UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2015

OR

o **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

CS&L
The Communications REIT

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 o

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 o

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 small reporting company)	Small reporting company	☐

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

As of November 10, 2015, the registrant had 150,549,266 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 Services, LLC ("Windstream Services"), 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 Services (i) approximately 149.8 million shares of its common stock, par value $0.0001 per share, (ii) $400.0 million aggregate principal amount of 6.00% Senior Secured Notes due April 15, 2023 (the "Secured Notes"), (iii) $1.11 billion aggregate principal amount of 8.25% Senior Notes due October 15, 2023 (the "Senior Notes" and together with the Secured Notes, the "Notes"), (iv) $990 million of term loans under CS&L's senior credit facilities and (v) approximately $1.04 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; 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 attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

- our ability to achieve some or all the benefits that we expect to achieve from the Spin-Off;
- the ability and willingness of Windstream and future customers to meet and/or perform their obligations under any contractual arrangements entered into with us, including master lease arrangements, and any of their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;
- the ability of Windstream 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 our future customers to renew their leases with us upon their expiration, and the ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we replace an existing tenant;
- the availability of and our ability to identify suitable acquisition opportunities and our ability to acquire and lease the respective properties on favorable terms;
- our ability to generate sufficient cash flows to service our outstanding indebtedness;
- our ability to access debt and equity capital markets;
- credit rating downgrades;
- 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 state, federal or local laws, whether or not specific to REITs;
- covenants in our debt agreements that may limit our operational flexibility;
- 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 and in Part II, Item 1A "Risk Factors" of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, as well as those described from time to time in our future reports filed with 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.
Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(Thousands, except par value)		September 30, 2015
Assets:		
Real estate investments	$	6,026,679
Accumulated depreciation - real estate investments		(3,637,594)
Net real estate investments		2,389,085
Cash and cash equivalents		209,998
Accounts receivable, net		1,651
Customer list intangible assets, net		11,494
Straight-line rent receivable		7,497
Other assets		3,054
Total Assets	$	2,622,779
Liabilities and Shareholders' Deficit:		
Accounts payable, accrued expenses and other liabilities	$	97,411
Derivative liability		13,993
Dividends payable		90,404
Deferred income taxes		6,252
Notes and other debt		3,506,905
Total liabilities		3,714,965
Commitments and contingencies (Note 12)		
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, 149,836 shares issued and outstanding		15
Additional paid-in capital		601
Accumulated other comprehensive income (loss)		(13,993)
Distributions in excess of accumulated earnings		(1,078,809)
Total shareholders' deficit		(1,092,186)
Total Liabilities and Shareholders' Deficit	$	2,622,779

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, 2015	Period from April 24 - September 30, 2015
Revenues:		
Rental revenues	$ 166,959	$ 291,131
Consumer CLEC	6,675	11,251
Total revenues	173,634	302,382
Costs and Expenses:		
Interest expense	66,511	115,307
Depreciation and amortization	87,271	151,715
General and administrative expense	4,229	7,390
CLEC operating expense	5,148	8,889
Acquisition and transaction related costs	804	877
Total costs and expenses	163,963	284,178
Income before income taxes	9,671	18,204
Income tax expense	268	500
Net income	9,403	17,704
Participating securities' share in earnings	(430)	(755)
Net income applicable to common shareholders	$ 8,973	$ 16,949
Earnings per common share:		
Basic	$ 0.06	$ 0.11
Diluted	$ 0.06	$ 0.11
Weighted-average number of common shares outstanding		
Basic	149,834	149,831
Diluted	149,834	149,831
Dividends declared per common share	$ 0.60	$ 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, 2015	Period from April 24 - September 30, 2015
Net income	$ 9,403	$ 17,704
Other comprehensive income:		
Unrealized loss on derivative contracts	(42,544)	(13,993)
Comprehensive (loss) income	$ (33,141)	$ 3,711

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

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

(Thousands, except share data)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Accumulated Earnings	Total Shareholders' Deficit
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)

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

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

(Thousands)		Period from April 24 - September 30, 2015
Cash flow from operating activities		
Net income	$	17,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		151,715
Amortization of deferred financing costs		3,039
Amortization of debt discount		3,253
Deferred income taxes		(672)
Straight-line rental revenues		(7,497)
Stock-based compensation		1,117
Changes in:		
Accounts receivable		217
Other assets		(1,664)
Accounts payable, accrued expenses and other liabilities		54,047
Net cash provided by operating activities		221,259
Cash flow from investing activities		
Consideration paid to Windstream Services, LLC		(1,035,029)
Capital expenditures		(712)
Net cash used in investing activities		(1,035,741)
Cash flow from financing activities		
Proceeds from issuance of Term Loans		1,127,000
Deferred financing costs		(30,018)
Principal payment on debt		(5,350)
Common stock issuance costs		(629)
Dividends paid		(66,522)
Cash in-lieu of fractional shares		(19)
Net cash provided by financing activities		1,024,462
Net increase in cash and cash equivalents		209,980
Cash and cash equivalents at beginning of period		18
Cash and cash equivalents at end of period	$	209,998
Supplemental cash flow information:		
Cash paid for interest	$	58,600
Non-cash investing and financing activities:		
Issuance of notes and other debt to Windstream Services, LLC, net of deferred financing costs ($34,681)	$	2,412,829
Tenant capital improvements	$	41,289
Accrual of dividends declared	$	90,404

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

.

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

Note 1. Organization and Description of Business and Basis of Presentation

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 as a subsidiary of Windstream Holdings, Inc. ("Windstream Holdings" and, together with its consolidated subsidiaries "Windstream"). On April 24, 2015, in connection with the separation and spin-off of CS&L from Windstream (the "Spin-Off"), Windstream contributed certain telecommunications network assets, including fiber and copper networks and other real estate (the "Distribution Systems") and a small consumer competitive local exchange carrier ("CLEC") business (the "Consumer CLEC Business") to CS&L in exchange for certain consideration paid 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 triple-net-lease real estate investment trust engaged in the acquisition and construction of mission critical infrastructure in the communications industry. We generate revenues primarily by leasing communications distribution systems to telecommunications operators in triple-net lease arrangements, under which the tenant is primarily responsible for costs relating to the distribution systems (including property taxes, insurance, and maintenance and repair costs). We intend to elect on our U.S. federal income tax return for the taxable year ending December 31, 2015 to be treated as a real estate investment trust ("REIT").

The Consumer CLEC Business, which historically has 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. We have elected to treat the Consumer CLEC Business as a "taxable REIT subsidiary" effective on the first day of the first taxable year that CS&L qualifies as a REIT.

Note 2. Basis of Presentation

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 Consolidated Financial Statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our information statement on Form 10 filed as Exhibit 99.1 to our Current Report on Form 8-K filed with the SEC on March 26, 2015. All material intercompany balances and transactions have been eliminated.

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 statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements, and such differences could be material.

Real Estate Investments—Real estate investments are stated at original cost, less accumulated depreciation and consists of land and central office buildings, copper and fiber optic cable lines, telephone poles, underground conduits, concrete pads, pedestals, guy wires, anchors, and attachment hardware. Costs of maintenance and repairs to real estate investments are the responsibility of our tenant under triple-net leasing arrangements.

Certain real estate investments 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, 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.

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

Tenant Capital Improvements – Our lease with Windstream provides that tenant funded capital improvements ("TCIs"), defined as maintenance, repair, overbuild, upgrade or replacements to the leased network, 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 the TCIs as they automatically become our property, and we recognize the cost basis of TCIs that are capital in nature as real estate investments and deferred revenue. Deferred revenue is recorded within accounts payable, accrued expenses and other liabilities. 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. At September 30, 2015, the net book value of TCIs recorded as a component of real estate investments on our Condensed Consolidated Balance Sheet was $41.1 million.

Impairment of Long-Lived Assets—We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable from future undiscounted net cash flows we expect the asset group to generate. If the asset group is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset group and its estimated fair value based on discounted net future cash flows.

