) before income taxes	17,704	18,821	173,935	(39,307)	(152,949)	18,204
Income tax expense	—	—	195	305	—	500
Net income (loss)	$ 17,704	$ 18,821	$ 173,740	$ (39,612)	$ (152,949)	$ 17,704
Comprehensive income (loss)	$ 3,711	$ 4,828	$ 173,740	$ (39,612)	$ (138,956)	$ 3,711

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(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
	Condensed Consolidating Statement of Cash Flows For the Nine Months Ended September 30, 2016					
Cash flow from operating activities						
Net cash provided by (used in) operating activities	$ (105,789)	$ —	$ 465,904	$ 4,662	$ (64,226)	$ 300,551
Cash flow from investing activities						
Acquisition of businesses, net of cash acquired	—	—	(316,244)	(173,294)	—	(489,538)
Capital expenditures	—	—	(9,722)	(9,482)	—	(19,204)
Net cash used in investing activities	—	—	(325,966)	(182,776)	—	(508,742)
Cash flow from financing activities						
Principal payment on debt	(16,744)	—	—	—	—	(16,744)
Dividends paid	(273,692)	—	—	—	—	(273,692)
Proceeds from issuance of Notes	148,875	—	—	—	—	148,875
Borrowings under revolving credit facility	521,000	—	—	—	—	521,000
Payments under revolving credit facility	(321,000)	—	—	—	—	(321,000)
Capital lease payments	—	—	(898)	(47)	—	(945)
Deferred financing costs	(2,946)	—	—	—	—	(2,946)
Common stock issuance, net of costs	54,211	—	—	—	—	54,211
Net share settlement	(2,123)	—	—	—	—	(2,123)
Intercompany transactions, net	(111)	—	(252,642)	188,527	64,226	—
Net cash (used in) provided by financing activities	107,470	—	(253,540)	188,480	64,226	106,636
Effect of exchange rates on cash and cash equivalents	—	—	—	(181)	—	(181)
Net increase in cash and cash equivalents	1,681	—	(113,602)	10,185	—	(101,736)
Cash and cash equivalents, December 31, 2015	17	—	140,197	2,284		142,498
Cash and cash equivalents, September 30, 2016	$ 1,698	$ —	$ 26,595	$ 12,469	$ —	$ 40,762

Communications Sales & Leasing, Inc.
Notes to the Condensed Consolidated Financial Statements – Continued
(unaudited)

	Condensed Consolidating Statement of Cash Flows For the period from April 24 - September 30, 2015					
(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net cash provided by (used in) operating activities	$ 10,584	$ —	$ 278,279	$ 1,205	$ (68,809)	$ 221,259
Cash flow from investing activities						
Consideration paid to Windstream Services	(1,035,029)	—	—	—	—	(1,035,029)
Capital expenditures	—	—	(712)	—	—	(712)
Net cash used in investing activities	(1,035,029)	—	(712)	—	—	(1,035,741)
Cash flow from financing activities						
Proceeds from issuance of Term Loans	1,127,000	—	—	—	—	1,127,000
Deferred financing costs	(30,018)	—	—	—	—	(30,018)
Principal payment on debt	(5,350)	—	—	—	—	(5,350)
Common stock issuance, net of costs	(516)	—	—	—	—	(516)
Net share settlement	(113)					(113)
Dividends Paid	(66,522)	—	—	—	—	(66,522)
Intercompany transactions, net	—	—	(68,809)	—	68,809	—
Cash in-lieu of fractional shares	(19)	—	—	—	—	(19)
Net cash provided by (used in) financing activities	1,024,462	—	(68,809)	—	68,809	1,024,462
Net increase in cash and cash equivalents	17	—	208,758	1,205	—	209,980
Cash and cash equivalents, April 24, 2015	—	—	18	—	—	18
Cash and cash equivalents, September 30, 2015	$ 17	$ —	$ 208,776	$ 1,205	$ —	$ 209,998

Note 16. Subsequent Event

On November 14, 2016, we announced that we entered into a definitive agreement to acquire Network Management Holdings LTD (“NMS”). NMS currently owns and operates 359 towers in Latin America and 114 additional build to suit towers under development. The NMS portfolio spans Mexico, Nicaragua and Colombia.

The initial consideration for the 359 towers currently in operation is expected to be approximately $65 million, subject to changes in the currency exchange rate between the U.S. dollar and both the Mexican peso and Colombian peso. Under the terms of the purchase agreement, CS&L will acquire the towers under development when construction is completed. The Company intends to fund the transaction through borrowings under the Revolving Credit Facility. The NMS transaction is subject to regulatory approvals and other customary terms and conditions. Closing is expected to occur in the first quarter of 2017.

