

**BEFORE THE  
NEW YORK PUBLIC SERVICE COMMISSION**

Petition of

**Zayo Group, LLC**

for Approval to Expand its Financing  
Arrangements

Matter/Case No. \_\_\_\_\_

**PETITION**

Zayo Group, LLC (“Zayo” or “Petitioner”), by undersigned counsel and New York Public Service Law § 101 and the rules of the Commission, hereby requests that the Commission expand its existing authority for financing arrangements by \$150 Million to an aggregate amount of \$3.27 Billion.

In support of this Petition, Petitioner provides the following information:

**I. DESCRIPTION OF THE PETITIONER**

Zayo is a Delaware limited liability company with principal offices at 400 Centennial Parkway, Suite 200, Louisville, Colorado 80027. Zayo is a wholly-owned subsidiary of Zayo Group Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of Communications Infrastructure Investments, LLC (“CII”), a Delaware limited liability company. CII has no majority owner.

Zayo is a provider of bandwidth infrastructure and network neutral colocation and interconnection services over regional and metropolitan fiber networks. These services enable customers to manage, operate, and scale their telecommunications and data networks. Such customers consist primarily of wireless service providers, national and regional telecommunications carriers and other communications service providers, media and content companies, schools, hospitals, governments, banks and other bandwidth-intensive enterprises.

In New York, Zayo is authorized to provide facilities-based and resold telecommunications services, including local exchange services, pursuant to a Certificate of Public Convenience and Necessity (“CPCN”) granted in Case No. 03-C-0430 on March 27, 2003 as amended in Case No. 09-C-0827 on January 27, 2010.<sup>1</sup> Zayo is also authorized by the FCC to provide domestic and international telecommunications services. Additional information concerning Zayo’s legal, technical, managerial and financial qualifications has been submitted to the Commission with various prior filings with respect to Zayo’s certification and various transactions and is therefore already a matter of public record. Zayo requests that the Commission take official notice of these existing descriptions of Zayo’s qualifications and incorporate them by reference herein. In support of its financial qualifications, a copy of Zayo’s consolidated financial statements (excluding the notes) from its most recent SEC Form 10-K is attached hereto as Exhibit A.<sup>2</sup>

## **II. DESIGNATED CONTACTS**

Questions, correspondence or other communications concerning this Petition should be directed to Petitioner’s counsel of record:

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<sup>1</sup> Zayo acquired the CPCN as a result of the merger of Zayo Bandwidth, LLC (“ZB”) with and into Zayo, with Zayo surviving the merger. *See* Case No. 11-C-006/Matter No. 11-00328 (effective May 11, 2011). Previously, ZB acquired the CPCN as a result of the merger of Zayo Bandwidth Northeast, LLC (formerly known as PPL Telcom, LLC) with and into ZB, with ZB surviving. *See* Matter No. 09-02316 (effective Feb. 21, 2010).

<sup>2</sup> A complete copy of Zayo’s most recent SEC Form 10-K is available at [http://zayo.uldev.co/images/uploads/resources/Financial\\_Reports/FY4Q2013/Annual/FY\\_2013\\_Annual\\_Report\\_10-K\\_\(PDF\).pdf](http://zayo.uldev.co/images/uploads/resources/Financial_Reports/FY4Q2013/Annual/FY_2013_Annual_Report_10-K_(PDF).pdf).

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### **III. DESCRIPTION OF THE FINANCING ARRANGEMENTS**

By this Petition, Zayo seeks Commission approval to expand its existing authority for financing arrangements by an additional \$150 Million to an aggregate amount of \$3.27 Billion. The Commission has previously authorized Zayo to enter into financing arrangements in an aggregate amount of \$3.12 Billion. Specifically, on March 22, 2012, Zayo sought authorization to borrow and pledge its assets as security and for certain of its subsidiaries to provide a guaranty and related pledge of assets as security for up to \$3 Billion in financing arrangements (the “March 22 Petition”). The March 22 Petition described a range of the expected terms and conditions of the proposed financing arrangements and was approved by the Commission on May 6, 2012.<sup>3</sup> Zayo subsequently sought and, on September 10, 2012, was granted, approval by the Commission to increase the aggregate amount of the financing by \$120 Million to an aggregate amount of \$3.12 Billion.<sup>4</sup> By this Petition, Zayo now seeks to increase this existing authority by \$150 Million for an aggregate amount of \$3.27 Billion in financing arrangements.