Cash and Cash Equivalents—Cash and cash equivalents include all non-restricted cash held at financial institutions and other non-restricted highly liquid short-term investments with original maturities of three months or less.

Derivative Instruments and Hedging Activities—We account for our derivatives in accordance with FASB ASC 815, *Derivatives and Hedging*, in which we reflect all derivative instruments at fair value as either assets or liabilities on our Condensed Consolidated Balance Sheet. For derivative instruments that are designated and qualify as hedging instruments, we record the effective portion of the gain or loss on the hedge instruments as a component of accumulated other comprehensive income. Any ineffective portion of a derivative's change in fair value is immediately recognized within net income. For derivatives that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized within net income. See Note 5.

Customer List Intangible Assets—Customer list intangible assets are presented in the financial statements at cost less accumulated amortization and are amortized using the sum-of-the-digits method over their estimated useful lives.

Revenue Recognition—We recognize leasing revenues on a straight-line basis over the applicable lease term when collectability is reasonably assured. Recognizing leasing income on a straight-line basis generally results in recognized revenues during the first half of the lease term in excess of cash amounts contractually due from our tenants, creating a straight-line rent receivable.

We evaluate the collectability of straight-line rent receivables and record a provision for doubtful accounts if management believes the receivables to be uncollectible. At September 30, 2015 no allowance was recorded related to our straight-line rent receivable.

Consumer CLEC Business revenues are primarily derived from providing access to or usage of leased networks and facilities, and 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.

Stock-Based Compensation—We account for stock-based compensation using the fair value method of accounting. We have determined that our stock-based payment awards granted in exchange for employee services qualify as equity classified awards, which are measured based on the fair value of the award on the date of the grant. The fair value of restricted stock-based payments is based on the market value of our common stock on the date of grant. The fair value of performance-based awards, which have performance conditions, is based on a Monte Carlo simulation. The fair value of all stock-based compensation is recognized over the period during which an employee is required to provide services in exchange for the award.

Income Taxes—We intend to elect on our U.S. federal income tax return for the taxable year ending December 31, 2015 to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, we must distribute at least 90% of our annual REIT taxable income to shareholders, and meet certain organizational and operational requirements, including asset holding requirements. As a REIT, we will generally not be subject to U.S. federal income tax on income that we distribute as dividends to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate income tax rates, and we could not deduct dividends paid to our shareholders in computing taxable income. Any resulting corporate liability could be substantial and could materially and adversely affect our net income and net cash available for distribution to shareholders. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

To maintain REIT status, we must distribute a minimum of 90% of our taxable income. We intend to make regular quarterly dividend payments of all or substantially all of our income to holders of our common stock, and therefore no provision is required in the accompanying Condensed Consolidated Financial Statements for federal income taxes related to the activities of the REIT and its pass-through subsidiaries. We are subject to the statutory requirements of the locations in which we conduct business, and state and local income taxes are accrued as deemed required in the best judgment of management based on analysis and interpretation of respective tax laws.

We have elected to treat certain subsidiaries as taxable REIT subsidiaries ("TRS"). Certain activities that we undertake must be conducted by a TRS, such as our Consumer CLEC Business, that we could otherwise not perform as a REIT, such as holding certain assets directly. A TRS is subject to both corporate level federal and state income taxes.

Deferred income taxes are recognized in certain taxable entities. Deferred tax assets and liabilities are recognized under the asset and liability method for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax balances are adjusted to reflect tax rates based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period of the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

We currently have no liabilities for uncertain income tax positions. We have not yet filed our initial corporate tax return and therefore are not yet subject to examination.

The Company will be subject to a federal corporate level tax rate (currently 35%) on any gain recognized from the sale of assets occurring within a specified period (generally 10 years) after the Spin-Off up to the amount of the built in gain that existed on April 24, 2015, which is based on the fair market value of the assets in excess of the Company's tax basis as of such date.

Earnings per Share—Basic earnings per share includes only the weighted average number of common shares outstanding during the period. Dilutive earnings per share includes the weighted average number of common shares and the dilutive effect of restricted stock and performance-based awards outstanding during the period, when such awards are dilutive.

Outstanding restricted stock awards that contain rights to non-forfeitable dividends are deemed to be participating securities, requiring the application of the two-class method of computing basic and dilutive earnings per share.

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, derivative assets, our outstanding notes and other debt, accounts payable and interest payable.

The following table summarizes the valuation of our financial instruments at September 30, 2015:

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

(Thousands)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 209,998	$ 209,998	$ -	$ -
Accounts and other receivables	1,651	1,651	-	-
Total	$ 211,649	$ 211,649	$ -	$ -
Liabilities				
Senior secured notes - 6.00% , due April 15, 2023	$ 355,000	$ -	$ 355,000	$ -
Senior unsecured notes - 8.25%, due October 15, 2023	946,275	-	946,275	-
Senior secured term loan B - variable rate, due October 24, 2022	2,016,950	-	2,016,950	-
Derivative liability	13,993		13,993	
Accounts and interest payable	97,411	97,411	-	-
Total	$ 3,429,629	$ 97,411	$ 3,332,218	$ -

The carrying value of cash and cash equivalents, accounts and other receivables, accounts payable and interest 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 $3.64 billion at September 30, 2015, with a fair value of $3.32 billion. The estimated fair value of 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. 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, 2015, 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.

Concentration of Credit Risks—In connection with the Spin-Off, we entered into a long-term exclusive triple-net lease agreement with Windstream (the "Master Lease"), pursuant to which all real property currently owned by CS&L is leased to Windstream and from which all of CS&L's rental revenues are currently derived. Windstream is a publicly traded company and is subject to the periodic filing requirements of the Securities Exchange Act of 1934, as amended. Windstream filings can be found at www.sec.gov. Windstream filings are not incorporated by reference in this Quarterly Report on Form 10-Q.

Because substantially all 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.

Recently Issued Accounting Standards—In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15 "Interest - Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). This amendment provides additional guidance within ASU 2015-03 for debt issuance costs related to line of credit arrangements. The recognition and measurement guidance for debt issuance costs are not affected. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015; however, early adoption is permitted. We have adopted ASU 2015-03 effective April 24, 2015, and therefore have presented debt issuance costs as a direct deduction from the carrying amount of our debt on our Condensed Consolidated Balance Sheet. See Note 7.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This update outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. ASU 2014-09 is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted for public companies for annual periods beginning after December 15, 2016. Management is in the process of determining the method of adoption and assessing the impact of ASU 2014-09 on our financial statements.

Note 4. Real Estate Investments

The carrying value of real estate investments is as follows:

(Thousands)	Depreciable Lives	September 30, 2015
Land		$ 33,065
Building and improvements	3 - 40 years	310,591
Poles	13 - 40 years	226,899
Fiber	7 - 40 years	1,890,317
Copper	7 - 40 years	3,469,232
Conduit	13 - 47 years	89,460
Construction in progress		7,115
		6,026,679
Less accumulated depreciation		(3,637,594)
Net real estate investments		$ 2,389,085

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.

Construction in progress represents 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. We currently do not engage in any construction or development activities.

Note 5. 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 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 $2.13 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, 2015
Interest rate swaps	Derivative liability	$ 13,993

As of September 30, 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 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 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 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, 2015, we estimate that $24.1 million will be reclassified as an increase to interest expense.

Note 6. Customer List Intangible Assets

The carrying value of the customer list intangible assets is as follows:

	September 30, 2015		
(Thousands)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 34,501	$ (23,007)	$ 11,494

Amortization expense for the customer list intangible assets was $1.6 million for the period from April 24, 2015 to September 30, 2015. Amortization expense is estimated to be $2.6 million for the full year of 2015, $3.3 million in 2016, $2.6 million in 2017, $2.0 million in 2018 and $1.4 million in 2019.