On October 21, 2016, we completed the previously announced amendment to our Credit Agreement. Among other things, the amendment (i) repriced our Term Loan Facility, decreasing the interest rate by 50 basis points to LIBOR plus 3.50% per annum with a minimum LIBOR rate of 1.0%, and (ii) modified certain provisions to permit us to operate through a customary “Up-REIT” structure, should we choose to operate through such a structure in the future. Use of such a structure is intended to facilitate future acquisition opportunities by providing us the ability to use operating partnership units as a tax-efficient acquisition currency in certain acquisitions of assets or entities that are structured as limited liability companies or other pass-through entities. Our interest rate swap agreements are unaffected by this repricing and effectively fix the interest rate on our Term Loan Facility at 5.6%. See Note 6.

Consumer CLEC Business
Statements of Revenues and Direct Expenses
(unaudited)

(Thousands)	For the Period January 1 - April 24, 2015
Revenues	$ 10,149
Direct expenses:	
Cost of revenues	5,552
Selling, general, and administrative	22
Amortization	1,283
Total direct expenses	6,857
Revenues in Excess of Direct Expenses	$ 3,292

The accompanying notes are an integral part of this statement of Revenues and Direct Expenses.

Consumer CLEC Business
Notes to Financial Statement

Note 1. Description of Business

Communications Sales & Leasing, Inc. (the "Company," "CS&L," "we," "us" or "our") was incorporated in the state of Delaware in February 2014 and reorganized in the state of Maryland on September 4, 2014. On April 24, 2015 (the "Spin Date"), in connection with the separation and spin-off of CS&L from Windstream Holdings, Inc. ("Windstream Holdings" and together with its consolidated subsidiaries "Windstream"), Windstream contributed certain telecommunications network assets, including fiber and copper networks and other real estate (the "Distribution Systems") and a small consumer competitive local exchange carrier ("CLEC") business (the "Consumer CLEC Business") to CS&L in exchange for cash, shares of common stock of CS&L and certain indebtedness of CS&L (the "Spin-Off").

The Consumer CLEC Business, which prior to the Spin-Off had been reported as an integrated operation within Windstream, offers voice, broadband, long-distance, and value-added services to residential customers located primarily in rural locations. Substantially all of the network assets used to provide these services to customers are contracted through interconnection agreements with other telecommunications carriers. Prior to the Spin-Off, Windstream ceased accepting new residential customers in the service areas covered by the Consumer CLEC Business.

Note 2. Basis of Presentation

Subsequent to the Spin-Off, all financial results of the Consumer CLEC Business are reported within the consolidated financial statements of CS&L. The accompanying unaudited Statement of Revenues and Direct Expenses for the period from January 1, 2015 to Spin Date have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (the "SEC"), as permitted by the SEC and are not intended to be a complete presentation of results of operations of the Consumer CLEC Business. Additionally, the interim financial statement has been prepared consistent with Article 10 of Regulation S-X. The elements of the financial statement are stated in accordance with accounting principles generally accepted in the United States ("GAAP"). Certain information and footnote disclosures have been condensed or omitted as permitted by the SEC's rules and regulations. In the opinion of management, all adjustments considered necessary for a fair statement of the results of the interim period presented have been included. The results of operations for the interim period is not necessarily indicative of results for the full year.

The accompanying Statement of Revenues and Direct Expenses include all direct costs incurred in connection with the operation of the Consumer CLEC Business for which specific identification was practicable. In addition, direct costs incurred by Windstream to operate the Consumer CLEC Business for which specific identification was not practicable have been allocated based on assumptions that management believes are reasonable under the circumstances as more fully discussed in Note 4. The Statement of Revenues and Direct Expenses exclude costs that are not directly related to the Consumer CLEC Business including general corporate overhead costs, interest expense and income taxes.

Note 3. Summary of Significant Accounting Policies

Use of Estimates—The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statement are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statement. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statement, and such differences could be material.

Revenue Recognition—Service revenues are primarily derived from providing access to or usage of leased networks and facilities. Service revenues are recognized over the period that the corresponding services are rendered to customers. Revenues derived from other telecommunications services, including broadband, long distance and enhanced service revenues are recognized monthly as services are provided. Sales of customer premise equipment and modems are recognized when products are delivered to and accepted by customers.

In assessing collectability of receivables, management considers a number of factors, including historical collection experience, aging of the accounts receivable balances and current economic conditions. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for doubtful accounts. The provision for doubtful accounts, which is included in cost of service, was $111,000 for the period from January 1, 2015 to Spin Date.

Consumer CLEC Business
Notes to Financial Statement – Continued

Recently Issued Accounting Standards—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The standard 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.

Subsequent Events—The accompanying financial statement of the Consumer CLEC Business was derived from the consolidated financial statements of Windstream, which issued its interim unaudited consolidated financial statements for the quarterly period ended March 31, 2015 on May 7, 2015. Accordingly, management has evaluated transactions for consideration as recognized subsequent events in the accompanying financial statement through the date of September 30, 2016.