In order to maintain adequate flexibility to respond to market conditions and requirements, Zayo seeks authorization for financing arrangements in the aggregate amount of \$3.27 Billion (including the \$3.12 Billion previously authorized by the Commission) as described generally below:

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<sup>3</sup> Matter No. 12-00653.

<sup>4</sup> Matter No. 12-01514.

**Debt Instruments:** Petitioner seeks authorization to incur indebtedness, in the aggregate amount of \$3.27 Billion, in the form of notes or debentures (including notes convertible into equity and private notes that may be exchanged for public notes); conventional credit facilities, such as revolving credit facilities and term loans; letters of credit; and bridge loans; or a combination thereof.

**Maturity:** Zayo expects that the financing arrangements will consist solely of long-term indebtedness with a maturity date between six (6) and eight (8) years after issuance, depending on the type of facility. But, to maintain flexibility, Zayo seeks authorization for indebtedness that matures up to eight (8) years after issuance.

**Interest:** Any interest rate will likely be the market rate for similar financings and will not be determined until the financing is finalized. Petitioner seeks authorization to incur indebtedness that, depending on the type of debt securities, facility(ies) or other arrangements, accrues interest at a rate(s) that may be fixed (typically set at signing or closing based on then current market conditions) or floating (consisting of a base rate, which will float with a rate index such as LIBOR or Federal Funds Rate, plus an applicable margin), or a combination of fixed rates and floating rates. Currently, the margins are expected to range from 3.5% to 6.75% depending on the type of facility and base rate used. To maintain flexibility, Zayo seeks authorization for financing arrangements at an interest rate(s) at the then current market conditions.

**Security:** Some or all of the financing arrangements will be secured facilities, which will include a grant of a security interest in the assets of Zayo and its current and future subsidiaries. A portion of the financing arrangements (currently \$500 Million) may be unsecured facilities. For the secured facilities, the stock of Zayo and its subsidiaries may also be pledged as additional security. Additionally, it is expected that Zayo's current and future subsidiaries will provide a guaranty as security for the full \$3.27 Billion in financing arrangements. Petitioner seeks authorization to secure the full \$3.27 Billion of the financing arrangements with security interests in the assets of Zayo and its current and future subsidiaries.

**Purpose:** The financing arrangements may be used for acquisitions, working capital requirements and general corporate purposes of the company.

Petitioner therefore requests Commission authorization, to the extent necessary, for Zayo to increase the aggregate amount of its financings by an additional \$150 Million and thereby to incur debt and pledge its assets as security for financing arrangements in an aggregate amount of \$3.27 Billion consistent with the parameters outlined above, which increased amount includes the \$3.12 Billion previously authorized by the Commission.

#### **IV. PUBLIC INTEREST CONSIDERATIONS**

Approval of the financing arrangements will serve the public interest in promoting competition among telecommunications carriers by providing Petitioner and its subsidiaries with access to greater financial resources that will allow Zayo to become a more effective competitor to larger incumbent telecommunications providers. Among other things, the increased financing arrangements may be used to fund future acquisitions, to support strategic growth initiatives, to provide for ongoing working capital, and for other corporate purposes. The financing arrangements are necessary and appropriate, are consistent with the performance by Petitioner of its services to the public, will not impair Zayo's ability to perform such services, and will promote the corporate purposes of Petitioner. The financings will be transparent to Zayo's customers and will not disrupt service or cause customer confusion or inconvenience.

V. **CONCLUSION**

For the foregoing reasons, Petitioner submits that the public interest, convenience, and necessity would be furthered by grant of this Petition, expanding Petitioner's authorization to enter into financing arrangements consistent with the parameters outlined herein by \$150 Million, to an aggregate amount of \$3.27 Billion.