Note 7. Notes and Other Debt

Notes and other debt is as follows:

(Thousands)	September 30, 2015
Principal amount	$ 3,644,650
Less unamortized discount and debt issuance costs	(137,745)
Notes and other debt less unamortized discount and debt issuance costs	$ 3,506,905

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

(Thousands)	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%)	$ 400,000	$ (6,948)
Senior unsecured notes - 8.25%, due October 15, 2023 (discount is based on imputed interest rate of 9.06%)	1,110,000	(51,262)
Senior secured term loan B - variable rate, due October 24, 2022 (discount is based on imputed interest rate of 5.66%)	2,134,650	(79,535)
Senior secured revolving credit facility, variable rate, due April 24, 2020	-	-
Total	$ 3,644,650	$ (137,745)

On April 24, 2015 we, along with our wholly owned subsidiary CSL Capital, LLC (“CSL Capital”), co-issued $400 million aggregate principal amount of 6.00% Senior Secured Notes due April 15, 2023 (the “Secured Notes”) and $1.11 billion aggregate principal amount of 8.25% Senior Unsecured Notes due October 15, 2023 (the “Senior Notes” and together with the Secured Notes, the “Notes”). The Secured Notes were issued at an issue price of 100% of par value, while the Senior 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 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 of 1933, as amended (the “Securities Act”), but were exempt from registration under Rule 144A, Regulation S and other applicable exemptions of the Securities Act. Pursuant to a registration rights agreement entered into by the Company in connection with the sale of the Senior 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 Notes tendered by the holders of those notes. The terms of the Exchange Notes are substantially identical to the terms of the Senior Notes in all material respects, except that the Exchange Notes are registered under the Securities Act of 1933, as amended, and the transfer restrictions, registration rights and additional interest provision applicable to the Senior 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 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, 2015, 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 a $500 million senior secured revolving credit facility maturing April 24, 2020 (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Facilities"). 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 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, 2015, 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. After giving effect to the borrowings under the Facilities, the issuance of the Notes and the transfer of cash to Windstream Services, the Company retained net borrowing proceeds of $62.2 million, which are available to us for general corporate purposes.

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 ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, we recognized $1.8 million and $3.0 million, respectively, of non-cash interest expense related to the amortization of deferred financing costs.

Note 8. Stock-Based Compensation

The Company's Board of Directors has adopted the 2015 Equity Incentive Plan (the "Equity Plan"), which is administered by the Compensation Committee of the Board of Directors. Awards issuable under the Equity Plan include incentive stock options, "non-qualified" stock options, stock appreciation rights, performance units and performance shares, restricted shares, and restricted stock units.

Table of Contents

In connection with the Spin-Off, the Company issued 538,819 restricted shares and 70,889 performance-based restricted stock units to employees of Windstream in accordance with the terms of the Employee Matters Agreement between the Company and Windstream. Under the Employee Matters Agreement, which governs the compensation and employee benefit obligations of CS&L and Windstream with respect to the current and former employees of each company, employees of Windstream who held equity awards as of the date of the Spin-Off were entitled to receive equity awards of CS&L in the same proportion as if the equity awards had been common shares on the date of the Spin-Off. The CS&L awards issued have the same form and vesting requirements as the underlying Windstream awards. For the purposes of vesting in the CS&L awards, continued service with Windstream is deemed to be continued service with CS&L. We do not recognize any compensation expense in our Condensed Consolidated Statement of Income related to these awards, as none of the employees granted awards provide service to CS&L. At September 30, 2015, 487,111 restricted shares and 58,395 performance-based restricted stock units issued to Windstream employees remained outstanding.

Certain employees of CS&L have retained their unvested Windstream awards that were held prior to the Spin-Off. Unrecognized compensation expense related to these awards was $0.2 million at September 30, 2015, and will be amortized to compensation expense in our Condensed Consolidated Statement of Income on a straight-line basis over the vesting period. For the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, we recognized $72,000 and $125,000 of compensation expense, respectively, related to these awards, which is recorded in general and administrative expense on our Condensed Consolidated Statement of Income.

Restricted Awards

During the period from April 24, 2015 to September 30, 2015, the Company granted 229,080 shares of restricted stock to employees, which had a fair value of $5.9 million as of the date of grant. The restricted stock awards are amortized on a straight-line basis to expense over the vesting period. The following table sets forth the number of unvested restricted stock awards and the weighted-average fair value of these awards at the date of grant:

	Restricted Awards	Weighted Average Fair Value at Grant Date
Unvested balance April 24, 2015	-	$ -
Granted	229,080	$ 26.13
Forfeited	-	$ -
Vested	-	$ -
Unvested balance, September 30, 2015	229,080	$ 26.13

As of September 30, 2015, total unrecognized compensation expense on restricted awards was approximately $5.1 million, and the weighted average vesting period was 2.1 years.

Performance Awards

The Company grants long-term incentives to members of management in the form of performance-based restricted stock units ("PSUs") under the Equity Plan. The number of PSUs earned is based on the Company's achievement of specified performance goals, over a specified performance period, and may range from 0% to 150% of the target shares. The PSUs have a service condition that will expire at the end of the three-year performance period provided that the holder continues to be employed by the Company at the end of the performance period. Holders of PSUs are entitled to dividend equivalents, which will be accrued quarterly and paid in cash upon the vesting of a PSU. Dividend equivalents are forfeited to the extent that the underlying PSU is forfeited.

On May 29, 2015, we issued 60,970 PSUs equal to 100% of the target amount, with an aggregate value of $1.3 million on the grant date. The PSUs, in addition to a service condition, are subject to the Company's performance versus the total return version of the MSCI US REIT Index and a triple-net lease peer group, as defined by the Compensation Committee. Upon evaluating the results of the market conditions, the final number of shares is determined and such shares vest based on satisfaction of the service condition. The PSUs are amortized on a straight-line basis over the vesting period. During the period from April 24, 2015 to September 30, 2015, no PSUs were forfeited due to termination of service.

As of September 30, 2015, total unrecognized compensation expense related to PSUs was approximately $1.2 million, and the weighted-average vesting period was 2.6 years. The fair value of each PSU award is estimated at the date of grant using a Monte Carlo simulation. The simulation requires assumptions for expected volatility, risk-free return, and dividend yield. Our assumptions include a 0% dividend yield, which is the mathematical equivalent to reinvesting the dividends over the three-year performance period as is consistent with the terms of the PSUs. The following table summarizes the assumptions used to value the PSUs granted during the period from April 24, 2015 to September 30, 2015:

	April 24 - September 30, 2015
Expected term (years)	2.9
Expected volatility	26.6%
Expected annual dividend	0.0%
Risk free rate	0.9%

For the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, we recognized $0.8 million and $1.1 million of compensation expense, respectively, related to restricted stock awards and performance-based awards, which is recorded in general and administrative expense on our condensed consolidated statement of income.

Note 9. Related Party Transactions

In connection with the Spin-Off, we issued approximately 149.8 million shares of our common stock, par value $0.0001 per share, to Windstream 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 is deemed to be a related party. Our Condensed Consolidated Financial Statements reflect the following transactions with Windstream.

Revenues – The Company records leasing revenue pursuant to the Master Lease. For the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, we recognized leasing revenues of $167.0 million and $291.1 million, respectively, related to the Master Lease.

General and Administrative Expenses –We are party to a Transition Services Agreement (“TSA”) pursuant to which Windstream and its affiliates provide, 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. For the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, we incurred $55,000 and $88,000 of expense under the TSA, respectively.

CLEC 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 three months ended September 30, 2015, we incurred expenses of $3.8 million and $0.4 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.

At September 30, 2015 there was a $17.6 million dividend payable to Windstream related to the dividend declared on August 11, 2015, based on Windstream ownership of CS&L shares as of the September 30, 2015 record date. In addition, there was $1.6 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.

Note 10. Earnings Per Share

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

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

We also issue PSUs; however these units contain forfeitable rights to receive dividends and are therefore considered non-participating restrictive shares and are not dilutive under the two-class method until performance conditions are met.