Note 4. Allocations

As described in Note 2, the accompanying Statement of Revenues and Direct Expenses of the Consumer CLEC Business include all direct costs incurred in connection with the operation of the Consumer CLEC Business for which specific identification was practicable. In addition, certain costs incurred by Windstream to operate the Consumer CLEC Business for which specific identification was not practicable have been allocated based on revenues and sales. These allocated expenses are included in "Cost of revenues" and "Selling, general and administrative."

General and administrative costs incurred by Windstream not directly related to the Consumer CLEC Business have not been allocated to these operations. Costs not allocated include amounts related to executive management, accounting, treasury and cash management, data processing, legal, human resources and certain occupancy costs.

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

The following management's discussion and analysis of financial condition and results of operations describes the principal factors affecting the results of our operations, financial condition, and changes in financial condition for the three and nine months ended September 30, 2016. Because we were formed in connection with the Spin-Off from Windstream Holdings on April 24, 2015, the comparable period results discussed in this section cover only the 160-day period from April 24, 2015 to September 30, 2015. As such, there are inherent limitations to period over period comparability. 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, 2015, filed with the SEC on March 7, 2016.

Overview

Company Description

On April 24, 2015, CS&L completed the Spin-Off from Windstream pursuant to which Windstream contributed the Distribution Systems and the Consumer CLEC Business to CS&L and CS&L issued common stock and indebtedness and paid cash obtained from borrowings under CS&L'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. Our fiber infrastructure group, Uniti Fiber, is a leading provider of infrastructure solutions including cell site backhaul and dark fiber, to the telecommunications industry. The Consumer CLEC Business, which was reported as an integrated operation within Windstream prior to the Spin-Off, offers voice, broadband, long-distance, and value-added services to residential customers located primarily in rural locations. Substantially all of the network assets used to provide these services to customers are contracted through interconnection agreements with other telecommunications carriers.

CS&L 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 Uniti Fiber and the Consumer CLEC Business 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; (ii) 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 three reportable business segments: Leasing, Fiber Infrastructure and Consumer CLEC. Our Leasing segment represents our REIT operations, including the results of our tower and ground lease operations, and corporate expenses not directly attributable to other operating segments. The Fiber Infrastructure segment represents the operations of the Uniti Fiber business, as well as corporate expenses directly attributable to the operations of these businesses, and the Consumer CLEC segment represents the operations of our Consumer CLEC Business and corporate expenses directly attributable to the operation of that business. We evaluate the performance of each segment based on Adjusted EBITDA.

Significant Quarterly Business Developments

At-the-Market Common Stock Offering Program. On September 2, 2016, we announced the establishment of an at-the-market common stock offering program (the "ATM Program") to sell shares of our common stock, par value $0.0001 per share, having an aggregate offering price of up to $250 million. This program provides additional financial flexibility and an alternative mechanism to access the capital markets at an efficient cost as and when the Company needs financing, including for acquisitions.

Acquisition of Tower Cloud, Inc. On August 31, 2016, we completed the previously announced acquisition of Tower Cloud, Inc. The consideration for all outstanding equity interests was valued at $345 million, and included $187 million in cash and the issuance of 1.9 million shares of the Company's 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, will be paid upon the achievement of certain defined operational and financial milestones. 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. Tower Cloud's network currently consists of approximately 90,000 fiber strand miles in service across the southeastern United States, with 181,000 fiber strand miles awarded for future deployment for the major wireless carriers. We funded the cash portion of the transaction through cash on hand and $150 million of borrowings under our Revolving Credit Facility. This transaction compliments our diversification strategy, expands our national wireless carrier relationships, and will accelerate our small cell and dark fiber businesses. Following the close of the transaction, the Tower Cloud and PEG Bandwidth businesses were combined into a unified fiber infrastructure organization, Uniti Fiber.

Addition of New Director. On August 9, 2016, Andrew Frey was appointed to the Company's Board of Directors, increasing the size of the Company's Board from five to six members. Mr. Frey is a partner of Searchlight Capital Partners, L.P. ("Searchlight") and was appointed pursuant to the letter agreement dated June 15, 2016, between the Company and Searchlight.