Respectfully submitted,



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Counsel for Petitioner

Dated: December 5, 2013

**EXHIBIT A**

**Financial Statements**

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2013	June 30, 2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 88,148	\$ 150,693
Trade receivables, net of allowance of \$3,689 and \$911 as of June 30, 2013 and 2012, respectively	67,811	31,703
Due from related-parties	622	231
Prepaid expenses	19,188	7,099
Deferred income taxes, net	30,600	6,018
Restricted cash	—	22,417
Other assets	2,851	4,429
Total current assets	<b>209,220</b>	<b>222,590</b>
Property and equipment, net	2,411,220	754,738
Intangible assets, net	636,258	128,705
Goodwill	682,775	193,803
Debt issuance costs, net	99,098	19,706
Investment in USCarrier	—	12,827
Deferred income taxes, net	60,036	30,687
Other assets	29,284	9,048
Total assets	<b>\$ 4,127,891</b>	<b>\$ 1,372,104</b>
<b>Liabilities and member's equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 16,200	\$ 4,440
Accounts payable	33,477	16,180
Accrued liabilities	115,932	45,835
Accrued interest	55,048	10,863
Capital lease obligations, current	6,600	1,148
Deferred revenue, current	35,977	22,940
Total current liabilities	<b>263,234</b>	<b>101,406</b>
Long-term debt, non-current	2,814,505	685,281
Capital lease obligation, non-current	6,567	10,470
Deferred revenue, non-current	326,180	146,663
Stock-based compensation liability	158,520	54,367
Deferred income taxes, net	5,560	—
Other long-term liabilities	19,892	8,068
Total liabilities	<b>3,594,458</b>	<b>1,006,255</b>
Commitments and contingencies (Note 15)		
Member's equity		
Member's interest	703,963	388,867
Accumulated other comprehensive loss	(4,755)	—
Accumulated deficit	(165,775)	(23,018)
Total member's equity	<b>533,433</b>	<b>365,849</b>
Total liabilities and member's equity	<b>\$ 4,127,891</b>	<b>\$ 1,372,104</b>

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



**ZAYO GROUP, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands)**

	Year Ended June 30,		
	2013	2012	2011
Revenue	<b>\$ 988,085</b>	<b>\$ 382,043</b>	<b>\$ 287,235</b>
Operating costs and expenses			
Operating costs, excluding depreciation and amortization	136,595	82,581	71,528
Selling, general and administrative expenses, excluding stock-based compensation	312,982	111,695	89,846
Stock-based compensation	105,048	26,253	24,310
Selling, general and administrative expenses	418,030	137,948	114,156
Depreciation and amortization	322,680	84,961	60,463
Total operating costs and expenses	<b>877,305</b>	<b>305,490</b>	<b>246,147</b>
Operating income	<b>110,780</b>	<b>76,553</b>	<b>41,088</b>
Other expenses			
Interest expense	(202,464)	(50,720)	(33,414)
Loss on extinguishment of debt	(77,253)	—	—
Impairment on cost method investment	—	(2,248)	—
Other income/(expense), net	326	123	(126)
Total other expenses, net	<b>(279,391)</b>	<b>(52,845)</b>	<b>(33,540)</b>
(Loss)/earnings from continuing operations before provision for income taxes	<b>(168,611)</b>	<b>23,708</b>	<b>7,548</b>
(Benefit)/provision for income taxes	(24,046)	29,557	12,542
Loss from continuing operations	<b>(144,565)</b>	<b>(5,849)</b>	<b>(4,994)</b>
Earnings from discontinued operations, net of income taxes	1,808	—	899
Net loss	<b>\$ (142,757)</b>	<b>\$ (5,849)</b>	<b>\$ (4,095)</b>