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

(Thousands, except per share data)	Three Months Ended September 30, 2015	Period from April 24 - September 30, 2015
Basic earnings per share:		
Numerator:		
Net income	$ 9,403	$ 17,704
Less: Income allocated to participating securities	(430)	(755)
Net income applicable to common shares	$ 8,973	$ 16,949
Denominator:		
Basic weighted-average common shares outstanding	149,834	149,831
Basic earnings per common share	$ 0.06	$ 0.11

(Thousands, except per share data)	Three Months Ended September 30, 2015	Period from April 24 - September 30, 2015
Diluted earnings per share:		
Numerator:		
Net income	$ 9,403	$ 17,704
Less: Income allocated to participating securities	(430)	(755)
Net income applicable to common shares	$ 8,973	$ 16,949
Denominator:		
Basic weighted-average common shares outstanding	149,834	149,831
Effect of dilutive non-participating securities	-	-
Weighted-average shares for dilutive earnings per common share	149,834	149,831
Dilutive earnings per common share	$ 0.06	$ 0.11

Note 11. Segment Information

Our management, including our chief executive officer, who is our chief operating decision maker, manages our operations as two reportable business segments: Leasing and Consumer CLEC. Our Leasing segment represents our REIT operations and corporate expenses not directly attributable to the Consumer CLEC segment. 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, which is an operating 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 and the impact, which may be recurring in nature, of acquisition and transaction related expenses, the write off of unamortized deferred financing costs, costs incurred as a result of the early repayment of debt, changes in the fair value of contingent consideration and financial instruments, and other similar items. The Company believes that net income, as defined by GAAP, is the most appropriate earnings metric; however we believe that Adjusted EBITDA serves as a useful supplement to net income because it allows investors, analysts and management to evaluate the performance of our segments in a manner that is comparable period over period. Adjusted EBITDA should not be considered as an alternative to net income as determined in accordance with GAAP.

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

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

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

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

Total assets by business segment as of September 30, 2015 are as follows:

(Thousands)	Leasing Operations	Consumer CLEC	Subtotal of Reportable Segments
Total assets	2,607,946	14,833	2,622,779

Note 12. Commitments and Contingencies

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

Windstream has requested, and we have agreed, to fund up to $50 million of capital expenditures during the remainder of 2015. Monthly rent paid by Windstream will increase in accordance with the Master Lease effective as of the date of the funding. As of September 30, 2015, we have not funded any amounts under this commitment.

Note 13. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by component is as follows for the three months ended September 30, 2015:

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

(Thousands)	Changes in Fair Value of Effective Cash Flow Hedge	Total
Beginning balance at July 1, 2015	$ 28,551	$ 28,551
Other comprehensive loss before reclassifications	(36,511)	(36,511)
Amounts reclassified from accumulated other comprehensive income	(6,033)	(6,033)
Ending balance at September 30, 2015	$ (13,993)	$ (13,993)

Changes in accumulated other comprehensive income by component is as follows for the period from April 24, 2015 to September 30, 2015:

(Thousands)	Changes in Fair Value of Effective Cash Flow Hedge	Total
Beginning balance at April 24, 2015	$ -	$ -
Other comprehensive loss before reclassifications	(3,690)	(3,690)
Amounts reclassified from accumulated other comprehensive income	(10,303)	(10,303)
Ending balance at September 30, 2015	$ (13,993)	$ (13,993)

Note 14. Supplemental Guarantor Information

In connection with the issuance of our 6.00% Senior Secured Notes due 2023, 8.25% Senior Unsecured Notes due 2023 and Term Loan B 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 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.

The following information summarizes our Condensed Consolidating Balance Sheet as of September 30, 2015, Condensed Consolidating Statements of Comprehensive Income for the three months ended September 30, 2015 and for the period from April 24, 2015 to September 30, 2015, and the Condensed Consolidating Statement of Cash Flows for the period April 24, 2015 to September 30, 2015:

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

(Thousands)	Condensed Consolidating Balance Sheet As of September 30, 2015 CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets:						
Real estate investments, net of accumulated depreciation	$ -	$ -	$ 1,854,241	$ 534,844	$ -	$ 2,389,085
Cash and cash equivalents	17	-	208,776	1,205	-	209,998
Accounts receivable, net	-	-	-	1,651	-	1,651
Affiliate receivable	-	-	68,732	77	(68,809)	-
Customer list intangible assets, net	-	-	-	11,494	-	11,494
Straight-line rent receivable	-	-	7,497	-	-	7,497
Investment in consolidated subsidiaries	2,638,353	2,638,353	-	-	(5,276,706)	-
Other assets	-	-	2,570	484	-	3,054
Total Assets	$ 2,638,370	$ 2,638,353	$ 2,141,816	$ 549,755	$ (5,345,515)	$ 2,622,779
Liabilities and Shareholders' Deficit:						
Accounts payable, accrued expenses and other liabilities	$ 50,445	$ 50,445	$ 29,479	$ 17,487	$ (50,445)	$ 97,411
Derivative liability	$ 13,993	$ 13,993			$ (13,993)	$ 13,993
Affiliate payable	68,809	-	-	-	(68,809)	-
Dividends payable	90,404	-	-	-	-	90,404
Deferred income taxes	-	-	1,825	4,427	-	6,252
Notes and other debt	3,506,905	3,506,905	-	-	(3,506,905)	3,506,905
Total liabilities	3,730,556	3,571,343	31,304	21,914	(3,640,152)	3,714,965
Common Stock	15	-	-	-	-	15
Additional paid-in capital	601	-	-	-	-	601
Accumulated other comprehensive income	(13,993)	(13,993)	-	-	13,993	(13,993)
Distributions in excess of earnings	(1,078,809)	(918,997)	2,110,512	527,841	(1,719,356)	(1,078,809)
Total shareholders' deficit	(1,092,186)	(932,990)	2,110,512	527,841	(1,705,363)	(1,092,186)
Total Liabilities and Shareholders' Deficit	$ 2,638,370	$ 2,638,353	$ 2,141,816	$ 549,755	$ (5,345,515)	$ 2,622,779

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

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

(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Rental revenues	$ -	$ -	$ 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
CLEC operating expense	-	-	-	5,148	-	5,148
Acquisition and transaction related costs	-	-	804	-	-	804
Total costs and expenses	67,290	66,511	67,511	29,162	(66,511)	163,963
Earnings (losses) from consolidated subsidiaries	10,182	76,693	-	-	(86,875)	-
(Loss) Income before income taxes	(57,108)	10,182	99,403	(22,442)	(20,364)	9,671
Income tax expense	-	-	101	167	-	268
Net (loss) income	$ (57,108)	$ 10,182	$ 99,302	$ (22,609)	$ (20,364)	$ 9,403
Comprehensive (loss) income	$ (99,652)	$ (32,362)	$ 99,302	$ (22,609)	$ 22,180	$ (33,141)

Condensed Consolidating Statement of Comprehensive Income
For the Period from April 24 - September 30, 2015

(Thousands)	CS&L	CSL Capital	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:						
Rental revenues	$ -	$ -	$ 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
CLEC operating expense	-	-	-	8,889	-	8,889
Acquisition and transaction related costs			877			877
Total costs and expenses	116,424	115,307	117,151	50,603	(115,307)	284,178
Earnings (losses) from consolidated subsidiaries	18,821	134,128	-	-	(152,949)	-
(Loss) Income before income taxes	(97,603)	18,821	173,935	(39,307)	(37,642)	18,204
Income tax expense	-	-	195	305	-	500
Net (loss) income	$ (97,603)	$ 18,821	$ 173,740	$ (39,612)	$ (37,642)	$ 17,704
Comprehensive Income	$ (111,596)	$ 4,828	$ 173,740	$ (39,612)	$ (23,649)	$ 3,711

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

	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 operating activities	$ 10,584	$ -	$ 209,470	$ 1,205	$ -	$ 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	(629)	-	-	-	-	(629)
Dividends paid	(66,522)					(66,522)
Cash in-lieu of fractional shares	(19)	-	-	-	-	(19)
Net cash provided by investing activities	1,024,462	-	-	-	-	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 15. Subsequent Events

On October 15, 2015 we paid the previously announced dividend of $0.60 per share payable to shareholders of record at the close of business on September 30, 2015.