Comparison of the three months ended September 30, 2016 and September 30, 2015

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

	Three Months Ended September 30,			
	2016		2015	
(Thousands)	Amount	% of Revenues	Amount	% of Revenues
Revenues:				
Leasing	$ 169,525	84.7%	$ 166,959	96.2%
Fiber Infrastructure	25,219	12.6%	-	0.0%
Consumer CLEC	5,496	2.7%	6,675	3.8%
Total revenues	200,240	100.0%	173,634	100.0%
Costs and Expenses:				
Interest expense	70,522	35.2%	66,511	38.3%
Depreciation and amortization	96,723	48.3%	87,271	50.3%
General and administrative expense	10,191	5.1%	4,229	2.4%
Operating expense	15,704	7.8%	5,148	3.0%
Transaction related costs	9,315	4.7%	804	0.5%
Total costs and expenses	202,455	101.1%	163,963	94.4%
(Loss) income before income taxes	(2,215)	(1.1%)	9,671	5.6%
Income tax expense	128	0.1%	268	0.2%
Net (loss) income	(2,343)	(1.2%)	9,403	5.4%
Participating securities' share in earnings	(407)	(0.2%)	(430)	(0.2%)
Dividends declared on convertible preferred stock	(649)	(0.3%)	-	0.0%
Amortization of discount on convertible preferred stock	(745)	(0.4%)	-	0.0%
Net (loss) income applicable to common shareholders	$ (4,144)	(2.1%)	$ 8,973	5.2%

Revenues

Leasing - Leasing revenues are primarily attributable to rental revenue from leasing our Distribution Systems to Windstream Holdings pursuant to the Master Lease. Under the Master Lease, Windstream Holdings is responsible for the costs related to operating the Distribution Systems, including property taxes, insurance, and maintenance and repair costs. The Master Lease has an initial term of 15 years with four five-year renewal options and encompasses properties located in 29 states. Rent under the Master Lease is an annual fixed amount of $650 million during the first three years. Commencing with the fourth year of the Master Lease and continuing for the remainder of the initial term, rent under the Master Lease is subject to annual escalation of 0.5%. Additionally, we funded $43.1 million of capital expenditures related to the Distribution System on December 29, 2015. Monthly rent paid by Windstream increased by approximately $3.5 million per year in accordance with the Master Lease effective as of the date we provided the funding. Rental revenues over the initial term of the Master Lease are recognized in the financial statements on a straight line basis, representing approximately $670.7 million per year.

The Master Lease further 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 CS&L 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 September 30, 2016, we recognized $169.5 million of revenue from rents under the Master Lease, which included $4.3 million of straight-line revenues and $1.7 million of TCI revenue. For the three months ended September 30, 2015, we recognized $167 million of revenues from the Master Lease, which included $4.3 million of straight-line rent revenue, and $0.2 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 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 – We recognized $25.2 million of revenue, approximately 75% of which was derived from lit backhaul services, from our Fiber Infrastructure segment for the three months ended September 30, 2016. This revenue was derived from the newly acquired PEG Bandwidth and Tower Cloud businesses. Revenues related to the Tower Cloud acquisition have been included in our results of operations for the period from September 1 to September 30, 2016. At September 30, 2016, we had approximately 5,400 customer connections.

Consumer CLEC - For the three months ended September 30, 2016, we recognized $5.5 million of revenue from the Consumer CLEC Business, compared to $6.7 million for the three months ended September 30, 2015. The decrease is due to the effects of competition and customer attrition, as we served 38,574 customers as of September 30, 2016, a 19.6% decrease from 48,000 at September 30, 2015.

Interest Expense

Interest expense for the three months ended September 30, 2016, totaled $70.5 million, which includes non-cash interest expense of $4.0 million resulting from the amortization of our debt discounts and debt issuance costs. Interest expense for the three months ended September 30, 2015, totaled $66.5 million, which includes non-cash interest expense of $3.7 million resulting from the amortization of our debt discounts and debt issuance costs. The increase is primarily related to interest expense on our Revolving Credit Facility and add-on Secured Notes of $1.1 million and $2.3 million, respectively, which were not incurred in the prior year.

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 September 30, 2016 totaled $96.7 million, which included property, plant and equipment depreciation of $94.8 million, corporate asset depreciation of $0.2 million and intangible asset amortization of $1.7 million. Charges for depreciation and amortization for the three months ended September 30, 2015 totaled $87.3 million, which included property, plant and equipment depreciation of $86.2 million, corporate asset depreciation of $0.1 million and intangible asset amortization of $1.0 million. The increase is primarily due to $9.7 million of depreciation and amortization expense related to the newly acquired PEG Bandwidth and Tower Cloud businesses.

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 September 30, 2016, general and administrative costs totaled $10.2 million (5.1% of revenue), which includes $1.3 million of stock-based compensation expense. For the three months ended September 30, 2015, general and administrative costs totaled $4.2 million (2.4% of revenue), which includes $0.8 million of stock-based compensation expense. The increase is primarily due to $4.8 million of expense related to the newly acquired PEG Bandwidth and Tower Cloud businesses.