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

**ZAYO GROUP, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**

	Year Ended June 30,		
	2013	2012	2011
Net loss	\$ (142,757)	\$ (5,849)	\$ (4,095)
Foreign currency translation adjustments	(4,755)	—	—
Comprehensive loss	<u>\$ (147,512)</u>	<u>\$ (5,849)</u>	<u>\$ (4,095)</u>

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

## ZAYO GROUP, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF MEMBER'S EQUITY

(in thousands)

	Member's Interest	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Member's Equity
<b>Balance at June 30, 2010</b>	<b>\$ 217,129</b>	<b>\$ —</b>	<b>\$ (13,074)</b>	<b>\$ 204,055</b>
Capital contributed (cash)	36,450	—	—	36,450
Non-cash distributions to Parent, net	(2,598)	—	—	(2,598)
Preferred stock-based compensation	820	—	—	820
Spin-off of Zayo Enterprise Networks, LLC	(6,368)	—	—	(6,368)
Net loss	—	—	(4,095)	(4,095)
<b>Balance at June 30, 2011</b>	<b>245,433</b>	<b>—</b>	<b>(17,169)</b>	<b>228,264</b>
Capital contributed (cash)	134,796	—	—	134,796
Non-cash contributions from Parent, net	21,219	—	—	21,219
Preferred stock-based compensation	871	—	—	871
Return of capital (cash)	(46)	—	—	(46)
Spin-off of VoIP 360 Inc.	(11,654)	—	—	(11,654)
Spin-off of Arialink non-core net assets	(1,752)	—	—	(1,752)
Net loss	—	—	(5,849)	(5,849)
<b>Balance at June 30, 2012</b>	<b>388,867</b>	<b>—</b>	<b>(23,018)</b>	<b>365,849</b>
Capital contributed (cash)	345,013	—	—	345,013
Non-cash distributions to Parent, net	(4,111)	—	—	(4,111)
Spin-off of Zayo Professional Services (Note 4)	(26,659)	—	—	(26,659)
Preferred stock-based compensation	853	—	—	853
Foreign currency translation adjustment	—	(4,755)	—	(4,755)
Net loss	—	—	(142,757)	(142,757)
<b>Balance at June 30, 2013</b>	<b>\$ 703,963</b>	<b>\$ (4,755)</b>	<b>\$ (165,775)</b>	<b>\$ 533,433</b>

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

**ZAYO GROUP, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended June 30,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net loss	\$ (142,757)	\$ (5,849)	\$ (4,095)
Earnings from discontinued operations	1,808	—	899
<b>Loss from continuing operations</b>	<b>(144,565)</b>	<b>(5,849)</b>	<b>(4,994)</b>
<i>Adjustments to reconcile net loss to net cash provided by operating activities of continuing operations</i>			
Depreciation and amortization	322,680	84,961	60,463
Loss on extinguishment of debt	77,253	—	—
Loss on disposal of property and equipment	—	32	84
Provision for bad debts	2,121	729	794
Non-cash interest expense	12,313	4,773	2,413
Lease termination charge	10,197	—	—
Impairment of cost method investment	—	2,248	—
Stock-based compensation	105,048	26,253	24,310
Additions to deferred revenue	61,544	55,041	4,629
Amortization of deferred revenue	(42,331)	(13,785)	(8,976)
Deferred income taxes	(25,707)	31,127	11,093
<b>Changes in operating assets and liabilities</b>			
Trade receivables	(11,801)	(9,294)	2,449
Interest rate swap	—	—	(566)
Prepaid expenses	1,953	1,058	(638)
Other assets, current and non-current	(10,914)	(3,121)	2,440
Accounts payable and accrued liabilities	17,590	(1,504)	1,409
Payables to related parties, net	10,575	(992)	4,944
Other liabilities	7,365	(4,047)	(2,800)
<b>Net cash provided by operating activities of continuing operations</b>	<b>393,321</b>	<b>167,630</b>	<b>97,054</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(332,520)	(146,963)	(116,068)
Broadband stimulus grants received	9,319	22,826	3,544
Proceeds from sale of property and equipment	—	—	28
Acquisition of Abovenet, Inc., net of cash acquired	(2,212,492)	—	—
Acquisition of FiberGate, net of cash acquired	(118,335)	—	—
Acquisition of USCarrier Telecom, LLC	(16,092)	—	—
Acquisition of First Telecom Services, LLC	(109,700)	—	—
Acquisition of Litecast/Balticore, LLC	(22,160)	—	—
Acquisition of Core NAP, LP, net of cash acquired	(7,030)	—	—
Acquisition of 360networks Holdings (USA), net of cash acquired	—	(317,891)	—
Acquisition of MarquisNet, net of cash acquired	—	(15,456)	—
Acquisition of Arialink, net of cash acquired	—	(17,926)	—
Acquisition of American Fiber Systems Holdings Corporation, net of cash acquired	—	—	(110,000)
Acquisition of AGL Networks, LLC, net of cash acquired	—	—	(73,666)