On November 6, 2015, our Board of Directors declared a quarterly cash dividend of $0.60 per share, payable January 15, 2016, to stockholders of record on December 31, 2015.

Consumer CLEC Business
Statement of Assets Contributed and Liabilities Assumed
(unaudited)

(Thousands)		December 31, 2014
Assets:		
Accounts receivable (less allowance for doubtful accounts of $104)	$	1,912
Customer list intangible assets, net		14,452
Other		301
Total Assets	$	16,665
Liabilities:		
Advance payments and customer deposits	$	1,154
Accrued payroll and commissions		39
Accrued interconnection costs		1,209
Deferred taxes		5,483
Total liabilities		7,885
Net Assets Contributed	$	8,780

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

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

(Thousands)	Three Months Ended September 30, 2014	For the Period January 1 - April 24, 2015	Nine Months Ended September 30, 2014
Revenues	$ 8,742	$ 10,149	$ 27,356
Direct expenses:			
Cost of revenues	4,541	5,552	14,498
Selling, general, and administrative	20	22	45
Amortization	1,141	1,283	3,488
Total direct expenses	5,702	6,857	18,031
Revenues in Excess of Direct Expenses	$ 3,040	$ 3,292	$ 9,325

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

Consumer CLEC Business
Notes to Financial Statements

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, 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").

CS&L is an independent, internally managed triple-net-lease real estate investment trust engaged in the acquisition and construction of mission critical infrastructure in the communications industry. We generate revenues primarily by leasing communications distribution systems to telecommunications operators in triple-net lease arrangements, under which the tenant is primarily responsible for costs relating to the distribution systems (including property taxes, insurance, and maintenance and repair costs). We intend to elect on our U.S. federal income tax return for the taxable year ending December 31, 2015 to be treated as a real estate investment trust ("REIT").

The Consumer CLEC Business, which historically has 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. We will elect to treat the Consumer CLEC Business as a "taxable REIT subsidiary" effective on the first day of the first taxable year that CS&L qualifies as a REIT.

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 Assets Contributed and Liabilities Assumed of the Consumer CLEC Business as of December 31, 2014 and the related Statements of Revenues and Direct Expenses for the period January 1, 2015 to April 24, 2015 (the "Spin Date"), and the three and nine months ended September 30, 2014 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 the financial position or results of operations of the Consumer CLEC Business. Additionally, the interim financial statements have been prepared consistent with Article 10 of Regulation S-X. The elements of the financial statements 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 periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year.

The accompanying Statements of Assets Contributed and Liabilities Assumed include only certain assets and liabilities directly related to the Consumer CLEC Business that were transferred by Windstream to CS&L pursuant to the Separation and Distribution Agreement between CS&L and Windstream dated March 26, 2015. Windstream has retained certain assets and liabilities of the Consumer CLEC Business consisting of the following: cash and cash equivalents, intercompany receivables and payables, certain trade accounts payable, liabilities related to employee benefit plans, income taxes payable and deferred income taxes. Accordingly, the assets and liabilities retained by Windstream have been excluded from the Statements of Assets Contributed and Liabilities Assumed. In addition, the Consumer CLEC Business primarily uses leased network facilities to provide telecommunications services to its customers and does not hold legal title to any property, plant and equipment.

The accompanying Statements 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 reasonable under the circumstances as more fully discussed in Note 6. The Statements 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. These costs are incurred by the Consumer CLEC.

Consumer CLEC Business
Notes to Financial Statement – Continued

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 statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements, and such differences could be material.

Accounts Receivable—Accounts receivable consist of trade accounts receivable from customers and are generally unsecured and due within 30 days. Expected credit losses related to trade accounts receivable are recorded as an allowance for doubtful accounts in the accompanying Statement of Assets Contributed and Liabilities Assumed. In establishing the allowance for doubtful accounts, 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. For the three and the nine months ended September 30, 2014, the provision for doubtful accounts was $118,000 and $301,000, respectively. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up the Consumer CLEC Business customer base. Due to varying customer billing cycle cut-off, management must estimate service revenues earned but not yet billed at the end of each reporting period. Included in accounts receivable are unbilled receivables related to communications services and product sales of $94,000 at December 31, 2014.

Customer List Intangible Assets—Windstream acquired certain consumer CLEC operations and customers through various acquisitions completed prior to 2011. In connection with the purchase price allocation for these acquisitions, Windstream recorded the estimated fair value of consumer CLEC customer list intangible assets at the dates of acquisition. The customer list intangible assets are presented in the financial statements at cost less accumulated amortization and are amortized using the sum-of-the-digits method over their estimated useful lives.

Income Taxes—The operations of the Consumer CLEC Business have historically been included in Windstream's federal and state income tax returns and all income tax liabilities have been paid by Windstream. Income tax information included in the financial statements is presented on a separate tax return basis. Management believes that the assumptions and estimates used to determine the tax amounts are reasonable. However, the financial statements herein may not necessarily reflect the income tax liabilities or future income tax payments if the Consumer CLEC Business had been operated as a stand-alone business during the periods presented.

Deferred income taxes are recognized in accordance with guidance on accounting for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax balances are adjusted to reflect tax rates based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period of the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

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.

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.

Consumer CLEC Business
Notes to Financial Statement – Continued

Subsequent Events—The accompanying financial statements of the Consumer CLEC Business are derived from the consolidated financial statements of Windstream, which issued its interim unaudited consolidated financial statements as of and for the quarterly period ended September 30, 2015 on November 5, 2015. Accordingly, management has evaluated transactions for consideration as recognized subsequent events in the accompanying financial statement through the date of November 5, 2015. In addition, management has evaluated transactions that occurred as of the issuance of these financial statements on November 13, 2015 for purposes of disclosure of unrecognized subsequent events.

Note 4. Customer List Intangible Assets

The carrying value of the customer list intangible assets at December 31, 2014 was as follows:

	December 31, 2014		
(Thousands)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 34,501	$ (20,049)	$ 14,452

Amortization expense for the customer list intangible assets was $1.3 million for the period from January 1, 2015 to the Spin Date. Amortization expense for the customer list intangible assets was $1.1 million and $3.5 million for the three and nine months ended September 30, 2014, respectively

Note 5. Deferred Income Taxes

The significant components of the net deferred tax liability at December 31, 2014 were as follows:

(Thousands)	December 31, 2014
Customer list intangible assets	$ (5,523)
Bad debt reserve	40
Deferred income taxes, net	$ (5,483)
Deferred tax assets	$ 40
Deferred tax liabilities	(5,523)
Deferred income taxes, net	$ (5,483)

Note 6. Allocations

As described in Note 2, the accompanying Statements 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 services” 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.

Distribution Systems
Combined Balance Sheet
(unaudited)

(Millions)	December 31, 2014
Assets:	
Property, plant and equipment, net	$ 2,571.8
Total Assets	$ 2,571.8
Equity	
Invested equity	$ 2,571.8
Total Equity	$ 2,571.8

See accompanying notes to the combined balance sheet.

Distribution Systems
Notes to Combined Balance Sheet

1. Separation from Windstream Holdings, Inc. and Description of Transferred Assets

On April, 24, 2015, in connection with the separation and spin-off of Communications Sales & Leasing, Inc. ("CS&L"), from Windstream Holdings, Inc. ("Windstream Holdings" and together with its subsidiaries, "Windstream"), Windstream contributed certain telecommunications network assets, including fiber and copper network and other real estate (the "Distribution Systems"), and a small competitive local exchange carrier ("CLEC") business to CS&L in exchange for cash, shares of common stock of CS&L and certain indebtedness of CS&L. Windstream Holdings distributed approximately 80.4% of the outstanding common stock of CS&L that it received to existing stockholders of Windstream Holdings in a tax-free spin-off (the "Spin-Off").