Operating Expense

Operating expense for the three months ended September 30, 2016, totaled $15.7 million (7.8% of revenue), and consists of $4.3 million (2.1% of revenue) of expense related to the operation of the Consumer CLEC Business and $11.4 million (5.7% of revenue) of expense related to the newly acquired PEG Bandwidth and Tower Cloud businesses.

For the three months ended September 30, 2016, Fiber Infrastructure operating expenses include $2.5 million of tower rent, $2.0 million of payroll related expense, and $1.6 million of lit service expense.

For the three months ended September 30, 2015, operating expenses represented costs associated with the Consumer CLEC Business

Expense associated with the Consumer CLEC Business is primarily attributable to the Wholesale Master Services Agreement and the Master Services Agreement entered into between us and Windstream in connection with the Spin-Off, and also included costs arising 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 September 30, 2016 totaled $3.1 million (1.5% 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 September 30, 2015 totaled $3.8 million (2.2% of revenue) and $0.4 million (0.2% of revenue), respectively.

Reportable Segments

The following tables set forth, for the three months ended September 30, 2016 and September 30, 2015, revenues and Adjusted EBITDA of our reportable segments:

	Three Months Ended September 30, 2016			
(Thousands)	Leasing	Fiber Infrastructure	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 169,525	$ 25,219	$ 5,496	$ 200,240
Adjusted EBITDA	$ 165,190	$ 9,273	$ 1,213	$ 175,676
Less:				
Interest expense				70,522
Depreciation and amortization	86,208	9,701	814	96,723
Transaction related costs				9,315
Stock-based compensation				1,331
Income tax expense				128
Net loss				$ (2,343)

	Three Months Ended September 30, 2015		
(Thousands)	Leasing	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 166,959	$ 6,675	$ 173,634
Adjusted EBITDA	$ 163,509	$ 1,527	$ 165,036
Less:			
Interest expense			66,511
Depreciation and amortization	86,307	964	87,271
Transaction related costs			804
Stock-based compensation			779
Income tax expense			268
Net income			$ 9,403

Comparison of the nine months ended September 30, 2016 to the period from April 24, 2015 to September 30, 2015

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

(Thousands)	Nine Months Ended September 30, 2016	% of Revenues	Period from April 24 - September 30, 2015	% of Revenues
Revenues:				
Leasing	$ 507,216	90.0%	$ 291,131	96.3%
Fiber Infrastructure	38,995	6.9%	-	0.0%
Consumer CLEC	17,277	3.1%	11,251	3.7%
Total revenues	563,488	100.0%	302,382	100.0%
Costs and Expenses:				
Interest expense	204,607	36.3%	115,307	38.1%
Depreciation and amortization	275,448	48.9%	151,715	50.2%
General and administrative expense	23,619	4.2%	7,390	2.4%
Operating expense	30,322	5.4%	8,889	2.9%
Transaction related costs	24,435	4.3%	877	0.3%
Total costs and expenses	558,431	99.1%	284,178	94.0%
Income before income taxes	5,057	0.9%	18,204	6.0%
Income tax expense	899	0.2%	500	0.2%
Net income	4,158	0.7%	17,704	5.9%
Participating securities' share in earnings	(1,164)	(0.2%)	(755)	(0.2%)
Dividends declared on convertible preferred stock	(1,087)	(0.2%)	-	0.0%
Amortization of discount on convertible preferred stock	(1,241)	(0.2%)	-	0.0%
Net income applicable to common shareholders	$ 666	0.1%	$ 16,949	5.6%

Revenues

Leasing – For the nine months ended September 30, 2016, we recognized $507.2 million of revenue from rents under the Master Lease, which includes $13.0 million of straight-line revenues and $3.9 million of TCI revenue. For the 160-day period from April 24, 2015 to September 30, 2015, we recognized $291.1 million of revenues from the Master Lease, which included $7.5 million of straight-line rent revenue and $0.2 million of TCI revenue.

Fiber Infrastructure – We recognized $39.0 million of revenue, approximately 78% of which was derived from lit backhaul services, from our Fiber Infrastructure segment for the nine months ended September 30, 2016. This revenue was derived from the acquired PEG Bandwidth and Tower Cloud businesses from their respective dates of acquisition to September 30, 2016.

Consumer CLEC – For the nine months ended September 30, 2016, we recognized $17.3 million of revenue from the Consumer CLEC Business, compared to $11.3 million for the period from April 24, 2015 to September 30, 2015. This increase is primarily attributable to a full three quarters of revenue during 2016 compared to 160 days of revenue during the prior year period, partially offset by a decrease in customer counts. We served 38,574 customers as of September 30, 2016, a 19.6% decrease from 48,000 at September 30, 2015. The decrease in customers is due to the effects of competition and customer attrition.

The increase in the performance of our Leasing and Consumer CLEC segments for the nine months ended September 30, 2016 compared to the period from April 24 to September 30, 2015, is primarily attributable to the impact of a full three quarters of activity in 2016, while there was only 160 days of activity in 2015.