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## ZAYO GROUP, LLC AND SUBSIDIARIES

Arialink and MarquisNet purchase consideration returned	2,672	—	—
Proceeds from principal payments received on related party loans	10,396	—	—
<b>Net cash used in investing activities of continuing operations</b>	<b>(2,795,942)</b>	<b>(475,410)</b>	<b>(296,162)</b>
<b>Cash flows from financing activities</b>			
Equity contributions	345,013	134,796	36,450
Proceeds from long-term debt	3,189,339	335,550	103,000
Principal repayments on long-term debt	(1,058,577)	(1,575)	—
Change in restricted cash, net	22,666	(22,820)	578
Principal repayments on capital lease obligations	(1,931)	(1,171)	(1,732)
Payment of deferred debt issuance costs	(83,134)	(11,701)	(4,106)
Payment of early redemption fees on debt extinguished	(72,117)	—	—
Cash contributed to ZPS (Note 4)	(7,218)	—	—
<b>Net cash provided by financing activities of continuing operations</b>	<b>2,334,041</b>	<b>433,079</b>	<b>134,190</b>
<b>Cash flows from continuing operations</b>	<b>(68,580)</b>	<b>125,299</b>	<b>(64,918)</b>
<b>Cash flows from discontinued operations</b>			
Operating activities	3,914	—	2,830
Investing activities	2,424	—	(382)
<b>Net cash provided by discontinued operations</b>	<b>\$ 6,338</b>	<b>\$ —</b>	<b>\$ 2,448</b>
Effect of changes in foreign exchange rates on cash	(303)	—	—
Net (decrease)/increase in cash and cash equivalents	(62,545)	125,299	(62,470)
Cash and cash equivalents, beginning of period	150,693	25,394	87,864
<b>Cash and cash equivalents, end of period</b>	<b>88,148</b>	<b>150,693</b>	<b>25,394</b>
<b>Supplemental disclosure of non-cash, investing and financing activities:</b>			
Cash paid for interest, net of capitalized interest	143,518	43,964	28,247
Cash paid for income taxes, net of refunds	2,811	1,739	2,974
Non-cash additions to property and equipment from capital leases	11,404	367	200
Increase in accounts payable and accrued expenses for purchases of property and equipment, net	15,021	4,010	5,911
Interest payment made on behalf of the Company by CII	—	10,951	4,590
Non-liquidating distribution to common unit holders made by CII on behalf of the Company	—	9,080	—
Promissory Note issued as consideration for American Fiber Systems Holding Corporation merger	—	—	4,500

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

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

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

## **Verification**

STATE OF COLORADO  
COUNTY OF BOULDER

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**VERIFICATION**

I, Scott E. Beer, am Vice President, General Counsel and Secretary of Zayo Group, LLC and its subsidiaries (collectively, the “Company”); that I am authorized to make this Verification on behalf of the Company; that the foregoing filing was prepared under my direction and supervision; and that the contents are true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Scott E. Beer  
Vice President, General Counsel and Secretary  
Zayo Group, LLC

Sworn and subscribed before me this 4<sup>th</sup> day of December, 2013.

  
\_\_\_\_\_  
Notary Public

My commission expires 8/4/15