As a result of the Spin-Off, CS&L is an independent, internally managed triple-net-lease real estate investment trust engaged in the acquisition and construction of mission critical infrastructure in the communications industry.

2. Basis of Presentation

The accompanying balance sheet reflects the Distribution System assets of Windstream that were transferred to CS&L in connection with the Spin-Off. The balance sheet presented herein is combined on the basis of common control. The accompanying balance sheet has been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and has been derived from the accounting records of Windstream. The Distribution System assets presented in the accompanying balance sheet reflects Windstream's historical carrying value of the assets as of the balance sheet date consistent with the accounting for spin-off transactions in accordance with GAAP.

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, 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.

Property, Plant and Equipment—Property, plant and equipment are stated at original cost, less accumulated depreciation. Property, plant and equipment consists of land and central office buildings, copper and fiber optic cable lines, telephone poles, underground conduits, concrete pads, pedestals, guy wires, anchors, and attachment hardware. The costs of additions, replacements, substantial improvements and extension of the network to the customer premise, including related labor costs, are capitalized, while the costs of maintenance and repairs are expensed as incurred. Interest costs incurred in connection with the acquisition or construction of plant assets are capitalized and included in the cost of the asset.

Certain property, plant and equipment is 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, depreciation is computed using the straight-line method over the estimated useful life of the respective property, and 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.

Impairment of Long-Lived Assets—Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable from future, undiscounted net cash flows expected to be generated by the asset group. If the asset group is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset group and its estimated fair value based on discounted net future cash flows.

Subsequent Events—The accompanying balance sheet is derived from the consolidated financial statements of Windstream, which issued its interim unaudited consolidated financial statements as of and for the quarterly period ended September 30, 2015 on November 5, 2015. Accordingly, management has evaluated transactions for consideration as recognized subsequent events in the accompanying financial statement through the date of November 5, 2015. In addition, management has evaluated transactions that occurred as of the issuance of these financial statements on November 13, 2015 for purposes of disclosure of unrecognized subsequent events. No additional disclosures are required other than those matters that are reflected within this financial statement.

Distribution Systems
Notes to Combined Balance Sheets — Continued

4. Property, Plant and Equipment

Net property, plant and equipment consisted of the following:

($ in Millions)	Depreciable Lives	December 31, 2014
Land		$ 33.0
Building and Improvements	3 - 40 years	305.5
Poles	13 - 40 years	223.0
Fiber	7 - 40 years	1,841.2
Copper	7 - 40 years	3,430.8
Conduit	13 - 47 years	89.2
Construction in progress		34.0
		5,956.7
Less accumulated depreciation		(3,384.9)
Net property, plant and equipment		$ 2,571.8

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

The following management's discussion and analysis of financial condition and results of operations describes the principal factors affecting the results of our operations, financial condition, and changes in financial condition for the three months ended September 30, 2015 and for the period April 24, 2015 to September 30, 2015. Because we were formed in connection with a spin-off from Windstream Holdings on April 24, 2015, year to date financial results discussed in this section cover only 160 days of operations and no year-over-year comparisons are included. 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 information statement on Form 10 filed as Exhibit 99.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on March 26, 2015.

Overview

Company Description

On April 24, 2015, CS&L completed the Spin-Off from Windstream Holdings 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 a long-term exclusive triple-net lease agreement with Windstream (the "Master Lease"), pursuant to which all real property currently owned by CS&L is leased to Windstream Holdings and from which all of CS&L's rental revenues are currently derived.

We are an independent, internally managed triple-net-lease real estate investment trust engaged in the acquisition and construction of mission critical infrastructure in the communications industry (we intend to elect to be taxed as a REIT for U.S. federal income tax purposes starting with our taxable year ending December 31, 2015). We generate revenues primarily by leasing communications distribution systems to telecommunications operators in triple-net lease arrangements, under which the tenant is primarily responsible for costs relating to the distribution systems (including property taxes, insurance, and maintenance and repair costs).

The Consumer CLEC Business, which was historically 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. We have elected to treat the Consumer CLEC Business as a "taxable REIT subsidiary" effective on the first day of the first taxable year that CS&L qualifies as a REIT.

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 distribution systems from communication service providers and lease these assets back on a long-term triple net basis; *(ii) 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; *(iii) Mergers and Acquisitions Financing*, whereby we facilitate merger and acquisition transactions as a capital partner; and *(iv) Whole Company Acquisitions*, which may include the use of one or more "taxable REIT subsidiaries" ("TRS"), which are permitted under the tax laws to acquire non-REIT operating businesses and assets.

Significant Quarterly Business Developments

On September 2, 2015, we and CSL Capital completed our previously announced exchange offer in which all outstanding Senior Notes were exchanged for our registered 8.25% Senior Notes due 2023 (the "Exchange Notes"). The terms of the Exchange Notes are substantially identical to the terms of the Senior Notes in all material respects, except that the Exchange Notes are registered under the Securities Act of 1933, as amended, and the transfer restrictions, registration rights and additional interest provisions applicable to the Senior Notes do not apply to the Exchange Notes. The exchange offer was made to satisfy our obligations under a registration rights agreement that was entered into with the initial purchasers of the Senior Notes when such notes were originally issued.

Components of Income and Results of Operations for the Three Months Ended September 30, 2015

Revenues

At present, our 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 primarily 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 (4) five-year renewal options and encompasses 29 states. The rent for the initial term is an annual fixed amount of $650 million during the first three years of the Master Lease. 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%. Rental revenues over the 15 year initial term of the Master Lease will be recognized in the financial statements on a straight line basis, representing approximately $667.2 million per year. We receive non-monetary consideration related to TCIs as they automatically become our property, and we recognize the cost basis of TCIs that are capital in nature as real estate investments and deferred revenue. We depreciate the real estate investments over their estimated useful lives and amortize the deferred revenue as additional leasing revenues over the same depreciable life of the TCI assets. For the three months ended September 30, 2015, we recognized $167.0 million of revenue under the Master Lease, which includes $0.2 million of TCI revenue.

Because substantially all 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, pursuant to the Master Lease we are entitled to receive (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) information we require to comply with our reporting and filing obligations with the SEC and the Sarbanes-Oxley Act of 2002. 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.

For the three months ended September 30, 2015, we recognized $6.7 million of revenue from the Consumer CLEC Business. As of September 30, 2015, we serviced 48,000 customers as compared to 66,000 customers serviced by Windstream at September 30, 2014. The decrease in customers is due to the effects of competition and customer attrition resulting from Windstream's previous decision to no longer market those services to residential customers. Beginning in the fourth quarter of 2015, we plan to offer services to new customers in select markets in which we operate in an attempt to slow the rate of customer attrition.

Interest Expense

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. Our interest expense includes the impact of our interest rate swap agreements.

Depreciation and Amortization Expense

We incur depreciation and amortization expense related to our real estate investments, corporate assets and customer list intangible assets. Charges for depreciation and amortization for the three months ended September 30, 2015 totaled $87.3 million, which included real estate investment depreciation of $86.2 million, corporate asset depreciation of $0.1 million and intangible asset amortization of $1.0 million.

General and Administrative Expense

General and administrative expenses include compensation costs (including stock-based compensation awards), professional services, corporate office costs and other costs associated with administrative activities. For the three months ended September 30, 2015, general and administrative costs totaled $4.2 million (representing 2.4% of revenue), which includes $0.8 million of stock-based compensation expense.

CLEC Operating Expense

Expense associated with the Consumer CLEC Business, for the three months ended September 30, 2015, primarily related to the Wholesale Master Services Agreement ($3.8 million (2.2% of revenue)) and the Master Services Agreement ($0.4 million (0.2% of revenue)) 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.