Interest Expense

Interest expense for the nine months ended September 30, 2016 totaled $204.6 million (36.3% of revenue), which includes non-cash interest expense of $11.6 million resulting from the amortization of our debt discounts and debt issuance costs. During the nine months ended September 30, 2016, we incurred $2.5 million in interest expense related to our previously undrawn Revolving Credit Facility and $2.7 million related to the $150 million of newly issued add-on Senior Secured Notes. Our interest expense includes the impact of our interest rate swap agreements.

Interest expense for the period from April 24, 2015 to September 30, 2015 totaled $115.3 million (38.1% of revenue), which includes non-cash interest expense of $6.3 million resulting from the amortization of our debt discounts and debt issuance costs.

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 nine months ended September 30, 2016 totaled $275.4 million (48.9% of revenue), which included property, plant and equipment depreciation of $271.3 million, corporate asset depreciation of $0.4 million and intangible asset amortization of $3.7 million. Charges for depreciation and amortization for the period from April 24, 2015 through September 30, 2015 totaled $151.7 million (50.2% of revenue), which included property, plant and equipment depreciation of $150.0 million, corporate asset depreciation of $0.1 million and intangible asset amortization of $1.6 million.

General and Administrative Expense

General and administrative expenses include compensation costs (including stock-based compensation awards), professional and legal services, corporate office costs and other costs associated with administrative activities. For the nine months ended September 30, 2016, general and administrative costs totaled $23.6 million (4.2% of revenue), which includes $3.5 million of stock-based compensation expense. For the nine months ended September 30, 2016, our general and administrative expenses included $7.7 million (1.4% of revenue) of expense related to the newly acquired PEG Bandwidth and Tower Cloud businesses.

For the period from April 24, 2015 to September 30, 2015, general and administrative costs totaled $7.4 million (2.4% of revenue), which includes $1.1 million of stock-based compensation expense.

Operating Expense

Operating expense for the nine months ended September 30, 2016, totaled $30.3 million (5.4% of revenue), which consists of $13.4 million (2.4% of revenue) of expense related to the operation of the Consumer CLEC Business and $16.9 million (3.0% of revenue) of expense related to the newly acquired PEG Bandwidth and Tower Cloud businesses.

For the nine months ended September 30, 2016, Fiber Infrastructure operating expenses include $4.1 million of tower rent, $3.1 million of payroll related expense, and $2.4 million of lit service expense.

For the period from April 24, 2015 to September 30, 2015, operating expenses represent costs associated with the Consumer CLEC Business of $8.9 million (2.9% of revenue).

Expense associated with the Consumer CLEC Business is primarily attributable to the Wholesale Master Services Agreement and the Master Services Agreement entered into between us and Windstream in connection with the Spin-Off, and also included costs arising under the interconnection agreements with other telecommunication carriers. Expense associated with the Wholesale Master Services Agreement and Master Services Agreement for the nine months ended September 30, 2016 totaled $9.6 million (1.7% of revenue) and $1.3 million, respectively, and expense associated with the Wholesale Master Services Agreement and the Master Services Agreement for the period from April 24, 2015 to September 30, 2015 totaled $6.5 million (2.1% of revenue) and $0.7 million (0.2% of revenue), respectively.

Reportable Segments

The following table sets forth, for the nine months ended September 30, 2016, revenues and Adjusted EBITDA of our reportable segments:

	Nine Months Ended September 30, 2016			
(Thousands)	Leasing	Fiber Infrastructure	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 507,216	$ 38,995	$ 17,277	$ 563,488
Adjusted EBITDA	$ 494,377	$ 14,773	$ 3,875	$ 513,025
Less:				
Interest expense				204,607
Depreciation and amortization	257,557	15,448	2,443	275,448
Transaction related costs				24,435
Stock-based compensation				3,478
Income tax expense				899
Net income				$ 4,158

The following table sets forth, for the period from April 24, 2015 to September 30, 2015, revenues and Adjusted EBITDA of our reportable segments:

	Period from April 24, 2015 to September 30, 2015		
(Thousands)	Leasing	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 291,131	$ 11,251	$ 302,382
Adjusted EBITDA	$ 284,858	$ 2,362	$ 287,220
Less:			
Interest expense			115,307
Depreciation and amortization	150,108	1,607	151,715
Transaction related costs			877
Stock-based compensation			1,117
Income tax expense			500
Net income			$ 17,704

The increase in the performance of our Leasing and Consumer CLEC segments for the nine months ended September 30, 2016 compared to the period from April 24 to September 30, 2015, is primarily attributable to the impact of a full three quarters of activity in 2016, while there was only 160 days of activity in 2015. The results of our Fiber Infrastructure segment represent operations of the recently acquired PEG Bandwidth and Tower Cloud businesses.

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 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. 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. In addition, Adjusted EBITDA is calculated similar to defined terms in our material debt agreements used to determine compliance with specific financial covenants. Since EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, they should not be considered as alternatives 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.

The Company defines NFFO, as FFO excluding the impact, which may be recurring in nature, of transaction related costs. The Company defines AFFO, as NFFO excluding (i) non-cash revenues and expenses such as stock-based compensation expense, amortization of debt and equity discounts, amortization of deferred financing costs, depreciation and amortization of non-real estate assets, straight line revenues, revenue associated with the amortization of tenant capital improvements and (ii) the impact, which may be recurring in nature, of maintenance capital expenditures, the write-off of unamortized deferred financing fees, additional costs incurred as a result of early repayment of debt, changes in the fair value of contingent consideration and financial instruments and similar items. 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 performance. In particular, we believe AFFO, by excluding certain revenue and expense items, can help investors compare our operating performance between periods and to other REITs on a consistent basis without having to account for differences caused by unanticipated items and events, such as transaction related costs. The Company uses FFO, NFFO and AFFO, and their respective per share amounts, only 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.

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 and nine months ended September 30, 2016, the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015 is as follows:

(Thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Net (loss) income	$ (2,343)	$ 9,403	$ 4,158	$ 17,704
Depreciation and amortization	96,723	87,271	275,448	151,715
Interest expense	70,522	66,511	204,607	115,307
Income tax expense	128	268	899	500
EBITDA	$ 165,030	$ 163,453	$ 485,112	$ 285,226
Stock based compensation	1,331	779	3,478	1,117
Transaction related costs	9,315	804	24,435	877
Adjusted EBITDA	$ 175,676	$ 165,036	$ 513,025	$ 287,220

(Thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Period from April 24 - September 30, 2015
Net (loss) income attributable to common shareholders	$ (4,144)	$ 8,973	$ 666	$ 16,949
Real estate depreciation and amortization	88,846	86,307	261,678	150,108
Participating securities share in earnings	407	430	1,164	755
Participating securities share in FFO	(394)	(456)	(1,164)	(808)
FFO applicable to common shareholders	$ 84,715	$ 95,254	$ 262,344	$ 167,004
Transaction related costs	9,315	804	24,435	877
NFFO applicable to common shareholders	94,030	96,058	286,779	167,881
Amortization of deferred financing costs	1,959	1,767	5,640	3,039
Amortization of debt discount	2,038	1,887	5,964	3,253
Stock based compensation	1,331	779	3,478	1,117
Non-real estate depreciation and amortization	7,877	964	13,770	1,607
Straight-line revenue	(4,547)	(4,297)	(13,174)	(7,497)
Maintenance capital expenditures	(1,415)	-	(2,095)	-
Amortization of discount on convertible preferred stock	745	-	1,241	-
Other non-cash (revenue) expense, net	(2,333)	(149)	(4,842)	(114)
AFFO applicable to common shareholders	$ 99,685	$ 97,009	$ 296,761	$ 169,286

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, 2015, filed with SEC on March 7, 2016. As of September 30, 2016, there has been no material change to these estimates.

Liquidity and Capital Resources

Our principal liquidity needs are to fund operating expenses, meet debt service requirements, fund investment activities, 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 September 30, 2016, we had approximately $340.8 million of liquidity, consisting of unrestricted cash and cash equivalents of $40.8 million and $300 million of unused borrowing availability under the Revolving Credit Facility.

Cash provided by operating activities was $300.5 million for the nine months ended September 30, 2016 driven by favorable changes in working capital, primarily attributable to our leasing activities.

Cash used in investing activities was $508.7 million for the nine months ended September 30, 2016, which was driven by the acquisitions of PEG Bandwidth ($316.1 million) and Tower Cloud ($173.4 million) and capital expenditures ($19.2 million).

Cash provided by financing activities was $106.6 million for the nine months ended September 30, 2016, which primarily represents the proceeds from the add-on Notes ($148.9 million), proceeds from the sale of common stock ($54.2 million) and net borrowings under the Revolving Credit Facility ($200 million) related to the PEG Bandwidth and Tower Cloud transactions, partially offset by dividend payments ($273.7 million) and principal payments related to the Term Loan Facility ($16.7 million).

On October 21, 2016, we completed the repricing of our Term Loan Facility. The interest rate decreased by 50 basis points to LIBOR plus 3.50% per annum with a minimum LIBOR rate of 1.0%. Our interest rate swap agreements are unaffected by this repricing. The swaps are designated as cash flow hedges with a weighted average fixed rate of 2.105% and the variable rate received resets monthly to the one-month LIBOR subject to a minimum rate of 1.0%.