Reportable Segments

We manage our operations as two reportable business segments: Leasing and Consumer CLEC. Our Leasing segment represents our REIT operations and corporate expenses not directly attributable to the Consumer CLEC. 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

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

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

Components of Income and Results of Operations for the Period from April 24, 2015 to September 30, 2015

Revenues

At present, our revenues are primarily attributable to rental revenue from leasing our Distribution Systems to Windstream Holdings pursuant to the Master Lease. Additionally, we receive non-monetary consideration related to the TCIs as they automatically become our property, and we recognize the cost basis of TCIs that are capital in nature as real estate investments and deferred revenue. We depreciate the real estate investments over their estimated useful lives and amortize the deferred revenue as additional leasing revenues over the same depreciable life of the TCI assets. Under the Master Lease, we recognized $291.1 million of revenue for the period from April 24, 2015 through September 30, 2015, which includes $0.2 million of TCI revenue.

For the period from April 24, 2015 through September 30, 2015 we recognized $11.3 million of revenue from the Consumer CLEC Business. As of September 30, 2015, we serviced 48,000 customers as compared to 66,000 customers serviced by Windstream at September 30, 2014. The decrease in customers is due to the effects of competition and customer attrition resulting from Windstream's previous decision to no longer market those services to residential customers. Beginning in the fourth quarter of 2015, we plan to offer services to new customers in select markets in which we operate in an attempt to slow the rate of customer attrition.

Interest Expense

Interest expense for the period from April 24, 2015 through September 30, 2015 totaled $115.3 million, which includes non-cash interest expense of $6.3 million resulting from the amortization of our debt discounts and debt issuance costs. Our interest expense includes the impact of our interest rate swap agreements.

Depreciation and Amortization Expense

We incur depreciation and amortization expense related to our real estate investments, corporate assets and customer list intangible assets. Charges for depreciation and amortization for the period from April 24, 2015 through September 30, 2015 totaled $151.7 million, which included real estate investment 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 services, corporate office costs and other costs associated with administrative activities. For the period from April 24, 2015 through September 30, 2015, general and administrative costs totaled $7.4 million (representing 2.4% of revenue), which includes $1.1 million of stock-based compensation expense.

CLEC Operating Expense

Expense associated with the Consumer CLEC Business, for the period from April 24, 2015 through September 30, 2015, primarily related to the Wholesale Master Services Agreement ($6.5 million (2.1% of revenue)) and the Master Services Agreement ($0.7 million (0.2% of revenue) 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.

Reportable Segments

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

(Thousands)	Leasing Operations	Consumer CLEC	Subtotal of Reportable Segments
Revenues	$ 291,131	$ 11,251	$ 302,382
Adjusted EBITDA	284,858	2,362	287,220
Depreciation and amortization	150,108	1,607	151,715
Interest expense			115,307
Acquisition and transaction related costs			877
Stock-based compensation			1,117
Income tax expense			500
Net income			$ 17,704

Non-GAAP Financial Measures

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

We define "EBITDA" as net income, as defined by GAAP, before interest expense, provision for income taxes and depreciation and amortization. We define "Adjusted EBITDA" as EBITDA less stock-based compensation expense and the impact, which may be recurring in nature, of acquisition and 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. We believe EBITDA and Adjusted EBITDA are important supplemental measures to net income because they provide additional information to evaluate our operating performance on an unleveraged basis. Since EBITDA and Adjusted EBITDA are not measures calculated in accordance with GAAP, they should not be considered as an alternative to net income determined in accordance with GAAP.

Because the historical cost accounting convention used for real estate assets requires the recognition of depreciation expense except on land, such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. FFO is defined by NAREIT as net income applicable to common shareholders computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and impairment charges. We compute FFO in accordance with NAREIT's definition. We define AFFO as FFO excluding (i) noncash revenues and expenses such as stock-based compensation expense, amortization of debt discounts, amortization of deferred financing costs, amortization of intangible assets, straight-line rental revenue, and revenue associated with the amortization of tenant funded capital improvements and

(ii) the impact, which may be recurring in nature, of the following items: acquisition and 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. We believe that the use of FFO and AFFO, combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance. In particular, we believe AFFO, by excluding certain revenue and expense items, can help investors compare our operating performance between periods and to other REITs on a consistent basis without having to account for differences caused by unanticipated items and events, such as acquisition and transaction related costs. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance. FFO and AFFO do not purport to be indicative of cash available to fund our future cash requirements.

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

The reconciliation of our net income to EBITDA and Adjusted EBITDA and of our net income applicable to common shareholders to FFO and AFFO for the three months ended September 30, 2015 and for the period from April 24, 2015 through September 30, 2015 is as follows:

(Thousands)	Three Months Ended September 30, 2015	Period from April 24 - September 30, 2015
Net income	$ 9,403	$ 17,704
Depreciation and amortization	87,271	151,715
Interest expense	66,511	115,307
Income tax expense	268	500
EBITDA	$ 163,453	$ 285,226
Stock based compensation	779	1,117
Acquisition and transaction related costs	804	877
Adjusted EBITDA	$ 165,036	$ 287,220

(Thousands)	Three Months Ended September 30, 2015	Period from April 24 - September 30, 2015
Net income attributable to common shareholders	$ 8,973	$ 16,949
Real estate depreciation and amortization	86,307	150,108
Participating securities share in earnings	430	755
Participating securities share in FFO	(456)	(808)
FFO applicable to common shareholders	$ 95,254	$ 167,004
Amortization of deferred financing costs	1,767	3,039
Amortization of debt discount	1,887	3,253
Stock-based compensation	779	1,117
Acquisition and transaction related costs	804	877
Amortization of customer list intangibles	964	1,607
Straight-line rental revenue	(4,297)	(7,497)
Amortization of tenant funded capital improvements	(161)	(161)
Other	12	47
Adjusted FFO applicable to common shareholders	$ 97,009	$ 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 information statement on Form 10 filed as Exhibit 99.1 to our Current Report on Form 8-K filed with the SEC on March 26, 2015. There has been no material change to these estimates for the period from April 24, 2015 through September 30, 2015.

Liquidity and Capital Resources

Cash provided by operating activities was $221.3 million for the period from April 24, 2015 through September 30, 2015 driven by favorable changes in working capital, primarily attributable to our leasing activities.

Cash used in investing activities was $1.04 billion for the period from April 24, 2015 through September 30, 2015, which represents a portion of the consideration paid to Windstream for their contribution of the Distribution Systems and the Consumer CLEC Business in connection with the Spin-Off.

Cash provided by financing activities was $1.02 billion for the period from April 24, 2015 through September 30, 2015, which primarily represents the proceeds received from the Term Loan Facility of $1.1 billion, partially offset by dividend payments of $66.5 million.

Our principal liquidity needs are to (i) fund operating expenses, (ii) meet debt service requirements, (iii) fund investment activities and (iv) make dividend distributions. As of September 30, 2015, we had approximately $710.0 million of liquidity, consisting of unrestricted cash and cash equivalents of $210.0 million and $500 million of unused borrowing availability under the Revolving Credit Agreement.

We anticipate that our cash on hand and borrowing availability under our Revolving Credit Facility, combined with our cash flows provided by leasing 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. 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.

On April 24, 2015, we, along with our wholly owned subsidiary CSL Capital, co-issued $400 million aggregate principal amount of Secured Notes and $1.11 billion aggregate principal amount of Senior Notes. The Secured Notes were issued at an issue price of 100% of par value, while the Senior Notes were issued at an issue price of 97.055% of par value. The Notes are guaranteed by each of our wholly owned domestic subsidiaries that guarantee indebtedness under our senior credit facilities. The Notes were issued to Windstream Services in connection with the Spin-Off and we 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 was exempt from registration under Rule 144A, Regulation S and other applicable exemptions of the Securities Act. Pursuant to a registration rights agreement entered into in connection with the sale of the Senior Notes, on July 2, 2015, we filed with the SEC a registration statement relating to an exchange offer pursuant to which exchange notes registered with the SEC, containing substantially identical terms to the Senior Notes, were offered in exchange for Senior Notes that are tendered by the holders of those notes. The exchange offer was launched on August 5, 2015, and completed on September 2, 2015, with all outstanding Senior 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 our ability to pay dividends. The covenants are subject to a number of important and significant limitations, qualifications and exceptions.