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 September 30, 2016, 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 will also enable us to acquire properties by issuing to sellers, as a form of consideration, limited partnership interests in our operating partnership. Although to date we have not issued limited partnership interests in a transaction, we believe that this structure will facilitate our ability to acquire individual properties and portfolios of properties by enabling us to structure transactions which will defer taxes payable by a seller while preserving our available cash for other purposes, including the possible payment of dividends.

We anticipate 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

As of September 30, 2016, we had contractual obligations and commitments as follows:

	Payments Due by Period				
(millions)	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Long-term debt[a]	$ 21	$ 43	$ 243	$ 3,666	$ 3,973
Interest payments on long-term debt obligations[b]	233	467	455	399	1,554
Operating leases	16	22	8	6	51
Capital Leases	8	14	13	62	97
Total projected obligations and commitments[c]	$ 278	$ 545	$ 720	$ 4,133	$ 5,676

(a) Excludes $126.5 million of unamortized discounts on long-term debt and deferred financing costs.
(b) Interest rates on our Term Loan Facility are based on our swap rates.

(c) Excludes $68.8 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 October 14, 2016, we paid, to shareholders of record as of the close of business on September 30, 2016, a cash dividend on our common stock of $0.60 per share for the period from July 1, 2016 through September 30, 2016.

On July 15, 2016, we paid, to shareholders of record as of the close of business on June 30, 2016, a cash dividend on our common stock of $0.60 per share for the period from April 1, 2016 through June 30, 2016.

On April 15, 2016, we paid, to shareholders of record as of the close of business on March 31, 2016, a cash dividend on our common stock of $0.60 per share for the period from January 1, 2016 through March 31, 2016.

On January 15, 2016, we paid, to shareholders of record as of the close of business on December 31, 2015, a cash dividend on our common stock of $0.60 per share for the period from October 1, 2015 through December 31, 2015.

Capital Expenditures

We anticipate incurring total capital expenditures related to the Uniti Fiber business of $27 million to $30 million during 2016. As of September 30, 2016, we have incurred approximately $10.3 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, 2015, filed with the SEC on March 7, 2016.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The standard 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 is in the process of evaluating this guidance to determine the impact it will have on our financial statements.

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. 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. ASC 842 is effective for the fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is in the process of evaluating this guidance to determine the impact it will have on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09") ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. We have adopted ASU 2016-09 effective April 1, 2016, and will reverse compensation cost of forfeited awards as they occur. At the time of adoption, we had not experienced any forfeited awards and therefore no cumulative-effect adjustment was necessary.

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, 2015, filed with the SEC on March 7, 2016.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Changes in Internal Control over Financial Reporting

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules that generally require every company that files reports with the SEC to evaluate its effectiveness of internal controls over financial reporting. Our management is not required to evaluate the effectiveness of our internal controls over financial reporting until the filing of our 2016 Annual Report on Form 10-K, due to a transition period established by SEC rules applicable to new public companies. As a result, this Quarterly Report on Form 10-Q does not address whether there have been any changes in internal control over financial reporting. We intend to include an evaluation of our internal controls over financial reporting in our 2016 Annual Report on Form 10-K.

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, 2015 filed with the SEC on March 7, 2016, as supplemented by the supplemental risk factors related to the business of PEG Bandwidth, which we acquired on May 2, 2016, included in Part II, "Item 1A Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

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 CS&L employees to satisfy minimum statutory tax withholding obligations arising from the vesting of restricted stock granted under the Communications Sales & Leasing, 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.

Period	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2016 to July 31, 2016	—	—	—	—
August 1, 2016 to August 31, 2016	2,246	30.45	—	—
September 1, 2016 to September 30, 2016	—	—	—	—
Total	2,246	$ 30.45	—	—

(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

Item 6. Exhibits.

Exhibit Number	Description
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.

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.

		COMMUNICATIONS SALES & LEASING, INC.
Date:	November 14, 2016	/s/ Mark A. Wallace
		Mark A. Wallace **Executive Vice President – Chief Financial Officer and Treasurer** **(Principal Financial Officer)**
Date:	November 14, 2016	/s/ Blake Schuhmacher
		Blake Schuhmacher **Vice President – Chief Accounting Officer** **(Principal Accounting Officer)**

Exhibit Index

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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 Communications Sales & Leasing, 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 and Consumer CLEC business 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)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) 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

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

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 Communications Sales & Leasing, 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 and Consumer CLEC business 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)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) 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

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

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 Communications Sales & Leasing, Inc. (the "Company") for the period ending September 30, 2016 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: November 14, 2016

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 Communications Sales & Leasing, Inc. (the “Company”) for the period ending September 30, 2016 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: November 14, 2016

By: /s/ Mark A. Wallace

Mark A. Wallace
Executive Vice President – Chief Financial Officer
and Treasurer