In addition, on April 24, 2015, we entered into the Credit Agreement, which provides for the Term Loan Facility and the Revolving Credit Facility. The term loans under the Facilities were issued at an issue price of 98.00%, bear interest at a rate equal to a Eurodollar rate, subject to a 1.00% floor, plus an applicable margin equal to 4.00%, and are subject to amortization of 1.00% per annum. The loans have been incurred by the Company and CSL Capital, are guaranteed by certain of our wholly owned domestic subsidiaries (the

"Guarantors"), and are secured by substantially all of the assets of the Company, CSL Capital and the Guarantors, subject to certain exceptions, which assets also secure the Secured Notes. The Revolving Credit Facility bears interest at a rate equal to LIBOR plus 1.75% to 2.25% based on our consolidated secured leverage ratio as defined in the Credit Agreement.

We are subject to customary covenants under the Credit Agreement, including an obligation to maintain a consolidated secured leverage ratio, as defined in the Credit Agreement, not to exceed 5.00 to 1.00. We are permitted, subject to customary conditions, to incur incremental term loan borrowings and/or increased commitments under the Credit Agreement in an aggregate amount equal to $150 million plus, an unlimited amount, so long as, on a pro forma basis after giving effect to any such increases, our consolidated total leverage ratio, as defined in the Credit Agreement, does not exceed 6.50 to 1.00 and our consolidated secured leverage ratio, as defined in the Credit Agreement, does not exceed 4.00 to 1.00.

The Company transferred $1.04 billion of cash proceeds under the Facilities to Windstream Services as partial consideration for the contribution of the Distribution Systems and the Consumer CLEC Business in connection with the Spin-Off. After giving effect to the borrowings under the Facilities, the issuance of the Notes and the transfer of cash to Windstream Services, the Company retained net borrowing proceeds of $62.2 million, which are available to us for general corporate purposes.

In connection with the Spin-Off, we entered into the Master Lease pursuant to which we leased the Distribution Systems back to Windstream. The Master Lease has an initial term of 15 years which, at the option of Windstream, may be extended for up to four renewal terms of five years each beyond the initial term. In addition, Windstream has the right to extend the initial term from 15 years to 20 years and, if exercised, the number of renewal terms will be reduced to three so that the maximum term (taking into account all renewals) is 35 years. The initial annual rent under the Master Lease is $650 million during the first three years. Commencing with the fourth year the rent is subject to annual escalation of 0.5%. The rent for the first year of each renewal term will be an amount agreed to by us and Windstream, or if we are unable to agree, the renewal rent will be determined by an independent appraisal process. Commencing with the second year of each renewal term, the renewal rent will increase at an escalation rate of 0.5%. In addition, if we fund any capital improvements by Windstream, the rent will be increased to account for such funding.

On April 27, 2015 we entered into interest rate swap agreements to mitigate the interest rate risk inherent in our variable rate Term Loan Facility. These interest rate swaps are designated as cash flow hedges and have a notional value of $2.14 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%.

Contractual Obligations

As of September 30, 2015, 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	$ 43	$ 3,538	$ 3,645
Interest payments on long-term debt obligations[b]	219	441	436	598	1,694
Capital expenditure funding under Master Lease	50	-	-	-	50
Total projected obligations and commitments[c]	$ 290	$ 484	$ 479	$ 4,136	$ 5,389

(a) Excludes $137.7 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 $14.0 million of derivative liability related to interest rate swaps maturing on October 24, 2022.

Dividends

We will elect to be taxed as a REIT for U.S. federal income tax purposes beginning with our 2015 tax year. 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 July 15, 2015, we paid, to shareholders of record as of the close of business on June 30, 2015, a pro-rated cash dividend on our common stock of $0.4418 per share for the period from April 24, 2015 through June 30, 2015.

On October 15, 2015, we paid, to shareholders of record as of the close of business on September 30, 2015, a cash dividend on our common stock of $0.60 per share for the period from July 1, 2015 through September 30, 2015.

Capital Expenditures

We do not anticipate incurring significant capital expenditures on an annual basis in connection with operating our Consumer CLEC Business or related to our corporate assets. For the period from April 24, 2015 through September 30, 2015, we incurred capital expenditures of $0.7 million related to the build-out of our corporate office. Capital expenditures for the Distribution Systems leased under the Master Lease are generally the responsibility of Windstream Holdings. The Master Lease stipulates that Windstream Holdings can request that we fund $50 million of capital expenditures per year for five years (but in no event to extend beyond the end of the sixth year of the Master Lease); however, Windstream cannot require CS&L to make such capital expenditures. If we elect to fund requested capital expenditures, the annual lease payments will be increased by 8.125% of the capital expenditures funded by us during the first two years and at a floating rate based on our cost of capital thereafter.

Separate from the above capital expenditure funding option, Windstream Holdings has requested, and we have agreed, to fund up to $50 million of capital expenditures related to the Distribution System during 2015. Monthly rent paid by Windstream will increase in accordance with the Master Lease effective as of the date we provide the funding. As of September 30, 2015, we have not funded any amounts under this commitment.

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.

Our primary market risk exposure is interest rate risk with respect to our indebtedness. In connection with the Spin-Off, we raised approximately $3.65 billion in long-term debt by the issuance of the Notes and borrowings under the variable rate Term Loan Facility. In addition, we entered into the Revolving Credit Facility in an aggregate principal amount of $500 million, which is undrawn as of the date of this Quarterly Report on Form 10-Q. To manage this exposure, we have entered into interest rate swap agreements in order to mitigate the interest rate risk inherent in our variable rate Term Loan Facility. We also expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness.

An increase in interest rates could make the financing of any acquisition by us more costly. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness.

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, 2015. 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, 2015.

Changes in Internal Control over Financial Reporting

The SEC, as required by Section 404 of the Sarbanes-Oxley Act, 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 "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed with the SEC on August 13, 2015.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

On November 6, 2015, the Company announced that its Board of Directors declared a cash dividend on its common stock of $0.60 per share, payable on January 15, 2016 to stockholders of record as of the close of business on December 31, 2015.

Table of Contents

Item 6. Exhibits.

Exhibit Number	Description
2.1	Separation and Distribution Agreement, dated as of March 26, 2015, by and among Windstream Holdings, Inc., Windstream Services, LLC and Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated and filed with the SEC as of March 26, 2015 (File No. 001-36708)).
10.1	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-4 filed with the SEC as of July 2, 2015 (File No. 333-205450)).
10.2	Communications Sales & Leasing, Inc. Deferred Compensation Plan, effective August 10, 2015 (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2015 (File No. 001-36708)).
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 13, 2015	/s/ Mark A. Wallace
		Mark A. Wallace **Senior Vice President – Chief Financial Officer and Treasurer** **(Principal Financial Officer)**
Date:	November 13, 2015	/s/ Blake Schuhmacher
		Blake Schuhmacher **Vice President – Controller** **(Principal Accounting Officer)**

Exhibit Index

Exhibit Number	Description
2.1	Separation and Distribution Agreement, dated as of March 26, 2015, by and among Windstream Holdings, Inc., Windstream Services, LLC and Communications Sales & Leasing, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated and filed with the SEC as of March 26, 2015 (File No. 001-36708)).
10.1	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-4 filed with the SEC as of July 2, 2015 (File No. 333-205450)).
10.2	Communications Sales & Leasing, Inc. Deferred Compensation Plan, effective August 10, 2015 (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2015 (File No. 001-36708)).
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.

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, CLEC business and Distribution Systems 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, its Consumer CLEC Business and Distribution Systems, 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 13, 2015

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, CLEC business and Distribution Systems 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, its Consumer CLEC Business and Distribution Systems, 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 13, 2015

By: /s/ Mark A. Wallace
Mark A. Wallace
Senior 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, 2015 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 13, 2015

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, 2015 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 13, 2015

By: /s/ Mark A. Wallace

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